PERIYAR UNIVERSITY

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Salem-636011, Tamilnadu, India.

CENTRE FOR DISTANCE AND ONLINE EDUCATION

(CDOE)

MASTER OF BUSINESS ADMINISTRATION

SEMESTER - I

CORE: STRATEGIC MANAGEMENT

(Candidates admitted from 2024 onwards)

PERIYAR UNIVERSITY

CENTRE FOR DISTANCE AND ONLINE EDUCATION (CDOE)

MBA 2024 admission onwards

STRATEGIC MANAGEMENT

Prepared by:

Centre for Distance and Online Education (CDOE)
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Unit-I

Strategic Management

Introduction: Strategy – Strategic Management Process Developing a Strategic Vision – Mission- Setting Objectives– Strategies and Tactics – Importance of Corporate Strategy – the 7-S Framework- Corporate Governance– Board of Directors: Role and Functions – Board Functioning – Top Management: Role and Skills.

Unit Model Structuring:

1. Strategic Management Process
2. Strategies and Tactics
3. Corporate Governance
4. Top Management

Self Learning Material Development –Stage-1

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Unit objectives

After reading this unit you should be able to understand the concept of strategic management.

Know the process of Strategic management

Understanding the importance of Corporate Governance and 7's Frame work

Understand about Top Management Role and Skills

1.1 An Introduction to Strategic Management

Introduction: The term "Strategic management" is critical to staying competitive and standing out in a crowded, globalised, consumer oriented and cost-conscious business environment. A good strategy helps management prioritize activities within the company and how resources get spent. It is a systematic way to execute a company's initiatives and goals under the guidance of its leadership.TheStrategic management isn't all theoretical; it is a practical way to implement a company's decisions, vision and goals.Strategic management is the management of an organization's resources to achieve its goals and objectives. It involves setting objectives, analysing the competitive environment, analysing the internal organization, evaluating strategies and ensuring that management rolls out the strategies across the organization. Strategic management is not static in nature; the models often include a feedback loop to monitor execution and to inform the next round of planning.

1.2 Strategy

The word "strategy" is derived from the Greek word "strategos"; stratus (meaning army) and "ago" (meaning leading/moving).

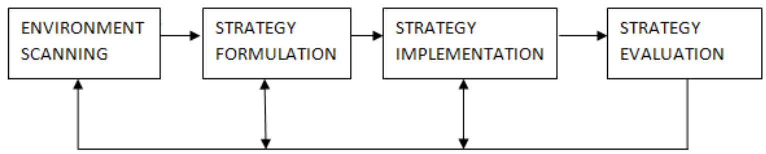
Strategy is an action that managers take to attain one or more of the organization's goals. Strategy can also be defined as "A general direction set for the company and its various components to achieve a desired state in the future. Strategy results from the detailed strategic planning process".

1.3 Strategic Management Process

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 organizationthat 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 its competitors; and fixes goals to meet the entire presentand future competitor's and then reassesses each strategy.

Strategic management process has following four steps:



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 continuousbasis and strive to improve it.

Strategy Formulation- Strategy formulation is theprocess 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.

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.

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 organizationalobjectives.

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.

1.4 Developing a Strategic Vision

A vision statement identifies where the organization wants or intends to be in future or where it should be to best meet the needs of the stakeholders. It describes dreams and aspirations for future.

For instance, Microsoft's vision is "to empower people through great software, any time, any place, or any device." Wal-Mart's vision is to become worldwide leader in retailing.

A vision is the potential to view things ahead of themselves. It answers the question "where we want to be". It gives us a reminder about what we attempt to develop. A vision statement is for the organization and its members, unlike the mission statement which is for the customers/clients. It contributes in effective decision making as well as effective business planning. It incorporates a shared understanding about the nature and aim of the organization and utilizes this understanding to direct and guide the organization towards a better purpose. It describes that on achieving the mission, how the organizational future would appear to be.

An effective vision statement must have following features-

It must be unambiguous.

It must be clear.

It must harmonize with organization's culture and values.

The dreams and aspirations must be rational/ realistic.

Vision statements should be shorter so that they are easier to memorize.

In order to realize the vision, it must be deeply instilled in the organization, being owned and shared by everyone involved in the organization.

1.5 Developing a Strategic Mission

Mission statement is the statement of the role by which an organization intends to serve it's stakeholders. It describes why an organization is operating and thus provides a framework within which strategies are formulated. It describes what the organization does (i.e., present capabilities), who all it serves (i.e., stakeholders) and what makes an organization unique (i.e., reason for existence).

A mission statement differentiates an organization from others by explaining its broad scope of activities, its products, and technologies it uses to achieve its goals and objectives. It talks about an organization's present (i.e., "about where we are"). For instance, Microsoft's mission is to help people and businesses throughout the world to realize their full potential. Wal-Mart's mission is "To give ordinary folk the chance to buy the same thing as rich people." Mission statements always exist at top level of an organization, but may also be made for various organizational levels. Chief executive plays a significant role in formulation of mission statement. Once the mission statement is formulated, it serves the organization in long run, but it may become ambiguous with organizational growth and innovations. In today's dynamic and competitive environment, mission may need to be redefined. However, care must be taken that the redefined mission statement should have original fundamentals/ components. Mission statement has three main components-a statement of mission or vision of the company, a statement of the core values that shape the acts and behavior of the employees, and a statement of the goals and objectives.

Features of a Mission

a. Feasibility

Mission must be feasible and attainable. It should be possible to achieve it.

b. Clarity

Mission should be clear enough so that any action can be taken.

c. Inspiring

It should be inspiring for the management, staff and society at large.

d. Conciseness

It should be precise enough, i.e., it should be neither toobroad nor too narrow.

e. Uniqueness

It should be unique and distinctive to leave an impact ineveryone’s mind.

f. Analytical

It should be analytical., it should analyse the key components of the strategy.

g. Credibility

It should be credible, i.e., all stakeholders should be able tobelieve it.

Benefits of Vision and Mission

Some of the benefits of having a vision and mission statementare discussed below:

Above everything else, vision and mission statements provide unanimity of purpose to organizations and imbue the employees with a sense of belonging and identity. Indeed, vision andmission statements are embodiments of organizational identity and carry the organizations creed and motto. For this purpose, they are also called as statements of creed.

Vision and mission statements spell out the context in whichthe organization operates and provides the employees with a tone that is to be followed in the organizational climate. Since they define the reason for existence of the organization, they are indicators of the direction in which the organization must move to actualize the goals in the vision and mission statements.

The vision and mission statements serve as focal points for individuals to identify themselves with the organizational processes and to give them a sense of direction while at the same time deterring those who do not wish to follow them from participating in the organization’s activities.

The vision and mission statements help to translate the objectives of the organization into work structures and to assign tasks to the elements in the organization that are responsible for actualizing them in practice.

To specify the core structure on which the organizationaledifice stands and to help in the translation of objectives into actionable cost, performance, and time related measures.

Finally, vision and mission statements provide a philosophy of existence to the employees**,** which is very crucial because as humans, we need meaning from the work to do and the vision and mission statements provide the necessary meaning for working in a particular organization.

As can be seen from the above, articulate, coherent, and meaningful vision and mission statements go a long way in setting the base performance and actionable parameters and embody the spirit of the organization. In other words, vision and mission statements are as important as the various identities that individuals have in their everyday lives. It is for this reason that organizations spend a lot of time in defining their vision and mission statements and ensure that they come up with the statements that provide meaning instead of being mere sentences that are devoid of any meaning.

1.6 Setting Objectives

Objectives are defined as goals that organization wants to achieve over a period of time. These are the foundation of planning. Policies are developed in an organization so as to achieve these objectives. Formulation of objectives is the task of top level management. Effective objectives have following features-

a. These are not single for an organization, but multiple.
b. Objectives should be both short-term as well as long-term.
c. Objectives must respond and react to changes in environment, i.e., they must be flexible. These must be feasible, realistic and operational

Glossary

Strategic Management: The process of managing an organization’s resources to achieve its goals and objectives. It involves setting objectives, analyzing internal and external environments, formulating and implementing strategies, and evaluating performance.

Strategy: A plan or action that managers take to achieve one or more of an organization’s long-term goals. Derived from the Greek word "strategos" (army leadership), it refers to a general direction or plan set for the future.

Strategic Management Process: A systematic series of steps that includes environmental scanning, strategy formulation, strategy implementation, and strategy evaluation to help an organization achieve its objectives.

Environmental Scanning: The process of collecting, analyzing, and interpreting data about internal and external factors that impact an organization's success.

Strategy Formulation: The process of creating strategies based on the analysis of internal and external environments to achieve organizational objectives.

Strategy Implementation: The phase where the chosen strategy is executed through actions like resource allocation, organizational restructuring, and decision-making processes.

Strategy Evaluation: The process of assessing and monitoring the outcomes of a strategy to ensure it aligns with the organization's goals, and making corrective actions if necessary.

Vision Statement: A future-oriented statement that outlines where an organization wants to be, addressing its aspirations and long-term objectives. For example, Microsoft's vision: "to empower people through great software, any time, any place, or any device."

Mission Statement: A present-oriented statement that describes why an organization exists, its core activities, and who it serves. It provides a framework for formulating strategies and decision-making. Example: Wal-Mart's mission is "To give ordinary folk the chance to buy the same thing as rich people."

Objectives: Specific, measurable goals that an organization aims to achieve over a certain period. Objectives are crucial for planning and often guide the organization's policies and strategies.

Corporate Strategy: Broad strategies formulated at the highest level of the organization, determining the overall direction of the company.

Business Strategy: Strategies formulated at the business unit level, focusing on specific products, services, or market segments.

Functional Strategy: Detailed strategies for specific functional areas such as marketing, finance, or human resources, aiming to support the overall business strategy.

Competitive Environment: The external environment of an organization, including competitors, market conditions, and other external factors that influence its strategy.

Internal Organization: Refers to the internal factors of a company, such as resources, capabilities, culture, and structure, which impact strategic planning and implementation.

Feedback Loop: A mechanism in strategic management that involves continually monitoring and adjusting strategies based on performance data to ensure alignment with objectives.

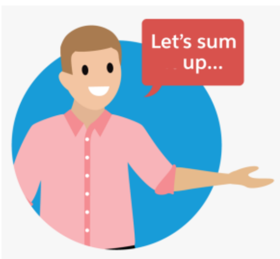
Core Values: Fundamental principles and ethical standards that guide the behavior and decision-making of an organization's employees.

Stakeholders: Individuals or groups who have an interest in the success and activities of an organization, including employees, customers, shareholders, and suppliers.

Goals: Broad, long-term outcomes that an organization aims to achieve, often expressed in the mission and vision statements.

Feasibility: The practicality and attainability of a mission or objective, ensuring that the goals set are realistic given the organization's resources and environment.

Let sum up



Dear learners in this module we learn about An Introduction to Strategic Management, Strategy, Strategic Management Process, Developing a Strategic Vision, Developing a Strategic Mission and Setting Objectives.

Self-Assessment Questions

1)The word "strategy" is derived from the Greek word …………

a) start go b) strategos **c)** statgo **d)**stargo

2)The strategic management process means defining the……..

a)Corporate strategy b) organization strategy c)

3) ……………describes dreams and aspirationsfor future.

a)Mission b) Vision c)objectives d)Goals

4) ……….describes why an organization is operating and thus provides a framework within which strategies are formulated

a) Vision b) Mission c)objectives d)Goals

5. …………are defined as goals that organization wants toachieve over a period of time.

a)Vision b) Objectives c)Mission d)Features

2.1 Strategies and Tactics

What is Strategy?

The strategy is a long term plan which one executes step by step to achieve a goal. It is the path which leads to the final success. Correct execution of a strategy results in the final outcome.

What is Tactics?

Tactics are small steps or concrete actions which one takes to achieve smaller goals or to complete an action. A good tactic has a clear purpose that aids your strategy.Regardless of the interdependence of each other, there are fundamental differences between strategy and tactics.

Differences between Strategy and Tactics

Strategy	Tactics
Strategy defines a person's long-term goals and the steps needed to be taken to achieve them	Tactics are much more solid and are often oriented towards smaller procedures with a short time window

Strategists are Individuals who are in charge of resources in the organization. Strategists have a thorough knowledge of how a set of tactics work together in order to achieve predetermined targets.	Tacticians are specialists in their respective domains that employ resources into processes that will achieve a specified number of goals.
A Strategy is responsible for the overall health of the organization	Tactics are responsible for the resources allocated
Duration of a strategy is long term and is inflexible in change.	The duration of tactics is short term and changes according to specific conditions
The ultimate outcome of a strategy is that it produces clear organizational goals, plans and key performance measurements.	The successful outcome of a tactic is clear outputs using, people, tools and time

2.2 Importance of Corporate Strategy

The following are the importance of corporate strategy:

Encourages innovation

The success of a business depends on how well it can remain competitive in its industry. To secure this advantage, businesses adopt strong corporate-level strategies to define goals and outline steps for achieving them. Such plans encourage innovation as businesses think proactively to identify trends and make projections.

Increases productivity

With a clear strategy in mind, you can help your team increase their productivity. A cooperate level strategy helps team members identify the collective goals and how their actions contribute to realizing them. This gives them a direction and can help them contribute their skills and expertise to vital business aspects. With a collective goal in mind, team and department members are also more likely to collaborate on various projects with increased efficiency. Similarly, with the foundation corporate-level strategies provide for efficiency and optimization, a business has a better chance of improving profitability.

Optimizes business models

The goal of a business model is to help a business adapt and compete effectively within an industry. Aligning a business model with organizational objectives can lead to higher profit margins and effectiveness. You can use a definite corporate-level strategy to align a business model with company objectives through valuable industry insights and acquire larger market shares. Some industry insights that these strategies provide include consumer segments, service offerings, market trends, best practices, and product offerings.

Ensures viability and resilience

Change is constant across industries, and these changes make it essential for businesses and teams to retain their competitive advantage through adaptability. The long-term perspective of corporate-level strategies is vital in preparing you for new developments. With a clear goal in mind, you can adapt to new circumstances without compromising your original objective. This adaptability contributes to your team's resilience and improves a business's viability.

Diversification

Diversification is a valuable strategy for responding to and preparing for changes within a target market. You can apply this feature to your strategies by defining niche needs and new market entry points. This feature also allows you to create new business opportunities and leverage new customer needs. Applying this feature in your strategy uses varying levels of resources. For instance, you can diversify by interacting with clients in a new niche or rebranding your products to appeal to a new market segment.

Horizontal integration

Horizontal integration occurs when a business conducts a merger with another business operating at a similar level within the same industry. Applying this strategy can improve market share and combine the strengths of different companies. Mergers makes it essential to determine compatibility and transition procedures when applying this feature in a corporate-level strategy.

Forward or backward integration

This feature of corporate-level strategies places you in different supply chain stages. With a forward integration, you assume the position of a distributor. While this allows you to replace their functions, it also comes with various cost implications. These cost implications help you fully leverage your forward integrations and include building warehouses or developing direct relationships with end-users. In contrast, a backward integration allows you to assume the position of a supplier. This replaces their functions and makes you responsible for expanding product lines. You can leverage this integration by developing new products or improving existing ones.

Profit

The long-term nature of corporate-level strategies prioritizes stability in its interactions with profitability. This allows you to incorporate cost-efficient solutions while trying to improve the profitability of your strategies. You can apply the profit feature by selling the company's assets and reducing non-core processes.

Research

Research is an important feature of corporate-level strategies as it balances expansion and retrenchment strategies. For instance, you can research the needs of a new market segment when determining if expansion is the best strategy. This information allows you to determine feasibility before committing to a strategy. You can also adopt the research feature to monitor the performance of your strategies.

Concentration

This is a feature of most expansion strategies that involves allocating a majority of your resources to growing market share. You can apply this feature by improving existing products or familiarizing yourself with current market trends and customer tastes. This feature also offers ample opportunities to increase profitability by improving your product's reach and demand.

2.3 7-S Framework

1. Structure

Structure is the way in which a company is organized – the chain of command and accountability relationships that form its organizational chart.

2. Strategy

Strategy refers to a well-crafted business plan that allows the company to formulate a plan of action to achieve a sustainable competitive advantage, reinforced by the company’s mission and values.

3. Systems

Systems entail the business and technical infrastructure of the company that establishes workflows and the chain of decision-making.

4. Skills

Skills form the capabilities and competencies of a company that enables its employees to achieve its objectives.

5. Style

The attitude of senior employees in a company establishes a code of conduct through their ways of interactions and symbolic decision-making, which forms the management style of its leaders.

6. Staff

Staff involves talent management and all human resources related to company decisions, such as training, recruiting, and rewards systems

7. Shared Values

The mission, objectives, and values form the foundation of every organization and play an important role in aligning all key elements to maintain an effective organizational design.

Glossary

Strategy: A long-term plan of action designed to achieve a particular goal or set of objectives. It involves defining an organization's direction and making decisions about resource allocation.

Tactics: The specific, short-term actions or steps taken to implement a strategy. Tactics are more focused on immediate execution and specific goals, whereas strategy focuses on the bigger picture.

Corporate Strategy: The overall plan or direction of an organization that determines its long-term objectives, resource allocation, and how it competes in various markets. It guides decisions across multiple business units or functions.

Competitive Advantage: The unique position or edge an organization has over its competitors, often through cost leadership, differentiation, or innovation, which allows it to succeed in the market.

Resource Allocation: The process of distributing an organization's resources (capital, labor, technology) to various departments, projects, or business units based on strategic priorities.

Diversification: A corporate strategy where a company expands into new markets, products, or industries to reduce risks and increase opportunities for growth.

Synergy: The idea that combining different business units or strategies can produce a greater overall impact than the individual components. In corporate strategy, synergy often refers to the potential efficiency gains from mergers, acquisitions, or partnerships.

Sustainable Competitive Advantage: A long-term competitive advantage that is not easily duplicated by competitors, allowing a company to maintain its market leadership.

7-S Framework: A management model developed by McKinsey & Company that outlines seven interconnected elements of an organization to ensure it is operating effectively. The elements are divided into "hard" and "soft" categories.

Strategy (7-S Framework): Refers to the overall plan and direction of the organization to achieve long-term goals.

Structure: The organizational hierarchy or arrangement that defines the roles, responsibilities, and authority relationships in the company. It includes the reporting system and how teams or departments are organized.

Systems: The processes and procedures used by an organization to operate on a daily basis, including information systems, financial systems, and operational workflows.

Shared Values: The core values or guiding principles that shape the organization's culture and influence the behavior and decision-making of employees. These are central to the organization's identity.

Style: Refers to the management style and leadership approach within the organization. It includes how leaders interact with employees, make decisions, and communicate.

Staff: The people within the organization, including their skills, capabilities, and how they are developed. This element also covers workforce planning, recruitment, and talent management.

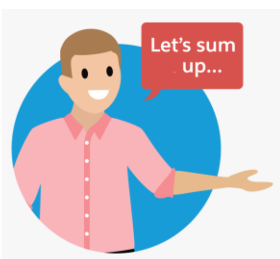
Skills: The competencies and capabilities of the organization’s employees, as well as the organizational know-how and expertise that drive success.

Hard Elements (7-S Framework): The "hard" elements of the 7-S Framework, which include strategy, structure, and systems. These are more easily defined and controlled by management.

Soft Elements (7-S Framework): The "soft" elements of the 7-S Framework, which include shared values, style, staff, and skills. These are less tangible and harder to define, but critical to organizational success.

Alignment: In the 7-S Framework, alignment refers to ensuring that all seven elements work together harmoniously to achieve organizational objectives. Lack of alignment can result in inefficiency and poor performance.

Let sum up



Dear learners in this module we learn about Strategy and Tactics, Difference between Strategy and Tactics Importance of Strategy and 7s Frame work

Self-Assessment Questions

1) strategy is a long term plan which one executes step by step to achieve a goal.

a)Strategy b) Expansion c) Tactics d)Innovation

2) …………are small steps or concrete actions which one takes to achieve smaller goals.

a)Strategy b) Expansion c) Tactics d)Innovation

3) ………..is an important feature of corporate-level strategies as it balances expansion and retrenchment strategies.

a)Profit b) Concentration c)Diversification d) Research

4) Duration of tactics is short term and changes according to specific condition.

a) True b) False

5. Staff involves talent management and all human resources related to company decisions, such as training, recruiting, and rewards systems.
a) True b) False

3.1 Corporate Governance

Corporate governance is a set of rules, practices, and processes used to direct and control an organization. Boards of directors are the primary force determining corporate governance.

Accounting, transparency, fairness, and responsibility are the four fundamental principles of corporate governance.

Steps in corporate Governance

The purpose of good governance is to ensure that businesses have the appropriate decision-making processes and controls to ensure that all stakeholders' interests (shareholders, employees, suppliers, customers and the community) are balanced.

At the corporate level, governance involves setting and achieving the company's goals while considering the social, regulatory, and market contexts.

In other words, this concept refers to practices and procedures for ensuring that a company runs in a manner to meet its objectives while ensuring that its stakeholders can have confidence that they can trust the company.

The Corporate Governance Institute is the home of good governance and believes that good governance is critical to improving the quality of decisions made by management.

Corporate governance involves the relationships between various stakeholders, including shareholders, a company's management, its customers, suppliers, financiers, the government, and the community.

Corporate governance is important for several reasons:

Protection of shareholder interests: Good corporate governance ensures that the interests of shareholders, who are the owners of the company, are protected. It promotes transparency, accountability, and fairness in decision-making, preventing the abuse of power by company executives.

Risk management: Strong corporate governance helps identify and manage risks, including financial, operational, legal, and reputational risks. Effective oversight and risk management mechanisms can prevent costly mistakes and crises.

Enhanced business performance: Good governance practices contribute to improved company performance and long-term sustainable growth. Transparent financial reporting, ethical behaviour, and effective management practices attract investors and boost the company's reputation.

Access to capital: Investors, especially institutional investors, are more likely to invest in companies with strong corporate governance practices. This provides companies with better access to capital and lowers their cost of capital.

Stakeholder confidence: Transparent and ethical governance practices build trust and confidence among stakeholders, including employees, customers, suppliers, and the public. This can positively impact the company's brand and reputation.

Legal and regulatory compliance: Effective corporate governance helps companies adhere to legal and regulatory requirements. Compliance with laws and regulations reduces the risk of legal actions and financial penalties.

Conflict resolution: Clear governance structures and mechanisms can help in resolving conflicts of interest among different stakeholders. This reduces the potential for disputes that could harm the company's operations and reputation.

Innovation and adaptability: Good governance practices encourage a culture of innovation and adaptability. When decision-making processes are transparent and flexible, companies can more effectively respond to changes in the business environment.

Long-term perspective: Corporate governance encourages a focus on long-term goals rather than short-term gains. This can lead to more sustainable business practices and better alignment with the interests of various stakeholders.

Social responsibility: Companies are increasingly expected to consider the broader social and environmental impacts of their actions. Effective governance ensures that these considerations are integrated into the company's strategy and operations.

Corporate governance is important because it provides a framework for responsible and effective management of a company, safeguarding the interests of shareholders and stakeholders, promoting ethical behaviour, and contributing to an organisation's overall success and sustainability.

Corporate governance is also a field of study

Corporate governance is a field of study that examines the structures, processes, policies, and principles that guide the behavior of companies, their management, and stakeholders.

There are various educational paths and resources available for people interested in studying corporate governance, including the professional, university-accredited Diploma in Corporate Governance from the Corporate Governance Institute. Willing person can learn from the Institutes.

3.2 Board of Directors: Role and Functions

As the governing body of an organization, the board of directors plays a critical role in overseeing its strategic direction, protecting its assets, and ensuring its financial well-being. Below is a list of the roles and responsibilities of the board:

Strategic Planning and Monitoring

- Set the organization's strategic direction, defining its mission, vision, and values.
- Approve and monitor the implementation of strategic plans and initiatives.
- Evaluate the organization's performance against strategic goals and make adjustments as needed.
- Assess potential risks and opportunities related to the organization's strategic objectives.

Asset Protection and Financial Oversight

- Safeguard the organization's assets, including financial, physical, and intellectual property.
- Review and approve the annual budget, financial statements, and financial policies.
- Oversee risk management practices, including identification, assessment, and mitigation of risks.
- Ensure compliance with financial regulations, reporting requirements, and internal controls.

Establish Committees and Working Groups

- Appoint committees or working groups, and set their scope and responsibilities.
- Require the committees or working groups to report on their activities and recommendations.
- Review decisions or proposals made by committees, and review any funding requirements.

Assess the performance and contribution of the committees.

- Selection and Performance Review of CEO
- Hire and appoint the Chief Executive Officer (CEO) or other senior executives.

- Evaluate the performance of the CEO, provide feedback, and set performance goals.
- Review and approve the compensation, benefits, and contracts of the CEO and senior executives.
- Provide support, guidance, and mentorship to the CEO in their role as the leader of the organization.

Governance and Compliance

- Establish and maintain effective governance practices within the organization, including the development and implementation of governance policies, procedures, and guidelines.
- Ensure compliance with applicable laws, regulations, and ethical standards.
- Review and approve organizational bylaws, articles of incorporation, and other governing documents.
- Monitor and address any governance or compliance issues that may arise.

Stakeholder Relationship Management

- Actively engage with stakeholders, including shareholders, employees, customers, suppliers, and the community.
- Understand and represent the interests of different stakeholders in board decisions.
- Maintain open and transparent communication with stakeholders, including regular reporting on the organization's performance and progress.
- Manage relationships with key stakeholders to build trust, with the help of the corporate secretary as key liaison.

Ethical and Social Responsibility

- Set and uphold ethical standards for the organization, including promoting integrity, transparency, and accountability.
- Ensure that the organization operates in a socially responsible and sustainable manner.

- Monitor the organization's compliance with ethical guidelines, codes of conduct, and corporate social responsibility initiatives.
- Address ethical concerns and take appropriate action to resolve them.
- These duties collectively reflect the board's crucial role in providing oversight, guidance, and strategic direction to an organization. Note that the board's functions may vary depending on the organization's unique requirements and structure.

3.3 Board Functioning

Companies must have a board of directors that is competent and efficient, independent and objective in decision making. This means that companies must have a diverse board of directors that includes a wide range of skills and experience, and are accountable to shareholders for their decisions.

Shareholders' rights: Companies must respect the rights of shareholders and give them a voice in corporate decision-making. This means that companies must have fair and transparent voting and shareholder participation procedures.

Risk management: Companies must have effective systems in place to manage and mitigate risks. This means that companies must identify and assess risks, and have policies and procedures in place to manage and mitigate risk.

Social responsibility: Companies must be socially responsible and contribute to the well-being of the community and the environment. This means that companies must consider the social and environmental impacts of their operations and take steps to minimize negative impacts and maximize their positive impacts.

These principles provide a framework for companies to operate responsibly and sustainably, and build trust and credibility with stakeholders.

Glossary

Corporate Governance: The system of rules, practices, and processes by which a company is directed and controlled. It involves balancing the interests of a company's stakeholders, such as shareholders, management, customers, suppliers, financiers, government, and the community.

Stakeholders: Individuals or groups that have an interest or stake in a company's operations and performance. These can include shareholders, employees, customers, suppliers, and the community at large.

Shareholders: Individuals or entities that own shares in a corporation and have a financial interest in the company's performance. They typically vote on important company matters, such as electing board members.

Transparency: The principle that a company should provide clear, accurate, and timely information about its financial performance, operations, and governance practices to its stakeholders.

Accountability: The responsibility of the board of directors and management to answer to shareholders and other stakeholders for the performance and actions of the company.

Ethical Governance: Ensuring that a company's operations are conducted in a manner that is consistent with legal and ethical standards, contributing to sustainable business practices and trust in the organization.

Fiduciary Duty: The legal responsibility of the board of directors and corporate officers to act in the best interests of the company and its shareholders. This includes the duty of loyalty, care, and diligence.

Corporate Social Responsibility (CSR): A company's commitment to act ethically and contribute to economic development while improving the quality of life for its employees, the local community, and society at large.

Board of Directors: A group of individuals elected by shareholders to oversee the management of a corporation and ensure that the company operates in the best interest of the shareholders and other stakeholders.

Chairperson: The leader of the board of directors who presides over meetings, ensures the board functions effectively, and often represents the board in external matters.

Independent Director: A board member who does not have a material relationship with the company, providing an unbiased perspective in decision-making. They are not involved in the day-to-day operations and are meant to bring objectivity to board discussions.

Executive Director: A member of the board who is also part of the company's executive team and is involved in the day-to-day management of the business.

Non-Executive Director (NED): A board member who is not part of the company's executive team and whose primary role is to provide oversight and strategic advice rather than managing daily operations.

Board Committees: Sub-groups within the board of directors responsible for specific areas of governance, such as audit, risk, remuneration, and nomination. These committees focus on particular aspects of governance and report back to the full board.

Audit Committee: A specialized committee of the board responsible for overseeing financial reporting, risk management, and compliance with laws and regulations. It works closely with the company's auditors.

Remuneration Committee: A board committee responsible for determining the compensation and benefits of senior executives and directors. It ensures that executive pay aligns with performance and shareholder interests.

Nomination Committee: A board committee responsible for identifying, evaluating, and recommending candidates for the board of directors and senior management positions.

Governance Committee: A committee responsible for ensuring that the board and management adhere to corporate governance standards and practices.

Board Meetings: Formal gatherings of the board of directors to discuss and decide on key matters affecting the company. Regular board meetings are held to review financial performance, strategy, and risk management.

Quorum: The minimum number of board members required to be present for a board meeting to be considered valid and for decisions to be made.

Board Agenda: The list of topics or items to be discussed during a board meeting. A well-structured agenda ensures that the board covers all necessary issues effectively.

Minutes: The official written record of the discussions and decisions made during a board meeting. Minutes are typically prepared by the company secretary and approved at subsequent meetings.

Board Resolution: A formal decision made by the board of directors, typically recorded in the minutes of the meeting. Resolutions can cover various issues, such as approving financial statements or making key strategic decisions.

Board Evaluation: A process through which the board assesses its own performance and effectiveness. This can involve reviewing individual director contributions, the board's overall functioning, and its ability to meet strategic objectives.

Succession Planning: The process of identifying and developing potential future leaders for key roles within the company, including board members and senior executives, to ensure smooth transitions and continued leadership.

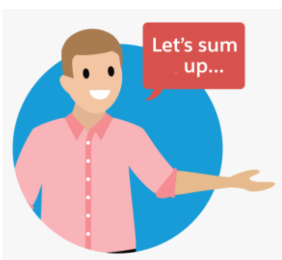
Risk Management: The board's responsibility to identify, assess, and mitigate risks that could impact the organization's performance or reputation. This includes financial, operational, and strategic risks.

Corporate Governance Code: A set of guidelines or principles that outline best practices for corporate governance, typically issued by government regulators or industry bodies. Companies often adopt these codes to improve their governance standards.

Conflict of Interest: A situation in which a board member's personal or financial interests may interfere with their ability to act in the best interests of the company. Board members are expected to disclose and avoid conflicts of interest.

Due Diligence: The process of investigating and assessing a company's financial, legal, and operational risks before making major decisions such as mergers, acquisitions, or investments.

Let sum up



Dear learners in this module we learn about corporate governance, steps in corporate governance, Board of Director Roles and Functions, Board functioning.

Self-Assessment Questions

1)………… is a set of rules, practices, and processes used to direct and control an organization.

a)Strategy b) Corporate governance C)Innovation d) Diversification

2)As the governing body of an organization, the …………. plays a critical role in overseeing its strategic direction.

a)Manager b)Shareholders c) board of directors d)Employees

3)Companies must have a board of directors that is competent and efficient, independent and objective in decision making.

a) True b) False

4) Companies must have effective systems in place to manage and mitigate risks.

a) True b) False

5) Boards must strike a careful balance between their various responsibilities, the people who answer to them, and the people they answer to.

a) True b) False

4. Top Management: Role and Skills.

Role of Top Management

- Take accountability for the effectiveness of the quality management system;
- Ensure that the quality policy and quality objectives are established for the quality management system and are compatible with the context and strategic direction of the organization;
- Ensure the integration of the quality management system requirements into the organization's business processes;
- Promote the use of the process approach and risk-based thinking;
- Ensure that the resources needed for the Quality Management System are available;
- Communicate the importance of effective quality management and of conforming to the quality management system requirements;
- Ensure that the quality management system achieves its intended results;
- Engage, direct and support persons to contribute to the effectiveness of the quality management system;
- Promote improvement;
- Support other relevant management roles to demonstrate their leadership as it applies to their areas of responsibility;
- Demonstrate leadership and commitment with respect to customer focus;

- Ensure that the responsibilities and authorities for relevant roles are assigned, communicated and understood within the organization.
- Perform management review of the organization's quality management system;
- Establish, implement and maintain a quality policy;
- Ensure that the responsibilities and authorities for relevant roles are assigned, communicated and understood within the organization.

Skills of Top Management

1. Responsibility

It's a two-way street between shareholders and directors: if directors are in the job on the say-so of shareholders, they are answerable to those shareholders. Remember this.

A board is responsible for fulfilling shareholders' wishes. That involves shepherding a company away from risk, around challenges, and towards success while staying true to its mission, respecting the law of the land, and the sensitivities of the politics around them. It's a difficult job, but this is what responsibility truly means.

One of the board's most important functions is to select a CEO who will enable the company and its workers to achieve their full potential.

2. Accountability

No matter what decision a board takes, they should be able to back it up.

Important corporate decisions will inevitably lead to questions, and this isn't a bad thing – merely a sign of engagement and diligence.

"Why did you appoint this CEO over other candidates? Why did you select this as a top priority? Why are we focusing corporate resources on ESG?"

As a board member, expect a constant flow of questions like this. When you get them, your job is to be clear in your answers.

3. Awareness

The key to a company's survival and prosperity is to know the landscape of risk around it.

Boards are always at the forefront of this effort, not just because they are in a position of responsibility, but because they are usually in their roles thanks to years, if not decades, of significant, relevant experience.

With this experience comes the ability to pinpoint as many risks as possible, whether large or small, short or long term.

4. Impartiality

Boards must strike a careful balance between their various responsibilities, the people who answer to them, and the people they answer to.

They should approach every decision with an independent mindset, ensuring no personal interests or those of close colleagues come between them and the correct business decision.

While impartiality is easy to agree to in principle, it's easy to slip out of practice. Personal beliefs and friendships can cloud a board member's objectivity. A board must know how this can happen – and how subtle it can be. They should take care to ensure it doesn't influence their responsibility.

5. Transparency

This is the most practical principle, and it's simply about the paperwork. Boards are responsible for documenting and reporting on everything that's expected of them as clearly and thoroughly as is necessary.

Don't be fooled into thinking this is just about the financial statements. They are essential, but they're not the whole picture. Boards must also report any conflicts of interest, severe conflicts over strategy and risks to the company.

Glossary

Top Management: The highest level of executives in an organization responsible for making major decisions, setting strategic goals, and ensuring the overall success and direction of the company. This typically includes positions such as the CEO, CFO, COO, and other senior leaders.

Chief Executive Officer (CEO): The highest-ranking executive in an organization, responsible for overall management and decision-making. The CEO sets the strategic vision, oversees operations, and reports to the board of directors.

Chief Operating Officer (COO): A senior executive responsible for overseeing the day-to-day operations of the company, ensuring efficiency and smooth functioning across departments.

Chief Financial Officer (CFO): A senior executive responsible for managing the financial actions of a company, including financial planning, risk management, and financial reporting.

Chief Marketing Officer (CMO): A senior executive responsible for the marketing and sales strategies of a company, aiming to drive growth and market expansion.

Executive Committee (ExCo): A group of top executives who meet regularly to discuss and make decisions about strategic, operational, and financial issues affecting the organization.

Role of Top Management

Strategic Planning: The process of defining the organization's long-term goals and determining the best approach to achieve them. Top management is responsible for setting the vision and developing the overall strategy.

Decision-Making: One of the primary roles of top management, which involves making key decisions regarding the company's direction, resource allocation, and major business initiatives.

Leadership: The ability of top management to inspire, influence, and guide employees towards achieving the organization's objectives. Leadership involves setting an example and fostering a positive organizational culture.

Organizational Direction: Top management is responsible for setting the direction of the company, which includes establishing the company's mission, vision, and strategic goals.

Resource Allocation: The process of distributing organizational resources (financial, human, technological) to various departments or initiatives, based on strategic priorities.

Performance Monitoring: Top management’s responsibility to track and assess the company’s performance, ensuring that organizational goals are being met and making adjustments as necessary.

Risk Management: The process of identifying, assessing, and mitigating risks that could affect the organization’s objectives. Top management is responsible for making strategic decisions to manage these risks effectively.

Corporate Governance: The role of top management in ensuring that the organization complies with legal and ethical standards, and that decision-making processes are transparent and accountable.

Stakeholder Engagement: The responsibility of top management to communicate with and manage relationships with key stakeholders, including shareholders, employees, customers, and the community.

Change Management: The ability of top management to lead and manage organizational change effectively, ensuring smooth transitions and minimal disruption to operations.

Skills of Top Management

Strategic Thinking: The ability to think long-term and understand how different parts of the organization fit together to achieve overall goals. Strategic thinking involves analyzing market trends, competition, and future opportunities.

Leadership Skills: The capacity to lead, inspire, and motivate teams toward achieving the organization's objectives. Leadership skills include emotional intelligence, communication, and decision-making.

Communication Skills: The ability to convey ideas, decisions, and strategies clearly and effectively to both internal and external stakeholders. This includes public speaking, negotiation, and active listening.

Decision-Making Skills: The ability to make informed, timely, and effective decisions that align with the company's strategic goals. Top managers often have to make decisions under uncertainty or with incomplete information.

Financial Acumen: The ability to understand financial reports, budgets, and financial risks, which is critical for managing the organization's financial health.

Problem-Solving Skills: The ability to analyze complex issues, identify root causes, and come up with effective solutions to address them. Top management often deals with strategic-level problems that require innovative solutions.

Emotional Intelligence (EQ): The ability to understand and manage one's emotions and the emotions of others. Emotional intelligence is crucial for building strong relationships, handling stress, and leading teams.

Adaptability: The capacity to adjust to new challenges, changing environments, or emerging opportunities. Adaptability is critical for top managers, as they must navigate uncertainty and change.

Negotiation Skills: The ability to reach mutually beneficial agreements with stakeholders, whether in business deals, contracts, or internal resource negotiations.

Risk Management Skills: The ability to anticipate and mitigate risks that could threaten the organization's objectives, including financial, operational, and reputational risks.

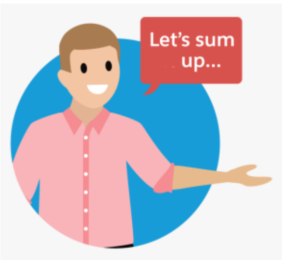
Visionary Thinking: The skill to see the bigger picture and envision what the organization can achieve in the future. Visionary thinking allows top management to set bold, aspirational goals.

Crisis Management: The ability to lead an organization through times of crisis, whether financial, operational, or reputational, ensuring stability and recovery.

Innovation and Creativity: The ability to think outside the box and bring innovative ideas to the table, helping the organization stay competitive in a rapidly changing market.

Time Management: The ability to prioritize tasks and manage time efficiently, ensuring that critical decisions are made in a timely manner and that strategic initiatives are executed effectively.

Let sum up



Dear learners in this module we learn about Top management Role and skills.

Self-Assessment Questions

1. Which of the following is the primary responsibility of top management?

    a) Setting daily operational tasks

    b) Monitoring employee attendance

    c) Establishing the organization's overall strategic direction

    d) Designing the organization's website

2. Which role is typically the head of the company and responsible for overall decision-making?

a) Chief Financial Officer (CFO)

b) Chief Executive Officer (CEO)

c) Chief Operating Officer (COO)

d) Chief Marketing Officer (CMO)

3. What does 'resource allocation' in top management refer to?

a) Assigning employees their daily tasks

b) Distributing the organization’s resources (e.g., financial, human) to achieve strategic objectives

c) Purchasing new office equipment

d) Managing company holidays

4. Which skill is MOST important for making long-term decisions and ensuring the company’s future success?

a) Time management

b) Strategic thinking

c) Data entry skills

d) Customer service

5. Which of the following describes 'leadership skills' in top management?

a) The ability to control team members and ensure they follow orders

b) The ability to inspire and motivate employees toward achieving the organization's goals

c) The ability to increase the company’s revenue

d) The ability to maintain company facilities

Unit-II

Corporate Policy and Planning in India

Corporate Policy and Planning in India: Importance – Characteristics – Objectives - Policy Formulation and Development – Types of Business Policies-Implementation of Policies. Society and Business: Social Responsibility of Business –Corporate Governance and Ethical Responsibility.

Unit Model Structuring:

5. Corporate Policy and Planning in India
6. Corporate Policy Formulation and Development
7. Society and Business
8. Corporate Governance and Ethical Responsibility.

Self Learning Material Development –Stage-2

Table of Contents for the Unit

Unit objectives

After reading this unit you should be able to understand the concept of Corporate Policy and Development.

Know the Implementation of Policies.
You can able to understand the Responsibility of Business in society and Corporate Governance.

5.1 Corporate Policy and Planning in India

Corporate policy is the guide post to decision making. It helps in the managerial thinking process and thus leads to the efficient and effective attainment of the objectives of any organization.

Corporate policy has been defined as “Management’s expressed or implied intent to govern action in the pursuit of the company’s objectives.” Corporate policy clarifies the intention of management in dealing with the various problems faced. It gives the managers a transparent guideline to take their decisions by being on the safe side.

Corporate policy helps the manager in identification of the solutions to the problem. It provides the framework in which he has to take the decisions. The distinct views regarding policies can be categorized into the following three broad groups:

i) The first category holds the opinion that policy and strategy are synonymous. Corporate policy has been defined by William Glueck as “Management policy is long range planning. For all practical purposes, management policy, long range planning and strategic management mean the same thing.” However, this view is quite controversial as strategy and corporate policy do not mean the same thing. Strategy includes awareness of the mission, purpose and objectives. It has been defined as, “the determination of basic long term goals and objectives of an enterprise, and the allocation of resources necessary to carry out these goals”, while policies are statements or a commonly accepted understanding soft decision making and are thought oriented guidelines. Therefore, strategy and corporate policy cannot be used interchangeably as there is a clear line of differentiation between the two terms.

ii) The second group of experts views corporate policy as the process of implementing strategy. In the words of Frank I. Paine and William Naumes, “Policies guide and channel the implementation of strategy and prescribe how processes within the organization will function and be administered. Thus the term policy refers to organization procedures, practices and structures, concerned with implementing and executing strategy.”

Supporting this view, RobertMudric has defined corporate policy “A policy establishes guidelines and limits for discretionary action by individuals responsible for implementing the overall plan.”

The views represent corporate policy to be

- Restrictive
- Laying stress only on the tactical side and ignoring the strategic dimension.

iii) The third view considers corporate policy to be decisions regarding the future of an organization.

In this view, Robert J. Mockler defines corporate policy as, “Strategic guide lines for action .They spell out what can and what cannot be done in all areas of a company’s operation.”

According to the policy manual of General Electric Company, “Policy is definition of common purpose for organization components of the company for benefit of those responsible for implementation, exercise discretion and good judgment in appraising and deciding among alternative courses of action.”

The view soft different management scholars differ because of following reasons:

- There is no clear differentiation of policy from other element soft planning.
- There are different policies made at different levels of management for directing executives.
- Corporate policy encompasses and relates to the entire process of planning.

Thus, corporate policy focuses on the guidelines used for decision making and putting them into actions.

It consists of principles along with rules of action that provides for successful achievement of corporate

5.2 Importance of Corporate Policy

Corporate policy plays a crucial role in an organization's success. It provides a framework for decision-making, ensuring that all actions align with the organization's objectives. Some of the benefits of having a strong corporate policy are:

Consistency: Corporate policy ensures that all decisions and actions align with the organization's objectives, providing consistency in approach and decision-making.

Coordination: Corporate policy promotes coordination and coherence among different departments and functions of the organization.

Control: Corporate policy provides control over the organization's activities and ensures that the activities are carried out as per the guidelines.

Efficiency: Corporate policy promotes efficiency by providing clear guidelines for decision-making, reducing the time and effort required for decision-making.

5.3 Characteristics of Corporate Policy

1. Specific & Definite:

Policy should be specific/definite. If it is uncertain, then the implementation will become difficult.

2. Clear:

Policy must be unambiguous. It should avoid the use of jargon 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.

5.4 Objectives of Corporate policy:

1. **General Statement of Principles:** Policies are general statement of principles followed by corporate for the attainment of organizational objectives. These principles provide a guide to action for the executives at different levels.
2. **Long Term Perspective:** Corporate policies have a long life and are formulated with a long term perspective. They provide stability to the organization.
3. **Achievement of Objectives:** Corporate policy is aimed at the fulfillment of organizational objectives. They provide a framework for action and thus help the executives to work towards the set goals.
4. **Qualitative, Conditional & General Statements:** Corporate policy statements are qualitative in nature. They are conditional and defined in general manner. These statements use words as to maintain, to follow, to provide etc. They can be specific at times but most of the times, a corporate policy tends to be general.
5. **Guide for Repetitive Operations:** Corporate policies are formulated to act as a guide for repetitive day to day operations. They are best as a guide for the activities that occur frequently or repeatedly.

6. **Hierarchy:** Corporate policies have an hierarchy i.e. for each set of objectives at each level of management there is a set of policies. The top management determines the basic overall policy, then the divisional and / or departmental policies are determined by the middle level management and lower level policies are more specific and have a shorter time horizon than policies at higher levels.
7. **Decision Making Process:** Corporate policy is a decision making process. In formulating corporate policy one has to make choices and the choice is influenced by the interests and attitudes of managers engaged in making the policies.
8. **Mutual Application:** Corporate policies are meant for mutual application by subordinates. They are made for some specific situation and have to be applied by the members of the organization.
9. **Unified Structure:** Corporate policies tend to provide predetermined issues and thus avoid repeated analysis. They provide a unified structure to other types of plans and help mangers in delegating authority and having control over the activities.
10. **Positive Declaration:** Corporate policy is a positive declaration and a command to its followers. It acts as a motivator for the people following it and thus they work towards the attainment of the objectives efficiently and effectively. The corporate policy lays down the values which dominate organization's actions.

Glossary

Corporate Policy: A set of guidelines, rules, and practices formulated by the management of an organization that outlines how it operates, makes decisions, and interacts with stakeholders. It ensures consistent behavior and decision-making across all levels of the organization.

Policy Framework: The overarching structure that defines the specific policies within an organization. This framework aligns corporate goals with operations, ensuring consistency and alignment with the strategic vision.

Corporate Governance: The system of rules, practices, and processes by which a company is directed and controlled. Corporate policy is integral to governance, as it establishes how decisions are made and who is responsible for making them.

Strategic Policies: Long-term corporate policies that are focused on achieving the company's strategic objectives and aligning the organization's actions with its mission and vision.

Operational Policies: Policies that deal with the day-to-day operations of a company. These are more focused on internal processes and are designed to ensure smooth functioning and compliance with laws.

Human Resource Policies: Guidelines and practices that relate to the management of employees within an organization, covering areas such as recruitment, compensation, benefits, and employee conduct.

Corporate Planning: The process by which an organization defines its strategy, sets out its objectives, and develops plans for achieving those goals. It includes assessing the current environment, forecasting future trends, and determining the resources needed to meet long-term objectives.

Business Planning: A component of corporate planning, focusing on developing detailed plans for business units, product lines, or specific markets, aimed at achieving specific operational and financial goals.

Strategic Planning: A core aspect of corporate planning that involves outlining the long-term goals and determining the best strategies to achieve them. It typically spans 3 to 5 years or more.

Tactical Planning: The short-term actions and steps that support the broader corporate and strategic plans. Tactical plans usually span a year or less and focus on specific tasks or projects.

Economic Development: Corporate policy and planning play a crucial role in the economic development of India by guiding businesses toward sustainable growth, improving market efficiency, and fostering innovation.

Regulatory Compliance: In India, corporate policies help organizations stay compliant with laws, regulations, and government directives such as the Companies Act, SEBI regulations, and labor laws.

Corporate Social Responsibility (CSR): A mandatory policy requirement in India for large corporations under the Companies Act, where businesses are obligated to spend a portion of their profits on social, environmental, and community development initiatives.

Sustainability: An increasingly important aspect of corporate policy in India, where companies are expected to adopt environmentally friendly practices and reduce their carbon footprint.

Stakeholder Confidence: Strong corporate policy and planning ensure transparency and good governance, leading to higher levels of trust among stakeholders, including investors, employees, and customers.

Clarity: Corporate policies should be clear and easily understood by all members of the organization, ensuring that there is no ambiguity in their application.

Consistency: A good corporate policy maintains uniformity in decision-making across different departments and levels of management, ensuring that similar situations are handled in the same way.

Flexibility: While policies provide structure, they should also be adaptable to changes in the business environment, market conditions, or legal frameworks.

Feasibility: Policies must be realistic and achievable, considering the organization's resources and capabilities.

Legal Compliance: Corporate policies must comply with local, national, and international laws. In India, policies must adhere to regulations such as the Companies Act, tax laws, labor laws, and environmental regulations.

Alignment with Objectives: Policies should be closely aligned with the organization's mission, vision, and strategic goals, ensuring that all actions contribute to the long-term success of the company.

Accountability: Corporate policies must define the roles and responsibilities of various stakeholders, ensuring accountability at all levels.

Goal Achievement: The primary objective of corporate policy and planning is to set the foundation for achieving the company's long-term goals and objectives.

Risk Management: Corporate policies are designed to identify, assess, and mitigate risks that could affect the organization, helping to ensure stability and sustainability.

Resource Allocation: Corporate planning helps allocate resources (financial, human, technological) in a way that maximizes efficiency and supports the company's strategic objectives.

Performance Improvement: One of the objectives of corporate policy and planning is to continuously improve organizational performance through effective decision-making and process optimization.

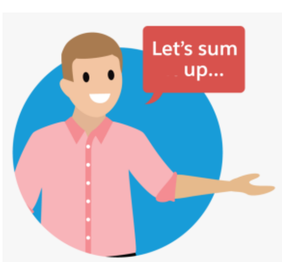
Market Competitiveness: Corporate policies are designed to help the organization stay competitive in the marketplace by fostering innovation, customer focus, and operational excellence.

Employee Motivation and Development: Through HR policies and corporate planning, organizations aim to attract, retain, and develop talent, ensuring that employees are motivated and aligned with the company's goals.

Sustainability and CSR: Corporate planning in India increasingly focuses on sustainable development and corporate social responsibility, ensuring that businesses contribute positively to society and the environment.

Adaptation to Change: Corporate planning ensures that the organization is prepared for changes in the external environment, such as market shifts, economic fluctuations, or regulatory changes, and can adapt accordingly.

Let sum up



Dear learners in this module we learn about Corporate Policy and Planning in India, Importance, Characteristics and Objectives

Self-Assessment Questions

1) …………. is the guide post to decision making

a) Corporate Governance b) Corporate policy **c)** Corporate Statement **d)** Coporate Etiquette

2) …………. are general statement of principles followed by corporate for the attainment of organizational objectives

a)Financial Statement b) Policies c) Production Process d) Sales

3) Corporate policies have along life and are formulated with a Short term perspective.

a)Yes b)No

4) Policy should be specific/definite. If it is uncertain, then the implementation will become difficult

a)Yes b)No

5) Corporate policy is appositive declaration and a command to its followers.

a)Yes b)No

6.1 Policy formulation and Development

Policy formulation

Policy formulation in refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives and thereby achieving the organizational vision. The process of policy formulation basically involves six main steps. Though these steps do not follow a rigid chronological order, however they are very rational and can be easily followed in this order.

1. **Setting Organizations' objectives -** The key component of any policy statement is to set the long-term objectives of the organization. It is known that strategy is generally a medium for realization of organizational objectives.

   Objectives stress the state of being there whereas Policy stresses upon the process of reaching there.

   Policy includes both the fixation of objectives as well the medium to be used to realize those objectives. Thus, policy is a wider term which believes in the manner of deployment of resources so as to achieve the objectives.

   While fixing the organizational objectives, it is essential that the factors which influence the selection of objectives must be analyzed before the selection of objectives. Once the objectives and the factors influencing policy decisions have been determined, it is easy to take strategic decisions.

2. **Evaluating the Organizational Environment -** The next step is to evaluate the general economic and industrial environment in which the organization operates. This includes a review of the organizations competitive position.It is essential to conduct a qualitative and quantitative review of an organizations existing product line. The purpose of such a review is to make sure that the factors important for competitive success in the market can be discovered so that the management can identify their own strengths and weaknesses as well as their competitors' strengths and weaknesses.After identifying its strengths and weaknesses, an organization must keep a track of competitors' moves and actions so as to discover probable opportunities of threats to its market or supply sources.
3. **Setting Quantitative Targets -** In this step, an organization must practically fix the quantitative target values for some of the organizational objectives. The idea behind this is to compare with long term customers, so as to evaluate the

contribution that might be made by various product zones or operating departments.

4. **Aiming in context with the divisional plans -** In this step, the contributions made by each department or division or product category within the organization is identified and accordingly strategic planning is done for each sub-unit. This requires a careful analysis of macroeconomic trends.
5. **Performance Analysis -** Performance analysis includes discovering and analyzing the gap between the planned or desired performance. A critical evaluation of the organizations past performance, present condition and the desired future conditions must be done by the organization. This critical evaluation identifies the degree of gap that persists between the actual reality and the long-term aspirations of the organization. An attempt is made by the organization to estimate its probable future condition if the current trends persist.
6. **Choice of Strategy -** This is the ultimate step in Strategy Formulation. The best course of action is actually chosen after considering organizational goals, organizational strengths, potential and limitations as well as the external opportunities.

Development of Policy:

Creating a strategy and drafting the policy can help you make the policy option you selected actionable. This process may look different depending on the policy you selected.

To understand the strategy and policy development process, you will probably need the help of stakeholders, as the process isn’t always straightforward. Consider which stakeholders can help you develop a strategy and draft the policy. Also plan who should be involved in moving it forward.

People who can help design your strategy

Who they are:

- People whose jobs or lives might be affected by the policy
- Community members and leaders
- Subject matter experts
- People who understand the legislative process

How they can contribute:

- Develop communication strategy and materials
- Identify and connect you with key contacts and partners
- Figure out clear next steps

People who can help develop the policy

Who they are:

- Subject matter experts
- People who understand the legislative process

How they can contribute:

Provide critical information for the policy

1. Develop your enactment strategy.

- Identify the steps you and your partners will take to enact the policy. Your stakeholders can play an important role in this step. For example, if your policy involves writing a new policy, your stakeholders will know—usually from past experience—the best contacts and partners who can help guide your policy through the appropriate process. Because they previously traveled to the same destination and successfully navigated the same route, you might learn a lot from them. Stakeholders might also be able to help with timing of the policy.

2. Develop and draft the policy.

- Start by trying to find pre-existing language for the policy. This might come from a model policy or policies others have drafted. In other words, you might be able to get to your destination via a well-traveled route. On the other hand, if nothing exists, you'll need to chart a new course and write new language. As the policy is drafted, consider how it might work in your situation and what additional information or resources may be needed for implementation.

6.2 Types of business policies

Business policies can be classified in various ways based on their scope, level of operation, and who they apply to. Here are some common types of business policies:

Organizational or Corporate Policies: These are general policies applicable across the organization. They are formulated by the top-level management and define the company's fundamental beliefs, values, or philosophy. Examples include the company's code of ethics, equal opportunity policy, or sustainability policy.

Functional or Departmental Policies: These are specific to a certain department or functional area within the organization, such as human resources, finance, marketing, or operations. For instance, the human resources department might have policies on recruitment, vacation time, or performance appraisals.

Procedural Policies: These outline the steps or procedures that should be followed to carry out certain activities or tasks. For example, a company might have a procedural policy on handling customer complaints or processing returns.

Operational Policies: These are day-to-day policies that guide the organization's operations. They might include policies on working hours, dress code, or use of company equipment.

Contingency Policies: These are policies that are designed for specific situations or emergencies that may arise. For example, a company might have a contingency policy in place for handling a data breach or a natural disaster.

Strategic Policies: These policies are linked with the organization's strategic goals and provide guidelines for decision-making that align with these goals. They can include policies on expansion, diversification, or innovation.

Compliance Policies: These are created to ensure the company complies with applicable laws and regulations. They might include policies on data privacy, workplace safety, or anti-discrimination.

Human Resources Policies: These policies govern the relationship between the organization and its employees, including recruitment, compensation, benefits, performance management, and termination policies.

6.3 Implementation of Policies:

- Building an organization, that possesses the capability to put the strategies into action successfully.
- Supplying resources, in sufficient quantity, to strategy-essential activities.
- Developing policies which encourage strategy.
- Such policies and programs are employed which helps in continuous improvement.
- Combining the reward structure, for achieving the results.
- Using strategic leadership.
- The process of strategy implementation has an important role to play in the company's success. The process takes places after environmental scanning, SWOT analyses and ascertaining the strategic issues.

Prerequisites of Strategy Implementation:

Institutionalization of Strategy: First of all the strategy is to be institutionalized,in the sense that the one who framed it should promote or defend it in front of the members, because it may be undermined.

Developing proper organizational climate: Organizational climate implies the components of the internal environment that includes the cooperation, development of personnel, the degree of commitment and determination, efficiency, etc., which converts the purpose into results. Formulation of operating plans: Operating plans refers to the action plans,decisions and the programs, that take place regularly, in different parts of the company. If they are framed to indicate the proposed strategic results, they assist in attaining the objectives of the organization by concentrating on the factors which are significant.

Developing proper organizational structure: Organization structure implies the way in which different parts of the organization are linked together. It highlights the relationships between various designations, positions and roles. To implement a strategy, the structure is to be designed as per the requirements of the strategy.

Periodic Review of Strategy:

Review of the strategy is to be taken at regular intervals so as to identify whether the strategy so implemented is relevant to the purpose of the organization. As the organization operates in a dynamic environment, which may change anytime, so it is essential to take a review, to know if it can fulfil the needs of the organization. Even the best-formulated strategies fail if they are not implemented in an appropriate manner. Further, it should be kept in mind that, if there is an alignment between strategy and other elements like resource allocation, organizational structure, work climate, culture, process and reward structure, then only the effective implementation is possible.

Aspects of Strategy Implementation:

- Creating budgets which provide sufficient resources to those activities which are relevant to the strategic success of the business.
- Supplying the organization with skilled and experienced staff.
- Conforming that the policies and procedures of the organization assist in the successful execution of the strategies. Leading practices are to be employed for carrying out key business functions.
- Setting up an information and communication system that facilitates the workforce of the organization, to perform their roles effectively.

- Developing a favorable work climate and culture, for proper implementation of the strategy. Strategy implementation is the time-taking part of the overall process, as it puts the formulated plans into actions and desired results.

STRUCTURAL IMPLEMENTATION – CONCEPT:

A structural implementation is nothing but arrangement of tasks and sub tasks required to implement a strategy. A Diagrammatic representation could be organizational chart but administrative mechanism provides flesh and blood to the organization structure. An organizationally structure is the outline of authority and responsibility relationship among 5 different job positions. It is a formal arrangement of tasks and sub – tasks which are needed to implement strategies. An organization structure has two broad dimensions; namely

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

The vertical dimension is characterized by Specialization of tasks

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

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

The main characteristics of horizontal dimensions are

- Sharing of tasks

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

Glossary

Policy Formulation: The process by which an organization creates policies to address issues, set guidelines, and establish decision-making frameworks. This involves identifying problems, setting objectives, and determining courses of action.

Policy Development: The refinement and adjustment of policies to ensure they are relevant, feasible, and aligned with the organization's goals. Development may include research, consultation, drafting, and revision.

Stakeholder Involvement: The participation of individuals or groups (such as employees, managers, customers, or regulators) who have an interest in the organization's policies. Their input is critical during the formulation and development stages.

Research and Analysis: A phase in policy development where relevant data, trends, and best practices are analyzed to inform decision-making. It ensures policies are grounded in facts and real-world insights.

Feasibility Analysis: An assessment of whether a proposed policy can be practically implemented, considering factors such as resources, time, and legal constraints.

Consultation: The process of seeking input from stakeholders, including employees, management, industry experts, and sometimes customers or regulatory authorities, during policy formulation to ensure diverse perspectives are considered.

Drafting: The process of writing the policy in a formal document, outlining its objectives, scope, and the guidelines it sets for the organization.

Approval Process: The steps required to get formal acceptance of the policy by senior management, the board of directors, or relevant authorities within the organization.

Policy Revision: The ongoing process of reviewing and updating policies to ensure they remain relevant and effective in the face of internal changes and external developments.

Legal Compliance: Ensuring that the policy formulation process aligns with all relevant laws and regulations, both local and international.

Corporate Policies: High-level policies that provide direction on the organization's overall mission, values, and long-term goals. These guide decision-making across all levels of the company.

Operational Policies: Policies that govern the day-to-day activities of the business. These are more specific and focus on routine processes and procedures within departments like finance, HR, or production.

Strategic Policies: Long-term policies designed to align with the organization's strategy and competitive positioning. These often focus on achieving growth, market share, or profitability.

Functional Policies: Policies related to specific functions or departments within the organization, such as marketing, finance, or human resources. Each function has tailored policies to support its objectives.

Human Resource Policies: Guidelines on managing the workforce, including recruitment, training, compensation, performance management, and workplace behavior. These policies are essential for maintaining a positive work environment.

Financial Policies: Rules and guidelines regarding the financial management of the organization, including budgeting, accounting practices, and financial reporting. These ensure that the organization's financial resources are properly managed.

Ethical Policies: Guidelines that establish the ethical standards and behaviors expected of employees and management. Ethical policies often cover issues like conflicts of interest, workplace conduct, and corporate social responsibility (CSR).

Health and Safety Policies: Policies designed to ensure the well-being of employees by outlining practices and procedures for maintaining a safe work environment. These include guidelines on handling emergencies, workplace hazards, and compliance with safety regulations.

IT Policies: Policies that provide guidelines for the use of information technology within an organization. These may include cybersecurity protocols, data privacy, and usage of IT resources like email and internet.

Environmental Policies: Corporate guidelines aimed at reducing the organization's environmental impact. These may include policies on waste management, energy use, and sustainability initiatives.

Product and Service Policies: Guidelines that define the standards for the development, delivery, and quality control of products and services offered by the organization. These policies ensure consistency and customer satisfaction.

Marketing Policies: Policies that govern how the company communicates with its customers, including advertising, promotions, pricing strategies, and customer engagement.

Policy Implementation: The process of putting a developed policy into action within an organization. It involves distributing the policy, training employees, and integrating it into daily operations.

Action Plan: A step-by-step plan that outlines how a policy will be executed, including timelines, responsibilities, and necessary resources.

Resource Allocation: The process of distributing financial, human, and material resources necessary for the successful implementation of a policy.

Communication Plan: A strategy for informing employees and other stakeholders about new policies, ensuring that everyone understands the objectives, rules, and their roles in compliance.

Training: Providing employees and management with the necessary skills and knowledge to comply with the new policies. Training is essential for ensuring proper implementation and adherence.

Monitoring and Evaluation: The ongoing process of tracking the effectiveness of a policy after its implementation. This includes measuring performance against the policy’s objectives and identifying any areas for improvement.

Policy Adherence: The extent to which employees and managers follow the established policy. Ensuring adherence may involve monitoring, reporting, and enforcement measures.

Enforcement: Measures taken to ensure that all employees comply with the policy. Enforcement can involve corrective actions, penalties, or other disciplinary measures for non-compliance.

Change Management: The process of helping employees adapt to new policies, ensuring a smooth transition from the old processes to the new ones. This often involves communication, support, and guidance.

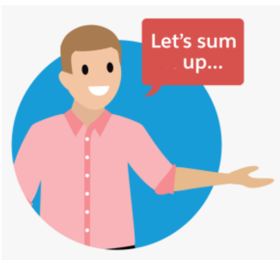
Feedback Loop: The process of gathering feedback from employees and stakeholders regarding the implementation of the policy, which can be used to make improvements or revisions if necessary.

Performance Metrics: Key indicators that are used to measure the success and effectiveness of a policy. These metrics help in evaluating whether the policy is meeting its intended objectives.

Continuous Improvement: The practice of regularly reviewing policies and making adjustments to improve efficiency, effectiveness, and alignment with organizational goals.

Compliance Audits: Periodic reviews conducted to ensure that all parts of the organization are adhering to the policies. Audits are important for maintaining accountability and addressing any gaps in implementation.

Let sum up



Dear learners in this module we learn about Policy Formulation, Development of policy, Types of Business Policies and Policy Implementation.

Self-Assessment Questions

1)The key component of any policy statement is to set the …………….objectives of the organization.

a)Short-Term b)Medium Term c) long-term d)Both short and Medium Term

2) This process may look different depending on the ………… you selected.

a)Production b)Sales C)Capital d) Policy

3)………….. are day-to-day policies that guide the organization's operations.

a)Corporate Policies b)Procedural Policies c) Operational Policies d)Contingency policies

7.1 Society and Business:

Society:

A society is a group of people involved in persistent social interaction, or a large social grouping sharing the same geographical or social territory, typically subject to the same political authority and dominant cultural expectations. Societies are characterized by patterns of relationships (social relations) between individuals who share a distinctive culture and institutions; a given society may be described as the sum total of such relationships among its constituent members. In the social sciences, a larger society often evinces stratification or dominance patterns in subgroups.

Business:

A business is an organization or enterprising entity engaged in commercial, industrial or professional activities. A company transacts business activities through the production of a good, offering of a service or retailing of already manufactured products. A business can be a for-profit entity or a nonprofit organization that operates to fulfill a charitable mission.

Need of Business and Society:

Business today is arguably the most dominant institution in the world. The term business refers here to any organization that is engaged in making a product or providing a service for a profit.Society, in its broadest sense, refers to human beings and to the social structures they collectively create. In a more specific sense, the term is used to refer to segments of humankind, such as members of a particular community, nation, or interest group. As a set of organizations created by humans, business is clearly a part of society. At the same time, it is also a distinct entity, separated from the rest of society by clear boundaries. Business is engaged in ongoing exchanges with its external environment across these dividing lines.

7.2 Social responsibility

Social responsibility is a means of achieving sustainability. Adopting key social responsibility principles, such as accountability and transparency, can help ensure the long-term viability and success of any organization or system.

Social Responsibility in Business

Social responsibility in business, also known as corporate social responsibility (CSR), pertains to people and organizations behaving and conducting business ethically and with sensitivity towards social, cultural, economic, and environmental issues. Striving for social responsibility helps individuals, organizations, and governments have a positive impact on development, business, and society.

Smart business decisions are not just a matter of counting short-term dollars and cents. Wise decision makers consider the future impact of today's choices on people, on the community, and on customers and their opinions.

While business results, investment, free enterprise, and other traditional economic forces continue to drive industry, organizations' reputations and their ability to compete effectively around the world depend on them integrating social responsibility efforts into decision making and performance improvement.

Advantages of Social Responsibility

A company can boost its morale and enhance work culture when they can engage their employees with some social causes. There are many factors that can have a positive impact on the business while delivering social responsibilities. Such few factors are

- Justification for existence and growth
- The long-term interest of the firm
- Avoidance of government regulation
- Maintenance of society

- Availability of resources with business
- Converting problems into opportunities
- A better environment for doing business
- Holding business responsible for social problems

Disadvantages of Social Responsibility

Like there are many advantages of social responsibility there are similarly many disadvantages for business. Few factors are mentioned below.

- Violation of profit maximization objective
- Burden on consumers
- Lack of social skills
- Lack of broad public support

Types of Social Responsibilities

Following Are the Different Types of Social Responsibilities:

(1) Economic Responsibility

- Every business is engaged in economic activities.
- So, the prime social responsibility of every business should be economic responsibility.
- Hence they should sell products and service which can satisfy the need of the society.

(2) Legal Responsibility

- The company should comply with the political and legal environment of the country.

- The company should consider protecting the environment.

(3) Ethical Responsibility

- This type of responsibility expects a certain type of behaviour or conduct from the company.
- This behaviour may not be documented by law.

(4) Discretionary Responsibility

- These are voluntary actions taken by the entities in case of natural calamities, helping poor people etc.
- They help them by providing a charitable contribution, education activities etc.
- It prevents investments of charitable funds into speculative activities.

Opinions in Favour of Social Responsibilities:

Following Are the Opinions in Favour of Social Responsibilities:

(1) Justification for Existence and Growth

- Good quality products help in expansion of the business.
- When the business organisation keeps on providing good quality products, it's actually a fulfillment of social responsibility.

(2) Long Term Interest of the Business

- Every business wants long term profits and gains.
- If increasing no. Of stakeholders are not giving their best, there may be the withdrawal of cooperation of society.
- It can be noted that the public image of the business can be improved by focusing on social goals.

(3) Avoidance of Government Regulations

- Good social behaviour is an ethical aspect of the business. They are beyond the law.
- Business entities avoid government regulations as it their freedom.

(4) Maintenance of Society

- The business should take social responsibilities.
- However, the law is not made for every situation.
- People who are against the organisation can come into conflict. They can also harm the organisation.
- This situation can create criminal intent in society.

(5) Availability of Resources With Business

- Business entities have huge set-ups and good infrastructure.
- These organizations have access to different types of resources.
- These resources should be used for fulfilling social responsibilities.

(6) Holding Business Responsible for Social Problems

- Business activity should see if any type of activity is causing harm to society.
- The business should themselves held responsible for causing harm rather than waiting for any government or social team to come and correct them.

Opinions Which Are Against the Idea of Fulfillment of Social Responsibility:

(1) Violation of Profit Maximisation Objective

- The sole motive of the business is profit maximization.
- Supporting social responsibilities is violating the profit-making objective of the business.
- It would be better if entities increase the profits through increased efficiency.

(2) Burden on Consumers

- Social responsibilities like environment protection, pollution control are very costly in nature.
- If entities opt for these social responsibilities, they always try to shift their burden on ultimate consumers.
- It is not reasonable to charge the customers on the name of social responsibilities.

(3) Lack of Social Skills

- Every entity does not have enough skills and knowledge to solve each and every social problem.
- This can be the reason for a poor image in the society.
- So, these problems should be solved by some specialized parties.

(4) Lack of Broad Public Support

- Generally, society does not accept the involvement of business entities in social programs.
- That is why it gets difficult for the business to solve the problems without the participation of the public.

Glossary

Society: A group of individuals who live together in a community, sharing common values, institutions, laws, and practices. Society influences businesses through its expectations, cultural norms, and regulatory frameworks.

Business: An organization or enterprise engaged in commercial, industrial, or professional activities aimed at generating profit. Businesses interact with society by providing goods, services, employment, and contributing to the economy.

Business Environment: The combination of internal and external factors that influence a company's operations, including the economic, social, political, and legal contexts within which a business functions.

Stakeholders: Individuals, groups, or organizations that are affected by or can affect a business's activities. This includes customers, employees, shareholders, suppliers, government, and the community at large.

Corporate Citizenship: A business's role in society, encompassing its obligations to contribute positively to the social, environmental, and economic welfare of the community.

Cultural Norms: The shared beliefs, values, customs, and behaviors that define how individuals and organizations interact in a society. Businesses must understand and adapt to cultural norms to succeed in different regions and markets.

Economic Development: The process by which a society improves the economic well-being of its citizens through policies and activities that enhance business growth, employment, and wealth creation.

Globalization: The process by which businesses and other organizations operate on an international scale, leading to increased interconnectedness between different societies and economies.

Corporate Culture: The shared values, beliefs, and practices within a company that influence employee behavior and decision-making. A positive corporate culture aligned with societal expectations can enhance business performance and reputation.

Public Policy: Government actions and regulations designed to address issues within society, which can impact how businesses operate. Public policy covers areas such as labor laws, environmental regulations, and trade policies.

Social Responsibility: The ethical obligation of businesses to contribute positively to society and to minimize the negative impacts of their operations on people, the environment, and the community.

Corporate Social Responsibility (CSR): A self-regulating business model where companies integrate social and environmental concerns into their operations and interactions with stakeholders. CSR aims to create a positive impact on society while maintaining profitability.

Ethical Business Practices: Conducting business in a manner that is fair, transparent, and responsible, respecting the rights and interests of all stakeholders, including employees, customers, and the community.

Triple Bottom Line: A framework for measuring business success based on three key factors: economic (profit), social (people), and environmental (planet). Businesses focus on balancing these aspects to achieve sustainable growth.

Sustainability: The practice of operating in a way that meets current business needs without compromising the ability of future generations to meet their needs. It encompasses environmental protection, resource conservation, and long-term social and economic well-being.

Philanthropy: Voluntary actions by businesses to promote the welfare of society, typically through donations, charity work, or funding social causes. Corporate philanthropy is one aspect of social responsibility.

Community Engagement: Efforts by businesses to actively participate in and support the communities where they operate. This may involve local hiring, supporting small businesses, sponsoring community events, and engaging in social initiatives.

Environmental Stewardship: The responsibility of businesses to manage and reduce their environmental impact. This includes practices like reducing waste, conserving energy, and promoting sustainable resource use.

Social Audit: A process by which a company reviews its social responsibility efforts to assess how well it is fulfilling its obligations to stakeholders, especially regarding its social, ethical, and environmental commitments.

Ethical Consumerism: A movement where consumers make purchasing decisions based on a company's ethical practices, including how it treats its workers, its environmental footprint, and its CSR initiatives.

Human Rights: The fundamental rights and freedoms that all individuals are entitled to, regardless of nationality, sex, ethnicity, religion, or economic status. Businesses are expected to respect and promote human rights in their operations and supply chains.

Labor Practices: Policies and practices related to the fair treatment of employees, including working conditions, wages, benefits, and workers' rights. Ethical labor practices are a key aspect of social responsibility.

Corporate Governance: The system by which companies are directed and controlled, ensuring transparency, accountability, and ethical behavior in decision-making processes. Good corporate governance is essential for maintaining trust with stakeholders and upholding social responsibility.

Cause Marketing: A type of marketing in which a business partners with a nonprofit or supports a social cause, typically by donating a portion of profits or promoting awareness, while also aiming to enhance its brand image.

Fair Trade: A trading partnership that seeks greater equity in international trade by ensuring that producers in developing countries receive fair prices for their goods, have safe working conditions, and promote sustainable practices.

Inclusive Business: Business models that include low-income individuals as customers, employees, suppliers, or distributors, creating shared value for both the business and society.

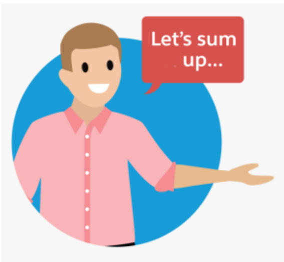
Carbon Footprint: The total amount of greenhouse gases emitted by a business, either directly through its operations or indirectly through its supply chain and the use of its products. Businesses are increasingly expected to reduce their carbon footprints as part of their environmental responsibility.

Greenwashing: A deceptive practice where a company presents itself as environmentally friendly through marketing or public relations efforts without actually making significant environmental improvements.

Employee Welfare: The consideration of employee well-being, including health and safety, work-life balance, and fair compensation. Socially responsible businesses prioritize their employees' welfare as part of their ethical obligations.

Corporate Accountability: The obligation of businesses to take responsibility for their actions and decisions, particularly in relation to their impact on society and the environment. Corporate accountability involves being answerable to stakeholders for fulfilling social, ethical, and legal obligations.

Let sum up



Dear learners in this module we learn about Society and Business, Social Responsibility of Business

Self-Assessment Questions

1**)** A ………..is a group of people involved in persistent social interaction, or a large social grouping sharing the same geographical or social territory, typically subject to the same political authority and dominant cultural expectations.

a)Society b)Business c) Agency d)All the above

2) A …………… is an organization or enterprising entity engaged in commercial, industrial or professional activities.

a)Society b)Business c) Agency d)All the above

3)…………… responsibility is a means of achieving sustainability

a)Ethical b) Social C)Political d)All the above

4)…………. responsibility is the capacity to perceive, interpret and follow up on different standards and qualities as indicated by the guidelines inside a given field.

a)Ethical b) Social C)Political d)All the above

Accountability means to be answerable and be obligated to take responsibility for one's actions.

a)Yes b)No

8.Corporate Governance and Ethical responsibility

Corporate Governance

Corporate Governance is a continuous process of applying the best management practices, ensuring the law is followed the way intended, and adhering to ethical standards by a firm for effective management, meeting stakeholder responsibilities, and complying with corporate social responsibilities.

It contains policies and rules to maintain a strong relationship between the owners of the company (shareholders), the Board of Directors, management, and various stakeholders like employees, customers, Government, suppliers, and the general public. It applies to all kinds of organizations-profit or not-for-profit.

Ethical responsibility

Ethical responsibility is the capacity to perceive, interpret and follow up on different standards and qualities as indicated by the guidelines inside a given field.

Principles of Corporate Governance

Accountability

Accountability means to be answerable and be obligated to take responsibility for one's actions. By doing so, two things can be ensured-

1. That the management is accountable to the Board of Directors.
2. That the Board of Directors is accountable to the shareholders of the company.

This principle gives confidence to shareholders in the business of the company that in case of any unfavourable situation, the persons responsible will be held in charge.

Fairness

Fairness gives shareholders an opportunity to voice their grievances and address any issues relating to the violation of shareholder's rights. This principle deals with the protection of shareholders' rights, treating all shareholders equally without any personal favouritism, and granting redressal for any violations of rights.

Transparency

Providing clear information about a company's policies and practices and the decisions that affect the rights of the shareholders represents transparency. This helps to build trust and a sense of togetherness between the top management and the stakeholders. It ensures accurate and full disclosure timely on material matters like financial condition, performance, ownership.

Independence

Independence means the ability to make decisions freely without being unduly influenced. Decisions should be made freely without having any personal interest in the company. It ensures the reduction in conflict of interest. Corporate governance suggests the appointment of independent directors and advisors so that decisions are taken responsibly without influence.

Social Responsibility

Apart from the 4 main principles, there is an additional principle of corporate governance. Company social responsibility obligates the company to be aware of social issues and take action to address them. In this way, the company creates a positive image in the industry. The first step towards Corporate Social Responsibility is to practice good Corporate Governance.

Corporate Governance in India:

The Ministry of Corporate Affairs (MCA) and Securities and Exchange Board of India (SEBI) is responsible for corporate governance initiatives in India. The corporate sector of India faced major changes in the 1990s after liberalization.

In the 1900s, SEBI regulated corporate governance in India through various laws like the Security Contracts (Regulation) Act, 1956; Securities and Exchange Board of India Act, 1992; and the Depositories Act of 1996.

In February 2000, SEBI established the first formal regulatory framework for corporate governance in India owing to the recommendations of the Kumar Mangalam Birla Committee. It was undertaken to improve the standards of corporate governance in India. This came to be known as clause 49 of the Listing Agreement.

A major corporate governance initiative was undertaken in 2002 when the Naresh Chandra Committee on Corporate Audit and Governance furthered their recommendations addressing multiple governance issues.

MCA and the Government of India have set up multiple organisations and charters like the Confederation of Indian Industry (CII), National Foundation for Corporate Governance (NFCG), and Institute of Chartered Accountants of India (ICAI).

Glossary

Corporate Governance: The system by which companies are directed and controlled. It encompasses the mechanisms, processes, and relations used by various parties to control and to operate a corporation, including the board of directors, shareholders, and management.

Board of Directors: A group of individuals elected by the shareholders of a company to oversee management and make key decisions on corporate affairs. The board is responsible for setting company policies, approving budgets, and ensuring the company's long-term success.

Executive Management: The senior management team responsible for the day-to-day operations of the company. This typically includes the CEO, CFO, COO, and other top executives who implement the board’s policies and strategies.

Audit Committee: A specialized committee of the board of directors responsible for overseeing the company’s financial reporting process, internal controls, and external audit. It ensures the accuracy and integrity of financial statements.

Compensation Committee: A board committee that determines the compensation packages for senior executives, including salaries, bonuses, and other benefits. The committee aims to align executive compensation with the company’s performance and shareholder interests.

Nomination Committee: A board committee responsible for identifying and recommending candidates for board positions. It ensures that the board is composed of individuals with the right skills and experience.

Shareholders: Individuals or entities that own shares in a company and have a financial interest in its performance. Shareholders elect the board of directors and have the right to vote on major corporate decisions.

Transparency: The practice of openly sharing information about a company's operations, financial performance, and decision-making processes with stakeholders. Transparency fosters trust and accountability.

Accountability: The obligation of the board of directors and management to be answerable for their actions and decisions. Accountability involves being responsive to shareholder concerns and ensuring that corporate actions align with legal and ethical standards.

Internal Controls: Processes and procedures implemented by a company to ensure the accuracy and reliability of financial reporting, safeguard assets, and prevent fraud and errors.

Corporate Policies: Guidelines established by a company's board and management to govern various aspects of the organization, including financial practices, ethics, and operational procedures.

Risk Management: The process of identifying, assessing, and mitigating risks that could impact the company's operations and financial performance. Effective risk management is a key aspect of corporate governance.

Regulatory Compliance: Adherence to laws, regulations, and standards relevant to the company's operations. Compliance ensures that the company operates within the legal framework and meets its regulatory obligations.

Ethical Governance: The integration of ethical principles and practices into the governance framework of a company. It involves promoting integrity, fairness, and ethical behavior in decision-making processes.

Stakeholder Engagement: The process of involving stakeholders, including employees, customers, suppliers, and the community, in the company's decision-making and governance processes. Engaging stakeholders helps ensure that their interests are considered.

Ethical Responsibility: The obligation of individuals and organizations to act in accordance with moral principles and standards. Ethical responsibility involves making decisions and conducting business in a manner that is fair, just, and respectful of others.

Ethics: A set of moral principles and values that guide behavior and decision-making. In a business context, ethics relate to practices and decisions that align with societal norms and expectations.

Corporate Ethics: The application of ethical principles and standards to business practices. Corporate ethics involves ensuring that the company's operations and conduct align with moral values and societal expectations.

Code of Ethics: A formal document that outlines a company's values, principles, and ethical standards. It provides guidance on how employees and management should conduct themselves in various situations.

Ethical Leadership: The practice of leading an organization in a manner that upholds ethical standards and values. Ethical leaders model integrity, transparency, and fairness in their behavior and decision-making.

Corporate Social Responsibility (CSR): The commitment of businesses to contribute positively to society by addressing social, environmental, and economic issues. CSR involves taking responsibility for the impact of business activities on stakeholders and the community.

Sustainability: The practice of operating in a way that meets current needs without compromising the ability of future generations to meet their own needs. Sustainability encompasses environmental stewardship, social equity, and economic viability.

Integrity: The quality of being honest and having strong moral principles. Integrity involves consistency in actions, values, methods, and expectations, and is crucial for building trust and credibility.

Whistleblowing: The act of reporting unethical or illegal activities within an organization. Whistleblowers provide important information about misconduct and play a key role in promoting accountability and ethical behavior.

Conflict of Interest: A situation where an individual’s personal interests or relationships could influence their professional judgment and decision-making. Managing conflicts of interest is essential for maintaining ethical standards and fairness.

Ethical Dilemma: A situation in which a person faces a choice between two or more conflicting ethical principles or values. Resolving ethical dilemmas requires careful consideration of the consequences and alignment with moral standards.

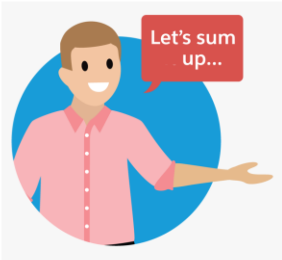
Ethical Behavior: Conduct that aligns with accepted moral principles and standards. Ethical behavior involves acting with honesty, fairness, and respect for others in all business dealings.

Social Impact: The effect of a company's actions and decisions on society. Positive social impact includes contributions to community well-being, while negative social impact may involve harm to individuals or groups.

Human Rights: Fundamental rights and freedoms that every person is entitled to, such as the right to equality, freedom from discrimination, and the right to a safe and healthy working environment. Businesses are expected to uphold and respect human rights.

Moral Responsibility: The duty to act in a way that is morally right and to consider the impact of one's actions on others. Moral responsibility encompasses both personal and organizational conduct.

Let sum up



Dear learners in this module we learn about Corporate Governance and Ethical Responsibility.

Self-Assessment Questions

1. Which of the following is the primary role of the audit committee in corporate governance?

A) To formulate the company's strategic plan

B) To oversee the company's financial reporting process and internal controls

C) To handle day-to-day operational decisions

D) To manage employee relations and HR policies

2. Which principle of corporate governance ensures that a company's management is held accountable to its stakeholders?

A) Transparency

B) Accountability

C) Independence

D) Fairness

3. What is the primary purpose of a company's code of ethics?

A) To dictate employee compensation packages

B) To outline the company's core values and ethical standards

C) To establish the company's market position

- D) To manage investor relations and communication

4. In ethical business practices, what does 'conflict of interest' refer to?

A) A situation where an individual's personal interests could potentially interfere with their professional duties

B) A dispute between two departments within the company

C) A disagreement between the company and its suppliers

D) A clash between corporate goals and employee expectations

5. Which of the following best describes the concept of corporate social responsibility (CSR)?

A) A business strategy focused solely on maximizing shareholder profit

B) A commitment by companies to contribute positively to society and the environment while conducting their business

C) A regulatory requirement for businesses to submit annual reports

D) A method of increasing operational efficiency through technology

Unit-III

Environmental Analysis

Environmental Analysis: Environmental Scanning – Industry Analysis - The Synthesis of External Factors - Internal Scanning – Value Chain Analysis – SWOT Audit –Scenario planning- Creating an Industry Matrix.

Unit Model Structuring:

9. Environmental Analysis
10. Environmental Scanning
11. Industry Analysis
12. The Synthesis of External Factors
13. Internal Scanning
14. Value Chain Analysis
15. SWOT Audit
16. Scenario planning
17. Creating an Industry Matrix

Self Learning Material Development –Stage-3

Table of Contents for the Unit

Unit objectives

After reading this unit you should be able to understand the concept of Environmental Analysis and Environmental Scanning.

Know the Industry Analysis and Internal Scanning.

You can able to understand the Creating an Industry Matrix.

9. Environmental analysis*:*

An environmental analysis is a strategic technique used to identify all internal and external factors that could affect a company's success. Internal components reveal the strengths and shortcomings of a company, while external components represent the opportunities and risks.

Importance of Environmental Analysis:

- **Find opportunities:** By looking at the outside world, organizations can find new trends and chances to enter new markets or make new products or services.
- **Identify threats:** It helps businesses find threats to their business, such as new competitors, changes in regulations, or a slowing economy.
- **Create effective strategies:** Organizations can create effective strategies that are in line with their goals and objectives when they understand how the outside world affects their business.
- **Anticipate change:** Environmental scanning helps organizations plan ahead for changes in the outside world and create strategies to deal with them.
- **Make informed decisions:** It helps organizations learn more about the outside factors that affect their business so that they can make better decisions.

Environmental analysis process

Environmental analysis is the process of assessing and evaluating the internal and external factors that can have an effect on an organization's performance and strategy. This analysis aims to find opportunities, threats, strengths, and weaknesses so that the organization can make a good workforce strategy that fits its goals and objectives.

The environmental analysis process usually involves the following steps:

1.Determine the effects on the environment

To begin a business environmental analysis procedure, select environmental factors evaluating. Your industry determines this. For example, if you work in a medical facility, you might want to think about legal implications. Regulations managing healthcare experience and safety, for example. Choose factors that have the potential to influence how you make deals.

2. Obtain information

Collect information about your chosen environmental factors once you decide which ones to evaluate. You can observe your factors and conduct research here. There are two types of information to gather: verbal and written data. Hearing is how people obtain verbal information.

As an example, consider listening to a radio broadcast. They obtain written information from sources such as newspapers and magazines. Using the preceding example, this would involve conducting research online and in medical magazines.It will assist you in determining whether or not there have been any changes to health and safety regulations because this may have an impact on your healthcare facility.

3. Consider your competitors

You may want to gather information about your competitors. To see if they pose any threats. You can accomplish this by employing a technique known as spying. This involves unusually gathering information.Using the same example, you could spy on a nearby health facility to learn about recent activity.

4. Examine your strategies

Finally, evaluate your present and prospective strategies to determine how future environmental changes will impact your organization. This assists you in resolving potential issues. These factors could have been to blame.For example, the health facility may wish to develop a new strategy. It will clearly show how they aim to deal with the decrease in clients caused by their competitor's new branch.

10.Environmental Scanning: Environmental scanning is a process of gathering information about the events and their relationship with the internal and external environment of the organization. The primary aim of environmental scanning is to find out the future prospects of business organization. As a significant resource to the management, the Environmental Scanning Committee enables the management to make decisions from fundamental analysis of historical events to estimate future events. The committee also helps in creating action plans to address these upcoming events, analyzing action plans and arranging appropriate resources for those plans, and putting management in contact with fellow employees with the knowledge set to provide quality data for decision making.

Environmental Scanning Definition

The process of collecting, evaluating, and delivering information for a strategic purpose is defined as environmental scanning. The process of environmental scanning requires both accurate and personalized data on the business environment in which the organization is operating or considering entering.

Characteristics of Environmental Scanning:

The characteristics of environmental scanning are as follows:

1. **Continuous Process-** The analysis of the environment is a continuous process rather than being sporadic. The rapidly changing environment has to be captured continuously to be on track.

2. **Exploratory Process-** Scanning is an exploratory process that keeps monitoring the environment to bring out the possibilities and unknown dimensions of the future. It stresses the fact that "What could happen" and not "What will happen".
3. **Dynamic Process-** Environmental scanning is not static. It is a dynamic process and depends on changing situations.
4. **Holistic View-** Environmental Scanning focuses on the complete view of the environment rather than viewing it partially.

Components of Environmental Scanning

1. **Internal Environmental Components-** The components that lie within the organization are internal components and changes in these affect the general performance of the organization. Human resources, capital resources and technological resources are some of the internal environmental components.
2. **External Environmental Components:** The components that fall outside the business organization are called external environmental components. Although the components lie outside the organization, they still affect the organizational activities. The external components can be divided into microenvironmental components, and macro environmental components.

Micro environmental components include competitors, consumers, markets, suppliers, organizations, etc. Macro environmental components include political, legal, economical, cultural, demographic, and technological factors.

11.Industry Analysis:

Industry analysis is a market evaluation tool companies use to assess the level and intensity of competition in a specific industry. Businesses use this tool to understand their market position and evaluate how internal and external factors such as technological changes, demand and supply dynamics, access to finance and the entry of new rivals can affect their competitive advantage.

Aspects of analyzing an industry

To analyze an industry effectively, managers assess five aspects based on Michael Porter's Five Forces. They include:

Rivalry with competitors

Understanding an industry requires a business to know its position relative to competitors in the same industry. The level of competition a company faces depends on the number of companies selling the same product or service and the market share of each competitor. Factors such as the number of products each company sells, cost of operation and government regulations can also increase the level of competition. If an industry has many companies selling the same products, the level of competition is going to remain consistently high.

Threat of potential entrants

The second competitive force is the potential for new companies to enter the industry, which increases the intensity of competition. If it's more difficult for new companies to enter the industry, existing companies are likely to face less competition and enjoy longer periods of profitability. Conversely, lower entry barriers can indicate more competition in the future and less revenue as rivals compete for market share.

Threat of substitutes

Substitutes are products or services that serve the same function. An industry where companies sell substitutes is likely going to have a high level of competition because an increase in the price of one product causes buyers to switch to an alternative. The threat of substitution increases competition and it can make companies spend more on distinguishing their products to discourage customers from buying alternatives from competitors.

Buyers' bargaining power

The bargaining power of buyers can also change the dynamics of competition in an industry. In an industry where there are few suppliers and a large number of buyers, the buyers have low bargaining power. Lower buyer bargaining power means that consumers can't force sellers to provide high-quality products and services at lower prices, and this can have a positive effect on the sellers' profits. If the number of suppliers is more than the demand, buyers have more bargaining power, and this can lower profitability in the long term.

Bargaining power of suppliers

The number of suppliers available in an industry can give those suppliers leverage over businesses. If a business has few suppliers for the materials required to produce its top-performing product, the suppliers can raise prices. Since the business has few alternatives to get its raw materials, higher prices can lead to increased production costs. The business can pass the extra costs on to customers and risk them switching to alternatives or absorbing them and losing profits. In industries with a larger number of suppliers, businesses typically have more bargaining power since they can source their materials from different vendors.

Here are some benefits of analysing an industry for businesses:

Understand the business: Analysing the industry allows a business to understand its operations thoroughly, as it requires assessing every aspect of the company's operating environment.

Identify success factors and threats: The analysis can also help a company identify its strengths and weaknesses and work towards improving them. It can also help evaluate potential threats and opportunities so the business can create strategies to improve performance and protect its interests.

Identify long-term trends: The analysis can also help a business identify patterns and trends that can affect its profitability in the future. This allows the company to prepare and adapt to safeguard its competitive advantage.

Evaluate growth opportunities: Analysing an industry can help businesses determine whether there's still an opportunity for growth. High entry barriers, few substitutes and a low number of competitors can signify growth and profitability in the long term.

Aid investment decisions: Investors can use the insights from this analysis to determine whether a company is a good investment choice. If an industry has many competitors, suppliers and buyers with high bargaining power and several substitute products, it might not be an attractive option for investors looking to get quick returns on their investment.

Follow these steps to learn how to analyse an industry:

1. Create an overview of the analysis: Writing an overview of the entire analysis provides readers with an overarching theme of the report, making it easier to understand the key points of the work. In the overview, summarise the main points and the findings concisely. You can include a brief outline of the industry, historical data, the current industry state and its growth potential. Describe the reason for performing the analysis and the specific economic factors that are likely to influence the industry. Provide information about the competitors, substitute products or services and other background information readers might find useful.

2. Write a detailed analytical presentation: Provide a comprehensive breakdown of the analysis in this section. You can use visual aids, such as graphs, charts and images to present the information and emphasize important points. Discuss subjects such as income projections, price fluctuations, market segmentation, consumer segments, geographical growth and past performance of the company.

With existing financial data and industry statistics, forecast the industry growth for the next decade. Discuss how the five competitive factors influence competition in the industry. You can discuss the competitors and their products and services, the value competitors provide customers, features missing in their offers and the way the business can leverage their weaknesses.

3. Provide your assessment

Provide short-term and long-term assessments of the competition in the industry. Discuss how controllable and uncontrollable factors can affect the company and explain steps for handling opportunities and threats. End the report with a three or four-line summary and conclusion.

12 .SYNTHESIS OF EXTERNAL FACTORS – EFAS TABLE Synthesis of External Factors

Using key success factors to create an industry matrix within any industry there are usually certain variables

Key success factors

– That a company's management must understand in order to be successful.

– Key success factors are variables that can significantly affect the overall competitive positions of companies within any particular industry.

– An industry matrix summarizes the key success factors within a particular industry. The matrix gives a weight for each factor based on how important that factor is for success within the industry. – The matrix also specifies how well various competitors in the industry are responding to each factor.

– To generate an industry matrix using two industry competitors (called A and B), complete the following steps for the industry being analyzed:

Synthesis of External Factors

To generate an industry matrix using two industry competitors (called A and B), complete the following steps for the industry being analyzed:

1. In Column 1 (Key Success Factors), list the 8 to 10 factors that appear to determine success in the industry.

2. Column 2 (Weight), assign a weight to each factor, from 1.0 (Most Important) to 0.0 (Not Important) based on that factor's probable impact on the overall industry's current and future success. (All weights must sum to 1.0 regardless of the number of strategic factors.)

Key Success Factors	Weight	Company A Rating	Company A Weighted Score	Company B Rating	Company B Weighted Score
1	2	3	4	5	6
Total	1.00		—		—

Glossary

Environmental Analysis: The process of assessing and analyzing external and internal factors that can influence an organization. This analysis helps in strategic decision-making by identifying opportunities and threats.

Environmental Scanning: The ongoing process of gathering, analyzing, and interpreting external information to identify trends, opportunities, and threats in the environment that may impact the organization.

Purpose: Helps organizations stay proactive by monitoring factors such as technological, economic, social, and political changes.

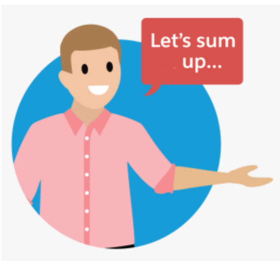
Industry Analysis: The assessment of the external business environment in which an organization operates, focusing on industry trends, competitive forces, and market dynamics.

Tools: Often includes frameworks like Porter's Five Forces, PEST analysis, and value chain analysis to understand competitive positioning.

Synthesis of External Factors: The process of integrating and summarizing key external environmental factors, such as economic, technological, political, and socio cultural elements, that influences a business's strategy.

Purpose: Helps an organization make sense of the external environment and guides in strategic planning.

Let sum up



Dear learners in this module we learn about Environmental Analysis, Environmental Scanning, Industry Analysis and The Synthesis of External Factors

Self-Assessment Questions

1)An ……………….is a strategic technique used to identify all internal and external factors that could affect a company's success.

a) Environmental Scanning b) Environmental analysis c) Industry analysis d)All the above

2)……………………is a process of gathering information about the events and their relationship with the internal and external environment of the organization.

a) Environmental Scanning b) Environmental analysis c) Industry analysis d)All the above

3)…………………… is a market evaluation tool companies use to assess the level and intensity of competition in a specific industry.

a) Environmental Scanning b) Environmental analysis c) Industry analysis d)All the above

4)Human resources, capital resources and technological resources are some of the internal environmental components.

a)Yes b)No

5)Key success factors are variables that can significantly affect the overall competitive positions of companies within any particular industry.

a)Yes b)No

13.Internal Scanning

Internal scanning involves looking inside the farm business and identifying strengths and weaknesses and assessing the businesses' resources and management's skills. It is part of the strategic planning process. An overview of Strategic Planning for Farm Businesses and how internal scanning fits into the planning process is available.

Internal business scanning is comprised of the following three categories:

1. **Farm Business** - What are the unique strengths and limitations of your business?
2. **Individual Person** - What are the unique skills and limitations of each person involved in the management of the business?
3. **Individual Enterprises** - How will each enterprise compete in the marketplace? What are the critical factors that determine the success or failure of each enterprise?

Making a Business Inventory

The first step in internal scanning involves describing your business. This will help you assess the value of the various aspects of your business. Below are four broad categories that can be used to describe your business.

- **Physical Resources** - The farm business consists of physical resources. These can easily be identified by most farmers and include land, machinery, facilities and other assets.
- **Human Resources** - The farm business also consists of human resources. These are more difficult to identify. Granted, we can easily name the people involved in the business, but describing what function each person provides for the farm business is more difficult. These include topics such as identifying the management skills of the participants and describing the decision making structure.

- **Other Resources** - Other farm business resources such as financial resources also need to be identified. For example, the business records will readily identify these from the business financial statements. To identify financial resources you may want to ask yourself if there is adequate working capital. Is there borrowing capacity if needed? Are there outside equity sources?
- **Other Factors** - A variety of other factors including reflecting on historical success, describing business culture, reviewing the information collection system and identifying any other relevant factors.

Scanning the Farm Business

Assess each of the following aspect of your business.

1. **Current and Past Financial Performance** - How has the business performed financially in the past? Has it met the expectations of the operator and the family? Performance can be assessed with the following factors:
    - Net farm income
    - Return to management
    - Earned net worth growth
    - Return on investment (equity)
    - Off-farm income.
    - Other
2. **Adequate Income -** Closely associated with business performance is the ability of the business to provide adequate income for the farm family. This involves current needs and also expected future needs. What is the ability of the business to provide the following:
    - Maintain or expand family living and lifestyle
    - Provide for family living needs plus reinvestment for growth of the business
    - Provide for future family needs such as college expenses, etc.
    - Provide retirement income for the operator

   - Provide income for more than one family if a succession strategy is involved
   - Other

3. **Financial Status -** Also related to business performance is the current financial status of the business in terms of liquidity (cash-flow, working capital) and solvency (level of equity).
   - Liquidity -- current ratio, working capital, credit reserves
   - Solvency -- net worth (earned and market value), debt-to-asset ratio, risk-bearing ability
   - Other
4. **Information System -** What is your ability to track what is happening economically, financially and physically in your business?
   - Track income and expenses
   - Determine farm income and cash flow
   - Project financial performance
   - Monitor enterprise costs and returns
   - Monitor efficiency factors
   - Other
5. **Unique Resources -** Does the farm business and its management team possess any unique resources or skills that can be used to create a competitive advantage?
   - Specialized knowledge or skills
   - Special business relationships
   - Farm location
   - Other
6. **Culture -** What aspects of the family's or management's culture affect the farm business? Culture refers to beliefs and values of the farm family that affect decision making. Examples include your attitudes about the factors below.
   - Expanding the business
   - Adopting new technology

- Borrowing money
- Responding to change
- Shouldering responsibility
- Communicating with family and management associates
- Using authority
- Other

7. **Current and Past Decision Making Performance -** What is your track record for making successful strategic decisions in the past? These include the major decisions that affected the success of the business.
   - Who was involved?
   - What information was used?
   - What methods were used to reach the decisions?
   - How successful were the decisions?
   - Does anything need to be changed in this process?
   - Other

Scanning the Individuals

Personal scanning involves assessing a broad range of various types of management skills. Your managerial skills and those of your business associates are essential for the long-term success of your farm business. Managerial skills have much to do with the types of strategic alternatives pursued by your business and the overall success of the strategic management process. Since the role of the farm manager has changed so dramatically over recent decades, you will most likely identify some new skills that you and your management team must develop.

With your family and/or management team, work through the assessment of the management skill areas listed below. You may involve a business associate in assessing your management skills. Look for exceptional skills and competencies. These are some of the building blocks for developing your strategies. You may also find that some skills need to be improved. Or you may find that you need to bring in people outside the business who can provide special talents.

1. **Strategic Management Skills.** How would you rate your strategic management skills? Strategic management involves developing long-term strategies for business success. Examples include:
    - Visualize the future and where I fit
    - Identify success factors
    - Identify personal and business strengths
    - Identify industry opportunities
    - Other
2. **Entrepreneurial Skills.** How would you rate your entrepreneurial management skills? Entrepreneurial skills involve seeking and trying new ways of developing successful business ventures. Examples include:
    - Innovation
    - Assess risk/reward of a new venture
    - Search for opportunities
    - Seek new information
3. **Financial and Risk Management Skills.** How would you rate your financial and risk management skills? Financial and risk management involves seeking and exploring appropriate methods of financing business operations and capital investments in combination with risk control techniques.
    - Prepare financial information
    - Interpret financial performance
    - Assess risk exposure
    - Develop risk management strategies using insurance and income protection instruments
4. **Information Management Skills**. How would you rate your record keeping skills? Information management involves creating and utilizing a business information system that provides data for decision making. Examples include:
    - Accounting and record keeping skills
    - Budgeting skills

- Business analysis skills
- Computer skills
- Designing a record-keeping system for the needs of the business
- Assembling information for decision making

5. **Personnel Management Skills.** How would you rate your personnel management skills? Personnel management involves your ability to manage employees. Examples include:
    - Hiring
    - Training
    - Supervising
    - Evaluating
    - Dismissing
    - Motivating
    - Other
6. **Team Skills.** How would you rate your ability to work as a part of a team? Team skills involve the ability to work together with others to accomplish agreed-upon objectives.
    - Understanding the role and objectives of the team
    - Subordinating your personal agenda to the agenda of the team
    - Do your share of the work
    - Identifying team weaknesses and fill those needs
    - Allowing recognition for team accomplishments to be received by all team members
7. **Inter-personal Skills.** How would you rate your inter-personal management skills? Inter-personal management involves your ability to work with others to achieve an agreed-upon objective. Examples include:
    - Recognize others' individuality
    - Communicate effectively
    - Mediate differences
    - Listen to others

- Other

8. **Organization and Planning Skills.** How would you rate your organization and planning skills? These skills involve organizing resources and information, and developing action plans of how to accomplish project objectives. Examples include:
    - Identify project objectives
    - Organize information
    - Pay attention to details
    - Develop action plans
    - Implement and evaluate plans
    - Other
9. **Operations Management Skills.** How would you rate your operations management skills? These skills focus on your ability to manage the production, processing and/or marketing process for each of your enterprises. Examples include:
    - Efficiency
    - Consistency
    - Desired output
    - Facility utilization
    - Intensive production
    - Technical production skills
    - Production flow

These skills include specialized skills such as agronomic skills, marketing skills, mechanical skills, and many others.

Scanning the Enterprises

Your farm business is an integrated system of individual enterprises. An enterprise is a related set of activities that stand alone and contribute to the success of a farm business. Traditional farm enterprises have been corn, soybean, cattle feeding, cow-calf operation, farrow-to-finish hog production, finishing hogs, dairy, etc. With the emergence of value-added agriculture, there has been an explosion of new enterprises.

Examples are organic dairy, grass-fed beef, specialty grains, natural pork, on-farm processing, direct marketing, etc. Also, non-traditional activities should also be included. Activities like selling seed corn, cover crops, custom work and other activities that are traditionally not known as farm activities should be included because they use resources and skills to provide money and value to the farm.

Each enterprise should be categorized as either primary or secondary. Primary enterprises are those that form the *core business* of the farm. These are the enterprises that create the profit of the business. Secondary enterprises are those that support the primary enterprises. For example, organic dairy may be your primary enterprise and organic feed production may be the secondary enterprise. A major decision associated with a secondary enterprise is the “make or buy” decision. In other words, should the organic dairy produce its own organic feed or buy it.

Enterprise scanning allows you to assess:

- The performance of each enterprise for long-term performance.
- The collective portfolio of enterprises.
- The compatibility among enterprises.

Use the following questions to guide the enterprise assessment.

1. **What are your *Primary* enterprises?**

   Primary enterprises are the major income sources and the heart of the farm business.

   - The farm is often referred to by its primary enterprise. For example, dairy is the primary enterprise in a dairy farm.
   - Primary enterprises are operated as profit centers.
   - The operators like working with primary enterprises and have strong skills in these area. For example, a swine producer likes working with hogs. A grain producer likes agronomy and machinery. Few businesses are successful in the long term if operators don’t have a strong personal interest in all aspects of the primary enterprise.
   - Primary enterprises need strong enterprise strategies. The success of the farm business is built on the success of the primary enterprises.

2. **What are your *Secondary* enterprises?**

   Secondary enterprises often support and/or compliment the primary enterprises. For example, raising hay (secondary) for the dairy enterprise (primary).

   - Secondary enterprises may use underutilized resources. An example is a small cow herd to utilize unused pasture. Another is selling crop insurance or trucking grain to use underutilized labor in the winter.
   - The "make or buy" analysis is often used for secondary enterprises. For example, after considering the labor, management and other costs involved, is it cheaper to buy hay for the dairy cattle or raise your own hay?
   - Secondary enterprises are often operated as cost centers. Because of their low cost of production, they provide low cost inputs and ingredients to the primary enterprises. So the strategy focuses on lowering costs rather than increasing profits.

3. **How does each enterprise's production and processing system work?**

   You need to assess the various aspects of each enterprise. To help your assessment focus on the following factors:

   - The production/processing system
   - The production/processing efficiencies
   - The production/processing management skills
   - The marketing program and skills
   - The input purchasing procedures
   - The internal and external information and recordkeeping system

4. **Do the enterprises utilize the farm's resources and the operator's skills?**

   Is there a good fit between the resources and skills available from the business and the resource and skill needs of the enterprise? Does the enterprise make use of the strengths of the business while minimizing the need for resources and skills that are not provided by the business (or poorly provided)?

5. **What is your commitment to each enterprise?**

   There needs to be a strong commitment by the operators to the primary enterprises because they form the foundation of the farm business. The commitment to secondary enterprises can be based on the added value they bring to the farm business and its primary enterprises.

6. **How do the enterprises complement and compete with each other?** Are there synergies among enterprises? Do they share resources and management skills? For example, a grain farmer selling crop insurance has an added advantage of being knowledgeable when determining the insurance needs for his/her farm business. Do they even out labor usage? Do they reduce overall business risk?
   Where do enterprises compete? Do they compete for resources and labor? Too many enterprises may make it difficult to competitively manage them all.

14.VALUE-CHAIN ANALYSIS

A value chain is a linked set of value-creating activities that begin with basic raw materials coming from suppliers, moving on to a series of value-added activities involved in producing and marketing a product or service, and ending with distributors getting the final goods into the hands of the ultimate consumer.

• The focus of value-chain analysis is to examine the corporation in the context of the overall chain of value-creating activities, of which the firm may be only a small part.

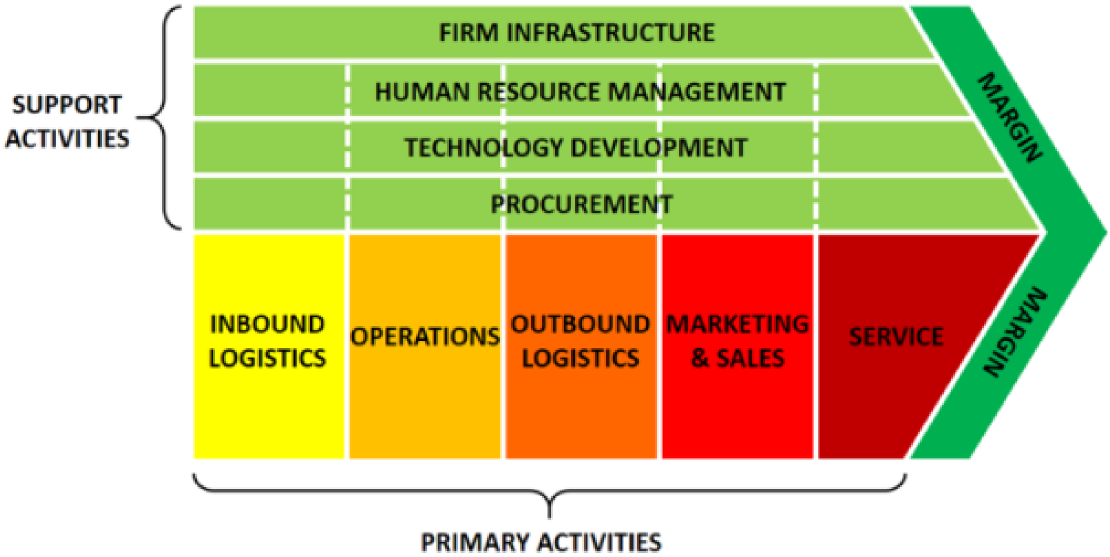
Typical Value Chain for a Manufactured Product

Industry value chain

• The value chains of most industries can be split into two segments, upstream and downstream segments. – In the petroleum industry, for example, upstream refers to oil exploration, drilling, and moving of the crude oil to the refinery, and downstream refers to refining the oil plus transporting and marketing gasoline and refined oil to distributors and gas station retailers.

• In analyzing the complete value chain of a product, note that even if a firm operates up and down the entire industry chain, it usually has an area of expertise where its primary activities lie. A company's center of gravity is the part of the chain that is most important to the company and the point where its greatest expertise and capabilities lie - its core competencies. – After a firm successfully establishes itself at this point by obtaining a competitive advantage, one of its first strategic moves is to move forward or backward along the value chain in order to reduce costs, guarantee access to key raw materials, or to guarantee distribution - this process, called vertical integration.

A company is in essence a collection of activities that are performed to design, produce, market, deliver and support its product (or service). Its goal is to produce the products in such a way that they have a greater value (to customers) than the original cost of creating these products. The added value can be considered the profits and is often indicated as 'margin'. A systematic way of examining all of these internal activities and how they interact is necessary when analyzing the sources of competitive advantage. A company gains competitive advantage by performing strategically important activities more cheaply or better than its competitors. Michael Porter's value chain helps disaggregating a company into its strategically relevant activities, thereby creating a clear overview of the internal organization. Based on this overview managers are better able to assess where true value is created and where improvements can be made.



One company's value chain is embedded in a larger stream of activities that can be considered the supply chain or as Porter mentions it: the *Value System*. Suppliers have a value chain (upstream value) that create and deliver the purchased inputs. In addition, many products pass through the value chain of channels (channel value) on their way to the buyer. A company's product eventually becomes part of its buyer's value chain. This article will not go into the entire supply chain (from suppliers all the way to the end-consumer), but rather focuses on one organization's value chain. The value chain activities can be divided into two broader types: primary activities and support activities.

Primary activities

The first are primary activities which include the five main activities. All five activities are directly involved in the production and selling of the actual product. They cover the physical creation of the product, its sales, transfer to the buyer as well as after sale assistance. The five primary activities are *inbound logistics*, *operations*, *outbound logistics*, *marketing & sales* and *service*. Even though the importance of each category may vary from industry to industry, all of these activities will be present to some degree in each organization and play at least some role in competitive advantage.

Inbound Logistics

Inbound logistics is where purchased inputs such as raw materials are often taken care of. Because of this function, it is also in contact with external companies such as suppliers. The activities associated with inbound logistics are receiving, storing and disseminating inputs to the product. Examples: material handling, warehousing, inventory control, vehicle scheduling and returns to suppliers.

Operations

Once the required materials have been collected internally, operations can convert the inputs in the desired product. This phase is typically where the factory conveyor belts are being used. The activities associated with operations are therefore transforming inputs into the final product form. Examples: machining, packaging, assembly, equipment maintenance, testing, printing and facility operations.

Outbound Logistics

After the final product is finished it still needs to find its way to the customer. Depending on how *lean* the company is, the product can be shipped right away or has to be stored for a while. The activities associated with outbound logistics are collecting, storing and physically distributing the product to buyers. Examples: finished goods warehousing, material handling, delivery vehicle operations, order processing and scheduling.

Marketing & Sales

The fact that products are produced doesn't automatically mean that there are people willing to purchase them. This is where marketing and sales come into place. It is the job of marketeers and sales agents to make sure that potential customers are aware of the product and are seriously considering purchasing them. Activities associated with marketing and sales are therefore to provide a means by which buyers can purchase the product and induce them to do so. Examples: advertising, promotion, sales force, quoting, channel selection, channel relations and pricing. A good tool to structure the entire marketing process is the Marketing Funnel.

Service

In today's economy, after-sales service is just as important as promotional activities. Complaints from unsatisfied customers are easily spread and shared due to the internet and the consequences on your company's reputation might be vast. It is therefore important to have the right customer service practices in place. The activities associated with this part of the value chain are providing service to enhance or maintain the value of the product after it has been sold and delivered. Examples: installation, repair, training, parts supply and product adjustment.

Support Activities

The second category is support activities. They go across the primary activities and aim to coordinate and support their functions as best as possible with each other by providing purchased inputs, technology, human resources and various firm wide managing functions. The support activities can therefore be divided into procurement, technology development (R&D), human resource management and firm infrastructure. The dotted lines reflect the fact that procurement, technology development and human resource management can be associated with specific primary activities as well as support the entire value chain.

Procurement

Procurement refers to the function of purchasing inputs used in the firm's value chain, not the purchased inputs themselves. Purchased inputs are needed for every value activity, including support activities. Purchased inputs include raw materials, supplies and other consumable items as well as assets such as machinery, laboratory equipment, office equipment and buildings. Procurement is therefore needed to assist multiple value chain activities, not just inbound logistics.

Technology Development (R&D)

Every value activity embodies technology, be it know how, procedures or technology embodied in process equipment. The array of technology used in most companies is very broad. Technology development activities can be grouped into efforts to improve the product and the process. Examples are telecommunication technology, accounting automation software, product design research and customer servicing procedures. Typically, Research & Development departments can also be classified here.

Human Resource Management

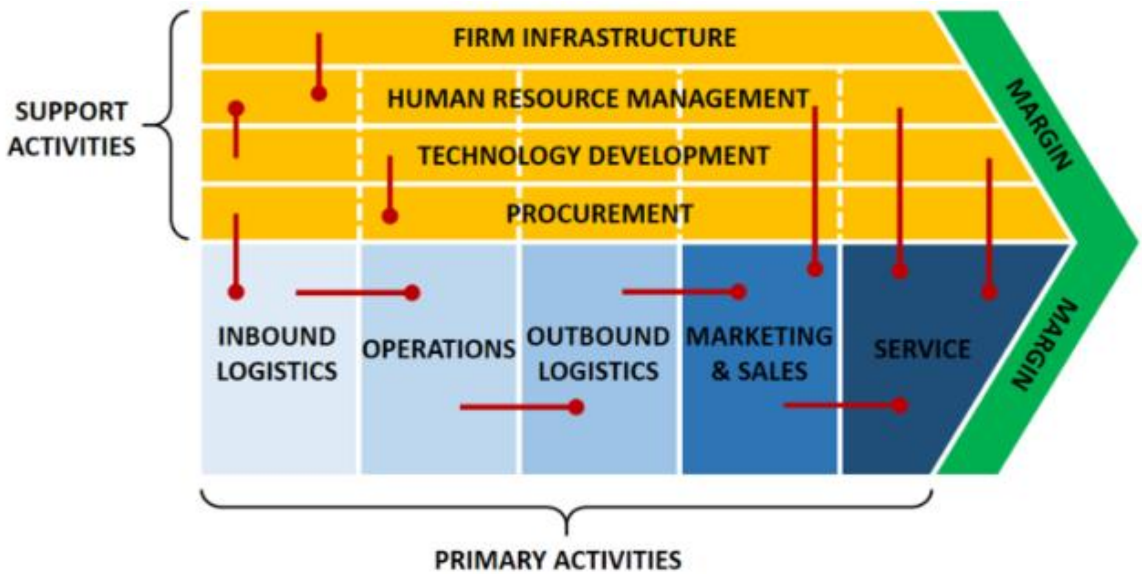
HRM consists of activities involved in the recruiting, hiring (and firing), training, development and compensation of all types of personnel. HRM affects the competitive advantage in any firm through its role in determining the skills and motivation of employees and the cost of hiring and training them. Some companies (especially in the technological and advisory service industry) rely so much on talented employees, that they have devoted an entire Talent Management department within HRM to recruit and train the best of the best university graduates.

Firm Infrastructure

Firm infrastructure consists of a number of activities including general (strategic) management, planning, finance, accounting, legal, government affairs and quality management. Infrastructure usually supports the entire value chain, and not individual activities. In accounting, many firm infrastructure activities are often collectively indicated as ‘overhead’ costs. However, these activities shouldn’t be underestimated since they could be one of the most powerful sources of competitive advantage. After all, strategic management is often the starting point from which all smaller decisions in the firm are being based on. The wrong strategy will make it extra hard for people on the workfloor to perform well.

Linkages within the Value Chain

Although value activities are the building blocks of competitive advantage, the value chain is not a collection of independent activities. Rather, it is a system of *inter*dependent activities that are related by *linkages* within the value chain. Decisions made in one value activity (e.g. procurement) may affect another value activity (e.g. operations). Since procurement has the responsibility over the quality of the purchased inputs, it will probably affect the production costs (operations), inspections costs (operations) and eventually even the product quality. In addition, a good working automated phone menu for customers (technology development) will allow customers to reach the right support assistant faster (service). Clear communication between and coordination across value chain activities are therefore just as important as the activities itself. Consequently, a company also needs to optimize these linkages in order to achieve competitive advantage. Unfortunately these linkages are often very subtle and go unrecognized by the management thereby missing out on great improvement opportunities.



Value Chain Analysis In Sum

In the end, Porter's Value Chain is a great framework to examine the internal organization. It allows a more structured approach of assessing where in the organization true value is created and where costs can be reduced in order to boost the margins. It also allows to improve communication between departments. Combining the Value Chain with the VRIO Framework is a good starting point for an internal analysis. In case you are interested in the entire supply chain, you could repeat the process by adding the value chains of your company's suppliers and buyers and place them in front and behind your own company's value chain.

15.SWOT AUDIT

SWOT

SWOT is an acronym for **S**trengths, **W**eaknesses, **O**pportunities and **T**hreats.

By definition, Strengths (S) and Weaknesses (W) are considered to be **internal factors** over which you have some measure of control.

Also, by definition, Opportunities (O) and Threats (T) are considered to be **external factors** over which you have essentially no control.

SWOT Analysis is the most renowned tool for audit and analysis of the overall strategic position of the business and its environment.

Its key purpose is to identify the strategies that will create a firm specific business model that will best align an organization's resources and capabilities to the requirements of the environment in which the firm operates.

In other words, it is the foundation for evaluating the internal potential and limitations and the probable/likely opportunities and threats from the external environment. It views all positive and negative factors inside and outside the firm that affect the success.

A consistent study of the environment in which the firm operates helps in forecasting/predicting the changing trends and also helps in including them in the decision-making process of the organization.

An overview of the four factors (Strengths, Weaknesses, Opportunities and Threats) is given below-

1. **Strengths -** Strengths are the qualities that enable us to accomplish the organization's mission. These are the basis on which continued success can be made and continued/sustained.

   Strengths can be either tangible or intangible. These are what you are well-versed in or what you have expertise in, the traits and qualities your employees possess (individually and as a team) and the distinct features that give your organization its consistency.

   Strengths are the beneficial aspects of the organization or the capabilities of an organization, which includes human competencies, process capabilities, financial resources, products and services, customer goodwill and brand loyalty.

   Examples of organizational strengths are huge financial resources, broad product line, no debt, committed employees, etc.

2. **Weaknesses -** Weaknesses are the qualities that prevent us from accomplishing our mission and achieving our full potential. These weaknesses deteriorate influences on the organizational success and growth. Weaknesses are the factors which do not meet the standards we feel they should meet.

   Weaknesses in an organization may be depreciating machinery, insufficient research and development facilities, narrow product range, poor decision-making, etc. Weaknesses are controllable. They must be minimized and eliminated.

   For instance - to overcome obsolete machinery, new machinery can be purchased. Other examples of organizational weaknesses are huge debts, high employee turnover, complex decision making process, narrow product range, large wastage of raw materials, etc.

3. **Opportunities -** Opportunities are presented by the environment within which our organization operates. These arise when an organization can take benefit of conditions in its environment to plan and execute strategies that enable it to become more profitable. Organizations can gain competitive advantage by making use of opportunities.

   Organization should be careful and recognize the opportunities and grasp them whenever they arise. Selecting the targets that will best serve the clients while getting desired results is a difficult task.

   Opportunities may arise from market, competition, industry/government and technology. Increasing demand for telecommunications accompanied by deregulation is a great opportunity for new firms to enter telecom sector and compete with existing firms for revenue.

4. **Threats -** Threats arise when conditions in external environment jeopardize the reliability and profitability of the organization's business. They compound the vulnerability when they relate to the weaknesses.Threats are uncontrollable. When a threat comes, the stability and survival can be at stake. Examples of threats are - unrest among employees; ever changing technology; increasing competition leading to excess capacity, price wars and reducing industry profits; etc.

Advantages

SWOT Analysis is instrumental in strategy formulation and selection. It is a strong tool, but it involves a great subjective element.

It is best when used as a guide, and not as a prescription. Successful businesses build on their strengths, correct their weakness and protect against internal weaknesses and external threats. They also keep a watch on their overall business environment and recognize and exploit new opportunities faster than its competitors.

SWOT Analysis helps in strategic planning in following manner-

a. It is a source of information for strategic planning.
b. Builds organization’s strengths.
c. Reverse its weaknesses.
d. Maximize its response to opportunities.
e. Overcome organization’s threats.
f. It helps in identifying core competencies of the firm.
g. It helps in setting of objectives for strategic planning.
h. It helps in knowing past, present and future so that by using past and current data, future plans can be chalked out.

SWOT Analysis provide information that helps in synchronizing the firm’s resources and capabilities with the competitive environment in which the firm operates.

Limitations

SWOT Analysis is not free from its limitations. It may cause organizations to view circumstances as very simple because of which the organizations might overlook certain key strategic contact which may occur. Moreover, categorizing aspects as strengths, weaknesses, opportunities and threats might be very subjective as there is great degree of uncertainty in market.

SWOT does stress upon the significance of these four aspects, but it does not tell how an organization can identify these aspects for itself.

There are certain limitations of SWOT Analysis which are not in control of management. These include-

a. Price increase;
b. Inputs/raw materials;
c. Government legislation;
d. Economic environment;

e. Searching a new market for the product which is not having overseas market due to import restrictions; etc.

Internal limitations may include-

a. Insufficient research and development facilities;
b. Faulty products due to poor quality control;
c. Poor industrial relations;
d. Lack of skilled and efficient labour; etc

16. Scenario planning

Scenario planning is a strategic planning method organizations use to help them make effective long-term plans. It's the consideration of what may happen in the future and how it could affect a business. Companies conduct scenario analyses to plan for uncertainties. It helps them make decisions by considering alternative outcomes. These are assumptions of future changes with the intention of creating a plan for how to handle them.

Scenario planning helps companies better prepare for the future and think ahead. Unlike traditional planning, scenario planning prepares potential scenarios to help organizations best respond to change. This method can help a company think creatively and allows for a new set of ideas when planning for the future. Some other benefits of scenario planning include:

Optimizing the allocation of resources
Decreasing costs for production
Improving product quality
Increasing company profits
Identifying and avoiding issues early and before they occur
Evaluating the consequences of decisions and actions
Helping think critically about future trends

Scenario planning vs. forecasting

Scenario planning and forecasting both consider the future and use past quantitative data to make predictions. However, unlike most forecasting, scenario planning also looks at qualitative data and trend analyses. This makes it more subjective compared to forecasting, which is often fact-based and objective. Another difference between the two is that forecasting assumes the future is similar to what has occurred so far, but scenario planning assumes what could possibly happen. Scenario planning is a more flexible approach and provides multiple futures, whereas forecasting only gives one.

Types of scenario planning

The following are some types of scenario planning:

Quantitative scenarios: The quantitative scenario approach looks at the best and worst cases of a financial model by altering variables, assuming that key variables identified have fixed relationships.

Operational scenarios: Operational, or event-driven, scenarios look at the short-term effects a circumstance may have on an organization.

Normative scenarios: Normative scenarios are a goal-oriented type of scenario planning often used to help organizations reach their desired operation.

Strategic management scenarios: Also referred to as "alternative futures," this type of scenario focuses on the environment where consumers buy their products.

Probability-based scenarios: Probability-based scenarios look at trends to determine the likelihood an event may occur.

Interactive scenarios: Interactive scenarios describe the interaction with select variables or parties in a competitive "gaming" atmosphere.

Steps in Scenario Analysis:

Follow these steps when performing a scenario analysis for your organization:

1. Choose a time frame: To perform your scenario analysis, first set a time frame for your evaluation. For instance, Peter, the owner of a sunglasses company, may choose to look at a five-year scenario since he hopes to see his sunglasses company double its profits over the next five years. Then reflect on the conditions for the chosen set of times to see what changes occurred to help you predict future changes. So, Peter would look at the past five years and consider changes that occurred in the environment, such as the economy or government.

When choosing your time frame, consider what you hope to achieve. Some factors that may affect your time frame include:

Your product's life cycle

Technological advancements

Political conditions in your country

Your competitor analysis

2. Identify external forces: Next, determine what big shifts are likely to occur in society that may impact your company. To do this, conduct an environmental or PESTLE analysis to look at factors such as governmental policies. Peter may look at factors such as social trends that cause more people to buy sunglasses.

3. Find your critical uncertainties: From your list of driving factors, select two critical uncertainties or risks with the largest potential impact on your business. Then consider the extreme for each uncertainty. In Peter's situation, he may highlight the following uncertainties:

Potential of a sunglass competitor

Disposable income of consumers

4. Develop a scenario: Create a graph with your first critical uncertainty on the x-axis and your second critical uncertainty on the y-axis. Each end of the graph represents a different extreme of uncertainty, creating four separate scenarios. On Peter's graph, he would put the presence of a sunglass competitor on the top of his y-axis and no presence of a sunglass competitor on the bottom of his y-axis. For Peter's x-axis, he would put consumers having no disposable income on the left side and consumers having a lot of disposable income on the right side.

5. Evaluate a scenario: After creating a scenario, meet with your team to evaluate the implications of each scenario. Try to determine what scenario your organization is currently in and what direction you may move toward in your designated time frame. Once you have a general idea of the future of your organization, consider what preparations you can make to deal with the upcoming scenario.

Peter may identify that the company is currently experiencing no competitors but consumer disposable income is low. He then can develop a plan for how to market his sunglasses at a lower cost while still earning profits.

6. Update policies and strategies accordingly: Make adjustments to your current policies and strategies based on the evaluation of your scenario. Your scenarios can help you make decisions based on the direction your company appears to be going. By looking at your future scenario, you can plan how your business may need to adjust.

Tips for completing a scenario analysis successfully:

Use this advice to help you successfully complete your scenario analysis:

Focus on a few scenarios. When conducting a scenario analysis, it's important to develop more than one scenario, but avoid developing too many so that you can direct your attention to the ones you're outlining.

Look for diverse feedback. To get different perspectives on your scenarios, get feedback from a variety of individuals, both inside and outside your company.

Conduct planning regularly. Try to conduct scenario planning often so you can remain flexible and adjust to changes occurring in the environment.

17. Creating an Industry Mix

Creating a Industry mix is a structured process that can be accomplished using tools like Google Sheets or Excel. Here's a step-by-step guide to creating your own competitive mix**:**

1) Define your Competitors: Start by identifying the key competitors operating in your industry or niche. Consider both direct and indirect competitors who may impact your market share or target audience.

2) Determine the Parameters: Decide on the parameters or factors you want to evaluate in your competitive analysis matrix. These factors may include product features, pricing, market share, customer reviews, distribution channels, brand reputation, or any other relevant criteria.

3) Collect data: Gather relevant data for each competitor under the selected parameters. Conduct market research, analyse competitor websites, review industry reports, and utilise social listening tools to collect information. This data will form the foundation of your analysis.

4) Choose a matrix format: Select a matrix format that best suits your requirements and aligns with the parameters you have defined. The matrix can be a table with competitors listed vertically and parameters horizontally, or vice versa. Use clear headings and labels to ensure clarity and ease of understanding.

5) Assign rankings or ratings: Evaluate each competitor's performance on each parameter and assign rankings or ratings based on your analysis. This can be done using numerical ratings, colour coding, or other visual indicators to represent the relative performance of each competitor.

6) Analyse the results: Once you have assigned rankings or ratings, analyse the compiled data to identify patterns, trends, and areas of strength or weakness for each competitor. Look for insights and actionable information that can inform your strategic decision-making process.

7) Draw conclusions: Based on the analysis, draw conclusions about your company's competitive position, identify opportunities for improvement or differentiation, and develop strategies to enhance your market standing. Use the insights gained from the matrix to prioritise areas for focus and allocate resources accordingly.

Glossary

Internal Scanning: The analysis of internal capabilities, resources, strengths, and weaknesses within an organization.
Objective: To identify the internal factors that can be leveraged or need improvement for competitive advantage.

Value Chain Analysis: A process of identifying the primary and support activities within an organization that creates value for customers.
Purpose: Helps businesses understand how value is created, assess competitive strengths, and optimize performance for greater efficiency.

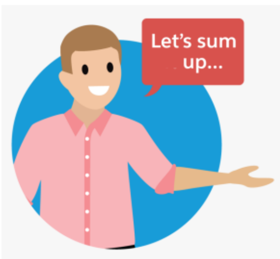
SWOT Audit
A structured planning method that evaluates an organization's Strengths, Weaknesses, Opportunities, and Threats.
Purpose: Helps in identifying both internal factors (strengths and weaknesses) and external factors (opportunities and threats) that impact strategic decisions.

Scenario Planning
A strategic planning method that involves creating different plausible scenarios based on varying environmental factors (e.g., political, economic, social, technological changes) to forecast the potential outcomes for the future.
Purpose: Helps organizations prepare for uncertainty and create contingency plans.
Creating an Industry Matrix

A tool used to evaluate and compare the attractiveness of different industries or industry segments by assessing various factors like market growth rate, competition intensity, and profitability potential.

Purpose: Helps companies decide which industries or sectors are most appealing for investment or expansion based on their strategic objectives.

Let sum up



Dear learners in this module we learn about Internal Scanning , Value Chain Analysis, SWOT Audit, Scenario planning, creating an Industry Matrix

Self-Assessment Questions

1) ……………involves looking inside the farm business and identifying strengths and weaknesses and assessing the businesses' resources and management's skills.

a) Internal scanning b) Internal Factors c) Internal Audit d)All the above

2)A ………….is a linked set of value-creating activities that begin with basic raw materials coming from suppliers, moving on to a series of value-added activities involved in producing and marketing a product or service, and ending with distributors getting the final goods into the hands of the ultimate consumer.

a)value analysis b) value chain c)value check d)All the above

3)SWOT Analysis is instrumental in strategy formulation and selection.

a)Yes b)No

4)Scenario planning is a strategic planning method organizations use to help them make effective long-term plans.

a)Yes b)No

5)Creating a Industry mix is a structured process that can be accomplished using tools to creating your own competitive mix**.**

a)Yes b)No

Unit-IV

Strategy formulation and Analysis

Strategy Formulation and Analysis: Strategy Formulation – Strategic Factors Analysis Summary Matrix (SFAS) Portfolio Analysis – Business Strategy- TOWS Matrix– Corporate Strategy – Functional Strategy – Strategic Choice – Generic, Competitive Strategies; ETOP, TOWS.

Unit Model Structuring:

18. Strategy Formulation
19. Strategic Factors Analysis Summary Matrix (SFAS)
20. Portfolio Analysis
21. TOWS Matrix
22. Corporate Strategy, Functional Strategy
23. Generic Competitive Strategies
24. ETOP

Self Learning Material Development –Stage-4

Table of Contents for the Unit

Unit objectives

After reading this unit you should be able to understand the concept of strategic Formulation.

Know the Concept of different levels of Management
Understanding the Various Matrix like TOWS, ETOP
Understand about Generic Competitive Strategy

18.1 Introduction to Strategy Formulation

Introduction

Strategic Formulation can also be referred to as Strategic Planning. A strategy is a broad plan developed by an organization to take it from where it is to where it wants to be. A well-designed strategy will help an organization reach its maximum level of effectiveness in reaching its goals while constantly allowing it to monitor its environment to adapt the strategy as necessary. Strategy formulation is the process of developing the strategy.

Strategy formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives and thereby achieving the organizational vision. Strategic Formulation is considered to be the first stage of Strategic Management Process.

Objectives of Strategic Formulation

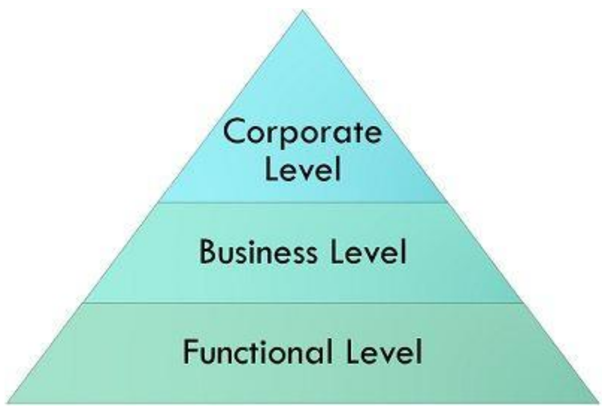
1. Strategy makes clear what the organization aims to achieve. Only when the destination is known that the journey can be initiated.

2. Communication-strategy defines what the organization aims to achieve in the long run. So, this sets a specific pattern to start with.

3. Direction provider strategy clears the doubts one may harness due to being ignorant of the ambitions of the organization.

4. Awareness Creation-Some of the employees may be oblivious regarding the position the company sees itself at.

18.2 Levels of Strategic Formulation



Corporate Level Strategy

Corporate level strategy is the uppermost level of strategy made by top-level management which sets the overall direction of the organization. It addresses the question of **what business are we in**?

Business Level Strategy

Business strategy deals with the **question** of **how do we compete**? It aims to how to best successfully compete with competitors so that competitive advantage will be gained.

Functional Level Strategy

The functional level strategy also called operational level strategy is developed to run effectively the day-to-day activities of the organization. Most functional strategies are no longer than one year.

Glossary

Strategy Formulation

The process of deciding the best course of action to achieve organizational goals and objectives. It involves identifying the organization's mission, vision, goals, and the path to achieve them.

Purpose: To create a clear plan that provides direction and sets a framework for decision-making across the organization.

Introduction to Strategy Formulation

The initial stage of the strategic management process where an organization defines its mission, vision, and core objectives. It includes analyzing internal and external environments to identify opportunities and challenges.

Components: Involves understanding market conditions, setting organizational goals, evaluating competitive advantages, and aligning resources for future growth.

Levels of Strategic Formulation

The different layers at which strategies are developed within an organization, each serving a distinct purpose and scope. The three main levels include Corporate, Business, and Functional strategies.

Corporate-Level Strategy

The highest level of strategy that defines the overall purpose and scope of the organization. It focuses on broad decisions regarding growth, diversification, acquisitions, and resource allocation across all business units.

Business-Level Strategy

Strategy at the business unit or product line level, focusing on how to compete successfully in a specific industry or market. It emphasizes competitive positioning and achieving market leadership.

Functional-Level Strategy

The strategy developed at the departmental or functional level (e.g., marketing, operations, finance). It focuses on optimizing resources and supporting the broader corporate and business strategies.

Mission Statement

A concise statement that defines an organization's purpose, its primary customers, products or services, and how it delivers value.

Purpose: Provides clarity to stakeholders on what the organization stands for and what it seeks to achieve.

Vision Statement

A forward-looking statement that outlines an organization's long-term aspirations and the impact it hopes to achieve in the future.

Purpose: Inspires employees and guides strategic decision-making toward the desired future state.

Goals and Objectives

Goals: Broad, long-term aims that an organization seeks to accomplish.

Objectives: Specific, measurable steps that organizations take to achieve their goals.

Purpose: Goals and objectives provide direction and benchmarks to assess progress in implementing a strategy.

Competitive Advantage

A unique attribute or capability that allows an organization to outperform its competitors. It can be achieved through cost leadership, differentiation, or niche focus.

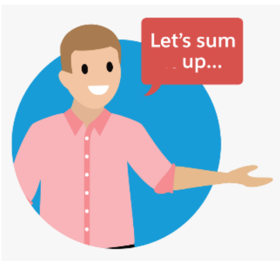
Purpose: Drives long-term success by delivering superior value to customers or achieving lower operational costs.

Strategic Planning

The process of developing a detailed plan to achieve an organization's mission and objectives. It involves setting strategic goals, determining necessary actions, and mobilizing resources.

Purpose: Ensures alignment of organizational efforts with long-term objectives and prepares the organization to adapt to changes in the external environment.

Let sum up



Dear learners in this module we learn aboutAn Introduction to Strategic Formulation,objectives,,Levels of Strategic Formulation.

Self-Assessment Questions

1. Strategic Formulation can also be referred to as ________.

a .Strategic Planning b. Strategic Choice C. Strategic Evaluation d. None

2._____ is the first stage of strategic Management Process.

a. Environmental Scanning b. Strategic Formulation c. Strategic Planning d. Strategic Evaluation

3.Which is the uppermost level of strategic formulation

a.Corporate level strategy b. Business level strategy c. Functional level strategy d. None

4.____ is also called operational level strategy

a. Corporate level b. functional level c. business level d. none

5. The corporate level is where top management directs

a. All employees for orientation b. its efforts to stabilize recruitment needs c. overall strategy for the entire organization d. overall sales projections

19. Strategic Factors Analysis Summary Matrix (SFAS)

SFAS framework analysis, developed by Wheelen & Hunger, on each of the Global Top 4 Commercial Aircraft Turbofan Engine manufacturers based on an analysis of each company's strategic positioning and its degree of responsiveness to its internal & external environment respectively. The objective of the analysis is to assess as to how favorably is each company positioned and how responsive it is to the nature, degree & pace of changes taking place within its internal and external environment respectively.

The framework generates an insightful snapshot of the prevailing, holistic strategic equation for each company by identifying, weighing, prioritizing & ranking significant strategic factors present in the internal & external environment through an Internal Factor Analysis Summary (IFAS) matrix & External Factor Analysis Summary (EFAS) matrix respectively.

The final Strategic Factor Analysis Summary (SFAS) matrix amalgamates the IFAS & EFAS matrices into a single matrix followed by a reevaluation & second level ranking & responsiveness rating which leads to the generation of an overall score, thus, providing a holistic, overarching strategic view on each market player.

SFAS, as a framework, thus, scores significantly over the traditional SWOT analysis framework, in terms, of its ability to quantify a range of strategic factors based on the nature & potential degree of effect of each strategic factor being analyzed, thereby, making it much more effective for competitive assessment as well as analysis with the creation of a quantitative strategic snapshot on each market player.

Glossary

Strategic Factors Analysis Summary (SFAS) Matrix

A strategic planning tool that consolidates key external and internal factors from a company's SWOT analysis into a single matrix. It helps in summarizing and prioritizing the most important factors that influence the organization's strategy.

Purpose: To provide a structured overview of critical strategic factors, helping decision-makers focus on the most significant opportunities, threats, strengths, and weaknesses.

SWOT Analysis

A framework for identifying and analyzing an organization's internal Strengths and Weaknesses, along with external Opportunities and Threats.

Connection to SFAS: SWOT analysis is the foundation of the SFAS Matrix, as the key elements from SWOT are refined and prioritized within SFAS.

Internal Factors

Elements within an organization that influence its strategy, such as resources, capabilities, processes, and company culture.

Examples: Strengths like a strong brand or weaknesses like poor supply chain management.

Role in SFAS: Internal factors, primarily strengths and weaknesses, are included in the SFAS Matrix and weighted based on their importance to the company's strategy.

External Factors

Elements in the external environment that impact an organization, such as market trends, competition, economic conditions, and regulatory changes.

Role in SFAS: External factors, especially opportunities and threats, are analyzed in the SFAS Matrix, focusing on those most critical to the organization's strategic outlook.

Weighting

The process of assigning importance or relevance to each factor in the SFAS Matrix. Each factor (internal or external) is given a weight based on its significance to the company's strategy.

Purpose: Helps prioritize factors by showing which ones have the greatest influence on strategic decision-making.

Rating

A numerical score (usually between 1 and 5) assigned to each factor in the SFAS Matrix to indicate how effectively the company is handling that factor.

Purpose: Allows for a clearer understanding of how well the organization is leveraging strengths, overcoming weaknesses, capitalizing on opportunities, and mitigating threats.

Weighted Score

The product of the weight assigned to a factor and its rating. It quantifies the overall significance of each factor to the organization's strategy.

Formula: Weighted Score = Weight × Rating

Purpose: Helps rank the strategic factors in order of importance and impact on the business.

Key Strategic Factors

The most critical internal and external factors that emerge from the SFAS Matrix. These factors require focused attention because they have the most significant impact on the company's ability to achieve its goals.

Purpose: Ensures that the organization concentrates on factors that will drive or hinder its strategic success.

Strategic Prioritization

The process of determining which strategic factors should be addressed first based on their weighted scores.

Purpose: Ensures that resources and efforts are allocated to the most critical issues identified through the SFAS Matrix.

Decision-Making Tool

The SFAS Matrix is used as a decision-making tool in strategic management by summarizing the key internal and external factors that influence the organization's competitive advantage and long-term success.

Purpose: Provides a clear and concise way for managers to make informed, data-driven decisions regarding the company's future direction.

Strategic Alignment

The process of ensuring that the organization’s internal capabilities and external opportunities are in sync with the company’s strategic goals.

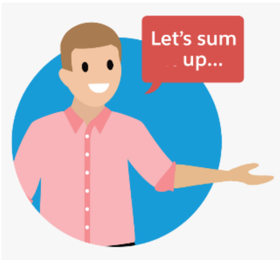
Purpose: The SFAS Matrix helps organizations align their strategies with the most influential factors in the business environment.

Action Plan Development

A detailed plan outlining the steps an organization should take to address the critical factors identified in the SFAS Matrix.

- Purpose: Provides a roadmap for implementing strategies that leverage strengths, mitigate weaknesses, seize opportunities, and address threats.

Let sum up



Dear learners in this module we learn aboutStrategic Factors Analysis Summary Matrix

Self-Assessment Questions

1. **SFAS Stand for ______.**
   a. Strategic Factors Analysis Summary Matrix
   b. Strategic Function Analysis Summary Matrix
   c. Strategic Factors Analysis Statement Matrix
   d. Strategic Factors Analysis Summary Method
2. Internal Factor Analysis Summary (IFAS) matrix & External Factor Analysis Summary (EFAS) matrix represent _____.
   a. Internal Factor alone b. External factor alone c. Both Internal & External factor d. None of the above.
3. In SWOT analysis SW represent _____.
   a. Internal factor b. external factor c. Environmental factor d. Political Factor

20.1 Portfolio Analysis

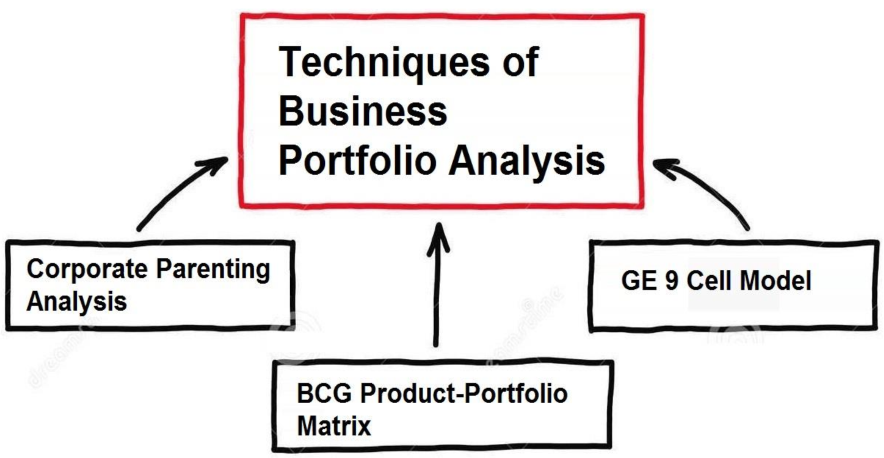
Portfolio refers to groups or segments of products, investments, with similar characteristics. It can also be defined as a collection of investments that are owned by a particular person or organization.

Portfolio analysis is a careful examination of different elements of the products of a company, which are used to determine the best possible allocation of the resources of the company. Secondly, in terms of securities, a portfolio analysis is one in which the investment portfolio is checked, in order to optimize the allocation of holdings. It is a quantitative method for selecting an optimal portfolio that can strike a balance between maximizing the return and minimizing the risk in various uncertain environments

Portfolio analysis is also called corporate portfolio analysis, business portfolio analysis or product portfolio analysis. It is a technique or tool which allows the company to analyze and select the products and businesses and make the necessary strategic decisions regarding them.

20.2Types of Business Portfolio Analysis

There are number of techniques that could be considered as corporate portfolio analysis techniques. Some of the commonly used techniques or methods of portfolio analysis are as follows:



Corporate Parenting Analysis is a strategic management concept that evaluates how a parent company adds value to its various business units or subsidiaries. It focuses on understanding the role of the corporate headquarters (the "parent") in enhancing the performance of its business units (the "children") through oversight, resource allocation, and strategic guidance.

20.3 BCG Product-Portfolio Matrix / BCG Matrix

The BCG matrix is a model used for analysing the portfolio of companies. This model was developed during the early 1970s by Bruce Henderson of the Boston Consulting Group. According to this model. the business units of an organisation can be classified into four different categories based on the market growth and market share as compared to the leader in that sector. Therefore, this method is also called as "growth-share matrix". The growth-share matrix measures positions of various business units along these two dimensions.

As per BCG matrix, the business units can be classified as high or low on the basis of Relative market share and the Market growth rate. These are described below:

1) Relative Market Share:

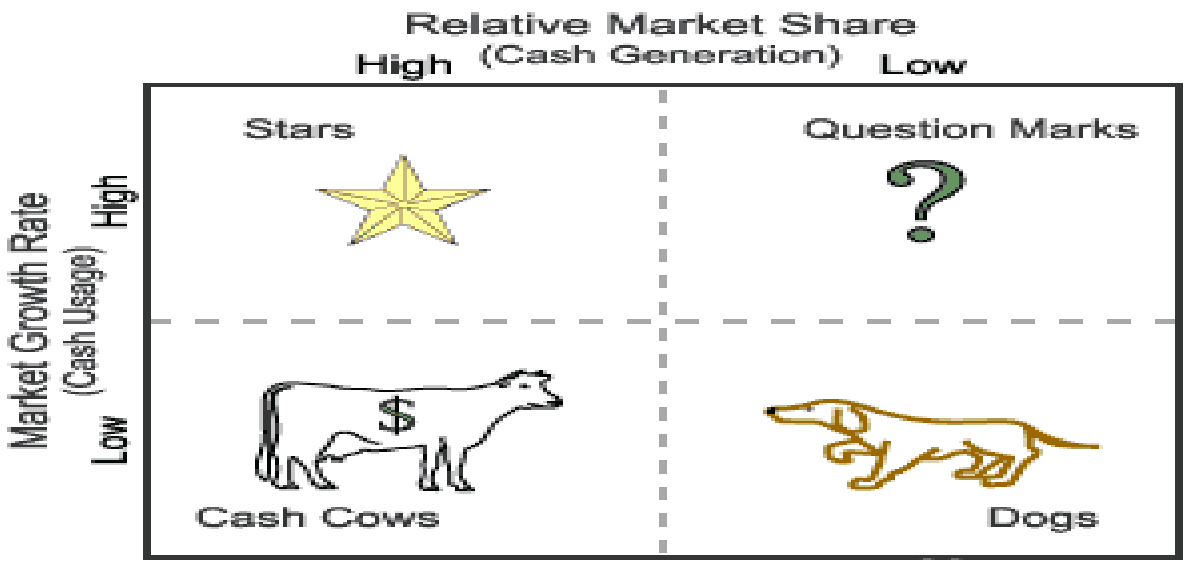
According to this model, the more is the relative market share of firm, more is the return. It says that the firm that produces more, enjoys higher economies of scale due to which the experience curve is higher for them, hence these firms exploit the benefits of higher market share. However, sometimes, higher profit is also achieved by those firms that have low production market share.

2) Market Growth Rate:

If market growth rate is high, then there are opportunities for higher returns. However, it also takes more capital to be invested for future growth. Thus, it can be said that those business firms that operate in industries that have a higher growth rate, invest their capital when there are opportunities to grow further.

Four Cells of BCG Matrix

On the basis of the above classification, the firms in an industry can be classified into four types:

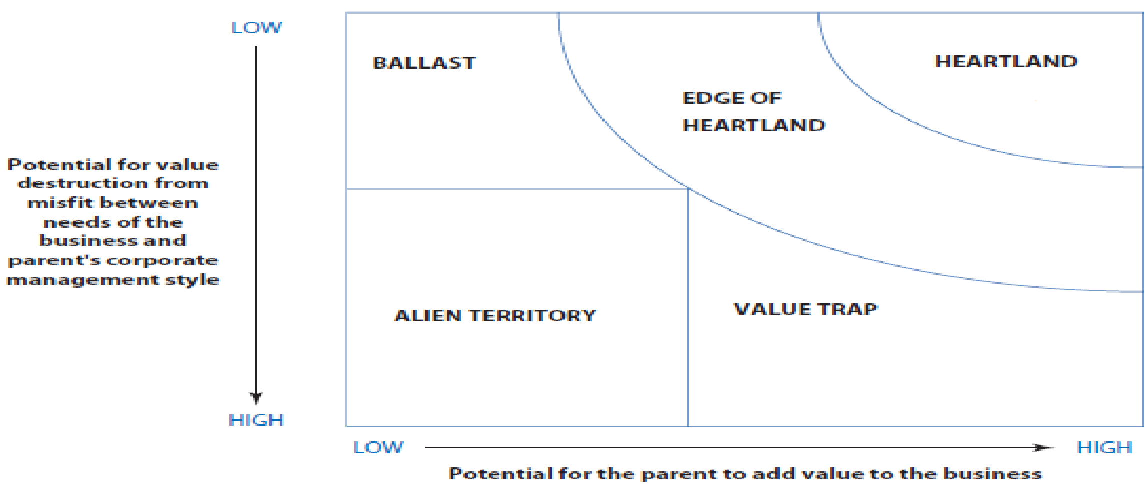


1. **Stars-** Stars represent business units having large market share in a fast-growing industry. They may generate cash but because of fast growing market, stars require huge investments to maintain their lead.
2. **Cash Cows-** Cash Cows represents business units having a large market share in a mature, slow growing industry. Cash cows require little investment and generate cash that can be utilized for investment in other business units.
3. **Question Marks-** Question marks represent business units having low relative market share and located in a high growth industry. They require huge amount of cash to **maintain or gain market share. They require attention to determine if the venture can** be viable.
4. **Dogs-** Dogs represent businesses having weak market shares in low-growth markets. They neither generate cash nor require huge amount of cash.

20.4 Corporate Parenting Analysis

The corporate houses consisting of multiple businesses are structured in such a manner that there is a corporate headquarters which is the center and it has different SBUs or Strategic Business Units that act as its satellites. Therefore, the ways in which these different business units are treated and managed is known as "corporate parenting".

The corporate portfolio evaluates the business units on the basis of industry attractiveness and looks at individual businesses in terms of their financial contribution. While corporate parenting technique looks at the organisation as a group of different businesses and tries to identify the synergies that are created through the interactions between the parent firm and its business units



1) Heartland Businesses:

Heartland Businesses are those in which the parent has a very good understanding about the CSFs of the business unit and it can thus utilize its expertise to make improvements in a particular SBU, Expansion strategies are suitable for the heartland business units.

2) Edge-of-Heartland Businesses:

In edge-of heartland businesses there is a partial fit between the parenting characteristics and the businesses. There are some characteristics which fit and some which do not. The level of engagement between the parent and the SBU increases with the understanding between business units and the parent company. For these business units, expansion strategies will be appropriate if the parent firm can contribute its resources for the development of these SBU.

3) Ballast Businesses:

Ballast businesses are those business units that have a mutual fit with the parent firm, but have rare chances of improvement, in which the parent firm can invest. In a way these similar to cash cows in the BCG matrix, which the mature businesses. Which can still survive, but have little potential to achieve success and can become a constraint for the parent corporation since it can do anything to improve them. It is better to shut down these businesses at the time when it is realized that the cost of production is exceeding the realized profits.

4) Alien Territory Businesses:

Alien territory businesses are those in which there is very little scope of improvement by the parent firm because of the existing misfit between the parents' characteristic and the success factors of business units. Many a times this situation occurs because of unwise diversification strategy implemented the past. Retrenchment is the appropriate strategy. for these businesses.

5) Value-trap Businesses:

Value-trap businesses are those in which there is a good fit between parenting opportunities and the business units, but they suffer because the parent firms do not understand the CSFs of the SBU. At times these businesses show opportunities for growth, but the company cannot exploit them as these opportunities may not suit the competencies of the parent organisation. Therefore, the parent business firm should avoid or retrench these business units.

20.5 GE 9 Cell Model

The GE-9 cell model or GE business screen is a portfolio analysis technique, which was developed by General Electric Company (GEC) along with McKinsey & Co. of the USA in order to overcome the loopholes of the BCG matrix.

Instead of considering market growth and relative market share as the basis for portfolio analysis, this model considers industry attractiveness and business strength as the basis for classifying the firms. These two factors are further split into three categories, making it a nine-cell grid. These cells classify business firms as winners, losers, question marks, average businesses, and profit producers. This model is shown in figure.

The two basic factors considered in analysing the business units are:

1) Business Strength:

Various factors that are jointly analysed under the basic factors are profit margin of the products, market share of the business unit, management skills, technology deployed, etc. the quantification of these factors can be done based on the estimation of the strength and importance of other factors for achieving success. The strategists can rate the strength and importance as per their personal experience.

2) Industry Attractiveness:

Many factors are needed to be studied for analysing the industry attractiveness, such as, industry growth rate, profit margin of the industry, seasonal and cyclical trends of the industry, economies of scale, entry and exit barriers, technological development, legal and social factors, etc. These factors can also be quantified in a similar manner in which the business strength factors have been estimated.

Glossary

Portfolio Analysis

A strategic tool used to evaluate and manage a company's portfolio of business units, products, or investments. It helps in assessing the performance and potential of each component to make informed decisions about resource allocation and strategic direction.

Purpose: To balance risk and return, prioritize investment decisions, and optimize the overall performance of a business portfolio.

Business Portfolio

- : The collection of business units, products, or investments that a company manages. Each component within the portfolio can vary in terms of profitability, market share, growth potential, and strategic importance.
- Examples: A company might have a portfolio consisting of different product lines or divisions that operate in diverse industries.

Strategic Business Unit (SBU)

- : A distinct division or unit within a company that operates in a specific market or industry with its own competitive strategy.

- Role in Portfolio Analysis: Each SBU is evaluated to determine its growth prospects, market share, and strategic importance to the overall company.

Growth-Share Matrix (BCG Matrix)

- : A portfolio analysis tool developed by the Boston Consulting Group (BCG). It categorizes business units or products based on market growth rate and relative market share.
- Categories:
  - Stars: High market share in a high-growth market.
  - Cash Cows: High market share in a low-growth market.
  - Question Marks: Low market share in a high-growth market.
  - Dogs: Low market share in a low-growth market.
- Purpose: Helps in deciding where to allocate resources (invest in Stars, milk Cash Cows, evaluate Question Marks, and divest Dogs).

GE/McKinsey Matrix

- : A portfolio analysis framework that evaluates business units based on market attractiveness and business strength.
- Categories: Divides SBUs into nine cells, ranging from high to low on both axes.
- Purpose: Helps businesses prioritize investment and divestment decisions based on more detailed criteria than the BCG Matrix.

Market Attractiveness

- : A measure of how appealing a market or industry is, considering factors such as growth rate, profitability, competition, and barriers to entry.
- Importance: In portfolio analysis, units in highly attractive markets are often prioritized for investment.

Business Strength

- : The ability of a business unit or product to compete successfully in its market, taking into account factors such as market share, competitive advantage, brand strength, and operational efficiency.
- Importance: A key criterion in portfolio analysis to assess where to invest or disinvest resources.

Relative Market Share

- : The market share of a business unit or product relative to its largest competitor in the market.
- Role in Portfolio Analysis: Used in matrices like the BCG Matrix to assess whether a business unit has the strength to dominate or grow in its market.

Product Life Cycle (PLC)

- Definition: The stages a product goes through from development to withdrawal from the market. The stages include Introduction, Growth, Maturity, and Decline.
- Relevance: Portfolio analysis evaluates where each product or business unit is within the life cycle to determine strategic actions such as investment, divestment, or repositioning.

Risk-Return Trade-Off

- Definition: The balance between the potential risk and the expected return from an investment or business unit. Higher returns usually come with higher risks.
- Relevance in Portfolio Analysis: A key consideration in deciding whether to invest in high-growth but risky units (e.g., Question Marks in the BCG Matrix) versus stable, low-growth units (e.g., Cash Cows).

Diversification

- Definition: A strategy of spreading investments or business units across different markets, industries, or product lines to reduce risk.

- Role in Portfolio Analysis: Diversification is assessed to ensure that the portfolio is balanced between high-risk/high-reward and stable/low-risk investments.

Synergy

- Definition: The value created when different business units or products complement each other, leading to enhanced performance.
- Role in Portfolio Analysis: Synergies between units (e.g., shared resources or capabilities) can justify retaining or investing in certain units, even if they are not the strongest performers individually.

Resource Allocation

: The process of distributing financial, human, and operational resources among business units or products based on their performance and potential.

- Role in Portfolio Analysis: A critical function to ensure that high-potential units receive the necessary resources for growth, while underperforming units may be divested or receive limited investment.

Core Business

- : The primary area or set of products that generate the majority of a company's revenues and profits.
- Role in Portfolio Analysis: Core businesses are usually prioritized in portfolio analysis because they are critical to the company's long-term success.

Portfolio Balance

- : The optimal mix of business units or products within a portfolio to ensure a balance between risk, growth, and stability.
- Purpose: Achieving a balanced portfolio helps a company mitigate risk while maintaining growth opportunities.

Divestment: The process of selling off or discontinuing a business unit or product line that is no longer strategically important or financially viable.

- Relevance in Portfolio Analysis: Portfolio analysis helps identify underperforming or non-strategic units that should be divested to free up resources for more promising areas.

Strategic Fit

- The degree to which a business unit or product aligns with the overall strategy of the parent company.
- Importance: In portfolio analysis, strategic fit helps determine whether a unit should be retained or divested based on how well it complements the company's long-term goals.

Return on Investment (ROI)

- : A measure of the profitability of an investment or business unit relative to its cost.
- Role in Portfolio Analysis: Units with higher ROI are typically prioritized for investment in portfolio analysis, while those with poor ROI may be targeted for divestment.

Cash Flow

- : The net amount of cash generated by a business unit or product after accounting for all its expenses.
- Importance in Portfolio Analysis: Cash-generating units (like Cash Cows in the BCG Matrix) are important for funding growth in other units, while units with negative cash flow may need to be restructured or divested.

Strategic Prioritization

- Definition: The process of ranking business units or products based on their potential for growth, profitability, and strategic importance.
- Purpose: In portfolio analysis, prioritizing units ensures that the company focuses resources on high-potential areas while managing or divesting weaker units

Let sum up

Dear learners in this module we learn about Portfolio analysis, its types

Self-Assessment Questions

1. Portfolio analysis is also called _________.

a.corporate portfolio analysis b. business Portfolio analysis c. both a & b d. None

2.BCG stands for _______.

a.Boston Consulting Group b. Boston Common Group c. Boston Community Group d. Boston Consumer Group

3.What does star symbolize in BCG matrix?

aIntroduction b. Growth c. Maturity d. Decline

4.In GE 9 cell matrix With high attractive and average business strength means _____.

a.Invest b. Earn c. Divest d. none

5.In ______ there is a partial fit between the parenting characteristics and the businesses.

aHeartland Business b. Edge-of Heart land business c. Value-trap business d. Alien Territory business

21 .TOWS Matrix

The TOWS Matrix is an acronym for Threats, Opportunities, Weaknesses, and Strengths. The matrix is a variation on the SWOT Analysis, and it seeks to address criticisms of the SWOT Analysis regarding its inability to show relationships between the various categories.

The TOWS Matrix was developed by management consultant Heinz Weihrich.

The TOWS Matrix, is a much more useful graphical representation of a SWOT Analysis.Internal strengths and weaknesses are compared to external opportunities and threats. Every one of the four individual factors can influence and impact each other.The four strategy combinations of a TOWS Matrix.

1. Strength And Opportunity SO

SO or Maxi-Maxi strategy utilizes internal strengths to maximize or optimally use external opportunities available to an organization.

2. Strengths And Threats ST

ST or Maxi-Mini strategy maximizes the strengths of a business and minimizes the threats using those strengths.

3. Weakness And Opportunity WO

WO or Mini-Maxi strategy's aim is to minimize weaknesses of an organization and maximize opportunities. This strategy revamps internal weaknesses by using external opportunities.

4. Weakness And Threats WT

The WT strategy, also known as the mini-mini strategy, aims to minimize threats and weaknesses. A TOWS matrix example will show that it's a defensive spot in the matrix that is utilized by businesses in adverse situations.

Glossary

TOWS Matrix

A strategic planning tool that builds upon the traditional SWOT analysis by focusing on how an organization can match its internal strengths and weaknesses with external opportunities and threats to develop actionable strategies.

To help organizations formulate strategies that maximize strengths, address weaknesses, exploit opportunities, and mitigate threats.

SWOT Analysis

A framework used to identify an organization's internal Strengths and Weaknesses, along with external Opportunities and Threats.

Connection to TOWS: TOWS is an extension of SWOT analysis, focusing on creating strategies by analyzing the interaction between internal and external factors.

Let sum up

Dear learners in this module we learn about TOWS Matrix

Self-Assessment Questions

1. The TOWS Matrix is an acronym for
   a. Threats, Opportunities, Weaknesses, and Strengths
   b. Threats, Weakness, Opportunity and Strengths
   c. Strength, Weaknesses, Opportunity and Threats
   d. None
2. ST stands for _____
   a. Maxi-Maxi b. Maxi-Mini c. Mini-Maxi d. Mini-Mini
3. TOWS was developed by ______
   a. Heinz Weinrich b. General Electronics C. Boston Consultancy Group d. None

22. Corporate Strategy

A corporate strategy is a long-term plan that outlines clear goals for a company. While the objective of each goal may differ, the ultimate purpose of a corporate strategy is to improve the company. A company's corporate strategy may be to focus on sales, growth or leadership.

The main pillars of corporate strategy are the allocation of resources, organizational design, portfolio management, and prioritization (strategic trade-off). Resource allocation involves the efficient allocation of human and capital resources. Organizational design explains how the organization operates to achieve its aims.Portfolio management strategies involve optimizing the portfolio per the company's strategic objectives. Finally, prioritization or strategic trade-off demands the design of an optimal strategic mix by balancing risk and return to meet the company's objectives.

Types of Corporate Strategy

Common types of the corporate strategies are the following:

- **Stability strategy:** It revolves around maintaining the current market position and share by serving in the same industry with existing products and services. It is one of the corporate strategy types that offers modest and sustainable growth.
- **Expansion strategy:** It involves introducing a new line of products or services, expanding services into different markets, and more. It is one of the corporate strategy types that revolves around innovation.
- **Retrenchment strategy:** It is one of the corporate strategy types designed to reduce losses. Among all the corporate strategy types, this is the least used.
- **Combination strategy:** It involves mixing different corporate strategy types instead of focusing on only one. Large organizations and MNCs usually use a combination strategy.

Functional Strategy

Functional Strategy is the strategic plan adopted by each functional area in the value chain of the organization like marketing, production, finance, human resources, IT etc. to implement and align with the overall business or corporate strategy/vision for achieving organizational level objectives.

According to Gareth R. Jones, "Functional strategy is a plan of action to strengthen an organization's Functional and organizational resources, as well as its coordination abilities, in order to create core competencies."

Areas of Functional Strategy

Marketing Strategy

Marketing strategy comprises all the activities ranging from recognizing the needs and wants of customers and developing products/services to satisfy them. The marketing mix is one of the most significant elements in the marketing strategy. Before implementing the marketing strategy; a company should conduct a detailed swot analysis.

Finance Strategy

The financial level strategy comprises various management areas like planning, controlling, utilizing, and acquiring the financial resources of the company. It also includes estimating net worth, dividend payment, working capital management,acquiring assets, making an investment, applications and sources of funds, budgeting, and raising capital.

Human Resource Strategy

The human resource strategy deals with the functionality of the company toward employees' development in terms of working conditions and more opportunities, so that they could perform better.

Operations Strategy

The operations strategy deals with the method and place of production of a product or a service, the supply chain activities and the logistic activities. It also considers the best possible level of technology to streamline the production process.

22.1Strategic Choice

Strategic choice is selecting the most suitable strategy that supports the organization in accomplishing its objectives. To make strategic choices, the strategists of an organization assess the strengths and weaknesses of the internal environment and the opportunities and threats of the external environment. After this assessment, several potential alternatives are found, and strategic choices are made from these alternatives.

According to Pearce and Robinson, "Strategic choice is a decision which determines the firm's future strategy".

Process of Strategic Choice

1. **Focusing on Strategic Alternative**

   In the first step, all the available alternatives are listed. The strategists study the deviation between the standard performance and the actual performance, called the gap analysis. This deviation or gap between the two becomes the basis for various strategic alternatives that the organization can consider. If the organization does not deploy an effective strategy in the initial stages, the gap between what is to be achieved and actual performance may increase, worsening the organizational position.

2. **Analyzing the strategic alternatives**

   The alternatives have to be subjected to a thorough analysis that relies on certain factors known as selection factors. These selection factors determine the criteria on the basis of which the evaluation will take place. They are:

   Objective factors – These are based on analytical techniques and are hard facts used to facilitate strategic choice.

   Subjective factors – These are based on one`s personal judgment, collective or descriptive factors.

3. **Evaluating the strategic alternatives**

   Each factor is evaluated for its capability to help the organization to achieve its objectives. This step involves bringing together analysis carried out on the basis of subjective and objective factors. Successive iterative steps of analyzing different alternatives lie at the heart of such evaluation.

4. Choosing from strategic alternative

Strategic choice is the last step in strategic choice process. At this stage, among the various alternatives, the strategist would choose a particular strategy which may be implement by the organization.

Glossary

Corporate Strategy

The overall plan and direction of a corporation, focusing on decisions about which industries, markets, or regions the company should compete in. It is concerned with the management of a company's portfolio of businesses.

Purpose: To create value by guiding the company's scope, resource allocation, and long-term goals.

Business-Level Strategy

The strategy specific to a particular business unit or division within a corporation, focused on gaining a competitive advantage in a specific market.

Relation to Corporate Strategy: Corporate strategy oversees and supports the various business-level strategies across the company's portfolio.

Strategic Business Unit (SBU)

A distinct division or unit within a company that operates independently and is responsible for its own profit and loss.

Relevance: Corporate strategy manages and allocates resources to different SBUs.

Let sum up

Dear learners in this module we learn about Corporate and Functional level strategy and strategic choice

Self-Assessment Questions

1.In ________ strategy it involves introducing a new line of products or services.

a.Expansion b. retrenchment c. combination d. stability

2._____ is selecting the most suitable strategy that supports the organization in accomplishing its objectives.

a.Strategic choice b. strategic formulation c. strategic alternative d. none

3._______is the strategic plan adopted by each functional area in the value chain of the organization.

a.Functional Strategy b. corporate strategy c. business strategy d. none

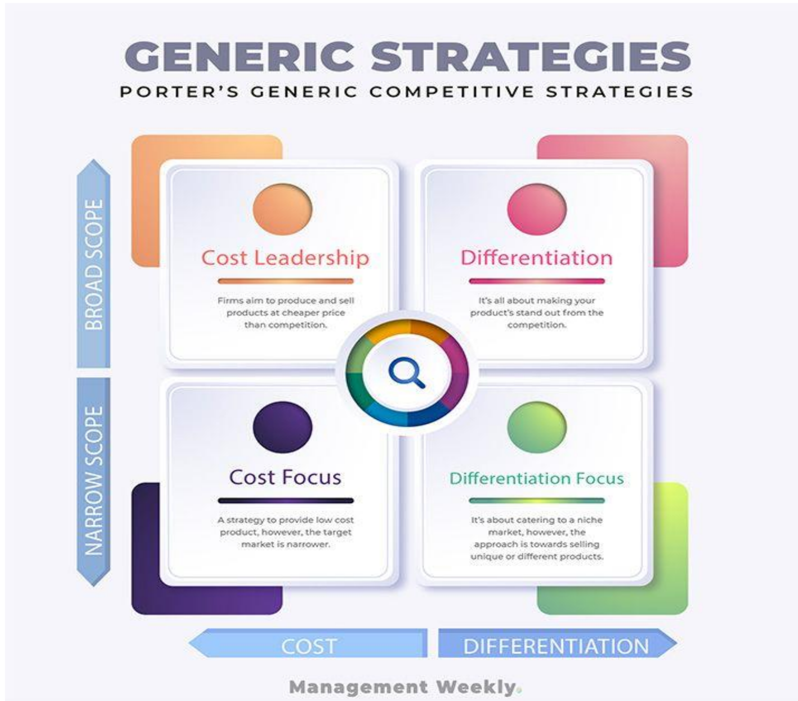
23.Generic competitive Strategy

Michael Porter developed three generic strategies, that a company could use to gain competitive advantage, back in 1980.

It is a methodology designed to provide companies with a strategic plan to compete. It is useful when a company is looking to gain an advantage over competitors.

According to Michael Porter, there are four generic strategies.

1. Cost Leadership
2. Differentiation
3. Cost Focus
4. Differentiation Focus



Cost Leadership

Under the Cost leadership strategy, the organization target for a broad, large scale market. They provide the lowest possible prices to attract customers. The intension of this strategy is to reduce the costs as much as possible. The organization can use two methods to become success using cost leadership strategy. They can reduce the cost of the product as low as possible or they can achieve a large market and keep the prices in average level. Both options will help the organization to reduce the cost and to increase the income.

Differentiation

Under the Differentiation strategy, the organization is targeting a broad, large range of market but provide a product with unique features. The organization has to create the product in a very unique way in which the product can achieve competitive advantage in the industry. They should concentrate on attracting the customers through the unique features of the product and to increase the market share by that. This helps the organization to face the rivalry competition successfully in maximizing the profits. However, the organizations who are using the differentiation strategy in Michael Porter's generic strategies, have to invest a lot on the Research and development, innovation and creativity techniques.

Cost Focus

When the organization is implementing the cost focus strategy, they are aiming a niche market with a little competition. This is more a focused market segment and the product will be provided to the market with the lowest possible price. It is importance for the organization to choose the niche market correctly and provide to the market. That will create repeat customers and the products cost will remain low.

Differentiation Focus

When an organization is providing its product to the market using the differentiation focus, they select a niche market and provide a unique product to that market. This involves a powerful brand loyalty of the customers to the product. It is highly important to make sure the product features remain unique as the customer loyalty is based on the uniqueness of the product.

Glossary:

Generic Competitive Strategy

A framework developed by Michael Porter that outlines three broad strategies companies can adopt to achieve a competitive advantage: cost leadership, differentiation, and focus.

Purpose: To guide companies in choosing a strategic approach to outperform competitors and achieve long-term success.

Cost Leadership Strategy

A strategy where a company becomes the lowest-cost producer in its industry, allowing it to offer products or services at lower prices than competitors while maintaining profitability.

Key Drivers: Economies of scale, cost control, efficiency, and optimization of resources.

Example: Large retailers like Walmart, which use their scale to offer low prices.

Let sum up

Dear learners in this module we learn about Corporate and Functional level strategy and strategic choice

Self-Assessment Questions

1. Who developed the generic strategy _____?
a. Michael Porter b. Heinz Weinrich c. Wheelen & Hunger d. none
2. Porter's generic strategies are
   a. Low price, differentiation, focus
   b. b. cost leadership, differentiation, cost focus, focus differentiation
   c. price leadership, differentiation, focus
   d. low cost, differentiation, focus differentiation
3. Aiming a niche market with a little competition is called ____.
   a. Cost focus b. differentiation focus c. low price d. cost leadership
4. In cost leadership strategy the organisation target for broad, large scalemarket ____.
a. True b. False

24.ETOP

ETOP stands for Environmental Threat and Opportunity Profile. It is a process by which organizations monitor their relevant environment to identify opportunities and threats affecting their business for the purpose of taking strategic decisions.

It involves dividing the environment into different sectors and analysing the impact of each sector on the organization. By preparing an ETOP, the organization can gain a clear picture of which sectors and the different factors in each sector have a favourable impact on the organization.

This understanding can be of great help in formulating strategies to take advantage of the opportunities and counter the threats in the environment. ETOP is an environmental analysis that results in a mass of information expectations.

The ETOP model typically consists of the following steps:

1. Identification of external factors: The first step in the ETOP model is to identify the key external factors that could impact the organization. These factors can be classified into economic, political, technological, and social categories.

2. Ranking of factors: Once the external factors have been identified, they are ranked based on their potential impact on the organization. Factors with a high potential impact are given a higher ranking.

3. Analysis of factors: After the external factors have been ranked, they are analysed in more detail to determine the specific threats and opportunities that they pose to the organization.

4. Development of strategies: Based on the analysis of the external factors, the organization can develop strategies to mitigate the threats and take advantage of the opportunities.

Why ETOP is needed?

- Helps organization to identify opportunities and threats
- To consolidate and strengthen organizations position
- Provides the strategists of which sectors have a favorable impact on the organization
- Help organization know where it stands with respect to its environment
- Helps in formulating appropriate strategy

- Helps in formulating SWOT analysis (Strategic weakness, opportunities and threats)

How to conduct this analysis

1. Identify the environmental factor
2. Gather information
3. Evaluate the competition
4. Forecast the impact
5. Assess the strategy

Glossary

ETOP (Environmental Threat and Opportunity Profile)

A strategic tool used by organizations to assess external environmental factors and classify them into threats and opportunities. ETOP helps businesses understand how external forces impact their operations and strategic objectives.

Purpose: To guide decision-making by identifying which external factors pose risks (threats) and which offer potential advantages (opportunities).

Let sum up

Dear learners in this module we learn about ETOP matrix

Self-Assessment Questions

1. ETOP stands for ______
   a. Environmental Threat and Opportunity Profile
   b. Environmental Target and Opportunity Product
   c. Environmental Target and Opportunity Profile
   d. External Targe and Opportunity Profile
2. It helps in ____.

   a. Strategic formulation d. strategic decision c. strategic evaluation d. strategic implementation

3. Is SWOT and ETOP are similar?

a. Yes b. No

Unit-V

Strategy Implementation

Strategy Implementation - Corporate Culture – Matching Organization Structure to Strategy – Mergers and Acquisitions and Diversifications – Strategic Leadership Strategic Control: Measurement in Performance- Problems in Measurement of Performance- Strategy Audit Strategic Control Process – Du Pont's Control Model – Balanced Score Card – Michael Porter's Framework for Strategic Management – Future of Strategic Management – Strategic Information System.

Unit Model Structuring:

25. Strategy Implementation
26. Strategic Leadership Strategic Control
27. Strategy Audit Strategic Control Process
28. Strategic Information System.

Self Learning Material Development –Stage-5

Table of Contents for the Unit

Unit objectives

After reading this unit you should be able to understand the concept of Strategy implementation.

Know the Corporate Culture

You can able to understand the Strategic Leadership Strategic Control.

25.1 Strategy Implementation

Implementation of the strategy is as important as the formulation of the strategy.

A good strategy by itself does not ensure success. The success depends, to a very large extent, on how it is implemented. Many strategies fail to produce the expected results because of the failure in properly implementing the strategy.

Strategy is a blueprint indicating the courses of action to achieve the desired objectives. The objectives are achieved by proper activation of the strategy. The activation or implementation step in the strategic management encompasses the formulation of the operational details to translate the strategy into effective practice.

Operational sing the strategy requires transcending the various components of the strategy to different levels; mobilization and allocation of resources; structuring authority, responsibility, tasks and information flows; establishing policies; and, evaluation and control.

Objectives of Strategy Implementation:

1. Strategy makes clear what the organization aims to achieve. Only when the destination is known that the journey can be initiated.
2. Communication-strategy defines what the organization aims to achieve in the long run. So, this sets a specific pattern to start with.

3. Direction provider strategy clears the doubts one may harness due to being ignorant of the ambitions of the organization.

4. Awareness Creation-Some of the employees may be oblivious regarding the position the company sees itself at.

Components of Strategy Implementation

The key elements in the strategy implementation process in a business include:

1. Organization For successful implementation, you have to make sure that your strategy matches the type of organization.
2. Planning Implementation of the strategy involves a series of activities. The activities should be well organized in a schedule i.e. properly planned.
3. Resources ensure you have the right people and resources to complete the implementation of the strategies.
4. Communication communicating the details of the strategy in the organization is essential. Written descriptions, procedures, images and drawings can serve as a basis for team meetings to answer questions, review progress, and find solutions to problems.
5. Monitoring to avoid the deviation of results from the plan, ensure all the activities are on schedule and budget.

25.2 Corporate Culture

Corporate culture refers to the beliefs and behaviors that determine how a company's employees and management interact and handle outside business transactions. Often, corporate culture is implied, not expressly defined, and develops organically over time from the cumulative traits of the people the company hires. A company's culture will be reflected in its dress code, business hours, office setup, employee benefits, turnover, hiring decisions, and treatment of clients, client satisfaction and every other aspect of operations.

Elements of Corporate Culture

Value: A company's values are the core of its culture. While a vision articulates a company's purpose, values offer a set of guidelines on the behaviors and mindsets needed to achieve that vision.

Practices: A method, procedure, process, or rule employed or followed by a company in the pursuit of its objectives

People: No company can build a coherent culture without people who either share its core values or possess the willingness and ability to embrace those values. That's why the greatest firms in the world also have some of the most stringent recruiting policies.

Narrative/Leadership: A company's leadership is composed of the top executives who oversee its operations and plot its strategies for the future

Place: The term place signifies the geographical location where the plant location, corporate office is located. Place is important from the perspective of operational and strategic decision making.

25.3 Matching Organization Structure to Strategy

Organization Structure

Meaning:

Organizational structure consists of activities such as task allocation, coordination and supervision, which are directed towards the achievement of organizational aims. It can also be considered as the viewing glass or perspective through which individuals see their organization and its environment.

Role of Organizational Structure

The role of organizational structure in the strategy implementation process is:

1. Aligning organizational structure with organizational strategy is necessary to ensure implementation of strategic plans.

2. The development of new skill sets is required to support changed strategies.

3. Task forces of special teams specifically charged with the responsibility for implementing key static programs enhance the effectiveness of implementation.

Types of Organizational Structure

1. Simple organizational structure/entrepreneurial structure: A simple organizational structure has only two levels, the owner-manager and the employees.
2. Functional organizational structure: As organizations grow and develop a number of related products and markets, their structures frequently change to reflect greater specialization in functional business areas.
3. Divisional organizational structure: The divisional structure of organization is more suited to large, growth-oriented firms with diversified operation.
4. Strategic business unit structure: As SBU is an sole operating unit or planning focus hat does not group a distinct set of products or services, which are sold to a uniform set of customers, facing a well- defined set of competitors.
5. Matrix organizational structure: This arrangement is intended to combine projects management and functional departmentation so as to drive the benefits of both.
6. Virtual organization: The virtual organization is a temporary network of companies that come together quickly to exploit fast changing opportunities.
7. Network organizations: A network is a pattern of social over a set of persons, positions, groups, or organizations.

Matching Structure to Strategy

The terms, 'strategy' and 'organizational structure' are inter-related to each other. For implementing at strategy, it is quite essential to understand this relationship, as the structure of organization is designed as per the requirements of the strategy.

Since, organizational structure helps in the implementation of strategy, hence, the structure can be considered as a method, and should not be mistaken with the organizational goals. The ultimate end of an organization is the objective for which it exists, and that is clearly shown by its strategy. In the absence of harmony between the structure and strategy, the organization can face the consequences such as uncertainty, disorderliness, lack of direction and failures.

The organization structure is likely to follow the path of the growth strategy; but only when the inefficient system and internal problems calls for structural adjustment. Hence, the sequence of the organization action starts with the creation of new strategies, followed by existence of new problems leading to lowering of profitability and performance. This leads to a more apt organizational structure, which is followed by finding enhanced execution of the strategy creating improvement in gains and performances.

It is necessary on part of the strategic managers to make an effort for ensuring simplicity of the structures (along with the processes) to the maximum possible extent. To make an efficient organizational structure, it should be simple, which can be made through the elimination of additional levels of management which adds to the complexities of existing structure. Basically, the priority of standardization and flexibility over the choice of the fundamental structure that helps in attaining the needed priority is structural decision. Hence, it is needed on the part of the managers to assess the merits and demerits of every structural building block, and to match them with the needs of the strategy.

For example, there is a need for a different structure for accomplishing a defender/cost leadership. Competitive strategy and a prospector/differentiation strategy. Defender strategies need a high level of standardization in structure for the purpose of ensuring cost efficiencies, whereas the prospector strategies need a high level of structural flexibility for the purpose of development of new technologies and innovation in goods and services.

Maintaining the Organizational Structure

The current fundamental structure has to be maintained in case its features match with the needs of the strategy. Though, it may need an extra coordinating mechanism Generally, the competitive advantage on a long term basis is not established solely on the basis of the organization structure.

Yet, the major implementation area of an organization has been its structure (particularly, when it is combined with cultural efficiency). When an effective organization structure is maintained, it acts as the strength for an organization, irrelevant of its rarity among competitors. For the purpose of maintaining the structure of the organization, management should perform the following activities:

- Assess the current structure to make certain that they are chance for innovation wherever suitable.
- Examine the administration team to make certain that they have the appropriate leadership skills needed for their positions.
- Keep the record of current skills to make sure that they are in coordination with the structure and strategy.

Changing the Organizational Structure

The administration should be ready to develop a plan for changing the organizational structure and should carefully move towards attaining it, in case, a comparative analysis between current structure and needs of the strategy calls for it. Inefficiency or unsuitability in the organizational structure can weaken the strategy of the organization, which will result in delayed decision making due to a lot of administration layers, but usually the structure of the organization is not regarded as its competitive disadvantage on a long-term basis.

Yet, if it is found to be a weakness for the organization, it should be immediately changed. Re-organization means a major change from the employees' perspective and can be considered to be alarming. The re-engineering approach can be adopted to help the managers in handling the situation of re-organization. It helps in reconsidering and changing the connection between the tasks in order to ensure proficiency in the entire system.

Steps for Changing Structure of Organization

Thus, the management should follow these steps, while changing the structure of the organization :

1. They should prepare a proper flowchart for the entire process, which also consists of its interfaces along with the different value chain activities.
2. They should first simplify the task, by removing additional tasks and steps wherever feasible and should be able to analyze alignment of the remaining tasks.
3. They should find the parts which can be automated if feasible (mostly where the work is repetitive, prolonged, and do not require a lot of thinking or decision making).
4. They should bring latest technologies which can help in up-gradation for attaining the advanced ability and helps in ensuring sumptuous gains in the coming years.
5. They should assess every activity in order to find-out if it is strategically critical (strategy critical activities help in setting up the standards for the purpose of attaining excellence within the industry).
6. They should evaluate the merits and demerits of outsourcing the activities which are not crucial or which don't provide much to the abilities of the organizational core competencies.
7. They should carry-out a comparative analysis of the merits and demerits regarding the organizational building-blocks with respect to standardization and adaptability.
8. They should be able to plan out the structure for the performance of the remaining activities, followed by allotting the task to the suitable employees and teams as per the needs of the new structure.

Difficulties in Matching Organizational Structure with Strategy

The two questions evolve while assessing if the designing of the structure is as per the requirements of the strategy:

- What are the activities and functions which have to be accomplished in order to ensure a successful strategy?
- Is the structure flexible enough to cope up with the stress coming from the external environment?

These two questions should be able to draw answers which exactly highlight required functions for implementing a successful strategy. Yet, while testing consistency of the strategy, strategists usually face following problems:

1) Vagueness in Strategy:

While the strategist is trying to match the structure with strategy he might find, strategy to be ambiguous and evolving. Hence, prior to diagnosing the adequacy of the structure, the question which has to be answered is regarding precision of the strategy. In case of lack of clarity regarding this question it is futile to assess the adequacy of the structure of the organization. Hence, an exact, accurate and lucid strategy helps in testing the adequacy of the structure of the organization.

2) Hidden Strategy:

Unlike the material objects, the causes of malfunctioning of the strategy are not open at all times. It might need an interpretation of the things based on the different qualitative factors, which could turn out to be subjective. The human nature always tries to hide the ugly face of the things and the structure of the organization is also a part of it. Hence, the establishment of the information system should be done in a way which allows keeping a check over the adequacy of the organization.

3) Manifold Reasons:

While applying the test of the adequacy it is found that there are many reasons for erroneous outcomes other than the organizational structure, such as emerging trends in external environment. Hence, strategists should keep a check on other factors too.

25.4 Mergers and Acquisitions

Mergers and acquisitions (M&A^s) are used many a time as a critical means of the corporate strategy. It may be employed as a growth strategy, restructuring strategy or competitive strategy. Indeed, M&A^s have been instrumental in the restructuring of a number of industries globally and domestically and they continue to shape the market structure of industries through corporate strategies. M&As have played a great role in the transformation of the industrial structure of the advanced economies. The United States, for instance, experienced several waves of M&As. Terms such as merger mania, merger frenzy and merger fever have been used by business magazines and dailies to refer to the surging M&A activities (including those in India following the liberalization).

Types of Merger & Acquisition Strategies:

Vertical M&A Strategy: A vertical M&A strategy occurs when two or more businesses that operate within different stages of the supply chain come together to create an integrated good or service.

Example of a vertical M&A strategy: eBay acquiring PayPal — if you purchase something from eBay but pay via PayPal, you’re technically experiencing the result of a vertical merger.

Horizontal M&A Strategy: A horizontal M&A strategy can be defined as two businesses that operate in the same industry joining forces to eliminate competition.

Example of a horizontal M&A strategy: the integration of Disney and Pixar.

Conglomerate M&A Strategy: A conglomerate M&A strategy involves merging two companies that have entirely separate business activities.There are two forms: pure, in which each company continues to do business solely in their own market, and mixed, in which product and market extensions are conducted.

Example of a conglomerate M&A strategy: Amazon's acquisition of Whole Foods.

Market Extension M&A Strategy: Market extension M&A strategy is when two entities that produce the same type of product to different markets come together under one roof.

Example of a market extension M&A strategy: When the Royal Bank of Canada, RBC Centura, Inc., acquired American-based Eagle Bancshares, Inc., resulting in RBC gaining access to over $1.1 billion in assets.

Product Extension M&A Strategy: A product extension M&A strategy involves two companies within the same market provide different types of products or services that are designed to be consumed together. This differs from market extensions in that instead of trying to reach new markets, you're looking to diversify your products and services.

Example of a product extension M&A strategy: Pepsi Co.'s acquisition of Pizza Hut.

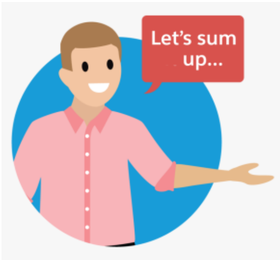
Glossary

Strategy Implementation: The process of turning strategic plans into action to achieve the organization's goals. It involves allocating resources, developing processes, and managing people to execute the strategy effectively.

Key Activities: Aligning organizational structure, motivating employees, managing change, and establishing systems for performance monitoring.

Importance: Strategy implementation ensures that the organization's strategy is not just a theoretical plan but is actively put into practice to achieve desired outcomes.

Let sum up



Dear learners in this module we learn about Strategy Implementation, Corporate Culture, Matching Organization Structure to Strategy, Mergers and Acquisitions and Diversifications.

Self-Assessment Questions

1) The terms …………and 'organizational structure' are inter-related to each other

a) Merger b) 'strategy' **c)** Diversifications **d)** None of the above

2) ……………consists of activities such as task allocation, coordination and supervision, which are directed towards the achievement of organizational aims.

a) Organizational Strategy b) Organizational structure **c)** Diversifications **d)** None of the above

3) …………………of the strategy is as important as the formulation of the strategy.
a) Implementation b) Organizational structure **c)** Diversifications **d)** None of the above

4)………… refers to the beliefs and behaviors that determine how a company's employees and management interact and handle outside business transactions.

a) Implementation b) Organizational structure **c)** Diversifications d)Corporate culture

5. Mergers and acquisitions (M&A^{s}) are used many a time as a critical means of the corporate strategy.

a)Yes b) No

26.1 Strategic Leadership Strategic Control

Strategic Leadership

As mentioned above, strategic leaders are people at the top most level of the organization who are responsible for setting the strategic vision and establishing a proper organization-environment fit within the context of the organizational strengths and environmental dynamics.

Strategic leadership is described as “the ability to anticipate, prepare, and get positioned for the future. It is the ability to mobilize and focus resources and energy on things that make a difference and will position you for success in the future. It is the courage to think deeply about what you want to do. Applied strategic leadership is about creativity, intuition, and planning to help you reach your destiny. Strategic people think and act before they have to, before they are forced to take up a defensive or reactive position.”

Characteristics of Strategic Leaders

Important characteristics of strategic leaders include the following:

- Proactive approach, eagerness to constantly update knowledge, analytical skills, strategic and creative thinking, entrepreneurial and innovative mind set and institution building capabilities.
- Ability to forecast and envision future scenarios and being alert and ready to seize right opportunities.
- Ingenuity to picture a range of strategic possibilities several stages ahead of the current phase of organizational development.
- A great understanding of timing – the ability to choose the right time to make a major intervention and the boldness to strike decisively when the moment is right.
- Habit of investing time in developing people and capability for the future of the organization as well as managing the current needs of the organization.

Role and Functions of Strategic Leadership

The important role and functions of strategic leaders are:

Forecasting the future environment of the respective business: This shall encompass the changes in the nature and scope of the business, including the technological dimensions, competitive environment, government policy and regulatory environment, global environment etc.

Setting a vision for the organization: This includes strategic positioning of the organization in the future scenario and envisaging the required transformation of the organization.

Formulation of mission and objectives towards accomplishment of the vision: Mission and objectives provide clear idea and specific requirements to translate the vision into practice.

Formulation of strategy: To accomplish the vision/mission and objectives, a unified, comprehensive and integrated plan of action needs to be put in place.

Activation of the strategic plan: Several critical steps need to be taken to effectively implement the strategy.

Strategic control

Strategic control is a way to manage the execution of your strategic plan. As a management process, it's unique in that it's built to handle unknowns and ambiguity as it tracks a strategy's implementation and subsequent results.

Pearce and Robinson point out that there are four basic types of strategic control, viz., premise control, implementation control, strategic surveillance and special alert control.

Premise Control

Strategies are often based on premises, i.e., assumptions or predicted conditions. A strategy may be valid only as long as the planning premises remain valid. Hence, the importance of the premise control which "is designed to check systematically and continuously whether or not the premises set during the planning and implementation process are still valid.”

A strategy may be based on certain premises related to the industry (like the industry structure and competition) and other environmental factors like government policies and regulations, socio-demographic factors, economic conditions etc. Changes in the vital premises may necessitate changes in strategy.

Hamel and Prahalad point out that in the case of many companies who were industry leaders, “the foundations of past success were shaken and fractured when, in all too many cases, the industrial terrain changed shape faster than top management could refashion its basic beliefs and assumptions about which markets to serve, which technologies to master, which customers to serve and how to get the best out of the employees.”

The Apollo tyres ‘reworked’ its strategic alliance with Continental A Gof Germany for production of passenger car radial tyres in view of the slowdown in economy and changed demand in the tyre industry.

Implementation Control

In several cases, the implementation of a strategy may not progress as planned or the cost, sales volume, revenue etc. may be at considerable variance with the planned ones. The lessons of the first phases of the implementation could be helpful in the implementation of the subsequent phases. For example, take the case of a company implementing a project involving a chain of holiday resorts in a phased manner. The experienced gained from implementing the resort in the first phase would help to make the implementation of the subsequent phases more efficient.

Similarly, when a product is planned to be launched nationally in a phased way, the experience with the early launches could help better the launches in the remaining sectors of the national market. For example, the phased launch of pagers in India enabled Motorola to redefine its target consumers and modify its promotion strategy as it expanded the market coverage.

In short, “implementation control is designed to assess whether the overall strategy should be changed in the light of unfolding events and results associated with incremental steps and actions that implement the overall strategy”.

Strategic Surveillance

“Strategic surveillance is designed to monitor a broad range of events inside and outside the company that are likely to threaten the course of the firm’s strategy”. The strategy of a company could be defeated by certain such events. It is, therefore, necessary that the company exercise surveillance for timely detection of such developments and corrective action.

The success of Arvind Mills’ Ruf &Tufen couraged rampant sale of furious products under the same brand name compelling the company to form vigilance squads to crack down on the unscrupulous businessmen.

Special Alert Control

Sudden and unexpected developments like alliance between competitors, takeover/mergers, apolitical coup, a major competitive move by competitor etc. could have serious impact on a firm’s strategy. A “special alert control is the need to thoroughly, and often suddenly, reconsider the firm’s basic strategy based on a sudden, unexpected event”.

In the wake of the consolidation of the market power by Hindustan Lever by taking over Tom co and the growing competition by the global majors, Godrej Soaps felt insecure and forged an alliance with Procter and Gamble.

26.2 Measurement in Performance

Improvement in individual, group, or organizational performance cannot occur unless there is some way of getting performance feedback. Feedback is having the outcomes of work communicated to the employee, work group, or company. For an individual employee, performance measures create a link between their own behavior and the organization's goals. For the organization or its work unit's performance measurement is the link between decisions and organizational goals.

It has been said that before you can improve something, you have to be able to measure it, which implies that what you want to improve can somehow be quantified. Additionally, it has also been said that improvement in performance can result just from measuring it. Whether or not this is true, measurement is the first step in improvement. But while measuring is the process of quantification, its effect is to stimulate positive action. Managers should be aware that almost all measures have negative consequences if they are used incorrectly or in the wrong situation. Managers have to study the environmental conditions and analyze these potential negative consequences before adopting performance measures.

Types of Performance Measures

Performance measures can be grouped into two basic types: those that relate to results (outputs or outcomes such as competitiveness or financial performance) and those that focus on the determinants of the results (inputs such as quality, flexibility, resource utilization, and innovation). This suggests that performance measurement frameworks can be built around the concepts of results and determinants.

Measures of performance of a business usually embrace five fundamental, but interlinking areas:

1. Money, usually measured as profit
2. Output/input relationships or productivity
3. Customer emphasis such as quality
4. Innovation and adaptation to change
5. Human resources

Within the operations area, standard individual performance measures could be productivity measures, quality measures, inventory measures, lead-time measures, preventive maintenance, performance to schedule, and utilization. Specific measures could include:

1. Cost of quality: measured as budgeted versus actual.
2. Variances: measured as standard absorbed cost versus actual expenses.

3. Period expenses: measured as budgeted versus actual expenses.
4. Safety: measured on some common scale such as number of hours without an accident.
5. Profit contribution: measured in dollars or some common scale.
6. Inventory turnover: measured as actual versus budgeted turnover.

26.3 Problems in Measurement of Performance

Purpose of measurement: How performance measurement is used in the organization will determine employee reaction to it. Measurement at work should provide managers with high-quality information to assist in learning and improvement. Contrary, if measurement is used to justify, judge, control or reward and people are made accountable for hitting or missing targets, this creates less focus on learning and improving but more compliance because of the command-and-control orientation. When rewards and threats of punishment are added to the measurement system and are too great, people will tend to do what it takes to obtain the reward or to avoid the punishment even if it means applying poor judgment and risk management.

Lack of empowerment: When employees are not empowered to succeed, perceive measurement as non-productive and are less confident about the importance of measurement because measurement data is not relevant, understood and timely; they become discourage and will not seek any opportunities to keep score. They will very likely feel quite negative about measurement. Contrary, empowering employees in different change situations will make them feel positive about measurement
Lack of trust: Trust is essential for performance measurement to succeed. If leaders are trustworthy about measurement and not manipulating metrics, then employees will trust measurement. In order to win people’s trust, leaders should avoid using measurement against them. When people lack trust and do not respect measures, they will not be afraid to manipulate measures. It is important to note measurement doesn’t have to be perfect to be trusted. There must be honesty and integrity.

Lack of accountability: This is also called “negative accountability” and arises when measurement is used to force performance and punish non-performance. When employees are not prepared, lack support from senior management, organizational structures and systems or view measurement as threatening, they become naturally afraid to accept measurement accountability.

Resistance to measurement: People will resist if they feel that measurement will be used against them to find fault or blame them. Too often measurement is used to determine who went wrong, rather than what went wrong; to find fault rather than to provide useful feedback or trigger positive improvements. This leads to employees feeling judged and humiliated hence their dislike for performance measurement.

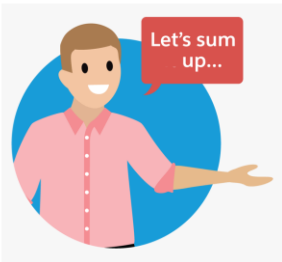
Glossary

Strategic Leadership: The ability to influence others in the organization to make decisions that enhance the organization’s long-term success while maintaining a strong vision of the future.

Key Characteristics: Visionary thinking, adaptability, effective communication, and decision-making.

Importance: Strategic leaders drive the organization’s direction, ensure alignment with long-term goals, and motivate teams to implement strategic plans.

Let sum up



Dear learners in this module we learn about Strategic Leadership Strategic Control, Measurement in Performance and Problems in Measurement of Performance

Self-Assessment Questions

1……………………are people at the top most level of the organization who are responsible for setting the strategic vision.

a) strategic leaders b) strategic managers c)Employee d)none of the above

2) ……………………. is designed to monitor a broad range of events inside and outside the company that are likely to threaten the course of the firm's strategy".

a) Strategic surveillance b) Strategic Management c) Strategic structure d)none of the above

3)Trust is essential for performance measurement to succeed.

a)Yes b) No

4) Improvement in individual, group, or organizational performance cannot occur unless there is some way of getting performance feedback.

a)Yes b) No

5) Strategic control is a way to manage the execution of your strategic plan.

a)Yes b) No

27.1 Strategy Audit Strategic Control Process

Strategies for Environmental Accounting and Auditing

Strategic control is part of a strategic management process that shows how well your strategy is doing now, so you can further refine it for future execution. It helps you achieve future goals by evaluating historical performance so you can identify patterns and trends, and spot risks early on.

A strategic audit is an objective review and evaluation of a strategic plan (or set of plans) that have been put into motion by senior leaders and key stakeholders designed to meet an organization's future objective.

Environmental Accounting: Environmental Accounting refers to a system for recording information on the status, use and value of natural resources and environmental assets including fisheries and forest- accounts, as well as expenditures incurred on environmental/protection and resource management

The latest categorization of environmental accounts by the international community includes four types of accounts i.e. natural resource asset accounts, pollution and material physical flow accounts, monetary and hybrid accounts and environmentally adjusted macro economic aggregates.

1. Natural resource asset accounts primarily focus on stocks of natural resources. Environment is a dynamic life support system consisting of air, water, land, plants, animals, micro organisms etc. Thus, there is a complex system of inter linkage among many living and non-living components, which may be termed more technically as atmosphere, hydrosphere, lithosphere and altogether biosphere.

Two types of changes in stocks take place:

a. Changes due to economic activity (e.g. mining, fishing etc.) and b. Changes due to natural processes (e.g. birth s and deaths of trees in a forest account. These accounts provide indicators of ecological sustainability and can be used to show the effects of policy on resource stocks. They can help managers monitor resources more effectively. They help us in knowing monetary value of the national wealth of natural resources, the diversity of resources, its distribution and its price fluctuations.

2. Pollution and physical material flow accounts provide information at the industry level about the quantity of resources (energy, water and materials) that are used in economic activities and quantity of residuals solid waste, air emissions and wastewater generated by these activities. These accounts can take several forms, but they are generally organized to show the origin (Supply) and destination (use) of materials and pollution. More detailed accounts also show how inputs are

transformed into other products, pollution and waste, and they provide information on the net material accumulation to either the economy or environment.

3. Monetary and hybrid accounts focus on expenditures and taxes related to protecting and managing the environment as well as the economic contribution of environmental services industries. Examples of monetary and hybrid accounts include fees collected by government for resource use such as levies on materials, forestry or fisheries and funds spent on pollution control measures, water treatment and solid waste management.

4. Environmentally adjusted macro economic aggregates are used to assess overall environmental health and economic progress.

Environmental Auditing

Environmental audit involves two words `environment' and `audit'. The environment consists of variety of components of our surroundings, processes and their interactions, interdependence etc. where as an audit refers to the verification of different activities against certain principles or rules or standards. Environmental Audit is an objective evaluation of overall environmental performance of an activity or organization. The most important aspect of the environmental audit is to understand the environmental performance indicator for any specific activity. This may vary according to time, place and nature of activity to be audited. An environmental auditor has to have certain environmental key words and process in mind while evaluating the performance. Environmental audit should be done objectively. Human population is bestowed with plenty of resources by the nature to sustain the life of self and surrounding fellow creatures. The natural resources have certain limitations and if not managed properly will get lost early, jeopardizing the existence of non human. The resources and factors that support life and non sub suitable materials need to be conserved, prevented from degradation, pollution and utilized optimally for development activities. An environmental audit tries to assess and establish the degree of compatibility to the environment and help in identifying the areas requiring improvements. Environmental audit can be utilized by organizations, industries, municipalities, governments and on a less formal level by individuals in households and schools for assessing and improving environmental care attitude in their day to day activities.

In specific terms, environmental auditing can be employed to

1) Assess compliance level with relevant legislative & regulatory requirements pertaining to local & global environment.

2) Facilitate in designing of case specific Environmental Management Systems.

3) Facilitate management control of environmental practices.

4) Increase awareness and commitment in the employees to strengthen environmental measures.

5) Assessment of internal policy & procedural conformance.

6) Establish current practice status.

7) Promote good environmental management practices.

8) Explore & identify improvement opportunities across the business line.

9) Assess and quantity the achievements.

10) Enhance creditability with the public as a responsible corporate citizen.

27.2 Du Pont's Control Model

DuPont Analysis

Well, it is an extended examination of the Return on Equity (ROE) of a company that analyses Net Profit Margin, Asset Turnover, and Financial Leverage. This analysis was developed by the DuPont Corporation in the year 1920. DuPont analysis is a useful technique of breakin down the different return on equity (ROE) generators. The ROE decomposition helps investors for concentrating separately on key indicators of financial success to define strengths and weaknesses.

What is DuPont Analysis?

In simple words, it breaks down the ROE to analyze how corporate can increase the return for their shareholders.

Return on Equity = Net Profit Margin Asset Turnover Ratio Financial Leverage = (Net Income / Sales) (Sales / Total Assets) (Total Assets / Total Equity)

The company can increase its Return on Equity if it-

1. Generates a high Net Profit Margin.

2. Effectively uses its assets so as to generate more sales

3. Has a high Financial Leverage

Components of DuPont Analysis

This analysis has 3 components to consider;

1. Profit Margin

This is a very basic profitability ratio. This is calculated by dividing the net profit by total revenues. This resembles the profit generated after deducting all the expenses. The primary factor remains to maintain healthy profit margins and derive ways to keep growing it by reducing expenses, increasing prices, etc, which impacts ROE.

For example; Company X has Annual net profits of Rs 1000 and an annual turnover of Rs 10000. Therefore the net profit margin is calculated as

Net Profit Margin= Net profit/ Total revenue= 1000/10000= 10%

2. Total Asset Turnover–

This ratio depicts the efficiency of the company is using its assets. This is calculated by dividing revenues by average assets. This ratio differs across industries but is useful in comparing firms in the same industry. If the company’s asset turnover increases, this positively impacts the ROE of the company.

For example; Company X has revenues of Rs 10000 and average assets of Rs 200. Hence the asset turnover is as follows

Asset Turnover= Revenues/Average Assets = 1000/200 = 5

3. Financial Leverage-

This refers to the debt used to finance the assets. The companies should strike a balance in the usage of debt. The debt should be used to finance the operations and growth of the company. However, usage of excess leverage to push up the ROE can turn out to be detrimental to the health of the company.

For example; Company X has average assets of Rs 1000 and equity of Rs 400. Hence the leverage of the company is as

Financial Leverage = Average Assets/ Average Equity= 1000/400 = 2.5

DuPont Analysis Interpretation

It gives a broader view of the Return on Equity of the company. It highlights the company's strengths and pinpoints the area where there is a scope for improvement. Say if the shareholders are dissatisfied with the lower ROE, the company with the help of the DuPont Analysis formula can assess whether the lower ROE is due to low-profit margin, low asset turnover, or poor leverage.

Once the management of the company has found the weak area, it may take steps to correct it. The lower ROE may not always be a concern for the company as it may also happen due to normal business operations. For instance, the ROE may come down due to accelerated depreciation in the initial years.

The DuPont equation can be further decomposed to have an even deeper insight where the net profit margin is broken down into EBIT Margin, Tax Burden, and Interest Burden.

Return on Equity = EBIT Margin x Interest Burden x Tax Burden x Asset Turnover Ratio x Financial Leverage

ROE = (EBIT / Sales) x (EBT / EBIT) x (Net Income / EBT) x (Sales / Total Assets) x (Total Assets / Total Equity)

DuPont ROE Formula

There are a few changes in the calculation part when calculating ROE under the two approaches. Let us understand the difference in calculation. Basically, in this analysis, the three components discussed above are taken into account for calculation.

The simple ROE helps in understanding the return generated by the company on its equity. But the reasons behind that (whether good or bad) is understood by the DuPont analysis.

In simple ROE, we calculate

ROE = Net Income/ Total equity.

But while calculating DuPont ROE, we include a few more factors and calculate it as follows,

DuPont ROE = (Net Income/ Sales) (Net Sales/Total Assets) (Total Assets/Total Equity) Or

Profit Margin Total Asset Turnover Equity Multiplier

This helps in understanding which component is impacting ROE more.

Drawbacks

Although DuPont has many advantages as stated above, but everything has its own disadvantages also.

- This analysis uses accounting data from the financial statement in its analysis which can be manipulated by the management to hide discrepancies.
- It is only useful for comparison between the companies under the same industry.

3 Step and 5 step DuPont Analysis

The 3 steps have been discussed above, which is calculated as

ROE= (Net Income/ Sales) (Net Sales/Total Assets) (Total Assets/Total Equity)

OR

(Profit Margin Total) / (Asset Turnover Equity Multiplier)

However, the 5 step DuPont analysis has two additional components;

ROE = (Net Income/ Pretax Income) (Net Sales/Total Assets) (Total Assets/Total Equity) (Pretax Income/ EBIT) (EBIT/Sales)

= Tax Burden Asset Turnover Equity Multiplier Interest Burden Operating Margin.

Can DuPont analysis be applied on a zero debt company?

After learning a new concept of DuPont, we must be wondering that whether this analysis is also done on a debt-free company? Whether this analysis will have the same usefulness for a debt-free company or not?

DuPont Analysis is equally useful when analysing a debt-free company. The above formula remains the same, with just one exception- the financial leverage component is taken as 1 and the rest remains the same. Therefore the DuPont analysis can be performed on all kinds of companies

Why is DuPont analysis important?

Its important to understand whether the company is generating profits through internal accruals or through Debt Financing or through raising Equity

What are the drawbacks of Dupont analysis?

If a company is debt free then one cant use Dupont Analysis to understand the profitability of the company

What is DuPont analysis used for?

It helps investors to understand the component which is helping the company drive profitability.

What are the benefits of using the DuPont analysis method?

No, as Dupont analysis involves a financing component thus a zero debt company cant be analyzed based on Dupont model

Bottom line

The Analysis is very important for an investor as it answers the question of what is actually causing the ROE to be what it is. If there is an increase in the Net Profit Margin without a change in the Financial Leverage, it shows that the company is able to increase its profitability. But if the company is able to increase its ROE only due to an increase in Financial Leverage, it's risky since the company is able to increase its assets by taking debt.Thus we need to check whether the increase in the company's ROE is due to an increase in Net Profit Margin or Asset Turnover Ratio (which is a good sign) or only due to Leverage (which is an alarming signal).

27.2 Balanced Score Card

THE BALANCED SCORECARD

The Balanced Scorecard is a framework to implement and manage strategy by linking a vision and mission to strategic priorities, objectives, measures, and initiatives. The Balanced Scorecard provides a view of an organization's overall performance. It integrates financial measures with other objectives and key performance indicators related to customers, internal business processes, and organizational capacity.

It was originally published by Dr Robert Kaplan and Dr David Norton as a paper1 in 1992 and then formally as a book 'The Balanced Scorecard' in 1996. Both the paper and the book spread the knowledge of the Balanced Scorecard leading to its widespread success.

The Balanced Scorecard is not just a scorecard, it is a methodology that identifies of a small number of financial and non-financial objectives related to strategic priorities. It then looks at measures, setting targets for the measures and finally strategic initiatives (often called projects). It is in this latter stage that the Balanced Scorecard approach differs from other strategic methodologies. It forces an organization to think about how objectives can be measured first and then what initiatives can be put in place to satisfy the objectives. The rationale is to avoid creating costly initiatives or projects that have no impact on the strategy.

The 'balance' that a Balanced Scorecard achieves is brought about by a focus on financial and non-financial objectives that are attributed to four areas of an organization and described as Perspectives. They are: Financial, Customer, Internal Processes and Organizational Capacity.

THE FOUR PERSPECTIVES

Questions often arise about the four 'Perspectives' described in the Balanced Scorecard methodology. Why should we only look at Financial, Customer, Business Process and Organizational Capacity? Why not include Health and Safety? The answer is, of course, there is nothing stopping us. The four perspectives are simply a framework. However, over decades of use it has become clear that they work. More importantly, there is a causal relationship between the perspectives. Working from the bottom to the top: Changes in Organizational Capacity will drive changes in Business Processes that will impact Customers and improve Financial results. If a new perspective were added, the causal relationship may not be maintained. The result might be a useful scorecard, but it would not, by definition, be a Balanced Scorecard.

In brief, the four perspectives are:

1. Financial – The high level financial objectives and financial measures of the organization that help answer the question – How do we look to our shareholders?

2. Customer – Objectives and measures that are directly related to the organizations customers, focusing on customer satisfaction. To answer the question – How do our customers see us?
3. Business Process – Objectives and measures that determine how well the business is running and whether the products or services conform to what is required by the customers, in other words, what should we be best at?
4. Organizational Capacity – Objectives and measures concerning how well our people perform, their skills, training, company culture, leadership and knowledge base. This area also includes infrastructure and technology. Organizational Capacity tends to be the area where mostinvestment takes place. It answers the question: How can we improve and create value?

The real value of the Perspective approach is that it provides a framework to describe a business strategy. It focuses on objectives and measures that both inform us about progress and allow us to influence activities to achieve the strategy.

27.3 BALANCED SCORECARD DEVELOPMENT

Organizations often begin the scorecard process by reading one of the many books on the topic, attending a seminar, or doing web research. The Balanced Scorecard is a mature methodology, and there are many resources for introductory education and training.

Once the organization has committed to the methodology, a third-party facilitator (e.g. the Balanced Scorecard Institute) is often brought in to manage and bring an unbiased view to the scorecard development process. Scorecard development can be very rapid (a few weeks), or as long as a year, depending upon the scope and complexity of the scorecard and organization. Many organizations elect to go with a rapid or intermediate approach, which insures project momentum while recognising that scorecarding is an iterative process. It is often better to make and correct mistakes early while the organization is still excited about the methodology.

Initial scorecard work is typically done with Microsoft Excel, PowerPoint, or Word. As the scorecard matures, the methodology should be rolled out to the rest of the organization. The goal is to connect all employees to the organization's strategic objectives by using individual or group measures. To do this efficiently a software tool will be required.

Sustaining the Scorecard

The premise of the Balanced Scorecard is to provide an on-going, living framework that is communicated to the whole organization. The scorecard needs to be sustainable and easy to roll-out. Scorecards should leverage technology to provide automation as far as possible. Ultimately, the scorecard should become part of the organization's culture and employees' work experience. An easy to deploy and embrace web based system will allow for rapid roll-out and a sustainable scorecard.

Culture and Connection

Once the scorecard is developed, it is important to cascade it into the organization. This will help link groups and individuals to the strategy. This is important because everyone needs to understand the cause-and-effect linkage of how they connect to the organization's overall performance. The goal is to translate the strategy into the staff's "everyday speak" and identify measures of success that link to the overall strategic direction. Using a software product will allow everyone in the organization to clearly understand the cause-and-effect relationships so they can execute the strategy, align to the organization, and provide measurement and a continuous feedback mechanism to make corrections if required.

Web Look for a solution where development and deployment is done through a web browser. Cross-browser compatibility is essential. Solutions using the latest developments in web technology are always preferable.

Ease of Use

Select a solution that is extremely easy-to-use. Choose a product that functions, as far as possible, like desktop software. Look for products where data can be entered through the web interface, uploaded from a CSV file, or automated with a database connection. Products should be as easy to use as browsing a web page or shopping on-line.

Strategy Maps

The key to a good Balanced Scorecard is the strategy map. Any product selected should be able to create strategy maps with drill-down capabilities. Strategy maps often start out as a blank canvas to which you add images, shapes, gauges, graphs, text, and numbers to create a visual representation of your data. Once you make a strategy map, however, the colours and numbers should automatically update based on the real data in your system. Strategy maps can also be used to track key metrics, visualise geographic data, and monitor trends.

Cascaded Scorecards

Organization-wide Balanced Scorecard roll-outs require multiple cascaded scorecards. This allows the organization to start at the top of the organization and roll down into department, group, or even to the employee level. Look for products that allow for unlimited cascaded scorecards. Organizations should be able to drill-through to sub-scorecards or individual measure views. The entire organization should be able to roll-up information from multiple scorecards into higher-level scorecards.

Communication

Look for products that allow for commentary on each level of the scorecard. It should be possible to create comments that are either general or period specific. Alerts, such as when your metric needs updating (Notification), or when your metric turns Red (Push) are essential communication components.

Alignment : A good solution will allow for Balanced Scorecard “Aligned Objectives” to be easily created, so that scorecards can show the performance of their own objectives and measures, or of supporting objectives across various scorecards.

Automated Scoring and Weighting

A scorecard tool should allow for automated scoring and weighting of structure elements. You should be able to build your structure, define the weighting, enter the measure values, and watch the scorecard "colour-up."

Initiative Management

Many initiatives will come out of the Balanced Scorecard process. Look for products that have good initiative management modules to manage these scorecard initiatives. It should be possible to create tasks and milestones and assign them to individuals or groups.

Report Writing

Getting the right information, to the right people, and at the right time is vitally important. A good solution will come with a built-in report writer that contains canned reports like Red Metrics Report, Grey Metrics Report (missing values), and Metric Comparison Report (compares metrics within and across scorecards). The tools should also allow the user to pull data out of a scorecard database for ad hoc reporting.

27.4.Michael Porter's Framework for Strategic Management

PORTER'SFIVEFORCESFRAMEWORK

The five forces framework developed by Michael Porter is the most widely known tool for analyzing the competitive environment, which helps in explaining how forces in the competitive environment shape strategies and affect performance. These competitive forces areas follow:

The rivalry among competitors in the industry

The potential entrants

The substitute products

The bargaining power of suppliers

The bargaining power of buyers

However, these five forces are not independent of each other. Pressures from one direction can trigger off changes in another which is capable of shifting sources of competition. In the following section each of these five forces are discussed in detail as to understand how each of these forces affect an Industry's environments that one can identify the most appropriate strategic position within the industry.

Threat of New Entrants:

Entry of a firm in and operating in a market is seen as a threat to the established firms in that market. The competitive position of the established firms is affected becausetheentrantsmayaddnewproductioncapacityoritmayaffecttheirmarket shares. They may also bring additional resources with them which may force the existing firms to invest more than what was not required before. Altogether the situation becomes difficult for the existing firms if not threatening always and therefore they resort to raising barriers to entry. These barriers are intended to discourage new entrants and this may be done by organizations, be in any one or more ways, as discussed below:

a) ***Economies of Scale*****:** Firms which operate on a large scale get benefits of lower cost of production because of the economies of scale. Since the new firm normally would start its operation at a smaller scale and therefore will have a relatively higher cost of production, its competitive position in the industry gets adversely affected. This barrier created through large scale of operation is not only applicable for production side but it can be extended to advertising, marketing, distribution, financing, after sales customer service, raw materials, purchasing and Research and Development as well. For example, you would have noticed in durable industry the kind of investments which players like Samsung and LG do on advertising and promotions normally and especially during events like World Cup cricket match. This makes it nearly impossible for any new third player to launch and sustain such intensive and investment driven marketing attack.

b) **Learning or Experience Effect:** The theory explaining the experience curve or the learning curve suggests that as firms produce they grow more efficient and this brings them cost benefits. The efficiency levels achieved is an outcome of the experience, which teaches the organization better ways of doing things. This again keeps any new entrant at a disadvantage.

27.5 Future of Strategic Management

Adapting to the Future: Business Strategy Trends for 2024

The tactics that propel prosperous businesses also change with the times. Let's explore the cutting-edge trends that will influence the business environment in the upcoming year. We examine the major innovations and business strategy trends that will fundamentally alter how businesses function and prosper in 2024, from sustainability and digital transformation to data privacy and remote workforce optimization.

Latest Trends: The Road Ahead

Success in the ever-changing business landscape depends on being ahead of the curve. A number of significant trends will influence corporate strategy and spur innovation in 2024. Top business strategy trends to look out for are as follows:

Sustainability as a Fundamental Approach

Sustainability will become an essential component of corporate strategy rather than an optional extra. Environmental, social, and governance (ESG) principles will be incorporated by businesses more and more into their operations, from carbon neutrality targets to sustainable supply chains. Investors and customers will both expect a commitment to sustainability..

Acceleration of Digital Transformation

Although the pandemic hastened this process, it is a trend that will continue. To improve client experiences, expedite processes, and obtain a competitive edge, businesses will continue to invest in cutting-edge technologies like blockchain, artificial intelligence, and the Internet of Things. Adopting digital platforms and tools will be more than just a benefit and have led to a change in business strategy trends.

Optimizing Remote and Hybrid Workforce

Work models that are hybrid and remote are here to stay. Companies will have to hone their methods for leading and inspiring remote workers and take advantage of a worldwide talent pool. Technologies for working remotely will keep developing, with a focus on data security, collaboration, and communication.

Resilience and Supply Chain Diversification

The pandemic's effects revealed weaknesses in international supply chains. In order to withstand future shocks, businesses will place a higher priority on resilience and diversification, looking for alternate suppliers, implementing localized production, and investing in risk management techniques.

Security and Privacy of Data

Protecting customer data will become increasingly important as regulations tighten and data becomes more valuable. In order to gain and keep trust, adhere to changing regulations, and prevent expensive security breaches, businesses will need to make proactive investments in data privacy and security measures.

Personalization and Customization

Expectations from customers for individualized experiences will only rise. Companies will use AI and data to customize marketing messages, goods, and services to each customer's preferences, increasing customer satisfaction and loyalty.

Increase in virtual events

The digital penetration has led to a rise in change of format of events. One such thing is the start of virtual events especially since COVID-19. You get to experience and attend events in the comfort of your house and employ newer business strategies.

Embracing the Principles of the Circular Economy

As companies move toward a circular economy, they will concentrate on cutting waste, reusing materials, and recycling goods. Businesses will reconsider how they design products, increase the duration of their lifecycles, lessen their environmental impact, and generate new sources of income.

Cooperation and Joint Ventures

Strategic alliances and cooperative ecosystems will be essential components of corporate strategy. In an interconnected world, businesses will collaborate to access complementary expertise, pool resources, and develop creative solutions.

Conclusion

In 2024, to prosper in a rapidly evolving landscape, prosperous enterprises will have to adjust and welcome these developments. For a business strategy to be successful in the future, it will be imperative to remain adaptable, creative, and customer-focused.

In summary, revolutionary shifts in the business sector are expected to occur in 2024. The trends this article has examined from digital transformation and sustainability to remote work optimization and data privacy highlight how important it is for businesses to be flexible, innovative, and customer-focused. Businesses need to embrace these trends as essential components of their strategies in order to succeed in the ever-changing future landscape.

28. Strategic Information System.

Strategic information systems (SIS) are information system that are developed in response to corporate business initiative. They are intended to provide a competitive advantage to the organization. They may deliver a product or service that costs less, is differentiated, and focuses on a particular market segment or is innovation.

Strategic information management (SIM) is a salient feature in the world of information technology (IT). It helps businesses and organizations categorize, store, process, and transfer the information they create and receive. It also offers tools for helping companies apply metrics and tools to their information repositories. This allows the companies to recognize opportunities for growth and identify ways to improve operational efficiency.

Introduction

One of the most significant and quickly increasing disciplines in business today is information systems. Information systems are used to acquire a market edge, manage information, and convert company processes into electronic commerce. Strategic Information Systems (SISs) that drive competitive advantages are covered in this post.

Information systems may be strategically developed to aid corporate transformation and create competitive advantages through the use of information technology (IT). IT-enabled SISs are critical facilitators of corporate change and can provide a competitive advantage. Technology is developing at such a quick pace that firms must assess their present information systems strategy in order to achieve or maintain a competitive edge. Naturally, organizations must connect their IT demands with their entire strategy, but the notion of alignment has not been properly implemented. Technology is developing at such a quick pace that enterprises must assess their present information systems strategy in order to achieve or maintain a competitive edge.

Naturally, organizations must connect their IT demands with their entire strategy; nevertheless, many firms have not completely embraced the alignment notion.

Lifecycle

Thus, data lifecycle management is the process of resolving these challenges in order to increase data quality. The purpose of data lifecycle management is to guarantee that data from all elements of the company (including business processes) is integrated and consistent. Because a company has access to reliable information about its customers or goods, it can make better judgments regarding its operations and strategy.

Delegates from each department offer input into the system by obtaining relevant information from their own sources; for example, an employee may acquire price information about a certain product type from other employees who specialize in sales or marketing.

The obtained information is then analyzed by experts within each departmental domain; they look at trends across departments rather than just individual units within those domains, allowing them to generate insights into how different conditions affect various areas like supply chain management or customer service efficiency levels across several departments working together on a single project, such as launching a product line extension based on existing inventory.

Decision Support Systems

Decision Support Systems (DSS) are computer-based systems that aid managers in decision-making. DSS are used to help with decision-making, knowledge management, planning, forecasting, and control.

Decision Support Systems are computer-based technologies that aid individuals in reaching conclusions or making choices. They support knowledge management by retrieving data from databases and integrated systems; providing information services for strategic planning; assisting in monitoring performance against targets by providing real-time statistical analyses; and providing feedback from one part of an organization to another to ensure that each component works together to achieve overall objectives. Expert Systems and Information Systems are the two types of Decision Support Systems.

Data quality

The degree to which data is complete, consistent, and accurate is referred to as data quality. The quality of data has a direct influence on the judgments made based on the data.

Data quality may be controlled by monitoring and optimizing procedures that collect, convert, load, validate, and update information on a regular basis to assure its accuracy. Monitoring entails observing changes in business requirements and gathering data at regular intervals to determine whether or not projected benefits from current or prospective projects have been achieved. Data quality should be viewed as an integral part of an organization's overall business strategy for information systems, rather than as a distinct process or project inside IT management.

Analysis

The process of evaluating data to understand what is going on in the organization and to uncover trends and patterns is known as analysis.

• Searching for trends in your data (for example, are sales increasing or decreasing?)

• Identifying client behavior trends (what do your top 10% of consumers do?)

• Determining what actions individuals take at various stages of the purchasing process.

By recognizing these activities and points, you may anticipate possible issues before they occur. This allows you to improve your client experience by resolving issues before they arise.

Integration

Data integration is the process of merging data from many sources. It can be performed in real time or batch mode, and at the application or data level. The procedure entails taking data from one source, converting it to a different format, and feeding it into another target system. Data integration often entails numerous difficult procedures, such as:

• connecting various systems

• extracting data from one application and transforming it into a general format.

• Transferring translated records to another application or database; and

• Synchronizing user changes in either application (i.e., getting updates on both sides).

Conclusion

Strategic information systems are not a new concept, but they are becoming increasingly relevant in today's competitive economic climate. Building an IS that does not generate value may be costly and risky for businesses. However, the benefits of getting it properly are considerable. Forward-thinking companies are emphasizing these systems as part of their entire company strategy. We cannot exaggerate the importance of Strategic Information Systems in the future—they will make or break your enterprise in this ever-changing technological environment!

Glossary

Strategic Control:The process of monitoring and evaluating the execution of an organization's strategy to ensure it is achieving desired outcomes and adjusting plans as necessary.

Components: Premise Control: Ensuring the assumptions on which the strategy is based remain valid.

Implementation Control: Monitoring progress and making corrections if needed.

Special Alert Control: Immediate action to address unexpected changes or crises.

Strategic Surveillance: Broad monitoring of external and internal factors that could affect the strategy.

Importance: Strategic control ensures the organization stays on track with its strategic goals and can respond effectively to internal and external changes.

Strategy Audit: A comprehensive review of the organization's strategy to determine if it is effective and aligned with its goals. It involves evaluating internal and external factors that may affect the success of the strategy.

Components:

External Audit: Analysis of external opportunities and threats.

Internal Audit: Analysis of internal strengths and weaknesses.

Purpose: To assess whether the current strategy is working, identify areas for improvement, and ensure alignment with the organization's long-term goals.

Strategic Control Process

The systematic procedure used to evaluate the effectiveness of a company's strategy during and after its implementation. It involves setting performance standards, measuring actual performance, and taking corrective action when necessary.

Steps in the Process:

Setting strategic objectives and standards.

Measuring performance.

Comparing actual performance with objectives.

Analyzing deviations.

Taking corrective actions to realign strategy.

Importance: Ensures that strategies are implemented successfully and adjusted in response to deviations or environmental changes.

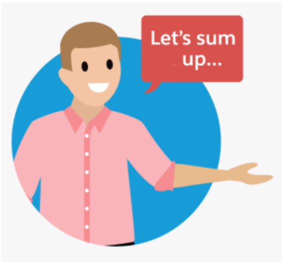
Strategic Information System (SIS)

Information systems that are designed to support or shape the strategic initiatives of an organization. These systems help companies gain competitive advantages through better decision-making, data management, and operational efficiency.

Key Features: Integration of data across departments, real-time information access, and support for strategic decision-making.

Importance: SIS enables better alignment between technology and strategy, helping organizations respond more effectively to market changes, improve internal processes, and gain a competitive edge through data-driven strategies.

Let sum up



Dear learners in this module we learn about Strategy Audit Strategic Control Process, Du Pont's Control Model, Balanced Score Card, Michael Porter's Framework for Strategic Management, Future of Strategic Management, Strategic Information System.

Self-Assessment Questions

1)……………..refers to a system for recording information on the status, use and value of natural resources.

a)Management accounting b) Environmental Accounting c)Financial Accounting d)none of the above

2)Expand ROE

a)Return on Environment b)Return on Earning c)Return on Equity d)none of the above

3)DuPont Analysis is equally useful when analysing a debt-free company.

a)Yes b) No

4)The Balanced Scorecard provides a view of an organization's …………..

a)Profit b)Strategy c) overall performance d)none of the above

5) Strategic information systems are not a new concept, but they are becoming increasingly relevant in today's competitive economic climate.

a)Yes b) No