# TEERTHANKER MAHAVEER UNIVERSITY
# MORADABAD, INDIA

## CENTRE FOR ONLINE & DISTANCE LEARNING

Accredited with NAAC A Grade

12-B Status from UGC

# Programme: Bachelor of Commerce

# Course: Strategic Management

# Course Code: BCPCC402

# Semester-IV

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## Objectives

| Sr. No. | Objectives |
|---|---|
| 1. | To enable the learners to understand new forms of Strategic Management concepts and their use in business |
| 2. | To provide information pertaining to Business, Corporate and Global Reforms |
| 3. | To develop learning and analytical skills of the learners to enable them to solve cases and to provide strategic solutions |
| 4. | To acquaint the learners with recent developments and trends in the business corporate world |

| Sr. No. | Modules / Units |
|---|---|
| **1.** | **Introduction to Strategic Management** |
| | • Concept of Strategic Management, Strategic Management Process, Vision, Mission and Goals, Benefits and Risks of Strategic Management.<br>• Levels of Strategies: Corporate, Business and Operational Level Strategy<br>• Functional Strategies: Human Resource Strategy, Marketing Strategy, Financial Strategy , Operational Strategy<br>• Business Environment: Components of Environment- Micro and Macro and Environmental Scanning |

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|---|---|
| **2.** | **Strategy Formulation, Implementation and Evaluation** |
| | • Strategic Formulation: Stages and Importance, Formulation of Alternative<br>Strategies: Mergers, Acquisitions, Takeovers, Joint Ventures, Diversification, Turnaround, Divestment and Liquidation.<br>• Strategic Analysis and Choice: Issues and Structures, Corporate Portfolio Analysis- SWOT Analysis, BCG Matrix, GE Nine Cell Matrix, Hofer's Matrix,<br>• ETOP- Environmental Threat and Opportunity Profile, Strategic Choice- Factors and Importance.<br>• Strategic Implementation: Steps, Importance and Problems, Resource Allocation- Importance & Challenges<br>• Strategic Evaluation and Control: Importance, Limitations and Techniques<br>• Budgetary Control: Advantages, Limitations |
| **3.** | **Business, Corporate and Global Strategies** |
| | • Corporate Restructuring Strategies: Concept, Need and Forms, Corporate Renewal<br>Strategies: Concept, Internal and External factors and Causes.<br>• Strategic Alliance: Concept, Types, Importance, Problems of Indian Strategic Alliances and International Businesses<br>• Public Private Participation: Importance, Problems and Governing Strategies of PPP Model.<br>• Information Technology Driven Strategies: Importance, Limitations and contribution of IT sector in Indian Business |
| **4.** | **Emerging Strategic Trends** |
| | • Business Process Outsourcing and Knowledge Process Outsourcing in India:<br>Concept and Strategies. Reasons for growing BPO and KPO businesses in India.<br>• Reengineering Business Processes- Business Reengineering, Process Reengineering and Operational Reengineering<br>• Disaster Management: Concept, Problems and Consequences of Disasters, Strategies for Managing and Preventing disasters and Cope up Strategies. |

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|---|---|
| | • Start-up Business Strategies and Make in India Model: Process of business start ups and its Challenges, Growth Prospects and government initiatives in Make in India<br>• Model with reference to National manufacturing, Contribution of Make in India Policy in overcoming industrial sickness |

**Reference Book :**


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# Unit -1

## INTRODUCTION TO STRATEGIC MANAGEMENT

**Unit Structure:**

1.0 Objective
1.1 Introduction
1.2 Concept of Strategic Management
1.3 Strategic Management Process
1.4 Vision, Mission and Goals,
1.5 Benefits and Risks of Strategic Management.
1.6 Levels of Strategies: Corporate, Business and Operational Level Strategy
1.7 Functional Strategies: Human Resource Strategy, Marketing Strategy, Financial Strategy, Operational Strategy
1.8 Summary
1.9 Questions

## 1.0. OBJECTIVES

After studying this unit the student will be able to -

- Understand the concept of strategy and strategic management.
- Know the process of strategic management
- Know the organizational vision, mission and goals statement
- Understand benefits and risks of strategic management.
- Explain Corporate, Business and Operational level strategy
- Discuss functional strategies of a business.
- Describe Business environment and Environmental Scanning

## 1.1 INTRODUCTION

Globalization of economy has brought about revolutionary changes in the policy framework of both developed and underdeveloped countries. The liberalization has removed artificial trade barriers and businesses have, now truly become international and the competition has become very severe. These developments gave rise to new paradigms in business policies and strategic thinking. Due to this there are drastic changes in conventional concept of business management. Businesses have realized that their survival and success is depend on superior business strategies. They have started focusing on customer satisfaction along with profit making. Early 1960's corporate planning was popular but after 1980's its place has taken by strategic management to face stiff competition arisen by globalization.

## 1.2 CONECPT OF STRATEGIC MANAGEMENT

**Strategy:**

The word **'strategy'** has been derived from Greek word **'Strategos'**, which means generalship. The word strategy, therefore, means the **'art of the general'**.

The word strategy has entered in the field of business management more recently. At first, the word was used in terms of Military Science. When the term strategy is used in military sense, it refers to action that can be taken in the light of action taken by opposite party. In business management, the concept of strategy is taken slightly different form as compared to its usage in military form.

In the field of business management, strategy refers to a plan to cope up with challenges posed by changing business environment. Strategy enables to take organization from present position to the desired position over the period of time. Eg. If a business firm anticipates price-cut by the competitor for his product, the business firm may device a strategy to launch an advertising campaign to educate customers and convince them about superiority of their product as compared to competitor's product. This proactive strategy enables business firm to survive and succeed in the market.

**Strategic Management:**

Strategic management is the process which involves development and implementation of business plans so as to achieve business objectives.

In other words, Strategic management is defined as a bundle of decisions and acts which a manager undertakes and which decides the result of the performance of business firm. The manager must have a thorough knowledge and analysis of changing business environment so as to take right decisions at right time. They should conduct a SWOT Analysis (Strengths, Weaknesses, Opportunities, and Threats), i.e., they should consolidate and make best possible utilization of strengths, minimize the organizational weaknesses, grab opportunities arising from the business environment and shouldn't ignore the threats.

For example, If a gift articles selling Indian firm anticipates that the demand is going to increase during Diwali festival. So the firm will undertake its SWOT analysis. Accordingly the firm will undertake R&D to design innovative gift articles. The firm will use sales promotion techniques such as discount to induce customers to buy. They will also come up with different varieties of gift articles to cater need of different customers. They will approach retail shops to stock their gift articles in their store. Such proactive strategy enables business firm to grow and succeed in the market.

**Definition of Strategic Management:**

"Strategic management is a stream of decisions and actions which leads to the development of an effective strategy or strategies to achieve corporate objectives." **– Jauch and Glueck**

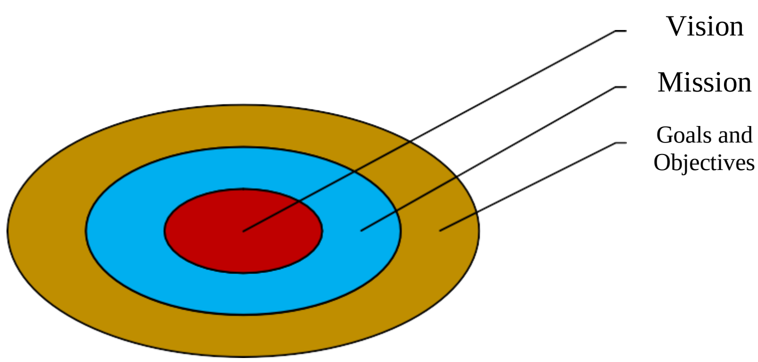
## 1.3 STRATEGIC MANAGEMENT PROCESS

Strategic management is a dynamic process .it is continual, evolving, iterative process. it means that it cannot be a rigid, step-wise collection of few activities arranged in a sequential order rather it is a continually evolving mosaic of relevant activities. Managers perform these activities in any order contingent upon the situation they face at a particular time. And this is to be done again & again over the time as the situation demands. There are four major phases of strategic management process which are as under.

A) Strategic intent.
B) Strategy Formulation
C) Strategy Implementation
D) Strategy Evaluation.


**A. Strategic Intent:**

Strategic intent gives an idea of what the organization desires to attain in future. It answers the question what the organization strives or stands for? It indicates the long-term market position, which the organization desires to create or occupy. It has a hierarchy as:




1) **Vision:** Vision implies the blueprint of the company's future position. It describes where the organization wants to land.

2) **Mission:** Mission delineates the firm's business, its goals and ways to reach the goals. It explains the reason for the existence of the business. It is designed to help potential shareholders and investors understand the purpose of the company.

3) **Goals and Objectives:** Goals are the end results, that the organization attempts to achieve. They are usually long-termed. On the other hand, objectives are aim or target that the organization wants to achieve within a limited period of time. Objectives are kind of milestones that direct one to achieve their goals. Sometimes objective can also be referred to as sub-goals.

**B. Strategy Formulation:**

Formulation of strategy is relates to strategic planning. It is the process by which an organization chooses the most. appropriate courses of action to achieve its defined goals. This process is. essential to an organization's success, because it provides a framework for the. actions that will lead to the anticipated results. It is done at different levels i.e. corporate, business, and operational level. The strategic formulation consists of the following steps.


1. **Framing of mission statement :**

Mission delineates the firm's business, its goals and ways to reach the goals. It explains the reason for the existence of the business.. And all most all business frames the mission statement to keep its activities in the right direction.

2. **Analysis of internal & external environment:**

The management must conduct an analysis of internal and external environment.

Internal environment consists of mission and objectives of the firm, goals and objectives of the firm, manpower, machines, capital etc. which resides within the organization and easily alterable and controllable. Its analysis helps to identify strength and weakness of the organization.

External environmental factor includes government, competitions, consumers, and technological developments. Which resides outside the organization. These are not alterable and controllable. Its analysis helps to identify opportunities and threats for organizations.

3. **Setting of objectives:**

After SWOT analysis, the management is able to set objectives in key result areas such as marketing, finance, production, and human resources etc. While setting objectivities in these areas the objectives must be SMART i.e. Specific, Measurable, Attainable, Realistic and Time Bound.

4. **Gap Analysis :**

By undertaking gap analysis management compares and analyzes its present performance level with the desired future performance. This enables the management to find out exact gap between present and future performance of the organization. If there is adequate gap then, the management must think of strategic measures to bridge the gap.

**5. Alternative strategies :**

After making SWOT analysis and gap analysis management needs to prepare (frame) alternative strategies to accomplish the organizational objectives. It is necessary to have alternative strategies as if one strategy doesn't work another strategy can be implemented.

**6. Evaluation of strategies :**

The management must evaluate every alternative strategy on the basis of Cost and Benefit Analysis (CBA). The benefits and costs of each every alternative strategy in term of sales, market share, profit, goodwill and the cost incurred on the part of the strategy in terms of production, administration, and distribution costs.

**7. Choice of strategy :**

It is not possible to any organization to implement all strategies therefore management must be selective. It has to select the best strategy which incurs less cost and more benefits.

**C. Strategy Implementation :**

Strategy implementation refers to putting the organization's chosen strategy into action so as to achieve strategic goals and objectives. The strategic implementation consists of the following steps:

**1. Formulation of plans:** Strategy itself does not lead to action. So it requires formulation of proper plan to implement the chosen strategy. Eg. If organization chose expansion strategy, then various expansion plans needs to be framed. It may include:

- **Market Development** – Offering same product in new market
- **Market Penetration** – Modification in the same product and offering in the same market
- **Product Development** –Offering new product in same market

**2. Identification of activities:** After formulating plans, next stage is to identify various activities need to undertake in order to successful implementation of strategy. Eg. For market development plan includes following, activities:

- **Market Research:** To understand market condition in terms of customer requirements, competition, economic condition etc.
- **Selection of Intermediaries:** They help to sell product to final consumers.
- **Decide Marketing Strategy:** Decision about 4Ps i.e. Product, Price, Promotion and Place.

**3. Grouping of activities:** The management must group related activities under one department. Eg. All promotional activities (Advertising, Sales Promotion, Personal Selling, Trade Fair and Exhibition) may be assigned to a single department. Also all logistics activities (Packaging, Transportation and Warehousing) should be assigned to another department.

**4. Organizing resources:** For successful implementation of strategy, there is need to organize:

- **Physical Resources**: Plant and machinery, tools and equipments, Material etc.
- **Financial Resources:** Capital or Finance
- **Human resources:** Labour and Employees

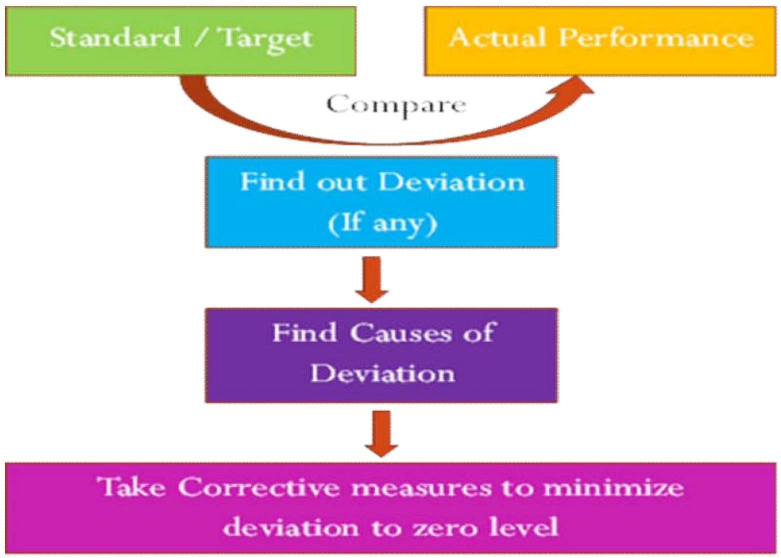
These resources must be arranged from right sources.

**5. Allocation of resources:** The management must make proper allocation of resources to various activities. All the department/projects should be allocated required resources for smooth functioning of activities.

**D. Strategy Evaluation:**

The final stage in strategic management is strategy evaluation and control. All strategies are subject to future modification because of changing business environment.

Strategy evaluation and control process refers to determining the effectiveness of given strategy in achieving the organizational objectives and taking corrective action whenever required. The strategic evaluation and control consists of the following steps:




**1. Setting of standards/targets:-** The strategists need to set standards/targets to implement the strategies. It should be in terms of quality, quantity, costs and time. The standard should be definite and acceptable by employees as well as should be achievable.

**2. Measurement of Performance:-** Here actual performances are measured in terms of quality, quantity, cost and time.

**3. Comparison Of Actual Performance With standards/targets:-** The actual performance needs to be compared with standards/target and find out deviation (if any)..

**4. Analyzing Deviation:** If any deviation is found in actual and standard/target performance, then higher authorities tries to find out the causes of such deviations.

**5. Taking Corrective Measures:-** Once the cause of deviation is known, necessary corrective measures are taken so that deviations are minimized to zero level.

(**Notes:** Process of Strategic Management is explained in detail for your understanding. If question is asked in the exam, you have to just write four stages with explanation. And write points without explanation for steps in each stage.)

## 1.4 VISION, MISSION, GOALS

**VISION**

Vision is a big picture of what an organization wants to achieve It implies the blueprint of the company's future position. It describes where the organization wants to land. It answers the question "where we want to be". It describes dreams and aspirations for future.

It gives us a reminder about what we attempt to develop. A vision statement is for the organization and its members.

**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.

| Organization | Vision Statement |
|---|---|
| Google | 'To provide access to the world's information in one click' |
| amazon | 'To be earth's most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online. |
| | To generate skilled manpower for nation building through excellent teaching, attracting talent, fostering creativity, research, and innovation. |

**MISSION**

Mission is a general statement of how the vision will be achieved. It defines the fundamental reason for existence of the organization. It describes the organization's line of business, its products and specifies the markets it serves within a time frame of 3 to 5 years.

Mission is an overall goal of the organization that provides sense of direction and guide decision making at all the levels of management. It defines the boundaries within which the organization will operate. It is designed to help stakeholders to understand the purpose of the company.

**An effective Mission statement must have following features-**

- Mission must be **feasible** and attainable. It should be possible to achieve it.
- It should be **clear** enough so that any action can be taken.
- It should be **inspiring** for the management, staff and society at large.
- It should be **precise** enough, i.e., it should be neither too broad nor too narrow.
- It should be **unique** and **distinctive** to leave an impact in everyone's mind.
- It should be **credible**, i.e., all stakeholders should be able to believe it

| Organization | Mission Statement |
|---|---|
| Google | 'To organize world's information and make it universally accessible and useful.' |
| amazon | 'To strive to offer customers the lowest possible prices, the best available selection, and the utmost convenience. |
| | To provide free and conducive atmosphere for creative thinking and impart deep disciplinary knowledge with interdisciplinary bandwidth to the learners in order to make them problem solvers, leaders and entrepreneurs; |

**GOALS AND OBJECTIVES**

Goals denote results that an organization seeks to accomplish in a future period of time. Goal is a specific target that a firm intends to reach in long term. To achieve vision and mission, the organization creates goals. It describes clearly the activities and tasks to be completed by an individual, a department or an organization. The goals should be SMART i.e. Specific, Measurable, Attainable, Realistic and Time Bound.

The terms 'objectives and goals' are normally used inter-changeably. However, some authors try to make a difference between the two terms. They say goals are long term and objectives are short term in nature. They also say that goals are usually broad and general whereas objectives are precise. For example, a general *goal* might be to reduce waste. The specific *objective* might be to reduce waste from 5% to 3% by the end of 2021.

**Goals must have following features-**

- It should be **specific** and describe time, quantity and variety of work to be completed.
- It should be **challenging** but realistic.
- It should be **acceptable** by people.
- It should **fix priority of actions**.
- These must be **achieved within a specific time** frame.

**GOALS OF INDIA POST**

1) Be the preferred, trusted and reliable service partner for all customers.

2) Ensure that India Post acquire all required people capabilities to deliver its chosen service portfolio.

3) Develop a scalable and flexible technology infrastructure to support our operations.

## 1.5 BENEFITS OF STRATEGIC MANAGEMENT

The strategic management has certain benefits or importance are briefly explained as follows

1. **SWOT Analysis:-** Strategic management helps an organization to make SWOT analysis. The organization undertakes thorough analysis of internal business environment which enables to identify the strength and weakness of the firm. The organization also undertakes thorough analysis of external business environment which enables to identify the opportunities and threats of the firm.

2. **Facilitates in planning:-** In strategic management goals of the organization are set. To achieve those goals planning is made. So strategic management facilitates planning to achieve organizational goals.

3. **Organizing Resources:-** To achieve organizational goals, there is need to allocated physical, financial and human resources.

Strategic management enables to organize and allocate these resources to achieve organizational goals.

4. **Choice of Strategy:-** Strategic management helps to management to select the best possible strategy option. Eg. Strategic management enables the organization to select Growth Strategy or Stable Strategy or Merger, Takeover and others.

5. **Helps in Evaluation:-** The important aspect of strategic management is evaluation of strategy/plans. Here the actual performance will be compared with standards set and if any deviation is found then the corrective measures are taken to minimize deviations to zero level.

6. **Improves Employee's Efficiency:-** Strategic management clarifies the employees about what to do?, how to do?, when to do a particular task?. This helps to employee to perform a job accurately and expertise which leads to increase in efficiency.

7. **Facilitates Communication and Coordination:-** For proper implementation of strategies there is need to have proper communication and coordination at all levels of operations. So strategic management facilitates proper communication and coordination among different groups in the organization so that strategy can be implemented as planned.

8. **Helps to face Competition:-** Liberalization, Privatization and Globalization (LPG) has led to increased competition. The strategic management enables the firm to develop effective business strategies to face the competition.

9. **Other Benefits:**
   - Achieve organizational goals
   - Enhances Corporate Image of the firm
   - Reduces Disputes

**RISKS / LIMITATIONS OF STRATEGIC MANAGEMENT:**

1. **Problem in Analyzing Environment: -** the success of strategic management is depending on the correct analysis of internal as well as external business environment. Especially the external environment scanning is important which is not in control and is unpredictable.

2. **Unrealistic Mission and Objectives:** - If the mission and objectives are not realistic then the strategic management can't be successful.

3. **Problem of Setting Target: -** Sometimes it happens that the strategists may be very enthusiastic so they may set higher targets which will be difficult to accomplish.

4. **Problem in Implementation:-** Proper implementation of strategy required formulation of plan, identification and grouping of activities as well as organization and allocation of resources. If this is not done properly, the strategy may not give the desired result.

5. **Lack of Commitment of Lower Level:-** Generally the strategies are framed by top level management and implemented by lower level. At the time of framing of strategy, if top level management has not consulted with lower level management then they may not be that much supportive and committed.

6. **Problem of Resistance: -**The top management may set higher target and there may be resistance on the part of employees to accept it.

7. **More theoretical in Nature**:-As per experts opinion strategic management is more theoretical. In practice there are different so it remains unsuccessful.

8. **Problem of Internal Politics**:-in organizations, there are differences among or between departments. So as there is no good relation, proper coordination, strategies became unsuccessful.

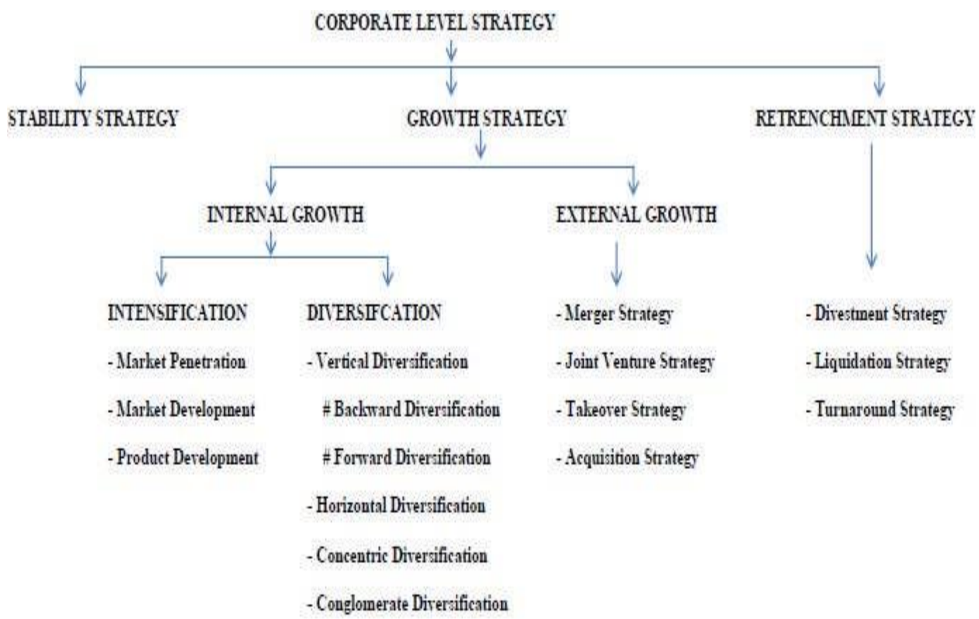
9. **Problem of Traditional Management:-** The traditional management has narrow approach towards development. Its philosophy is not progressive. They want to run their business with the same fashion. So the strategies are not fruitful in this case.

## 1.6 LEVELS OF STRATEGIES – CORPORATE, BUSINESS AND OPERATIONAL LEVEL STRATEGY CORPORATE LEVEL STRATEGY.

A corporate-level strategy refers to a decision made by business that affects the whole company. It affects a company's finances, management, human resources, and where the products are sold. The purpose of a corporate-level strategy is to maximize its profitability, maintain financial stability, increase competitive advantage over its competitors and continue to offer quality products or services to consumers.

In other words, corporate level strategies are principally about the decision related to dispersion of resources among different businesses of an organization, transforming resources from one set of business to others and managing and nurturing a portfolio of businesses such that the overall corporate objectives are achieved.

Corporate strategy typically fits within three main categories- stability, growth, and retrenchment strategy. We will discuss these three strategies in detail.




## I. Stability strategy:-

Stability strategy is adopted by the firm when it tries to hold on to their current position in the market. This strategy implies that an organization will continue in the same or similar business. It aims at stability by causing the companies to marginally improve its performance.

Under stability strategy company does not go for major internal changes or restructuring. The firms using this strategy concentrate on the current products and markets. This strategy is followed by those firms which are satisfied with their present market position. For example, If the firm is getting 10% growth in sales in Nashik market, it may be satisfied with the same. Here the intention of the firm is to achieve moderate growth and profits

**Reasons for adopting Stability Strategy**

- The firm may be satisfied with the present level of performance
- The firms may be satisfied with the current level of profit
- The firm does not want to take any risk

- The management follows traditional philosophy
- The economic condition is not conducive

## II. Growth Strategy:-

This strategy is also known as expansion strategy. Here the attempts are made to have substantial growth of business. This strategy is s adopted by an organization when it attempts to achieve a high growth as compared to its past achievements. .

To achieve higher target compared to past the firm may enter into new /introduces new product lines, enter into additional market segment. it involves more risk and efforts as compared to stability strategy.

E.g. Fair and Lovely initially concentrated on female gender but now it also attracts male gender by introducing cream for this gender. (Fair and Handsome) (Increasing customer base). Banks now gives more importance to expand its retail business base by providing personalized service.

**Reasons for adopting Growth Strategy**

- The firm may not be satisfied with the present level of performance
- The firms may not be satisfied with the current level of profit
- The firm is ready to take any risk
- Change in the environmental factors

**The growth strategy is divided into two parts namely**

A) **Internal growth strategy** mainly consists of diversification strategies and intensification strategy

B) **External growth strategy.** consists of merger, takeover, foreign collaboration and joint venture.

## A) INTERNAL GROWTH STRATEGY.

### i. Intensification Strategy:

In intensification strategy, the business tries to grow within the existing businesses. The objective is to achieve further growth of existing products and/or existing market. It involves market penetration, market development and product development.

**a) Market penetration** means offering same product in same market by undertaking aggressive efforts like modification in product, high advertising, price cutting, sales promotion etc. Eg. A toothpaste selling firm in Mumbai market, makes changes in the colour of toothpaste and offering in the Mumbai market itself, is called market penetration

b) **Market development** means offering same product in new markets. Here business units undertake market research, effective pricing policy, effective promotion mix and distribution chain. Eg. A four-wheeler car selling company which was selling its cars in India, now enters into American Market with same car is called market development.

c) **Product development** means offering new product in the same market. Eg. A mobile phone selling company which was selling its mobile phones in India, now comes up with new model of mobile phone for Indian market itself, is called product development.

**ii. Diversification Strategy:**

Diversification is one type of growth strategy. In this strategy company develops new products in new markets. The purpose of this strategy is risk sharing i.e. if one of the enterprises is taking a hit in the market, one of your other business enterprises will help offset the losses and keep the company viable.. For example, an auto company may diversify by adding a new car model or by expanding into a related market like trucks

**TYPES OF DIVERSIFICATION:**

a) **Vertical diversification:** When a company enters into new business which is in similar lines of activity of existing business is called vertical diversification. Such extension is of two types known as:

- **Backward diversification:-** It is a diversification where company moves one step back from the current line of business. For example a car manufacturing unit enter into it's components such as seats, tyre, glass etc. manufacturing unit.

- **Forward diversification: -** In this case company enters into the activity which is extension of its current business. For example cloth manufacturer enter into readymade garment manufacturing.

b) **Horizontal diversification:** - In this case company enters into a new business which is very closely related with existing line of business and it is with the help of the same technology and the market. For example gent's garments manufacture enter into ladies garments manufacturing.

c) **Concentric diversification: -** When a company enters into new line of business which is indirectly related with existing business is called concentric diversification. For example a car seller may start finance company. So that the firm can offer finance to the customers who are willing to purchase car.

d) **Conglomerate diversification: -** When a company enters into new line of business which is not at all related with existing business is called conglomerate diversification. There is a no linkage between old and a new business. For example Transport operator entered into furniture manufacturing

**There are certain reasons because of company go for diversification. The reasons are as under**

1) **Spreading of risk: -** Diversification enables to spread the risk. Since the business operates in a different markets. If in one market business suffers losses that can be compensated in other market and the levels of profit will be maintained.

2) **Improves corporate image: -** Corporate image is creating image of the firm in the mind of stakeholder. It enables firm to get support from stakeholders. Through the diversification company introduces innovative products/services of better quality which helps to create positive image of firm among stakeholders..

3) **Face competition effectively:** - Due to the diversification company introduce wide range of products and services. This enables company to maintain it's sale level in the market and face competition effectively..

4) **Customer satisfaction: -** When the firm enters into new business with new product, it assures to give better qualitative product and services. This leads to customer's satisfaction.

5) **Optimum Utilization of resources: -** Diversification enables company to make optimum (maximum) use of physical, financial and human resources. This is possible due to increase in demand and production capacity of the firm.

6) **Economies of scale: -** Due to diversification strategy there is increase demand to a products which results in large scale production and distribution. The firm purchases raw material in large quantity and gets discount. So the firm saves on raw material. The firm is also able to save on transportation cost.

**B) EXTERNAL GROWTH**

**1) Merger Strategy:**

The term 'merger' is used to mean the unification of two or more business houses to form an entirely new entity.

It is a strategy adopted by the company to maximise company's growth by expanding its production and marketing operations, that results in synergy, increased customer base, reduced competition, introduction to a new market/product segment, etc.


On 31st August 2018, Vodafone India merged with Idea Cellular, and was renamed as Vodafone Idea Limited

**Forms of Merger**

- **Merger through Absorption**: When two or more companies are combined and only one company survives after the merger, while the rest of all cease to exist as they lose their identity is called merger through absorption. E.g. Tata Chemicals Limited (TCL) absorbed Tata Fertilizers Limited (TFL).

- **Merger through Consolidation**: When two or more companies are combined and give birth to a new company, it is known as merger through consolidation. This implies that all the companies to the merger are dissolved, i.e. they lose their identity and a new company is created. E.g. Consolidation of Hindustan Computers Limited, Indian Reprographics Limited, Indian Software Company Limited Hindustan Instruments Limited, to form a new company HCL Limited.

**Advantages of Merger:**

I. It enables the pooling of resources and streamlining of operations, thereby, resulting in improved **operational efficiencies.**

II. The merged firms enjoy benefit of **economies of scale**. Merger may result into increasing demand. This in turn results into increasing production and distribution capacity of firm. When production increases the firm purchases raw material on large scale and they get discount. So the firm saves on raw material. The firm also save on transportation cost as the transportation cost is mostly fixed..

III. Merger provides **faster growth** to business as it offers advantages in several areas such as marketing, production, finance, R&D and so on.

IV. When a company is having accumulated losses and it is merged with another company. The newly formed company gets benefit in taxation..

V. Merger allows companies to **share technology and other facilities** such as plant, market, human resources etc.

VI. The benefit of economies of large scale is shared with customers in the form of reduced price. Also due to R&D activity customers get better quality and innovative product. So when customers get better quality products at lesser price, it results into **customer satisfaction**.

**2) Joint Venture Strategy:**

Joint Venture can be described as a business arrangement, wherein two or more independent firms come together to form a legally independent undertaking, for a stipulated period, to fulfill a specific purpose such as accomplishing a task, activity or project. In other words, it is a temporary partnership, established for a definite purpose, which may or may not uses a specific firm name..

For example, Maruti Ltd. of India and Suzuki Ltd. of Japan come together to set up Maruti Suzuki India Ltd.

MARUTI SUZUKI

Way of Life!

The firms joining hands in a joint venture are called Co-venturers, which can be a private company, Government Company or foreign company. The co-ventures come to a contractual agreement for carrying out an economic activity, which has shared ownership and control. They contribute capital, pooling the financial, physical, intellectual and managerial resources, participating in the operations and sharing the risks and returns in the predetermined ratio.

**Advantages of Joint Venture**

Answer same as “Advantages of Merger”

**3) Acquisition Strategy:**

An acquisition takes place when one of the company purchases mostly all of the shares of the other company for gaining the control of other companies. Purchasing the target company’s shares and other assets by more than 50% allows the acquirer to take the decisions of the acquired company without the approval of the company’s shareholders. The acquisition is considered to be a critical component and an important change agent of any strategy of the business. Example - Acquisition of the Company Ranbaxy by the Sun Pharmaceuticals.:

SUN PHARMA

RANBAXY

**Advantages of Acquisition Strategy:**
Answer same as “Advantages of Merger”

**B) Takeover strategy:**
A takeover is a special form of acquisition that occurs when a company takes control of another company without the acquired firm’s agreement. In other words, takeovers occur when a company takes over and purchases a company without the permission of the company or its Board of Directors.

**There are two methods by which companies can undertake takeover which are as follows:**

- **Tender Offers** involve after the refusal from the management of target company for the initial offer proposed, the acquiring company purchases the shares of the target firm directly from shareholders, or on the secondary markets. Therefore, buying all or a majority of the company’s shares allows the acquiring company to possess ownership of the target company. To purchase shares, the acquiring corporation offers a higher price to shareholders than the market value of the stock.

- **Proxy Fight** involves the acquirer company after being refused for their initial offer for the acquisition of the target company, tries to change the members of management for the decision to be in their favour. For such to happen, the acquirer company will convince the shareholders to exercise their proxy vote and try to change the members of the management who are opposing the takeover and replace them with the new members who are more reliable and receptive to the decision of takeover and give their decision for the change of ownership of the business.

**Advantages of Takeover:**
Answer same as "Advantages of Merger"

### III. RETRENCHMENT STRATEGY

### 1) Divestment Strategy:

The Divestment Strategy is a retrenchment strategy which includes the downsizing of the scope of the business. The firm is said to have followed the divestment strategy, when it sells or liquidates a portion of a business or one or more of its Strategic Business Units (SBU) or a major division, with the objective to revive its financial position.

The divestment is the opposite of investment; wherein the firm sells the portion of the business to realize cash and pay off its debt. Also, the firms follow the divestment strategy to shut down its less profitable division and allocate its resources to a more profitable one.

An organization adopts the divestment strategy only when the turnaround strategy proved to be unsatisfactory or was ignored by the firm.

**Example:** Tata Communications is the best example of divestment strategy. It has started the process of selling its data center business to reduce its debt burden.

**There is certain reason for divestment**

a. **Withdrawal of obsolete products:-** Those products which do not give adequate return to the firm will be removed. And the products which are having good market share and profitable will be continued.

b. **Problem of Mismatch:-** The business which is undertaken by the company is not matching with the existing business line. Therefore the company may take initiative to gate red of newly acquired business

c. **Problem of competition:-** Some times due to tough competition company may withdraw some products from the market or sell the units producing such products.

d. **Negative cash flows:-** When business gets negative cash flows from a particular business. The revenue collected from such a business is lower as the expenditure incurred on it therefore it is to be divested

e. **Technology Up-gradation:-** Technology Up-gradation is important for survival of business. But the cost of up-gradation is so high which is not affordable to business therefore that business activity is to be divested

f. **Concentration on Core Business:-** When business undertake number of activities at a time, then it may be difficult to the business to manage all activities satisfactorily. Due to this business ignore its over activity which leads to loss in business therefore to concentrate on core business divesting other activities is essential.

g. **Alternative for Investment: -** Some time, by divesting certain activity company can invest its blocked fund into some another investment alternative which will give good return

h. **Returns to Shareholders: -** Company, by divesting may increase shareholders return by giving shareholder hefty dividend.

i. **Attractive Offers from Other Firm: -** Sometimes it happens company may get offer from another company. To invest in a good return giving from company may divest current activity.

**2) Liquidation Strategy:**

This is extreme case of divestment strategy and is undertaken in the situation when all the efforts of reviving the company have come to an end. There is no possibility that the business can made profit making unit again. In such situation business takes decision to sell its entire business and the amount realized from it can be invested in another business. When it is done it is known is liquidation. Generally, small sized firms, proprietorship firms and the partnership firms follow the liquidation strategy. Example - MH Carbon was established in September 2010 and went into voluntary liquidation in May 2013.

**There are certain reasons because of the liquidation has taken place that reasons are –**

1) **Heavy Losses:-** When business incurs heavy losses continuously in the business. It decides to sell off that such business.

2) **Less Returns:-** The company is not able to earn sufficient profit to meet its expenditure. There is piling up of losses. As a result of which the company adopts liquidation strategy

3) **Poor management:** The top management of company becomes non-supportive. The business decisions taken are poor. All this affects the functioning of the business. So liquidation takes place.

4) **Failure of corporate strategy:** The corporate strategy adopted by company fails badly. Which result into liquidation of entire business functions.

5) **Obsolete product:** The product offered by company is no more demanded by the market. This is because of change in the preferences of customers. This is one of the major reason for many companies to go for liquidation.

**3) Turnaround Strategy:**

Turnaround strategy is a retrenchment strategy which includes converting loss making unit into a profitable one. It is possible when company restructure its business operations. Its aim is to improve the declining sales, market share and profit because of high cost of materials, or increase competitions, recession, managerial inefficiency.


**Example:** Dell is the best example of a turnaround strategy. In 2006. Dell announced the cost-cutting measures and to do so; it started selling its products directly, but unfortunately, it suffered huge losses. Then in 2007, Dell withdrew its direct selling strategy and started selling its computers through the retail outlets and today it is the second largest computer retailer in the world.

**Steps to Planning Turnaround Strategy**

1) **Control over cash flow:** If the business spends cash for unproductive purpose, take action to stop it as soon as is possible. Spending cash only where there is productive purpose or required is wise for business turnaround.

2) **Turnaround Team:** It is crucial to the success of a turnaround plan to have the right team in place. The team should have turnaround specialist with experience of turning around their own businesses and supportive staff.

3) **Prepare Business Plan:** It is necessary to offer appropriate product for current market requirement. The manager should

provide what customer wants and accordingly design business plan to serve the market.

4) **Control over cost:** It is essential to reduce overheads and waste. Cost control can be done on raw material, promotional activities and so on.

5) **Raising Turnaround Finance:** The business can find out finance partner who can finance to restore your business by turnaround strategy. There are specialist providers of all these types of finance available in the market place.

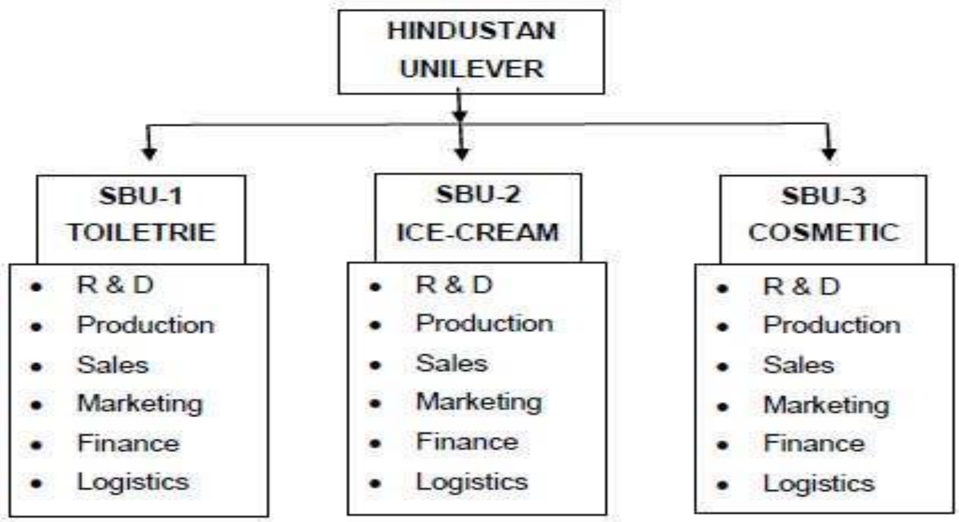
6) **Communicate turnaround plan:** it is necessary to communicate turnaround plan to key stakeholders such as employees, suppliers, customers, investors, shareholders etc. It will help business to get their support.

## BUSINESS LEVELS STRATEGIES / STRATEGIC BUSINESS UNIT (SBU) STRATEGY

### 1.6.1 Meaning

Business strategies are the course of action adopted by an organization for each of its businesses separately and aim at developing competitive advantages. The multi-products and multi-geographic area company creates strategic business divisions to manage effectively each of the products. For example a multi-product firm likes Hindustan Unilever Ltd. have adopted the concept of Strategic Business Unit (SBU). Each strategy is focusing on particular products like toiletries, beverages, laundry products, cosmetics and so on.

It is also known as Strategic Business Unit (SBU) strategy. This is developed by General Electric Company of USA, to manage its multi-product business. It is used by multi-product or multi geographic area companies to manage effectively each of the product or a group of product for example a multi-product firm like Hindustan Unilever Ltd. May adopt the concept of SBU. Separate SBUs may be created, each focusing on specific product like toiletries, beverages, ice-creams, laundry product, cosmetics, and so on.




**Every SUB has four major important aspects to manage its activities efficiently that are –**

a) Each unit has a separate management.

b) Every SUB formulates its own strategy with the line of organizational strategy.

c) The SBU has its own resources and manage in tune of organizational object.

d) The SBU should have inter competition between the other SBUs of the same Organization.

**1.6.2 Advantages of SBUs:**

The company which adopt the business level strategy has certain advantages which are as under-

**1. Effective Management:-**The SUB being managed by an independent management it can concentrate on its own product. It looks into its planning, organization, proper direction and effective execution of its own resources. It also sees its own marketing mixes for good profitability.

**2. Intra-competition:-** The organization is divided into multiple SBUs. Each SBU compete with each other. This helps to performance of each SBU.

**3. Higher efficiency:-** Efficiency is measured in terms of ratio between input and output. Under this, every SUB will try to minimize its cost of production by reducing wastages, optimum utilization of resources and increase the production and profit.

**4. Better customer service:-**Each SUB tries to provide effective customer service. The SUB tries to identify customer's needs and problems, and accordingly undertake products design and development so that the customer gets maximum satisfaction. With this it develops customer relationship and offer good services to customer.

**5. Motivation to employees:-** Every SUBs manager creates team spirit among employees. The manager provides monetary and non-monetary incentives for the better performance of employees. This helps to motivate employees to work with application (mind) and dedication (heart).

**6. Corporate image:-**it is a way of creating goodwill and reputation of the organization among the people. This is possible with the help of-

a) Better customer services
b) New and innovative products
c) Market development through promotion, advertising etc.

### 1.6.3 Disadvantages of SBUs :

The business level strategy has certain disadvantages which are as follows.

1. **Higher overheads:-** As every SUB recruits its own staff there may be excess number. of employees in organization which leads to higher overheads in terms of salary, training cost and others. There may be also duplication of work.

2. **Internal rivalry:-** In this system every SUB tries to prove that they are more efficient. They try to pull more resources towards each other and accordingly there is creation of disputes.

3. **Bias based support from top management:-** It is possible that there could be favoritism by top management amongst SBUs in terms of supply of material, recognition, rewards or allocation of resources.

4. **Problem of inter unit comparison:-** it is quite possible to do comparison between two or more units of the organization. This will lead to create diluted atmosphere in the organization.

5. **Challenging to implement:** For SBUs to be successful, everyone should work as a team. Each worker must be held accountable for their productivity. Everyone must focus on the mission and vision of the SBU for it to be successful. There should also be support from the top level management. Any gaps is there in this, may result into failure of SBUs.

## 1.7 FUNCTIONAL STRATEGIES – HUMAN RESOURCE STRATEGY, MARKETING STRATEGY, FINANCIAL STRATEGY, OPERATIONAL STRATEGY

### OPERATIONAL LEVEL STRATEGIES

Operational strategy is concerned with overall operation of an organization. Through the development of operational strategies, the firm can evaluate and implement efficient systems to carry out business operations. Without a stable operations strategy, companies may not be able to keep up with the changing markets and could start to lose to trendier competitors. the overall business strategy.

Example - Amazon began to use drones for delivery. It was a change from its traditional brick-and-mortar approach coupled with physical deliveries.


**Physical Deliveries** **Use of Drone for Deliveries**

Under the operations level strategy, each department has to contribute to the mission statement and administer strategies which underlie e overall business strategy.

Functional level strategies are the actions and goals assigned to various departments that support your business level strategy and corporate level strategy. There should be alignment of business functions (operations) and overall organizational strategies.

The functional (operational) strategy mainly includes production strategies, marketing strategies, financial strategy and human resources strategy.


**A. PRODUCTION STRATEGIES.**

Production strategies are mainly aimed at improving quality, increasing quantity and reducing cost of production. For this purpose there is need to consider following activities.

1) **Production capacity:** The organization must decide its production capacity. This is subjective and depends on demand of the product in market and fluctuations in the market due to competition, changing economic condition etc. However some organization decides it on the basis of its sales forecast. Now a day some firms are producing some part of production and remaining part they purchasing from others. So by considering of all these aspects, the business should fix its production capacity.

2) **Location and size of plants:** While taking decision on location the business certain factors must be considered such as safety and security of location, availability of raw materials nearness to market law and order situation at the place, availability of infrastructure facilities as well as competent work force. Size of the plant will be decided on the basis of projected demand for product. If the projected demand is more, the size of plant will be larger. Size of plant is also affected by dependency of the firm on other firms which are supplying partially manufactured goods.

3) **Technology:-** The technological changes are taking place frequently. It affects to the production strategy of the business. Better technology helps to improve quality and quantity of production as well as reduces wastage of resources.

4) **Research and development:-** R&D is done to develop innovative products and modify existing products. Firms spend lots of money on R&D activity. So the business firm should spend on R&D to improve quality of their products.

5) **Quality of product:-** production strategies are concerned with the quality of the product. Quality means fitness of the product. And this differs from customer to customer. Here the firm needs to know its customer first and then decide the quality of the product that a customer may find it suitable or not. They may like its quality, price etc. and then go for production.

**B. MARKETING STRATEGIES.**

Marketing refers to understand and fulfill needs of customers. Customer satisfaction is a core of Marketing. It is important aspects of any organization as its success is mostly attributed to the performance of the marketing. Therefore every business needs to frame suitable marketing strategies in respects of the following.

1) **Product strategy:-** Product refers to anything that marketer offers to its customer in exchange of price. The marketer needs to undertaken R&D activity to come up with innovative and quality product as well as modify existing product.

The marketer has to decide about colour, size, shape, packaging, price etc. relating to the product. Eg. Customers buy a car by considering colour and size of the car.

The marketer should offer better quality products to its customers which results into customer satisfaction and leads to brand loyalty. This in turn helps to increase profit of the company.

3. **Pricing strategy:-** Price refers to exchange value of the product at which seller is ready to sell and buyer is ready to buy the product. It is very sensitive part of marketing. With a minor change in price there would be greater set back to sales. Therefore the business unit considers various sub variables of the price element such as cost of production, demand, economic condition, competitor's pricing strategy, corporate image of firm etc.

The marketer may consider various pricing methods available. Marketer can adopt **cost-oriented pricing methods** such as cost-plus pricing, mark-up pricing and so on. Marketer can also adopt **market-oriented methods** such as going-rate pricing, differential pricing and so on.

**Following are some of the pricing strategies adopted by marketers:**

a) **Skimming pricing strategy:-** In this strategy product is introduced in the market by charging very high price. This pricing strategy is adopted by the firms who want to recover their heavy expenditure incurred on the part of research and development and earning huge profit at initial stage itself.

b) **Penetration pricing strategy:-** In this strategy product is introduced in the market by charging low price. This pricing strategy is adopted by the firms who want to capture larger market share and enjoy benefit of economies of large scale due to increased demand.

c) **Other pricing strategies:-**
- Leader pricing strategy
- Follow the leader pricing strategy
- Psychological pricing strategy.

4. **Promotion strategy:-** promotion means communication or supply of information to the customer about products and services. For this firm uses various means or tools of promotion / promotion mix like advertising, sales promotion, publicity, personal selling and so on.

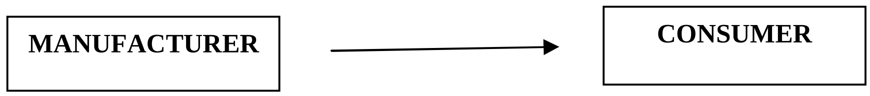
   The marketer needs to consider various factors while selecting means or tools of promotion. For example in case of advertising marketer should consider budget, availability of media, nature of product, target audience and so on.

**The objectives of promotion are as follows:**
- To create awareness
- To develop positive attitude
- To enhance brand image
- To improve corporate image
- To face competition
- To increase sales and profit

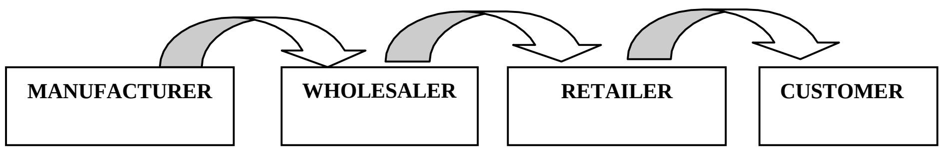
5. **Place / Physical Distribution strategy:-** Distribution means supple of goods from manufacturer to customer. Regular and timely supply of goods helps to maintain price stability and customer can satisfy his/her need. The marketer needs to consider certain factors in the area of distribution such as decision on channels of distribution, area of distribution, dealer’s network, and policies regarding dealer’s incentives, commission rates etc.

The marketer can adopt direct channel of distribution or indirect channel of distribution.

**Under direct channel of distribution,** the marketer supplies product to customer without any intermediaries. For this marketer needs to have well trained sales team, own vehicles, warehouse etc.




**Under indirect channel of distribution**, the marketer can supply product to customers via intermediaries like agent, wholesaler and retailer.




## C. FINANCIAL STRATEGY.

Finance is the back bone of every business organization. Therefore the financial management of the business units deals with planning, raising, utilizing and controlling functions of the financial resources of the organization to attain its goal. Generally financial policies are design from the view point of

1) **Mobilization/raising of funds:-** The finance manager needs to decide source of mobilizing funds. The funds should be arranged from right sources otherwise it may increase interest burden of the organization. The finance manager can mobilize funds by issue of shares, debentures, bonds. They can also organize funds by borrowing loans from banks and financial institutions.

2) **Utilization/investment of funds:** Once the business firm has mobilized/raised required amount of capital, the finance manager has to take decision regarding the use of the funds in systematic manner so that it will bring maximum return for its owners.

***The business firm can invest its capital into***

✓ **Fixed Assets** - Purchase of Furniture, Fixture, Land & Building, Machinery, Tools, Equipments

✓ **Working Assets** - Purchase of Raw Material, Payment of Utility Bills, Payment of Wages

**e. Capital structure:-** Capital structure refers to the composition of firm's long term funds comprising of equity shares, preference shares and long term loans. There should be proper ratio between owned and borrowed funds. It is to be noted that one should not place too much emphasis on borrowed fund because it puts burden on company's financial aspects as there should be regular payment of interest and repayment of loan. Also too much emphasis on equity (own) capital is not good as it dilutes the decision making power. In shot there should be balance between borrowed and owned capital.

f. **Depreciation policies:-** Depreciation is a activities which provides compensation to the risk of wear and tear. There are two methods of depreciation known as

- Fixed line method and
- Reducing balance method.

Under the company law both methods are accepted but for income tax purpose, in certain cases written down method is accepted and in some cases straight line method is accepted.

g. **Dividend strategy:-** Dividend is a return on investment given to the shareholders. No doubt every shareholder wants to have a good rate of return on their investment and most of the companies are willing to do so. Here as per financial strategy company should think of its effects on financial aspects and then go for either liberal dividend policy or conservative dividend policy.

h. **Retained earnings strategy**:- It is internal source of financing. It is nothing but ploughing back of profit. Some part of profit is transferred to 'General Reserved' every year which is used in the future for expansion of business.

Here the company should have to think of that what portion of profit is to be kept for future activities like:

- Future needs of funds for development.
- To provide stable dividend to the shareholders or
- To meet the restrictions of financial institutions etc.

## D. HUMAN RESOURCE STRATEGY:

Human resource is the most important resource among all resources required by an organization. This is the only alive and sensational resource. So every organization those who want to develop and grow rapidly should be very cautious about these resources and should plan for their best uses and performances. If business is able to do so then it will attain its apex level of success without any hurdles. For this the organization has to take decisions in regards to:

1) **Human Resource Planning (HRP):** HRP is a primary activity of HRM. HRP is the process by which the organization ensures

that it has the right kind of people at the right time and at the right place. HRM process involves:

- Review organizational goals
- Forecast HR requirements
- Forecast HR supply
- Comparison of HR requirement and supply **and** find out deviation (if any).
- Take corrective action, if there is shortage or surplus of manpower

2) **Acquisition Function:**
   - **Job Analysis:** Collecting information related to the operations and responsibilities of a specific job
   - **Recruitment:** It is a process of searching for prospective employees and stimulating them to apply for jobs in the organization.
   - **Selection:** Choosing the most suitable candidates from those who have applied for the post.

3) **Placement:** It refers to placing right employees in the right department. Eg. If the candidate has the knowledge of accountancy, he should be placed in accounts department. Right placement can bring job satisfaction, motivation and commitment among employees.

4) **Training and Development:** Training and development refers to the imparting of specific skills, abilities and knowledge to the employees. It helps to improve employees' performance. Training can be on-job or off-job.

5) **Compensation:** Compensation refers to the reward given to employees for their labour. It includes
   - **Monetary form of compensation** like salary, bonus, incentives etc.
   - **Non-monetary form of compensation** like certificate, award, hosting for lunch/dinner etc.

6) **Performance Appraisal:** It refers to systematic evaluation of employees' job related strengths and weaknesses. Such evaluation is done with respect to certain predetermined criteria such as job knowledge, quality and quantity of output, co-operation, leadership abilities, versatility etc. Performance appraisal helps to identify strengths and weaknesses of the employees. This helps in framing training and development programs.

7) **Promotion:** It refers to vertical movement of employee with higher pay and higher position. At higher level the promotion

can be on merit basis. At lower level promotion can be on seniority basis.

8) **Career planning and development:** Career planning involves deciding on the career goals of the employees and the route to achieve these. Career development refers to programs designed to match an individual's needs, abilities and career goals with opportunities in the organization.

9) **Maintenance functions:** It refers to protecting and promoting the health and safety of the employees. For this the organization adopts health and safety measures. It also provides other benefits such as medical aid, provident fund, pension, gratuity, medical benefits, accident compensation etc. to the employees.

## 1.8 SUMMARY

Strategic management provides the framework for all the major business decisions of an enterprise such as decisions on businesses, products and markets, manufacturing facilities, investments and organizational structure.

In a successful corporation, strategic planning works as the pathfinder to various business opportunities; simultaneously, it also serves as a corporate defense mechanism, helping the firm avoid costly mistakes in product market choices or investments. Strategic management has the ultimate burden of providing a business organization with certain core competencies and competitive advantages in its fight for survival and growth.

## 1.9 QUESTIONS:

**Select the most appropriate answer from the options given below**

1) The word 'strategy' has been derived from Greek word ______________
   (Strategos, Strategist, Stratesto, Stratestee)
2) Strategic intent includes ______________________ of the organization.
   (Vision, Mission, Goals, All of these)
3) The business objectives should be SMART, where 'M' stands for ______________
   (Minimum, Maximum, Measurable, Minor)
4) Offering same product in new market is know as ______________
   (Market Penetration, Market Development, Product Development, Market Diversification)

5) The vision statement should be ______________
(Ambiguous, Longer, Realistic, All of these)

6) Strategic Management helps in ______________
(SWOT Analysis, Planning Activities, Organizing Resources, All of these)

7)_______________ risk might be possessed by strategic management.
(Unrealistic Mission and Objectives, Problem of Setting Target, Problem in Implementation, All of these)

8) ______________strategy is adopted by the firm when it tries to hold on to their current position in the market.
(Stability, Growth, Liquidation, All of these)

9) The objective of growth strategy is ______________
(Expansion of Business, Maximize Risk, Reduce efficiency, Exit from market)

10)______________ a temporary partnership, established for a definite purpose, which may or may not uses a specific firm name.
(Merger, Turnaround, Joint Venture, Diversification)

**State whether the following statements are True or False.**

1) In merger strategy business takes decision to sell its entire business and the amount realized from it can be invested in another business.
2) Diversification strategy refers to converting loss making unit into a profitable one.
3) SBU stands for Specific Business Unit.
4) In penetration pricing strategy product is introduced in the market by charging very high price.
5) Retained earnings strategy falls under Human Resource Strategy
6) Marketing strategy includes product strategy, pricing strategy, Promotion strategy and Distribution strategy.
7) Hero-Honda is an example of Merger strategy.
8) Strategic management is the process which involves development and implementation of business plans so as to achieve business objectives.
9) Strategic Management Process involves Strategic Intent, Strategy Formulation Strategy Implementation and Strategy Evaluation.

10) Goals are the end results, that the organization attempts to achieve.

**Match the Pairs**

| Group 'A' | Group 'B' |
|---|---|
| 1. Market Penetration | a. Multi-products company |
| 2. Conglomerate Diversification | b. Negative cash flows |
| 3. SBU | c. Quality of Product |
| 4. Production Strategy | d. Offering same product in same market |
| 5. Divestment Strategy | e. New business is not related with existing business |
| | f. Offering new product in same market |

**Long Answers**

1. Explain the concept of Strategic Management. Discuss the process involved in Strategic Management.
2. Write a note on following
   a. Vision
   b. Mission
   c. Goals
3. 'Strategic Management is beneficial in the business management' Discuss.
4. What are the risks posses to strategic management?
5. Discuss the Corporate Level Strategy with suitable examples.
6. Elaborate Business Level Strategy in detail.
7. Describe Operational Level of Strategy of an organization.
8. Explain the functional strategy with regards to:
   a. Human Resource Strategy
   b. Marketing Strategy
   c. Financial Strategy

❖❖❖❖

# Unit -2

## BUSINESS ENVIRONEMNT

**Unit Structure:**



## 2.0 OBJECTIVES

After studying this unit the student will be able -

- To know the concept and components of business environment.
- To understand environmental scanning.

## 2.1 INTRODUCTION

Business decisions are influenced by two sets of factors known as internal environmental factors and external environmental factors. Therefore these two factors are very important to any business so for its decisions are concerned.

The internal factors are also known as controllable factors as they can be managed and control by the business as per its need necessity or requirements. These factors are being resided with company premises are known as internal factors. External factors are as residing outside the business is not controllable.

As the environmental factors are beyond the control of a business organization, its success will depend mostly on the adaptability of the business to the environment.

Environmental analysis is the f irst step in strategic management. Here strategists monitor the economic governmental, legal, market, technological, geographical and social environment to determine opportunities and threats to the business.

So in this chapter we are discuss the business environment in detail before formulating and implementing strategies.

## 2.2 BUSINESS ENVIRONMENT

### 2.2.1 Meaning and Definition of Business Environment:

It is said that the business cannot survive in isolation. It needs support from different factors which are in its surrounding which may be living or non-living. That surrounding factors around the business are known as business environment. Its support and positive response is essential for smooth functioning of the business. These factors affect various functions and decisions of the business.

A business environment consists of two types of environment known as internal environment and external environment.

**Definition :**

**According to Keith Davis** "Environment of the business means the aggregate of all conditions, events and influences that surround and affect it".

**According to Arthur M. Weimer's opinion,** "Business environment encompasses the climate or set of conditions, economic, social, political or institutional in which business operations are conducted."

### 2.2.2 Features of Business Environment

With the help of above noted definitions and the meaning, we can points out some of its features.

1) **Environment is dynamic in nature:** The environment in which the business operates, keep on changing continuously. It is never stable. Change in business environment has impact on business functioning. Eg. Consumer preferences, competitor's strategy, technological environment, legal environment etc. keeps on changing every now and then.

2) **It has direct and indirect impact:** Business environment have direct and indirect effect on the functioning of the business. Eg. When consumer preferences change, it affects demand for the product. Also when technological changes take place, it affects production and distribution activity of the business.

3) **It has two types of factors:** Business Environment mainly consists of two types of factor namely internal and external environmental factors.

Internal environment factors are within the organization such as plans and policies, objectives of business, human resources, physical resources, financial resources etc.

External environment factors are outside the organization such as customers, competitors, government, suppliers (micro factors). It also includes technological environment, legal environment, natural environment, economic environment (macro factors)

4) **It is not separatable from business:** Environment is integral part of business. The business and business environment cannot be separated from each other. Business operates within its environment.

5) **Uncertain:** Business environment is uncertain. It is because on one can accurately predict what is going to happen in the future.

6) **Impact on business decisions:** Changes in business environment has impact on business decisions. Eg. When consumer preferences changes, the businessman has to take decisions to fulfill changed preferences of consumers. Likewise when GST was introduced it had great impact on business decisions.

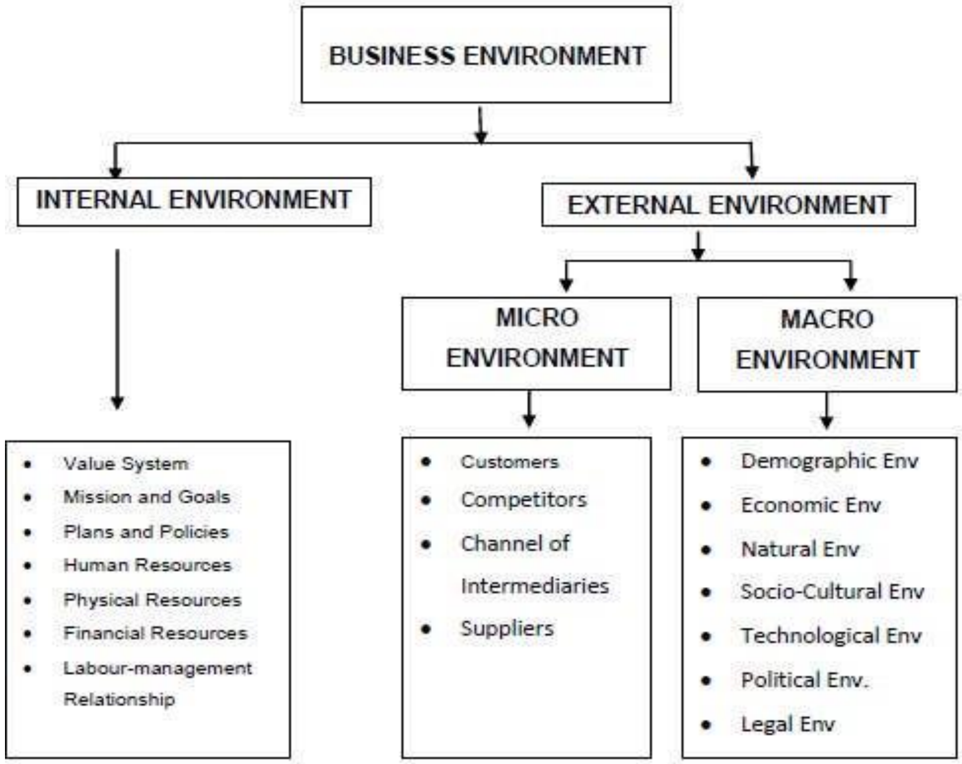
7) **It regulates the scope of business:** Business environment regulates scope of business. For example Government has banned advertising of liquor and cigarette on TV and Radio.

## 2.2 COMPONENTS / PARTS OF BUSINESS ENVIRONMENT

There are two major parts of or components of business environment known as -

i) Internal Environment
ii) External environment
  - Micro component of environment
  - Macro component of environment

These all parts of the environment will be present in the following way




**Lets Discuss these points in details :**

**1. Internal Environment:**

Internal environmental factors are these, which resides within company premises and are easily adjustable and controllable. Company as per its necessity & requirements, moulds it and take appropriate support from these factors, so that business activity can run safety & smoothly.

**i) Value System:** Values refers to principles or standards of behavior. The value system is helm (the position of control) of affairs of the founders. Therefore it is widely acknowledge fact that the extent to which the value system is shared by all in the organization is an important factor contributing to success. If the founder has strong value, then he will never do any activity which is not acceptable to society norms. For example, Murugappa Group had taken over the E.I.D. Porry Group, which is one of the most profitable businesses. Its one of ailing business was liquor, which was sold off by Murugappa, as it did not fit into their value system.

**ii) Mission and Goals:** Mission defines the fundamental reason for existence of the organization. It describes the organization’s line of business, its products and specifies the markets it serves within a time frame of 3 to 5 years. It defines the boundaries within which the organization will operate. It is designed to help stakeholders to understand the purpose of the company.

Goals denote results that an organization seeks to accomplish in a future period of time. Goal is a specific target that a firm intends to reach in long term. To achieve vision and mission, the organization creates goals.

Therefore it is always advisable to the company to Frame a mission statement and then to list out various objectives. The mission statement and objectives of the company should align with each other..

**iii) Plans & Policies :** Plans are nothing but deciding in advance, of a particular activity i.e. what is to be done, how it is to be done, when it is to be done etc. Plans are made to achieve organizational goals.

Policies are the guidelines/set of principles which guide the concerned authority in its course of action.

The business firm needs to frame there plans & policies by considering business objectives and resources available. Here internal environment analysis will help to the firm to know the appropriateness of plans & policies.

**iv) Human Resources :** Human resources are most important resources among all other resources required by the firm. These resources are very sensible; therefore every business need to tackle them with carefulness and cautiousness. The survival and success of the firm is largely depends on the quality of human resources. The internal environmental analysis in respect of human resources reveals the shortcomings of human resources and measures need to be undertaken overcome such shortcomings.

**v) Physical Resources :** Physical resources consist of machines, equipments, buildings furniture's and fixtures. These resources play vital role in production activity. The analysis of these resources reveals the deficiencies of these resources. The business may take corrective steps to remove these deficiencies.

**vi) Financial resources:** Finance is the back bone of every business. So every business needs to have proper financial management, which includes arrangement of finance and utilization of finance. So analysis of internal business environment enables to know the appropriateness of financial policies, financial positions, capital structure, management of working & fixed capital, adequate reserves for future etc. The analysis of financial resources also reveals that the soundness of its financial position.

**vi) Labour-management relations:** It is stated that the business flourish to a greater extent, if it is supported by labour / human resources well. Even if there are certain shortcomings on the part of other physical and financial resources, but there is good relation between management and labour then there would not be a problem. To keep a good relationship with labours a management needs to take care of all types of problems of the labour. It includes salary, wages, facilities allowances, good working conditions, their promotion transfer, etc. The analysis of internal environmental helps to know the labour-management relationships are cordial or not.

**2. External Environment :**

External environment is also important in survival and success of the business unit. External environment means those factors or forces which resides outside the business, but has its influence over the functioning of the business. As these forces resides outside, does not have control over them. The environment factors are of two types known as:

i) Micro environment and

ii) Macro Environment.

**i) Micro Environment :**

Micro environmental factors mean those which are very close to business and directly affecting factors. It includes suppliers, competitor's customers, marketing intermediaries and the public/society at large. These factors are giving individual effect on each company rather than a particular industry. Let's see the all these factors in detail.

**a) Customers :** Customer is the king of the market. Therefore every company strives to create & sustain customers. So that it can survive & be success in the market. In fact monitoring the customer requirements is the pre-requisite for the business success. Analysis of external business environment enables to know the changing likes, dislikes, choices and preferences of customers. So that accordingly they can produce product and serve to their customers. This results into customer satisfaction.

**b) Competitors :** In simple word competitors means the firms which market the same products. Business firm should come up with effective marketing strategy to have competitive advantage over its competitors. Analysis of external business environment enables business to find out moves of their competitors, in terms of their marketing strategy of product, pricing, promotion and distribution. So accordingly business firm can take steps to face competition in the market.

**c) Channel of Intermediaries :** Channel intermediaries means those who help the f irm to deliver product to the f inal consumer. The channel of intermediary includes agents, wholesaler, retailer etc. These intermediaries are vital link between the company and the final users. Analysis of external business environment enables firm to know the which channel of intermediaries to be selected to reach to the final consumer and commission and incentives to be paid to intermediaries.

**d) Suppliers :** Suppliers supply inputs to business firm like raw materials, components and other supplies. They place important role in smoother functioning of the production department. The company never depends on a single supplier because if they back out, or any other problem with that supplier may seriously affect the company. Analysis of external business environment helps to know the requirements of suppliers. If those requirements are fulfilled suppliers will be happy. In turn they will supply timely and good quality inputs. They will also provide better credit terms.

**2) Macro - Environment :**

Macro environmental factors mean those which are not very close to business and indirectly affecting factors. It includes demographic, economic, natural, social and technological environmental forces or factors.

**a) Demographic environment:** It is related to human population with reference to its age, gender, income, education, occupation, size, density, etc. By going through all these elements of demographic environment business units decides its production and distribution strategies.

The marketing mix of the organization largely depends upon the demographic environment. The product, pricing, promotion and distribution strategies are based on the demographic factors.

So the marketer needs to analyse external business environment to understand demographic environment and accordingly design marketing-mix.

**b) Economic Environment: It consists of:**

- **Economic conditions:** A country's economic conditions are influenced by numerous factors, including monetary and fiscal policy, the state of the global economy, unemployment levels, productivity, exchangerates, inflation and many others. These factors are important while determining the business strategies, Eg. In a developing country the low income may be the cause for very low demand for a product. So in such countries the company should emphasis an reduction of prices for higher sale.

- **Economic policies:** The economic policy covers the systems for setting levels of taxation, government budgets, the money supply and interest rates Economic policies are typically implemented and administered by the government. The economic policy of the govt. has great impact on business. On one hand it can have favorable effect on business on the other hand it may have adverse effect on the business. For example if govt. wants to protect home industries then its affects import competing industries. On the other hand if a liberalization of the import policy may create difficulties to home industry.

- **Economic system:** The economic system refers to the kind of economy; the country has i.e. free market economy, capitals or socialist economy.

✓ **Capitalist economy:** Its most means of production and property are privately owned by individuals and companies. The government has a limited role. So a capitalist economy is a liberal economy. This means only the free market will determine the supply, demand, and prices of the products. Eg. USA, Germany, Japan, Canada, New Zealand, Australia.

✓ **Socialist economy:** In a socialist economy, the setup is exactly opposite to that of a capitalist economy. In such an economy the factors of production are all state-owned. So all the factories, machinery, plants, capital, etc. is owned by a community in control of the State. Eg. Cuba, North Korea

✓ **Mixed economy:** The means of production are held by both private companies and public or State ownership. And while market forces decide the price, demand, supply, etc there is some government oversight to prevent monopolization and discrimination**.** Eg. India, Pakistan, Sri Lanka, Brazil

**c) Natural Environment :** It consists of geographical and ecological factors such as natural resources endowments, weather and climatic conditions, location aspects in the global context, mineral deposits, port facilities, etc. which are relevant to business. The geographical and ecological factors influence the location of certain industries. For example the types of crops that can be grown in an area depend upon climate and soil. Industrialists do not like to set up factories in areas which are climate affect the location of certain industries like cotton textiles and watch manufacturing. Extractive industries such as mining, oil drilling, stone quarrying, etc. depend on the availability of minerals deposited by nature.

**d) Social-Cultural environment:** Society shapes the norms, beliefs, values, attitude, and principles in the people, in which they are raised. Culture, includes dance, drama, music, food, lifestyle and festivals. It also includes arts, law, morals, customs, traditions and habits.

Goods and services bought and sold, highly depends on the culture prevalent in the region. Moreover, it also describes the attitude of people towards work.

Example – At the time of festivals or new year, there is boom in the demand for clothes, electronic items, flowers, fruits, sweets, vehicles, etc. Further, it must be noted that the consumption, lifestyle, and dressing style of people vary in different societies and cultures.

**e) Technological environment:** Technological environment are relate to technological know - how, used in business. It is expected that business need to introduce and use latest technology in their production. But technological developments sometimes pose problems to business as business are not able to cope up with developed technology and hence its existence came into danger. The technological development may increase demand for a production too. For example in India as we are having frequent power fluctuations, if the business introduces voltage stabilizers then definitely there will be growing demand for electrical appliances.

**f) Political environment:** Political Environment covers the actions of the government that have an impact on the company's operations. The top management of the company has to keep a close watch on the actions of the government to take decisions. Government policy framing may bring prospect to some business and create threat to other businesses. Eg. Liberalization policy has opened up opportunities to some business at the some time it has give set back to some businesses.

**g) Legal Environment:** Legal environment covers the laws of the country. The changes in law might affect the functioning of the business, as every organization works within the framework of law and adhere to these laws strictly, These laws may include minimum wages act, workforce safety act, company law, Trade Union act, Child Labout Act etc.

## 2.3 ENVIRONMENT SCANNING

Every organization has an internal and external environment. In order for the organization to be successful, it is important that it scans its environment regularly to assess its developments and understand factors that can contribute to its success.


**Environmental scanning is a process used by organizations to monitor their external and internal environments.**

**2.3.1 Importance of Environmental Scanning :**

Following are the points suggest importance of scanning of business environment.

**i) Identification of strengths :** The analysis of internal business environment helps to identify the strength of the firm. Every organization puts all its efforts to maintain and improve its strengths. For example every business will see that how they can maintain competent & dedicated employees? How properly they can arrange and allocate capital for the business activities? and what will be the methods with which they may have improved & latest technology etc.

**ii) Identification of weaknesses :** The analysis of internal business environment give idea about weakness of business. The weaknesses are barriers in the process of business development. Therefore every organization try to point out its weakness and tries to improve it. The weakness may be in obsolete technology, Poor quality raw material, lack of finance, lack of dedication among Human Resources etc.

**iii) Identification of opportunities :** Opportunities generally resides outside the business. Therefore external environment analysis helps to point out the opportunities and use it for business benefits. Business also undertake all those efforts to grab that opportunities. For example it govt. gives concession or subsidies to carry on business activities. Then business may cut its products prices and may gain large sell advantage of products.

**iv) Identification of threat :** The business may have threats from its competitors / rivals and others. Therefore external business environmental analysis helps to identify those threats and helps to defuse them before it effects on business or its functioning. For example, the competitor may come up with innovative product, which may create threat to business firm. Proper analysis of external business environment enable the business firm to counter attack this move of competitor by introducing new product by them too.

**v) Effective planning :** Environmental scanning help to business to undertake effective planning. Effective planning helps to achieve the goals of business such as higher sales and profit, growth and expansion, corporate image, customer satisfaction etc.

**vi) Survival and growth of business :** Survival and growth are two basic objectives of any business. Environmental scanning helps to know the SWOT (Strength, Weakness, Opportunity and Threat) of business. SWOT analysis may ensure survival and growth of the business.

**vii)Facilitates organising of Resources :** Business firm needs different resources such as natural, physical, Human, capital resources etc. These resources are limited in number. Therefore it should be used in very conscious way. The environmental scanning enables business to organize all these resources in required and logical manner.

**viii) Flexibility in operations:** Environmental scanning enables a firm to adjust its activities depending upon the changing situation.

**ix) Corporate image:** Corporate image means create mental picture of the firm in the minds of stakeholders. Due to the analysis of environment, there is over all improvement in the performance of the business, which results in enhancing corporate image of the firm in the minds of stakeholders i.e. customers, employees, suppliers, government, shareholders etc.

**x) Motivation to employees:** Because of environmental scanning, decisions taken which are in the favour of employees. There are improved performances of organization so employees are given monetary and non-monetary incentives. There is also introduction of new HR policies. All this results into employee motivation.

**Techniques of Environmental Scanning**

**1) SWOT Analysis:**

**SWOT is stands for Strengths, Weaknesses, Opportunities and Threats**. Strengths (S) and Weaknesses (W) are considered to be internal factors of business environment over which firm has some measure of control. Opportunities (O) and Threats (T) are considered to be external factors of business environment over which firm has 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 purpose is to identify the strategies that will create a firm specific business model. Such business model will best support an organization's resources and capabilities as well as the requirements of the environment in which the firm operates. 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.

| | | |
|---|---|---|
| **Internal Environment Analysis** | **STRENGTHS**<br>It is the beneficial aspects or the capabilities of an organization | **WEAKNESSES**<br>It is the qualities that prevent an organization from accomplishing its mission and achieving their full potential |
| **External Environment Analysis** | **OPPORTUNITIES**<br>It is presented by the environment within which organization operates | **THREATS**<br>It is the conditions in external environment that endanger the profitability of the organization's business |

- **Strengths -** Strengths are the qualities that enable us to accomplish the organization's mission. Strengths can be either tangible or intangible. It refers to something in which a firm is well-versed expertise in. Strengths are the beneficial aspects 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:
    - ✓ Modern Technology
    - ✓ Strong financial condition
    - ✓ Dedicated employees
    - ✓ Broad product line

- **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. Examples of organizational weaknesses are:
    - ✓ Outdated technology
    - ✓ Narrow Product line
    - ✓ Apathetic employees
    - ✓ Narrow product range

Weaknesses are controllable. They must be minimized and eliminated. Example - to overcome obsolete machinery, new machinery can be purchased.

- **Opportunities -** Opportunities are presented by the environment within which organization operates. Organization should be careful and recognize the opportunities and grasp them whenever they arise. Organizations can gain competitive advantage by making use of opportunities. Opportunities may arise from market, competition, industry/government and technology.

  Example - Increasing demand for motor bikes as it offers convenience to working people in travelling. It is a great opportunity for new firms to enter motor bike production business and compete with existing firms.

- **Threats -** Threats arise when conditions in external environment jeopardize (risk/endanger) the profitability of the organization's business. Threats are uncontrollable. When a threat comes, the stability and survival can be at stake / at risk. Examples of organizational threats are:
  - ✓ Strikes by employees
  - ✓ New strategy by competitor
  - ✓ Changes in economic conditions
  - ✓ Changes in customer preferences

**2) ETOP: Environmental Threat and Opportunity Profile**

This technique was developed by Glueck. The preparation of ETOP involves dividing the environment into different factors and then analysisng the impact of each factor on the organization.

A comprehensive ETOP requires sub-dividing each environmental sector into sub-sector and then the impact of each sector is described in the form of a statement.

A summary of ETOP may only show the major factors for the sake of simplicity.

For example, in case of a company in the bicycle industry, where the main business of the company is in sport cycle manufacturing for the domestic and export market.

**ETOP for a Bicycle Company**

| Environmental Factors | Nature of Impact | Impact on each factor |
|---|---|---|
| Economic | ↑ | Growing affluence among urban consumers, Rising disposable income and living standards |
| Market | → | Overall industry growth rate not encouraging, traditional distribution systems |
| Political | → | Bicycle principal mode of transport for low and lower middle income, industry too small for any major political attention |
| Social | ↑ | Environmental and health friendly transport, wide usage like commuting to work or school and as recreation and physical fitness equipments. |
| Supplier | → | Most ancillaries and associated companies in small scale sector supply parts and components, rising steel prices, increasing use of aluminum |
| Technological | ↑ | Technological upgradation of industry in progress, import of machinery simple, product innovation, ongoing. |
| International | ↓ | Global imports growing but India's share shrinking, India is second globally as manufacturer, consumer and exporter after china, threats to cheap Chinese imports |

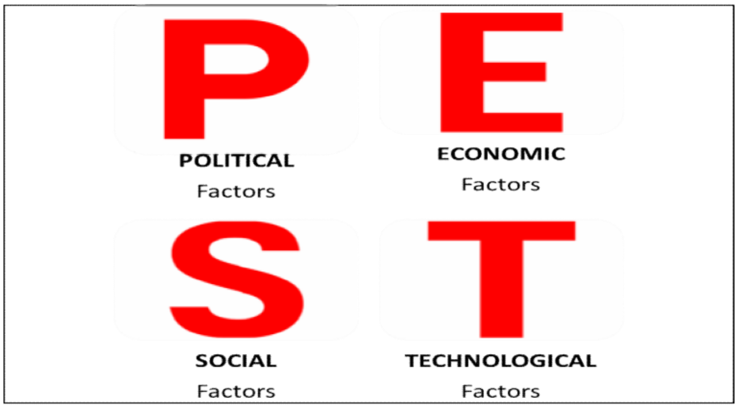
| | |
|---|---|
| → | Neutral Impact |
| ↑ | Favourable Impact |
| ↓ | Unfavourable Impact |

The preparation of ETOP provides a clear picture to strategists about which sectors and the different factors in each sectors have a favourable impact on the organization. By the means of an ETOP, the organization knows where it stands with respect to its environment.

Such an understanding can be of great help to an organization in formulating appropriate strategies to take advantage of opportunities and counter the threats in its environment.

### 3) PEST ANALYSIS

PEST technique for a firm's environmental scanning includes analysis of political, economic, social, and technical factors of the environment.




a) **Political environment:** Political Environment covers the actions of the government that have an impact on the company's operations. The top management of the company has to keep a close watch on the actions of the government to take decisions. Government policy framing may bring prospect to some business and create threat to other businesses. Eg. Liberalization policy has opened up opportunities to some business at the some time it has give set back to some businesses.

b) **Economic Environment:** Changes in economic environment does affect the business organization. It consists of:

- **Economic conditions:** A country's economic conditions are influenced by numerous factors, including monetary and fiscal policy, the state of the global economy, unemployment levels, productivity, exchange rates, inflation and many others. These factors are important while determining the business strategies, Eg. In a developing country the low income may be the cause for very low demand for a product. So in such countries the company should emphasis an reduction of prices for higher sale.

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  ✓ **Mixed economy:** The means of production are held by both private companies and public or State ownership. And while market forces decide the price, demand, supply, etc there is some government oversight to prevent monopolization and discrimination. Eg. India, Pakistan, Sri Lanka, Brazil

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   Example – During festivals there is huge for clothes, electronic items, flowers, fruits, sweets, vehicles, etc. Also the consumption, lifestyle, and dressing style of people vary in different societies and cultures.

d) **Technological environment:** There is a frequent change taking place in the technological environment which affects to the business functioning It is essential for businessman to know the changing taking place in technological environment. It is expected that business need to introduce and use latest technology in their production. Modern technology not only helps to improve quality of product, but also reduces wastage of material as well as more quantity can be produced.

**4) QUEST: Quick Environmental Scanning Technique Analysis**

QUEST is an environmental scanning technique that is designed to assist with organizational strategies by keeping adheres to change and its implications. Different steps involved in this technique are as follows:

- The process of environmental scanning starts with the observation of the organization's events and trends by strategists.
- After observation, important issues that may impact the organization are considered using environment appraisal.
- A report is created by making a summary of these issues and their impact.
- In the final step, planners who are responsible for deciding the feasibility of the proposed strategy, review reports.

## 2.4 SUMMARY

Business Environment consists of all those forces both internal and external that affect the working of a business. It refers to the conditions, forces, events and situations within which business enterprises have to operate. Business and its environment are closely related and the effectiveness of interaction of the two determines the success or failure of a business.

The business environment can be broadly divided into two groups A. Internal Environment B. External Environment

Environmental Scanning means an examination and study of the environment of a business unit in order to identify its survival and prosperity chances. It means observing the business environment both external and internal and understanding its implications for business opportunities. It also involves knowing beforehand the risks and uncertainties as well as threats to the business unit.

## 2.5 QUESTIONS:

**Select the most appropriate answer from the options given below**

1) The business environment is______________in nature.
   (Static, Dynamic, Weak, All of these)

2) Business environment affects_________________.
   (Business Decisions, Business Growth, Business Risk, All of these)

3) ______________ is factor comes under internal business environment.
   (Value System, Suppliers, Legal Environment, Customers)

4) ______________ is a micro factor comes under external business environment .
   (Mission and Objectives, Competitors, Natural Environment, Physical Resources)

5) ______________ is a macro factor comes under external business environment
   (Financial Resources, Suppliers, Channel of Intermediaries, Demographic Environment)

**State whether the following statements are True or False.**

1) The factors with which business is surrounded is called Business Environment.

2) Business environment is not separatable from business.

3) Internal environmental factors are easily adjustable and controllable.

4) Change in customer preferences does not affect to a business environment.

5) Demographic environment includes economic policies and economic conditions.

**Match the Pair**

| Group 'A' | Group 'B' |
|---|---|
| 1. Mixed Economy | a. furniture and fixture |
| 2. Channel of Intermediaries | b. Mineral Deposits |
| 3. Natural Environment | c. Retailers |
| 4. Physical Resources | d. India |
| 5. Legal Environment | e. Economic Policies |
| | f. Minimum Wages Act |

**Long Answers**

1. Define Business Environment. Explain the micro components of Business Environment.
2. Discuss the various macro components of Business Environment.. .
3. Write a note on Environmental Scanning.

❖❖❖❖

MODULE - II

# Unit -3

# STRATEGY FORMULATION, ANALYSIS AND CHOICE

**Unit Structure:**



## 3.0 OBJECTIVES

After studying this unit the student will be able to

- Understand stages involved and importance of strategy formulation
- Explain the concept of Mergers, Acquisitions, Takeovers, Joint Ventures, Diversification, Turnaround, Divestment and Liquidation
- Know the issues and structure of Strategic Analysis and Choice
- Explain concept of SWOT Analysis, BCG Matrix, GE Nine Cell Matrix, Hofer's Matrix,
- Know the concept of ETOP- Environmental Threat and Opportunity Profile
- Explain factors and importance Strategic Choice

## 3.1 INTRODUCTION

Strategy formulation is the process by which an organization chooses the most appropriate courses of action to achieve its defined goals. It is one of the steps of strategic management. This process is essential to an organization's success, because it provides a framework for the actions that will lead to the anticipated results.

Strategic analysis and choice is a process that involves researching an organization's business environment within which it operates and different alternative strategies. After that choosing the best strategy which may bring maximum prosperity for an organization.

Strategy Formulation, Strategy Anaysis and Choice are discussed in detail in this chapter.

## 3.2 STRATEGY FORMULATION

### Meaning

Strategy formulation is the process of determining appropriate courses of action for achieving goals of the organization and thereby accomplishing mission of an organization. In a business context, strategy formulation refers to type of products the organisation will deliver to customers, type of market they will enter into, requirements of human resources, allocation of resources, and returns expected by company. Strategic formulation is very important as it is the crucial part in the strategic management.

In simple words, strategy formulation is the process of developing the strategy.

### Stages involved in Strategy Formulation

1) **Framing of mission statement :** Mission delineates the firm's business, its goals and ways to reach the goals. It explains the reason for the existence of the business.. And all most all business frames the mission statement to keep its activities in the right direction.

2) **Analysis of internal & external environment:** The management must conduct an analysis of internal and external environment.

Internal environment consists of mission and objectives of the firm, goals and objectives of the firm, manpower, machines, capital etc. which resides within the organization and easily alterable and controllable. Its analysis helps to identify strength and weakness of the organization.

External environmental factor includes government, competitions, consumers, and technological developments. Which resides outside the organization. These are not alterable and controllable. Its analysis helps to identify opportunities and threats for organizations.

3) **Setting of objectives:** After SWOT analysis, the management is able to set objectives in key result areas such as marketing, finance, production, and human resources etc. While setting objectivities in these areas the objectives must be SMART i.e. Specific, Measurable, Attainable, Realistic and Time Bound.

4) **Gap Analysis :** By undertaking gap analysis management compares and analyzes its present performance level with the desired future performance. This enables the management to find out exact gap between present and future performance of the organization. If there is adequate gap then, the management must think of strategic measures to bridge the gap.

5) **Alternative strategies :** After making SWOT analysis and gap analysis management needs to prepare (frame) alternative strategies to accomplish the organizational objectives. It is necessary to have alternative strategies as if one strategy doesn't work another strategy can be implemented.

6) **Evaluation of strategies :** The management must evaluate every alternative strategy on the basis of Cost and Benefit Analysis (CBA). The benefits and costs of each every alternative strategy in term of sales, market share, profit, goodwill and the cost incurred on the part of the strategy in terms of production, administration, and distribution costs.

7) **Choice of strategy :** It is not possible to any organization to implement all strategies therefore management must be selective. It has to select the best strategy which incurs less cost and more benefits.

**Importance of strategy formulation**

1) **Effective Communication:** Strategy formulation enables to communicate strategic plan to all the members of an organization. It provides employees with a clear vision about purposes and objectives of the firm.

2) **Help to predict future changes:** The formulation of strategy enables an organization to examine the prospect of change in the foreseeable future. Accordingly an organization can prepare itself for such change rather than to wait passively until market forces adversely affect to business functioning.

3) **Helps in capital budgeting:** Strategic formulation allows the firm in capital budgeting. Companies should raise their fund from right source and invest it wisely. The company must invest its capital funds where they will be most effective and derive the highest returns on their investments.

4) **Provides Direction:** A strategy formulation provides a clear strategic plan which in turn gives its decision makers a proper direction. In highly competitive markets, a firm without a clear strategy is likely to be defeated by its rivals (competitors) and as a result of which the firm may face declining market share or even declining sales.

5) **Increase profitability:** The organizations that use sound strategy formulation may be more profitable than firms that do not have a robust strategy formulation and plan. Strategy formulation enables the organization to engage in forward-looking plans and allows the organization to carefully evaluate its priorities. It results into increase in profitability of an organization.

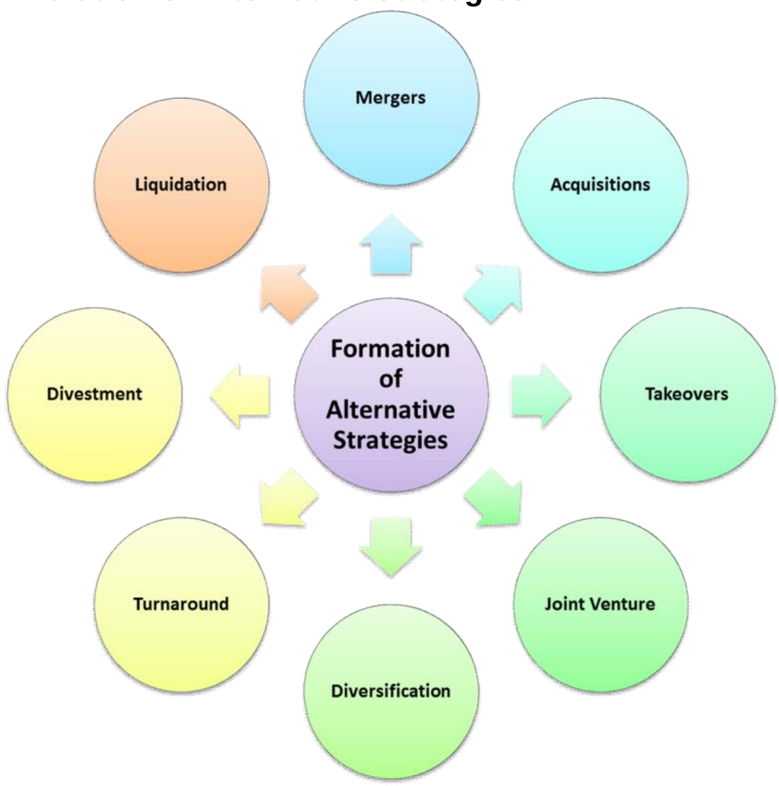
6) **Helps to achieve organizational goals:** Strategy formulation provides a discipline within the organization. The top management constantly evaluates its performance in reference to the future goals. It gives the organization a better understanding of what needs to be done to achieve its objectives.

7) **Helps in decision-making:** A strategy formulation provides a structure within which all employees of an organization can

make everyday decisions and ensure that those decisions are all moving the organization in a single seamless direction.

**8) Enables measurement of progress:** The strategic formulation process enables an organization to establish objectives and to measure progress in achieving those objectives. The formulation process enables the organization to determine what is important and critical for the progress of the organization.

**Formulation of Alternative Strategies**




**MERGERS**

The term 'merger' is used to mean the unification of two or more business houses to form an entirely new entity.

It is a strategy adopted by the company to maximise company's growth by expanding its production and marketing operations, that results in synergy, increased customer base, reduced competition, introduction to a new market/product segment, etc.

**Forms of Merger**

- **Merger through Absorption:** When two or more companies are combined and only one company survives after the merger, while the rest of all cease to exist as they lose their identity is called merger through absorption. E.g. Tata Chemicals Limited (TCL) absorbed Tata Fertilizers Limited (TFL).

- **Merger through Consolidation:** When two or more companies are combined and give birth to a new company, it is known as merger through consolidation. This implies that all the companies to the merger are dissolved, i.e. they lose their identity and a new company is created. E.g. Consolidation of Hindustan Computers Limited, Indian Reprographics Limited, Indian Software Company Limited Hindustan Instruments Limited, to form a new company HCL Limited.

**Advantages of Merger :**

- It enables the pooling of resources and streamlining of operations, thereby, resulting in **improved operational efficiencies**.
- The merged firms enjoy benefit of **economies of scale**. Merger may result into increasing demand. This in turn results into increasing production and distribution capacity of firm. When production increases the firm purchases raw material on large scale and they get discount. So the firm saves on raw material. The firm also save on transportation cost as the transportation cost is mostly fixed..
- Merger provides **faster growth to business** as it offers advantages in several areas such as marketing, production, finance, R&D and so on.
- When a company is having accumulated losses and it is merged with another company. The newly formed company gets **benefit in taxation**.
- Merger allows companies to **share technology and other facilities** such as plant, market, human resources etc.
- The benefit of economies of large scale is shared with customers in the form of reduced price. Also due to R&D activity customers get better quality and innovative product. So when customers get better quality products at lesser price, it results into **customer satisfaction**.

**ACQUISITIONS**

An acquisition takes place when one of the company purchases mostly all of the shares of the other company for gaining the control of other companies. Purchasing the target company's shares and other assets by more than 50% allows the acquirer to take the decisions of the acquired company without the approval of the company's shareholders. The acquisition is considered to be a critical component and an important change agent of any strategy of the business. Example - Acquisition of the Company Ranbaxy by the Sun Pharmaceuticals.

**Advantages of Acquisition Strategy:**
Answer same as “Advantages of Merger”

**TAKEOVERS**

A takeover is a special form of acquisition that occurs when a company takes control of another company without the acquired firm’s agreement. In other words, takeovers occur when a company takes over and purchases a company without the permission of the company or its Board of Directors.

**There are two methods by which companies can undertake takeover which are as follows:**

- **Tender Offers involve** after the refusal from the management of target company for the initial offer proposed, the acquiring company purchases the shares of the target firm directly from shareholders, or on the secondary markets. Therefore, buying all or a majority of the company’s shares allows the acquiring company to possess ownership of the target company. To purchase shares, the acquiring corporation offers a higher price to shareholders than the market value of the stock.

- **Proxy Fight involves** the acquirer company after being refused for their initial offer for the acquisition of the target company, tries to change the members of management for the decision to be in their favour. For such to happen, the acquirer company will convince the shareholders to exercise their proxy vote and try to change the members of the management who are opposing the takeover and replace them with the new members who are more reliable and receptive to the decision of takeover and give their decision for the change of ownership of the business.

**Advantages of Takeover:**
Answer same as “Advantages of Merger”

**JOINT VENTURES**

Joint Venture can be described as a business arrangement, wherein two or more independent firms come together to form a legally independent undertaking, for a stipulated period, to fulfil a specific purpose such as accomplishing a task, activity or project. In other words, it is a temporary partnership, established for a definite purpose, which may or may not uses a specific firm name..

For example, Maruti Ltd. of India and Suzuki Ltd. of Japan come together to set up Maruti Suzuki India Ltd.

The firms joining hands in a joint venture are called Co-venturers, which can be a private company, government company or foreign company. The co-venturers come to a contractual agreement for carrying out an economic activity, which has shared ownership and control. They contribute capital, pooling the financial, physical, intellectual and managerial resources, participating in the operations and sharing the risks and returns in the predetermined ratio.

Advantages of Joint Venture
**Answer same as "Advantages of Merger"**

## DIVERSIFICATION

Diversification is one type of growth strategy. In this strategy company develops new products in new markets. The purpose of this strategy is risk sharing i.e. if one of the enterprises is taking a hit in the market, one of your other business enterprises will help offset the losses and keep the company viable.. For example, an auto company may diversify by adding a new car model or by expanding into a related market like trucks

**Types of Diversification:**

e) **Vertical diversification:** When a company enters into new business which is in similar lines of activity of existing business is called vertical diversification. Such extension is of two types known as:

- **Backward diversification:-** It is a diversification where company moves one step back from the current line of business. For example a car manufacturing unit enter into it's components such as seats, tyre, glass etc. manufacturing unit.
- **Forward diversification: -** In this case company enters into the activity which is extension of its current business. For example cloth manufacturer enter into readymade garment manufacturing.

f) **Horizontal diversification:** - In this case company enters into a new business which is very closely related with existing line of business and it is with the help of the same technology and the market. For example gent's garments manufacture enter into ladies garments manufacturing.

g) **Concentric diversification: -** When a company enters into new line of business which is indirectly related with existing business is called concentric diversification. For example a car seller may start finance company. So that the firm can offer finance to the customers who are willing to purchase car.

h) **Conglomerate diversification: -** When a company enters into new line of business which is not at all related with existing business is called conglomerate diversification. There is a no linkage between old and a new business. For example Transport operator entered into furniture manufacturing

**There are certain reasons because of company go for diversification. The reasons are as under**

1) **Spreading of risk: -** Diversification enables to spread the risk. Since the business operates in a different markets. If in one market business suffers losses, that can be compensated in other market and the levels of profit will be maintained.
2) **Improves corporate image: -** Corporate image is creating image of the firm in the mind of stakeholder. It enables firm to get support from stakeholders. Through the diversification company introduces innovative products/services of better quality which helps to create positive image of firm among stakeholders..
3) **Face competition effectively:** - Due to the diversification company introduce wide range of products and services. This enables company to maintain it's sale level in the market and face competition effectively..
4) **Customer satisfaction: -** When the firm enters into new business with new product, it assures to give better qualitative product and services. This leads to customer's satisfaction.
5) **Optimum Utilization of resources: -** Diversification enables company to make optimum (maximum) use of physical, financial and human resources. This is possible due to increase in demand and production capacity of the firm.
6) **Economies of scale: -** Due to diversification strategy there is increase demand to a products which results in large scale production and distribution. The firm purchases raw material in large quantity and gets discount. So the firm saves on raw material. The firm is also able to save on transportation cost

**TURNAROUND**

Turnaround strategy is a retrenchment strategy which includes converting loss making unit into a profitable one. It is possible when company restructure its business operations. Its aim is to improve the declining sales, market share and profit because of high cost of materials, or increase competitions, recession, managerial inefficiency.

**Example:** Dell is the best example of a turnaround strategy. In 2006. Dell announced the cost-cutting measures and to do so; it started selling its products directly, but unfortunately, it suffered huge losses. Then in 2007, Dell withdrew its direct selling strategy and started selling its computers through the retail outlets and today it is the second largest computer retailer in the world.

**Steps to Planning Turnaround Strategy**

1) **Control over cash flow:** If the business spends cash for unproductive purpose, take action to stop it as soon as is possible. Spending cash only where there is productive purpose or required is wise for business turnaround.
2) **Turnaround Team:** It is crucial to the success of a turnaround plan to have the right team in place. The team should have turnaround specialist with experience of turning around their own businesses and supportive staff.
3) **Prepare Business Plan:** It is necessary to offer appropriate product for current market requirement. The manager should provide what customer wants and accordingly design business plan to serve the market.
4) **Control over cost:** It is essential to reduce overheads and waste. Cost control can be done on raw material, promotional activities and so on.
5) **Raising Turnaround Finance:** The business can find out finance partner who can finance to restore your business by turnaround strategy. There are specialist providers of all these types of finance available in the market place.
6) **Communicate turnaround plan:** it is necessary to communicate turnaround plan to key stakeholders such as employees, suppliers, customers, investors, shareholders etc. It will help business to get their support

**DIVESTMENT**

The Divestment Strategy is a retrenchment strategy which includes the downsizing of the scope of the business. The firm is said to have followed the divestment strategy, when it sells or liquidates a portion of a business or one or more of its Strategic Business Units (SBU) or a major division, with the objective to revive its financial position.

The divestment is the opposite of investment; wherein the firm sells the portion of the business to realize cash and pay off its debt. Also, the firms follow the divestment strategy to shut down its less profitable division and allocate its resources to a more profitable one.

An organization adopts the divestment strategy only when the turnaround strategy proved to be unsatisfactory or was ignored by the firm.

**Example:** Tata Communications is the best example of divestment strategy. It has started the process of selling its data center business to reduce its debt burden.

**There is certain reason for divestment**

a. **Withdrawal of obsolete products:-** Those products which do not give adequate return to the firm will be removed. And the products which are having good market share and profitable will be continued.

b. **Problem of Mismatch:-** The business which is undertaken by the company is not matching with the existing business line. Therefore the company may take initiative to gate red of newly acquired business

e. **Problem of competition:-** Some times due to tough competition company may withdraw some products from the market or sell the units producing such products.

c. **Negative cash flows:-** When business gets negative cash flows from a particular business. The revenue collected from such a business is lower as the expenditure incurred on it therefore it is to be divested

i. **Technology Up-gradation:-** Technology Up-gradation is important for survival of business. But the cost of up-gradation is so high which is not affordable to business therefore that business activity is to be divested

j. **Concentration on Core Business:-** When business undertake number of activities at a time, then it may be difficult to the business to manage all activities satisfactorily. Due to this business ignore its over activity which leads to loss in business therefore to concentrate on core business divesting other activities is essential.

k. **Alternative for Investment: -** Some time, by divesting certain activity company can invest its blocked fund into some another investment alternative which will give good return

l. **Returns to Shareholders: -** Company, by divesting may increase shareholders return by giving shareholder hefty dividend.

i. **Attractive Offers from Other Firm: -** Sometimes it happens company may get offer from another company. To invest in a good return giving from company may divest current activity.

**LIQUIDATION**

This is extreme case of divestment strategy and is undertaken in the situation when all the efforts of reviving the company have come to an end. There is no possibility that the business can made profit making unit again. In such situation business takes decision to sell its entire business and the amount realized from it can be invested in another business. When it is done it is known is liquidation. Generally, small sized firms, proprietorship firms and the partnership firms follow the liquidation strategy. Example - MH Carbon was established in September 2010 and went into voluntary liquidation in May 2013.

**There are certain reasons because of the liquidation has taken place that reasons are –**

1) **Heavy Losses:-** When business incurs heavy losses continuously in the business. It decides to sell off that such business.
2) **Less Returns:-** The company is not able to earn sufficient profit to meet its expenditure. There is piling up of losses. As a result of which the company adopts liquidation strategy
3) **Poor management:** The top management of company becomes non-supportive. The business decisions taken are poor. All this affects the functioning of the business. So liquidation takes place.
4) **Failure of corporate strategy:** The corporate strategy adopted by company fails badly. Which result into liquidation of entire business functions.
5) **Obsolete product:** The product offered by company is no more demanded by the market. This is because of change in the preferences of customers. This is one of the major reason for many companies to go for liquidation.

## 3.3 STRATEGY ANALYSIS AND CHOICE

**Meaning**

Strategy analysis and choice focuses on generating and evaluating alternative strategies and selecting best strategy out of alternative strategies. Strategy analysis and choice seeks to determine alternative courses of action that could best enable the firm to achieve its mission and objectives.

**Issues and structures of strategy analysis and choice**

1) **Environmental Constraints:** The business environment is dynamic in nature. It keeps on changing which affects the choice of strategy is made. The choice of strategy is affected due to external factors of business environment such as shareholders, customers, suppliers, competitors, the government and the community. So if accurate prediction of changes in environment is not made, the chosen strategy may not give expected returns.
2) **Intra-Organisational Factors:** Organisational factors also affect the strategic choice. These include mission, vision, goals, resources, policies, etc. Besides these factors it also includes, organisational strengths, weaknesses, and capability. If chosen

strategy is not in line with these intra-organizational factors, again it may not give expected return to the organization.

3) **Corporate Culture:** Every organisation has its own corporate culture. It is made of a set of shared values, beliefs, attitudes, customs, norms, etc. The successful functioning of an organisation depends on 'strategy-culture fit'. If chosen strategy mismatches the cultural framework of a company, it may not give expected result.

4) **Pressures from Stakeholders:** The choice of strategy is influenced by pressure from stakeholders. Creditors want to be paid on time. Unions exert pressure for comparable wage and employment security. Governments and interest groups demand social responsibility. Shareholders want dividends. If chosen strategy doesn't fulfill requirements of these stakeholder, they will not support to the

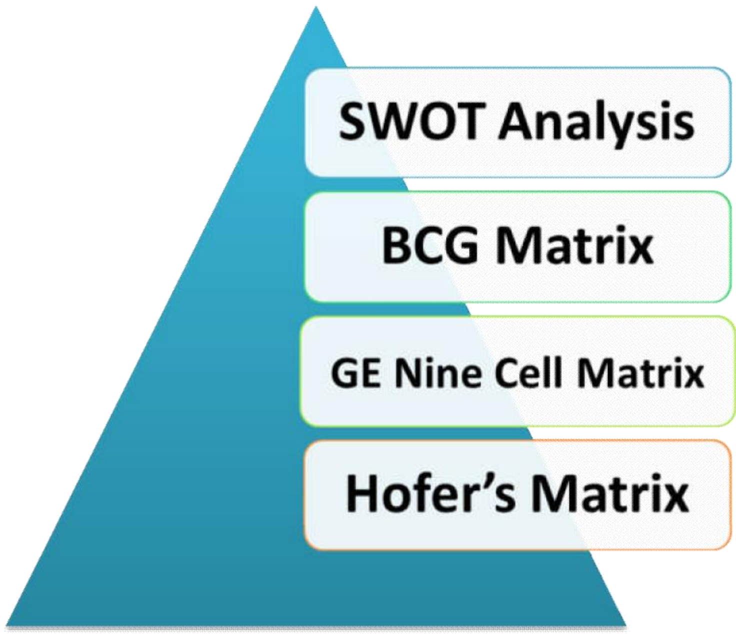
5) **Impact of Past Strategies:** It has been noticed that the choice of current strategy may be influenced by what type of strategies have been used or followed in the past. The management may follow traditional philosophy and may choose the strategy that closely parallels past strategy. Because they have invested substantial time, resources and interest in these strategies. But past strategy may not be currently beneficial for an organization.

6) **Personal Characteristics of strategist:** Personal factors of strategies like own perception, views, interests, preferences, needs, aspirations, personal disposition, ambitions, etc., are important and play a vital role in affecting strategic choice. But such strategy may not be objective. It may have personal biasness on the part of strategist.

7) **Managerial Attitude towards Risk:** Managerial attitude towards risk is an important factor that influences the choice of strategy. Individuals differ considerably in their attitude towards risk taking. Some are risk prone, others are risk averse and accordingly strategy choice can be made. Managers who are risk averse, may choose strategy with low risk and vice-versa. But such strategy may not be always fruitful for an organization.

8) **Governmental Policies:** This includes the regulations, directives, guidelines etc. of business environment. The government plays a crucial role in setting down the priorities and projects of the business. A change in government policies may affect the future prospects of a business. Almost every industry depends on the governmental policies to a great extent. So changes in government policies may result into failure of a strategy of an organization.

## 3.4 CORPORATE PORTFOLIO ANALYSIS




**SWOT ANALYSIS**

**SWOT is stands for Strengths, Weaknesses, Opportunities and Threats**. Strengths (S) and Weaknesses (W) are considered to be internal factors of business environment over which firm has some measure of control. Opportunities (O) and Threats (T) are considered to be external factors of business environment over which firm has 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 purpose is to identify the strategies that will create a firm specific business model. Such business model will best support an organization's resources and capabilities as well as the requirements of the environment in which the firm operates. 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.

| | HELPFUL | HARMFUL |
|---|---|---|
| INTERNAL | Strengths | Weaknesses |
| EXTERNAL | Opportunities | Threats |

1. **Strengths -** Strengths are the qualities that enable us to accomplish the organization's mission. Strengths can be either tangible or intangible. It refers to something in which a firm is well-versed expertise in. Strengths are the beneficial aspects 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:
    - Latest Technology
    - Emphasis on R&D
    - Broad product line
    - No debt,
    - Committed employees
    - Huge financial resources
    - Optimum use of resources

2. **Weaknesses -** Weaknesses are the qualities that prevent an organization from accomplishing its mission and achieving their 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. Examples of organizational weaknesses are:
    - Outdated technology
    - Lack of emphasis on R&D
    - Narrow product range
    - Huge debts
    - high employee turnover
    - wastage of raw materials
    - Poor decision-making

Weaknesses are controllable. They must be minimized and eliminated. Example - to overcome obsolete machinery, new machinery can be purchased.

3. **Opportunities -** Opportunities are presented by the environment within which organization operates. Organization

should be careful and recognize the opportunities and grasp them whenever they arise. Organizations can gain competitive advantage by making use of opportunities. Opportunities may arise from market, competition, industry/government and technology.

**Example -** Increasing demand for diet food accompanied by healthcare awareness among people is a great opportunity for new firms to enter die food production business and compete with existing firms for revenue.

4. **Threats -** Threats arise when conditions in external environment jeopardize (risk/endanger) the profitability of the organization's business. Threats are uncontrollable. When a threat comes, the stability and survival can be at stake / at risk. Examples of organizational threats are:
   - Unrest among employees
   - Ever changing technology
   - Increasing competition leading to excess capacity
   - Price wars and reducing industry profits

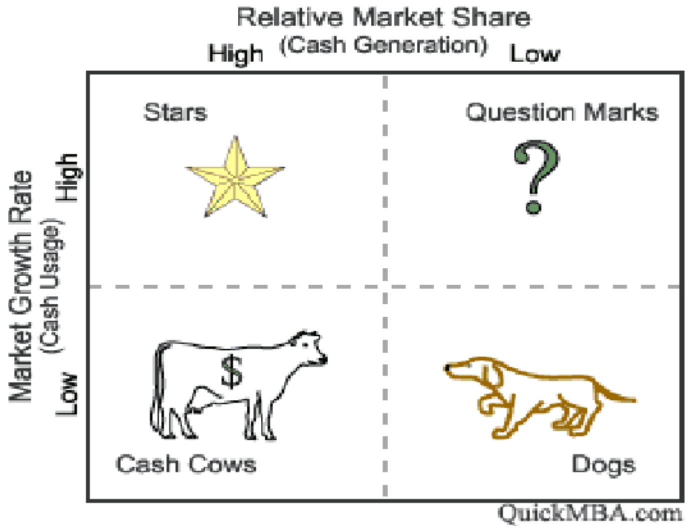
**Advantages of SWOT Analysis**

1) Builds organization's strengths.
2) Reverse its weaknesses.
3) Maximize its response to opportunities.
4) Overcome organization's threats.
5) It is a source of information for strategic planning.
6) It helps in identifying core competencies of the firm.
7) It helps in setting of objectives for strategic planning.
8) It helps in knowing past, present and future so that by using past and current data, future plans can be chalked out.

**BCG MATRIX: BOSTON CONSULTING GROUP MATRIX**

BCG Matrix was developed by Boston Consulting group, USA. According to this technique, businesses or products are classified as low or high performers depending upon:

- Industry Growth Rate
- Firm's Market Share




1) The **stars** are market leaders and are usually able to generate enough cash to maintain their high market share. When their market growth rate slows, stars become cash cows. The main features of stars are:
   - High industry growth rate.
   - High market share

**The firm may undertake various activities such as:**

- R & D introduce better features
- Effective after sales service to enhance customer loyalty

2) The **question marks** are also called as wild cats. They are new products with the potential for success, but they need a lot of cash for development. The main features of question marks are:
   - High industry growth
   - Low market share

The firm may adopt growth strategy for question marks. Various activities may be undertaken to transform question marks into stars.

- Penetration pricing strategy
- Effective sales promotion & other elements of promotion – mix
- Dealers incentives
- Enhancing customer relationship

3) The **cash cows** bring in far more money than is needed to maintain their market share. In their declining life cycle, the money of cash cows is invested in new question marks. The main features of cash cows are:
   - Low industry growth
   - High market share

The company may adopt stability strategy. Various activities may be undertaken such as:

- Retentive advertising to maintain customer loyalty
- Guarantees and warranties depending upon the nature of product.

**4)** The **dogs** have low market share and do not have the potential to bring in much cash. According to BCG matrix, dogs should be either sold off or managed carefully for the small amount of cash they can generate. At times, the dogs may be withdrawn from the market so that the company concentrates its efforts on question marks or stars. The main features of dogs are:

- Low industry growth
- Low market share

**GENERAL ELECTRIC (GE) NINE CELL MATRIX**

General Electric of USA, with the support of the consulting firm McKinsey and Company developed a more complicated matrix as a technique of portfolio analysis. The GE screen includes 9cells based on two parameters – long term industry attractiveness and business strength or competitive position.

**The GE screen includes:**

- Industry attractiveness in case of growth rate, profitability, seize, pricing practices, other possible opportunities and threats.
- Business strength of a firm, which include its market share, technological up gradation, profitability, and size, and other possible strengths and weaknesses.

**The GE Business Screen can be depicted in the following exhibit:**

***GE Nine Cell Matrix***

| Industry Attractiveness | Business Unit Strength | | |
|---|---|---|---|
| | Strong | Average | Weak |
| High | *Grow* | *Grow* | *Hold* |
| Medium | *Grow* | *Hold* | *Harvest* |
| Low | *Hold* | *Harvest* | *Harvest* |

The nine cells of the GE matrix are grouped on the basis of low to high industry attractiveness, and weak to strong business strength or competitive position. Three zones are made, each indicating different combinations represented by green, yellow and red colors.

- **Green Zone:** The green zone indicates firm's competitive position is strong and industry attractiveness is high in case of certain products and firm's competitive position is strong and the industry attractiveness is medium in the case of certain products. The green zone signal is to "Go ahead".

- **Yellow Zone:** The yellow zone indicates firm's competitive position is strong and industry attractiveness is low in case of certain product and its average and the industry attractiveness is medium in the case of certain products. The yellow zone gives signal for "wait and watch".

- **Red Zone:** The red zone indicates the firm's competitive position is average and industry attractiveness is low in case of certain products and firms competitive position is weak and the industry attractiveness is low the case of certain products. The red zone gives the signal to "stop".

Overall the 9 cell GE Business Screen is an improvement over the BCG Matrix.

## HOFER'S MATRIX

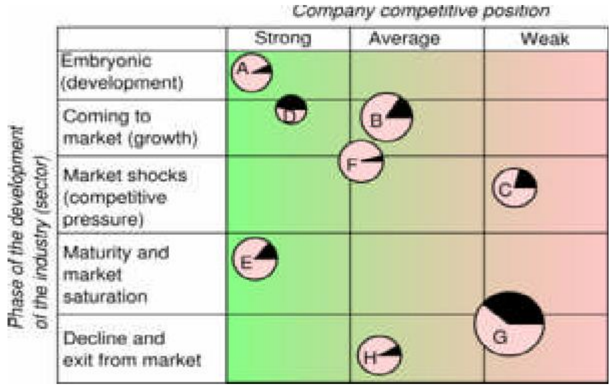
**Hofer matrix** is one of the tools used to determine the assessment of the Competitive position of the company, as determined by its internal and external factors. 15 squares matrix was created by Ch.W. Hofer.

**Matrix is created on the basis of two criteria:**

a) The maturity of the sector, divided into 5 phases
b) The competitive position of companies in the sector.

In this way circles are created, which represent different areas of activity in the company, and the size of the circle is proportional to size of the sector. Sometimes segments could be added to the circle, which reflect the market share of company in the sector.

Below is a sample matrix constructed according to the principles set out by Hofer. In its interpretation attention should be paid to possible strategies for products, their life cycle phases and the markets in different sectors.




- **Products A** - Dilemmas that have **chance of success** with appropriate marketing strategies and financial aid
- **Products B** - **Winners**, require appropriate marketing strategies and financial aid, if company has limited resources for advertising managers must make a choice between products A and B
- **Products C** - **Potential losers**, the weak position, the sector in the growth phase - managers should make additional analyses to rule out the possibility of going through the shock phase
- **Products D** - despite the current difficulties **can become market leaders** or profitable producers
- **Products E and F** are **profitable**, so it is possible to introduce other products in the phase of shock and generate considerable profits
- **Products G and H** are the **losers are in the exit phase** of the market, ahead of the full withdrawal managers should use strategies for "gathering the harvest"

## 3.5 ETOP - ENVIRONMENTAL THREAT AND OPPORTUNITY PROFILE

It is a technique to structure the environment for fundamental business analysis. It was developed by Glueck.

The preparation of ETOP involves dividing the environment into different factors and then analysisng the impact of each factor on the organization.

A comprehensive ETOP requires sub-dividing each environmental sector into sub-sector and then the impact of each sector is described in the form of a statement.

A summary of ETOP may only show the major factors for the sake of simplicity.

For example, in case of a company in the bicycle industry, where the main business of the company is in sport cycle manufacturing for the domestic and export market.

**ETOP for a Bicycle Company**

| Environmental Factors | Nature of Impact | Impact on each factor |
|---|---|---|
| Economic | ↑ | Growing affluence among urban consumers, Rising disposable income and living standards |
| Market | → | Overall industry growth rate not encouraging, traditional distribution systems |
| Political | → | Bicycle principal mode of transport for low and lower middle income, industry too small for any major political attention |
| Social | ↑ | Environmental and health friendly transport, wide usage like commuting to work or school and as recreation and physical fitness equipments. |
| Supplier | → | Most ancilliaries and associated companies in small scale sector supply parts and components, rising steel prices, increasing use of aluminium |
| Technological | ↑ | Technological upgradation of industry in progress, import of machinery simple, product innovation, ongoing. |
| International | ↓ | Global imports growing but India’s share shrinking, India is second globally as manufacturer, consumer and exporter after china, threats to cheap Chinese imports |

| | |
|---|---|
| → | Neutral Impact |
| ↑ | Favourable Impact |
| ↓ | Unfavourable Impact |

The preparation of ETOP provides a clear picture to strategists about which sectors and the different factors in each sectors have a favourable impact on the organization. By the means of an ETOP, the organization knows where it stands with respect to its environment.

Such an understanding can be of great help to an organization in formulating appropriate strategies to take advantage of opportunities and counter the threats in its environment.

## 3.6 STRATEGIC CHOICE

**Meaning**

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

Suppose a company wants to expand its business into new market. There are multiple options available for expansion of business. Now the process involved would be observing pros and cons of the companies of various options available. After having list of pros and cons of each option, now final narrowing down to a single option would be a strategic choice.

**Factors affecting strategy choice**

1) **Environmental Constraints:** The business environment is dynamic in nature. It keeps on changing which affects the choice of strategy is made. The choice of strategy is affected due to external factors of business environment such as shareholders, customers, suppliers, competitors, the government and the community. These elements constitute the external constraints.

2) **Intra-Organisational Factors:** Organisational factors also affect the strategic choice. These include mission, vision, goals, resources, policies, etc. Besides these factors, organisational strengths, weaknesses, and capability to implement strategic alternatives also affect the strategic choice.

3) **Corporate Culture:** Every organisation has its own corporate culture. It is made of a set of shared values, beliefs, attitudes, customs, norms, etc. The successful functioning of an organisation depends on 'strategy-culture fit'. While choosing a strategy, the strategy maker must consider the corporate culture.. They must assess a strategy's compatibility with that culture. In case of mismatch between strategic choice and the cultural framework of a company, either one is to be redefined.

4) **Country of origin:** Country of origin often affects choice of strategy. For example, Japanese managers prefer a cost-leadership strategy more than do United States managers. Research reveals that executives from Korea, the U.S., Japan, and German tend to make different strategic choices in similar situations because they use different decision criteria and weights.

5) **Pressures from Stakeholders:** Strategy selection is influenced by pressure from stakeholders. Creditors want to be paid on time. Unions exert pressure for comparable wage and employment security. Governments and interest groups demand social responsibility. Shareholders want dividends. All these pressures must be given some consideration in the selection of the best alternative.

6) **Impact of Past Strategies:** It has been noticed that the choice of current strategy may be influenced by what type of strategies have been used or followed in the past. The organization may like to choose the strategy that closely paralles past strategy. Because they have invested substantial time, resources and interest in these strategies, the strategists would logically be more comfortable with it.

7) **Personal Characteristics of strategist:** Personal factors like own perception, views, interests, preferences, needs, aspirations, personal disposition, ambitions, etc., are important and play a vital role in affecting strategic choice. Even the most attractive alternative might not be selected if it is contrary to the attitude, mindset, needs, desires and personality of the selector/strategist himself. Thus, personal characteristics and experience affect a person's assessment and choice of strategic alternatives. For example, one study found that narcissistic

(self-absorbed and arrogant) type of managers favour bold actions that attract attention.

8) **Managerial Attitude towards Risk:** Managerial attitude towards risk is an important factor that influences the choice of strategy. Individuals differ considerably in their attitude towards risk taking. Some are risk prone, others are risk averse and accordingly strategy choice can be made. Managers who are risk averse, may choose strategy with low risk. Some other managers, who are risk prone, may overlook the risks involved if they perceive an opportunity with optimism.

9) **Governmental Policies:** This includes the regulations, directives, guidelines etc. of business environment. The government plays a crucial role in setting down the priorities and projects of the business. A change in government policies may affect the future prospects of a business. Almost every industry depends on the governmental policies to a great extent. Thus governmental policies act as the most important factor that a strategist should take into account while making strategic choices

**Importance of strategy choice**

1. **Helps to face Competition: -** Liberalization, Privatization and Globalization (LPG) has led to increased competition. A business organization faces competition from all over the world. Choice of a good strategy helps the business organization to face this competition effectively. It also helps to grow and succeed in the market.

2. **Achieve organizational goals:** Choice of goods strategy enables a firm to achieve its organizational goals such as:
   - ✓ Higher Profit And Sales,
   - ✓ Expansion Of Business,
   - ✓ Corporate Image,
   - ✓ Customer Satisfaction etc.

3. **Customer satisfaction:** Customer is a center point of any organization. All the activities or an organization evolves around customers. Choice of good strategy enables an organization to know likes, dislikes, preferences, choice etc. of customers. Accordingly the organization can serve to the customer and it results into customer satisfaction.

4. **Employee Motivation:** Choosing right strategy may result into improved performance of employees. When employee performs well an organization's performance improves. As a result of which employees are provided with monetary and non-monetary

incentives. This results into employee motivation. When employees are motivated they work with dedication.

5. **Improves Corporate Image:** Choosing right strategy may increase profitability of an organization. A part of increased profit is share with customers in form of reduced price of products, higher dividend to shareholders, better salary to employees, undertaking social responsibility etc. So the corporate image of an organization improves among stakeholders and they support an organization in its future endeavor.

6. **Growth and Expansion of Business:** Choice of right strategy may result into improving performance of an organization. This can lead to growth and expansion of business from local to national to international level.

7. **Effective Management:** Strategic choice enables a firm into effective management which includes:
   - Planning of activities
   - Organizing resources
   - Directing subordinates
   - Controlling of activities

## 3.7 SUMMARY

Strategy formulation is the course of action companies take to achieve their defined goals. All employees of an organization should be aware of the company's objectives, mission, and purpose. The business firm should formulate alternative strategies such as merger, acquisition, take over, joint venture and others depending on the situation.

The strategy formulated must be analysed by considering environmental constraints, intra-organizational factors, corporate culture, past strategies etc. The organization can use analyzing methods such as SWOT analysis, BGC Matrix, GE nine cell matrix, Hofer's Matrix, ETOP etc. Finally best strategy is selected.

## 3.8 QUESTIONS

**Select the most appropriate answer from the options given below**

1) ________________is the process of developing the strategy.
(Strategy Controlling, Strategy Formulation, Strategy Implementation, None of these)

2) Strategy formulation facilitates________________.
(Capital budgeting, Communication gap, Poor Decision-Making, All of these)

3) __________ refers to the unification of two or more business houses to form an entirely new entity.
(Merger, Market Penetration, Turnaround, Divestment)

4) __________ occurs when a company takes control of another company without the acquired firm's agreement.
(Merger, Acquisition, Takeover, Liquidation)

5) Maruti Suzuki India Ltd. is an example of _______________ strategy.
(Takeover, Joint Venture, Divestment, None of these)

6) Gent's garments manufacture enters into ladies garments manufacturing is an example of_______________diversification strategy.
(Vertical, Horizontal, Concentric, Conglomerate)

7) In________________strategy business takes decision to sell its entire business.
(Diversification, Acquisition, Takeover, Liquidation)

8) ____________issue is involved in strategy analysis and choice.
(Corporate Culture, Impact of Past Strategies, Governmental Policies, All of these)

9) In SWOT, 'W' stands for ____________
(Wide, Whole, Weakness, Where)

10) In BCG Matrix_________are market leaders and are usually able to generate enough cash to maintain their high market share.
(Star, Question Marks, Cash cows, Dogs)

**State whether the following statements are True or False.**

1) Diversification is one type of the retrenchment strategy.
2) Turnaround strategy planning requires control over cash flow.
3) Acquisition refers to downsizing of the scope of the business.
4) Committed employees and latest technology can be strength of an business organization.
5) In GE nine cell matrix, Green zone gives signal for "wait and watch".
6) ETOP involves dividing the environment into different factors and then analysisng the impact of each factor on the organization.

**Match the Pair**

| Group 'A' | Group 'B' |
|---|---|
| 5. Concentric diversification | e. converting loss making unit into a profitable one |
| 6. Hofer's Matrix | f. Low market share and do not have the potential to bring in much cash |
| 7. Dogs | g. Car selling firm starts finance company |
| 8. Turnaround | h. Stages involved in Strategy Formulation |
| 5. Gap Analysis | e. 15 squares matrix |
| | g. 9 squares matrix |

**Long Answers**

1) Explain various stages involved in Strategy Formulation.
2) What is Strategy Formulation? Explain its importance
3) **Write a note on following:**
   - Mergers Strategy
   - Acquisitions Strategy
   - Takeovers Strategy
   - Joint Ventures Strategy
   - Diversification Strategy
   - Turnaround Strategy
   - Divestment Strategy
   - Liquidation Strategy
4) Discuss the Issues and Structures of Strategic Analysis and Choice.
5) **Write a note on following:**
   - SWOT Analysis
   - BCG Matrix
   - GE Nine Cell Matrix
   - Hofer's Matrix
6) ETOP**-** Environmental Threat and Opportunity Profile. Discuss in detail.

❖❖❖❖

# Unit -4

## STRATEGY IMPLEMENTATION, EVALUATION AND CONTROL

**Unit Structure**



## 4.0 OBJECTIVES

After studying this unit the student will be able to

- Know Steps, Importance and Problems in Strategic Implementation
- Explain Importance & Challenges Resource Allocation
- Understand Importance, Limitations and Techniques of Strategic Evaluation and Control
- Know Advantages and Limitations of Budgetary Control

## 4.1 INTRODUCTION

Strategy Implementation refers to the execution of the plans and strategies, so as to accomplish the long-term goals of the organization. It converts the opted strategy into the moves and actions of the organisation to achieve the objectives.

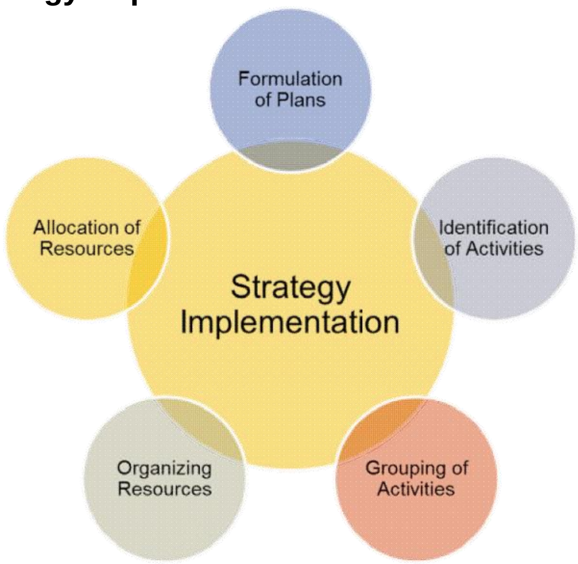
After implementation of strategy it is important to evaluate the strategy whether it has achieved the target/standard. If not corrective measures need to be taken so that deviations can be minimized to zero level. This is called strategy control.

Strategy implementation, Strategy evaluation and control are discussed in detail in this chapter.

## 4.2 STRATEGIC IMPLEMENTATION

Strategy implementation refers to putting the organization's chosen strategy into action so as to achieve strategic goals and objectives.

**Steps in Strategy Implementation**




1) **Formulation of plans:** Strategy itself does not lead to action. So it requires formulation of proper plan to implement the chosen strategy. Eg. If organization chose expansion strategy, then various expansion plans needs to be framed. It may include:
    - **Market Development** – Offering same product in new market
    - **Market Penetration** – Modification in the same product and offering in the same market
    - **Product Development** –Offering new product in same market

2) **Identification of activities:** After formulating plans, next stage is to identify various activities need to undertake in order to successful implementation of strategy. Eg. For market development plan includes following, activities:
    - **Market Research:** To understand market condition in terms of customer requirements, competition, economic condition etc.
    - **Selection of Intermediaries:** They help to sell product to final consumers.

- **Decide Marketing Strategy:** Decision about 4Ps i.e. Product, Price, Promotion and Place.

3) **Grouping of activities:** The management must group related activities under one department. Eg. All promotional activities (Advertising, Sales Promotion, Personal Selling, Trade Fair and Exhibition) may be assigned to a single department. Also all logistics activities (Packaging, Transportation and Warehousing) should be assigned to another department.

4) **Organizing resources:** For successful implementation of strategy, there is need to organize:
   - **Physical Resources**: Plant and machinery, tools and equipments, Material etc.
   - **Financial Resources:** Capital or Finance
   - **Human resources:** Labour and Employees

These resources must be arranged from right sources.

5) **Allocation of resources:** The management must make proper allocation of resources to various activities. All the department/projects should be allocated required resources for smooth functioning of activities.

**Importance of Strategy Implementation**
Answer same as "Importance of Strategic Choice"

**Problems of Strategy Implementation**
1) **Lack of Resources:** Actual implementation of strategy requires:
   - Physical Resources : Machinery, Tools, Equipments, Material
   - Financial Resources: Capital
   - Human Resources: Employees and Labour

If these resources are not available in sufficient quantity, successful implementation of strategy would not be possible. Often, firms choose a strategy but fail to organize resources that are needed to actually implementation of strategy.

2) **Poorly defined processes:** The implementation stage is often the most difficult stage of strategic management simply because the implementation process is often poorly defined. A poorly defined implementation process causes confusion and uncertainty. This makes it difficult, and often impossible, to successfully implement the strategy.

3) **Lack of Support:** The supportive employees and managers is needed in order to successfully implement a strategy. When there is a lack of support, people do not proactively make the changes that are needed to adapt to the strategy. This creates large difficulties for strategy implementation.

4) **Lack of Follow-up:** This is one of the difficulties occurred in strategic management when there is no follow-up to the strategy implementation. When this happens, managers simply enact a strategy but fail to check if it has been successfully implemented.

5) **Lack of communication:** Communication is key in the execution of any new strategy. There should be proper communication plan must be initiated from the top down. Lack of communication results in disordered teams and widespread uncertainty.

   It is the responsibility of senior management and the strategic management team to communicate the organizational mission and goals to every member of the workforce, and also make them understand the strategy. Also the particular role of each member's should be made clear.

6) **Ineffective training:** Training imparts new skills or strengthens existing skills, saves money by preventing costly losses and so on. If proper training program is designed for employees, strategy implementation can be done successfully. But often training is not effective which result into failure in successful implementation of strategy.

7) **Weak Strategy:** Sometimes strategy itself may be weak, that its implementation may not give desired result to an organization. Right choice of strategy should be done by following systematic process so that it can be implemented successfully.

8) **Lack of Accountability:** Every activity in an organization must have an owner. There is a lack of ownership, since the employees do not feel that they have a stake in the plan, and this result to poor implementation of the strategy.

So it is necessary to make everyone involved in decision making process of implementing strategy. So that that everyone can understand their responsibility and they will be held accountable to fulfill it.

9) **Lack of empowerment:** Although accountability may provide strong motivation for improving performance, employees must

also have the authority, responsibility, and tools necessary to impact relevant measures. Otherwise, they may resist involvement and ownership.

**10) Other Problems:**

- No progress report
- Confusing, complex, and overwhelming plan
- Lack of Attention

## 4.3 RESOURCE ALLOCATION

Resources here means, all resources required for a project such as physical, financial, human etc. Resource allocation involves the planning of all the resources required for the project. It helps to utilize only that much resources which are required.

In other words, Resource allocation is a process of planning, managing, and assigning resources in a form that helps to reach your organization's strategic goals. It can make a project manager's work effective and significant.

**Importance of Resource Allocation**

1) **Effective management of resources:** Large organizations might be dealing with multiple projects. Effective allocation of resources helps project managers to plan to assign resources to project and manage them effectively. So whether it is about 1 project or 10 projects, if manager allocates resources properly, then they can handle them all projects without any hassle.

2) **Reduction in wastage of resources:** Effective resource allocation leads reduction in wastage of valuable resources. It helps to know the performance of team members in a project. Hence it can be easier for a manager to allocate the resource according to their skills.

3) **Boost productivity:** It is the first and foremost reason of resource allocation. Proper resource allocation can enable to finish a project or task before the deadline without compromising the quality. This definitely enhances productivity of a business. There will be no more time loss, no more extra efforts, and no more extra labor charge.

4) **Improve time management:** Proper allocation of resources improves time management i.e. can help to set starting time and completion time of the tasks. The project can run efficiently and complete it within the time limit decided.

Sometimes resources lag actual time. But this deficiency can make a large difference.

5) **Improve staff morale:** By allocating resources wisely, manager can see who is leading and who is lagging. In most cases, project managers can't be able to figure out which team member is putting his/her best effort. But if the manager is allocating resources wisely, then it is easy to identify who is doing what? Who is lagging or leading? Who is taking more time to complete a project as compared to the estimated hour(s)? These factors can easily help to get the most deserving. So such employees can be given recognition and it will help to improve their morale.

6) **Strategic planning:** Resource allocation plays a vital role in setting vision and goal of a company. Proper allocation of resources can help to achieve and fulfill project needs. So ultimately vision and strategic goals can be done effectively by eliminating existing risks.

7) **Manage team workload:** Resource allocation can help in managing team workload. It can help a manager to check the task list of team members and manager can know who is overloaded with tasks and whose schedule has more capacity. Accordingly rearrangement of task is done to balance the workload and no one will get overloaded. As a result, it increases the team's effectiveness and later it leads to successful project completion.

8) **Eliminate risk:** Resource allocation can help in identifying the potential risks beforehand which can definitely bring amazing results to the project. By taking preventive actions, manager can eliminate all the risks and complete projects on time.

**Challenges of Resource Allocation**

1) **Scarcity of resources:** For some firms there might be scarcity of financial, physical, and human resources required for strategic implementation.

Financial resources may be difficult in procuring for a firm. Even if fiancé is available, the cost of capital is a constraint. Not all firms that enjoy investor confidence and high credit worthiness.

Physical resources would consist of assets, such as, lard machinery, and equipment. In a developing country like India, many capital goods have to be imported. The government may no longer impose many conditions but it does place a burden on the firm's finances and this places a restriction on firms wishing to procure physical resources.

Human resources are seemingly in abundance in India but the problem arises due to the non-availability of skills that are specially required. Information technology and computer professionals, advertising personnel, and telecom, power and insurance experts are scarce in India. This places severe restrictions on firms wishing to attract and retain personnel. In sum, the availability resources is a very real problem.

2) **Resource risks are not assessed:** Many organizations assess risks related to process, technology and unforeseen events. But they don't think about risks associated with the resources. A project manager or a resources manager should sit down and create a list of every possible risk and opportunity they can think of while allocating resources.

3) **Not enough appropriately skilled resources:** It is not enough to just have resources; they should also possess skill sets required to successfully complete the project and skillsets useful to the organization in general. Allocating resources without taking account their skills sets can be a waste of time.

4) **Resource use is not optimized:** Sometime already allocated resources are not optimized. Either they are working on low priority projects rather than projects which meet organizational goals. Or they are not assigned challenging tasks according to their skillsets and responsibilities.

5) **Resources are assigned inconsistently:** Before allocating resources, it is important to have a holistic view of incoming demand and available resource capacity according to matching skillsets and roles. Allocating resources just on a whim (impulse) or a hunch (guess) without analyzing the incoming demands, understanding the priorities, considering the organizations goals can be dangerous.

6) **Too many unplanned requests for resources:** In many organizations, new projects are popping up every now and then. Some of these projects which are aligned to the organizations goals and strategy are important. On the other hand some other projects which are not aligned to the organizations goals and strategy are not so important. So it is necessary to find out which project is important and accordingly allocate resources.

7) **Shifting resources to respond to problems/issues:** Again, in many organizations problems and issues crop up every now and then. It is quite natural because despite efficient planning, unforeseen challenges come up. That doesn't mean one should shift resources here and there. So it is necessary to find

out nature of problem/issues and accordingly allocate resources.

8) **Resource utilization is poorly documented:** While managing projects, it is important to document all resource utilization and allocation. In many organizations, this is done manually on lengthy spreadsheets which often contain errors. So the organization should built software, not spreadsheets, to document resource allocation and utilization.

9) **Transition process for resources is inadequate:** Shared resources, working for different departments and different projects, are common in project management. It means some resources are used commonly by different departments and projects. Often shared resources are used from project to project without any adequate transition process.

## 4.4 STRATEGIC EVALUATION AND CONTROL

The final stage in strategic management is strategy evaluation and control. All strategies are subject to future modification because of changing business environment.

Strategy evaluation and control process refers to determining the effectiveness of given strategy in achieving the organizational objectives and taking corrective action whenever required.

**Importance of Strategic Evaluation and Control**

1) **Performance Measurement:** Strategic evaluations start setting target/standard performance. Then actual performance is measures. This actual performance is compared with standard/target to find out deviation (if any). If deviations are found, they are analysed. Corrective measures are taken to minimize such deviations. So this way performance measurement is possible due to strategy evaluation and choice.

2) **Ongoing Analysis:** Strategic evaluations work under the assumption that because the business environment is constantly changing, variances will commonly exist between standard/target and actual performance. Regular strategic evaluations provide an objective and effective way for a business to evaluate, analyze and modify performance expectations. A positive variance can tell a business what it's doing right and confirm it's on the right track. A negative variance can be a signal that the performance of management and staff needs to change.

3) **Corrective Actions:** When strategic evaluations pinpoint areas where the business is not meeting strategic objectives, corrective actions can be taken to solve the problem. For example, if a business discovers that its strategic objectives are not being met because of ineffective training provided to employees. The business can design training programs that bring skillsets which will help to achieve strategic objectives of an organization.

4) **Provides direction:** Strategy evaluation and control enables management to make sure that the organization is heading in the right direction and that corrective action is taken where needed.

5) **Provides guidance:** Strategy evaluation and control provides guidance to everyone within the organization, both managers and workers. They learn how their performance compares with standards/target, and they can know they can keep up the good work or improve performance. It also provides guidelines for the planning of future projects.

6) **Builds confidence:** Strategic Evaluation and control provides information about actual performance of everyone involved in strategic management process. Those who have good performance, their confidence is boosted. They are motivated to maintain and achieve better performance in order to keep up their track record. Those outside – customers, government authorities, shareholders – are likely to be impressed with the good performance.

7) **Provide constant feedback:** Strategic Evaluation and control provides constant feedback on the extent to which the strategies are achieving their goals. It tells the strategist how close they are to the goals. If the strategy falls far short of meeting its goals, the strategic evaluation process is an opportunity to reflect on why this has occurred and to then take corrective action. In such a case, strategic evaluation process is an important opportunity for you to create a new set of goals that will reflect your progress and challenge you in new ways.

**8) Other Importance:**

- Identify potential problems at an early stage and propose possible solutions. Monitor the efficiency with which the different components of the strategy are being implemented and suggest improvements.

**Limitations of Strategic Evaluation and Control**

1) **Limits of control:** It is never an easy task for ‘strategists to decide the limits of control. Too much control may damage the ability of managers; on the other hand, too less control may make the strategic evaluation process ineffective.

2) **Short-termism:** Managers often tend to measure the immediate results. As a result, the extended effect of strategy on performance is ignored.

3) **Corrective Action can increase cost:** Sometimes there is deviation in strategy and the organization must undertake corrective action which completely overhauls (repair) the entire strategic plan. As a result of which there is need for reformulating the strategic plan, its goals and objectives. This requires more resources and time.

4) **Lack of Cooperation:** Strategy evaluation, like strategy implementation, requires the cooperation and participation of management and personnel. Unfortunately strategy evaluation, being the final stage of strategy management, is often overlooked. One of the reasons that management and staff may not take strategy evaluation seriously is because they perceive it as time consuming.

5) **Problem of selecting appropriate result measurement tool:** One of the tasks in strategy evaluation is measuring the results of strategy implementation. Maintaining objectivity in assessing and measuring the results of strategic plans is a major challenge. Although strategists use evaluation tools such as financial statements, questionnaires and interviews. But there are some concepts such as manager opinions or contributions are difficult to measure. If the right tools for measuring are available, then the process of strategic evaluation becomes simpler. Lack of appropriate measuring tools slows down strategic evaluation.

6) **Problem of objective reporting:** Strategy evaluations have some similarity with audit reports, which can deliver bad news sometimes. Strategists face the challenge of presenting an honest report of the progress of the strategic plan. As in methods of measuring results, objectivity is also a challenge during the reporting of these results.

**Techniques of Strategic Evaluation and Control**

1) **Gap Analysis:** This is one of the techniques which can identify the gap between the actual achieved performance and expected performance of the organization as per the management strategy. With the various business tools and ratio analyse, it can easily identify the gap between actual and expected performance.

   - Under the Financial measures the gap identify with the help of various ratio, relationship of business variables to each other's such as Net Sales to Working Capital ,Current Ratio, Net profit to net sales ratio, etc.

   - Under the marketing measures, the gap identify with the analyses of Sales, Market share, Competitors performance, etc.

2) **SWOT Analysis:** It is the most renowned tool for audit and analysis of the overall strategic position of the business and its environment. Its purpose is to identify the strategies that will create a firm specific business model. Such business model will best support an organization's resources and capabilities as well as the requirements of the environment in which the firm operates. 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

| | | |
|---|---|---|
| **Internal Environment Analysis** | **STRENGTHS** It is the beneficial aspects or the capabilities of an organization | **WEAKNESSES** It is the qualities that prevent an organization from accomplishing its mission and achieving their full potential |
| **External Environment Analysis** | **OPPORTUNITIES** It is presented by the environment within which organization operates | **THREATS** It is the conditions in external environment that endanger the profitability of the organization's business |

3. **PEST Analysis:** PEST technique for a firm's strategic evaluation includes analysis of political, economic, social, and technical factors of the environment.

- **Political environment:** Political factors are considered rules and regulation, legislatures, and environmental norms etc. Economic factors exhibits the economic conditions prevailed in the market to identify opportunity and threats for the business..

- **Economic Environment:** Economical factors exhibits the economic conditions, economic policies and economic system prevailed in the market to identify opportunity and threats for the business.

- **Social environment:** Social factors show the behavior of customers, demographic pattern of customers and about the values and tradition of people for adopted best suitable strategy

- **Technological environment:** Technological factors are highly sensitive and dynamic in nature. Today technology will be stale for tomorrow exhibits the flexible or changing pattern of technology. Due to rapid changes in technology cause the obsolete our plans and business strategies.

4) **Benchmarking:** It is technique of strategic evaluation to identify whether the organization is achieved the expected results or not. If it is failed to achieve the expected result, then what is the difference between actual result and expected result.

The organization must set the Standard performance is benchmark for the measuring actual performance. The regular monitoring and measuring the performance of strategic plan and collection of data, indicates actual result of the given activity and set the benchmark of activity.

## 4.5 BUDGETARY CONTROL

Budgetary control is the process of preparation of budgets for various activities and comparing the budgeted figures with actual figure for arriving at deviations if any, which are to be eliminated in future. Thus budget is a means and budgetary control is the end result. Budgetary control is a continuous process which helps in planning and coordination. It also provides a method of control.

In other words, Budgetary Control is the process by which budgets are prepared for the future period and are compared with the actual performance for finding out variances, if any. The comparison of budgeted figures with actual figures will help the management to find out variances and take corrective actions without any delay.

According to **Brown and Howard** “Budgetary control is a system of coordinating costs which includes the preparation of budgets, coordinating the work of departments and establishing responsibilities, comparing the actual performance with the budgeted and acting upon results to achieve maximum profitability”.

**Advantages of Budgetary Control**

1) **Maximization of Profits:** The budgetary control aims at the maximization of profits of the enterprise. To achieve this aim, a proper planning and coordination of different functions is undertaken. There is a proper control over various capital and revenue expenditures. The resources are put to the best possible use.

2) **Effective Coordination:** Performance and working of various activities is effectively coordinated through budgetary control. Budgets of the various functions are interlinked and dependent. Effective implementation of budgets depends on cooperation of concerned personnel of various departments. Emphasis on co-ordination and cooperation helps in achieving the predetermined targets and goals.

3) **Specific Goals and Targets:** Through the process of budgeting the goals of different departments are set in advance in consultation with those in charge of them. This makes the vision of the organisation clear and employee motivation and morale boosted by achievement of clearly set objectives.

4) **Tool for Measuring Performance:** By providing targets to various departments, the budgetary control provides a tool for measuring managerial performance. Goals are set for each department. Actual performance is compared with standards and deviations are reported to top management for action against unfavourable deviations. Thus, the performance of the department heads and other executives is constantly monitored.

5) **Economy in Operations:** Expenses are properly planned and financial resources are put to optimum use. The benefits are extended to the industry and then to national economy. Budgetary control is helpful in conservation, effective utilization and elimination of wastage in scarce resources.

6) **Determining Weaknesses:** Comparison of actual performance with budgeted performance reveals week spots so that attention is focused on them to improve the performance.

7) **Correction of Performance Continuously:** The deviations of actual performance compared with budgets are frequently reported and corrections are made to rectify the unfavourable deviations immediately. In the absence of budgetary control this may be done at the end of the accounting year by which time corrections may not be fruitful or practicable.

8) **Consciousness:** It creates budget consciousness among the employees. By fixing targets for the employees, they are made conscious of their responsibility. Everybody knows what he is expected to do and he continues with his work uninterrupted.

9) **Reduces Costs:** In the present day, competitive world budgetary control has a significant role to play. Every businessman tries to reduce the cost of production for increasing sales. He tries to have those combinations of products where profitability is more.

10) **Introduction of Incentive Schemes:** The budgetary control system also enables the introduction of incentive schemes of remuneration. The comparison of budgeted and actual performance will enable to determine efficiency. Higher and lower efficiency are suitably rewarded or discouraged respectively.

11) **Shutting Down of Unprofitable Products and Activities:** Budgetary control reveals inefficiencies in products, processes and departments. This is helpful in closing down of loss making divisions to improve the overall profitability.

**Limitations of Budgetary Control**

1) **Uncertain Future:** Budgeting is a process of forecasting and estimation. It is prepared for the future period. Despite best estimates made for the future, the predictions may not always come true. The future is always uncertain and the situation which is presumed to prevail in future may change. The change in future conditions upsets the budgets which have to be prepared on the basis of certain assumptions.

2) **Budgetary Revision Required:** Budgets are prepared on the assumptions that certain conditions will prevail. Because of future uncertainties, assumed conditions may not prevail so there is need for revision of budgetary targets. The frequent

revision of targets will reduce the value of budgets and revisions involve huge expenditures too.

3) **Discourage Efficient Persons:** Under budgetary control system, the targets are given to every person in the organization. There may be some efficient persons who can exceed the targets. The common tendency of people is to achieve the targets only. So budgets may serve as constraints on managerial initiatives.

4) **Problem of Co-ordination:** The success of budgetary control depends upon the coordination among different departments. The performance of one department affects the results of other departments. To overcome the problem of co-ordination a Budgetary Officer is needed. Every concern cannot afford to appoint a Budgetary Officer. The lack of coordination among different departments results in poor performance.

5) **Conflict among Different Departments:** Budgetary control may lead to conflicts among functional departments. Every departmental head worries for his departmental goals without thinking of business goal. Every department tries to get the maximum allocation of funds and think in terms of achieving their own set targets. Thereby raising conflicts among different departments. Inter-departmental rivalries may endanger the performance of the whole organisation.

6) **Depends Upon Support of Top Management:** Budgetary control system depends upon the support of top management. The management should be enthusiastic about the success of this system and should give full support for it. If at any time there is a lack of support from top management then this system will collapse.

## 4.6 SUMMARY

Strategy implementation refers to chosen strategy putting into action. Strategy formulation follows certain steps such as formulation of plan, identification of activities, grouping of activities, organizing and allocation of resources. It suffers from certain limitations such as lack of resources, poorly defined process, lack of support, lack of follow up etc.

Resource allocation is the process in which a company decides where to allocate scarce resources for the production of goods or services. Resource Allocation is a management activity that’s closely related to strategic (resource) management. Resource allocation has certain importance such as effective management of resources, reduction in wastage of resources, boost productivity, improve morale of staff etc. It also faces certain challenges such as scarcity of resources, resource use is not optimized, it is assigned inconsistently etc etc.

Strategy control takes into account the changing assumptions that determine a strategy, continually evaluate the strategy as it is being implemented, and take the necessary steps to adjust the strategy to the new requirement.

## 4.7 QUESTIONS

**Select the most appropriate answer from the options given below**

1) _____________ refers to putting the organization's chosen strategy into action so as to achieve strategic goals and objectives**.**

(Strategy implementation, Strategy Formulation, Strategy Control, Strategy Evaluation)

2) ____________problem is involved in strategy implementation.

(Lack of Resources, Lack of Support, Lack of Communication, All of these)

3) Resource allocation facilitates ________________

(Increase wastage of resources, Lower productivity, Effective management of resources, Lower staff morale)

4) ____________is a technique of strategy controlling.

(Gap analysis, SWOT Analysis, PEST Analysis, All of these)

5) _______________ is the limitation of Budgetary Control.

(Depends upon support from top management, Maximization of Profit, Effective Co-ordination, Determining weakness)

**State whether the following statements are True or False.**

1) Country of origin can affect strategic choice.
2) Resource allocation involves the planning of all the resources required for the project.
3) In PEST analysis, 'P' stands for Policy.
4) Resource Allocation is the process by which budgets are prepared for the future period and are compared with the actual performance for finding out variances, if any.
5) Budgetary control helps to reduce cost of production.

**Match the Pair**

| **Group 'A'** | **Group 'B'** |
|---|---|
| 1. Organizing Resources | a. Plant and machinery, tools and equipments, Material |
| 2. Physical Resources | b. External Environment |
| 3. Benchmarking | c. Step in Strategic Implementation |
| 4. Strategic Control | d. Final stage in strategic management |
| | e. Technique of Strategy Control |

**Long Answers**

1) What are the factors affecting Strategic Choice?
2) What is Strategic Choice? Describe its Importance
3) Highlight the steps involved in Strategic Implementation.
4) Explain the concept Strategic Implementation. Write its Importance.
5) Elucidate Problems involved in Strategic Implementation.
6) Discuss the importance of Resource Allocation
7) Describe the Challenges involved in Resource Allocation
8) "Strategic Evaluation and Control is Important for an organization". Explain.
9) Explain Limitations Strategic Evaluation and Control.
10) What are the Techniques Strategic Evaluation and Control?
11) Discuss the Advantages and Limitations of Budgetary Control.

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MODULE - III

# Unit -5

## BUSINESS, CORPORATE AND GLOBAL STRATEGIES AND ISSUES

**Unit Structure:**



## 5.0 OBJECTIVES

After studying this unit the student will be able to

- Know the Concept and Need Corporate Restructuring
- Explain the various Forms Corporate Restructuring Strategies
- Understand Concept and Internal & External factors affecting Corporate Renewal Strategies
- Know the causes of Corporate Renewal
- Explain the Concept and Types of Strategic Alliance
- Discuss the Importance Strategic Alliance
- Know the Problems of Indian Strategic Alliances and International Businesses
- Describe the Importance and Problems of Public Private Participation
- Understand various Governing Strategies of PPP Model.

## 5.1 INTRODUCTION

An organizational restructuring strategy involves redesigning operations and management reporting structures to address and correct the operational issues that led to a company's distressed position.

A strategic alliance is an arrangement between two companies to undertake a mutually beneficial project while each retains its independence. The agreement is less complex and less binding than a joint venture, in which two businesses pool resources to create a separate business entity

A Public-private partnership (PPP) is often defined as a long-term contract between a private party and a government agency for providing a public asset or service.

Strategies as mentioned about could be adopted by businesses in modern days. Its importance and issues involved are discussed in this chapter.

## 5.2 CORPORATE RESTRUCTURING STRATEGIES

**Concept**

Corporate Restructuring is made of two words Corporate and Restructuring. Corporate is a company or a group whereas Restructuring is reorganizing or redesigning. So, Corporate Restructuring means process of redesigning one or more aspects of a company.

In other words, the process of reorganizing a company can be due to a number of different factors such as a change in ownership or ownership structure, difficulty in repaying the debts, positioning the company to be more competitive or major change in the business.

The examples of Corporate Restructuring are that men are replaced with machines to utilise resources in the best possible manner and Facebook acquired WhatsApp to prevent it from eating Facebook’s market share.

Corporate restructuring can be due to financial or organisational changes.

**The reasons for Corporate Restructuring are as follows:**

1) Enhancing the shareholder's value by improving the profits of the company.
2) Searching better avenues for growth either by acquisition, merger, diversification, etc. Example - Gold Spot, an orange drink was removed by Coke from the market in order to make space for Coca-Cola & Fanta brand
3) Need to focus on new skills and capabilities so as to meet current or expected requirements. Example - Jiomeet launched to meet the demand for online platforms
4) By selling the loss making units and utilising that money for core business. Example BAJAJ decided to exit scooter segment and enter motorcycles market.
5) Retrenching the surplus manpower of the business, this may reduce the costs.
6) Outsourcing few operations can help save cash. Many companies outsource advertising as it is cost effective.
7) Re-organizing functions such as marketing, sales, and distribution for handling present situation.
8) By eliminating certain divisions and subsidiaries not suitable with the core strategy of the company.

Thus, it can be concluded that whichever corporate restructuring strategy is adopted should serve its purpose and must be for the betterment of the company because it is rightly said change is the only constant.

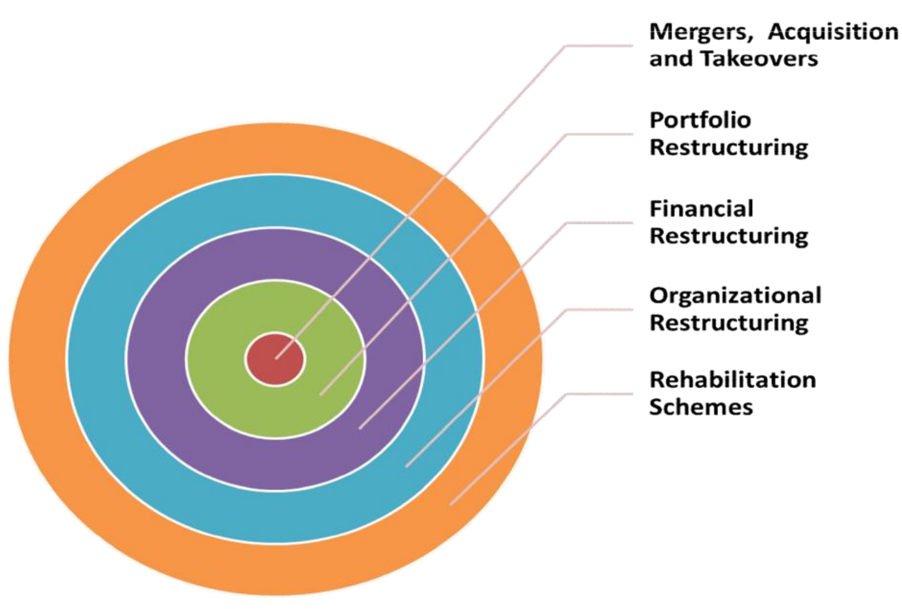
**Need for Corporate Restructuring Strategies**

1. **Growth and Expansion:** Corporate restructuring helps a firm to grow and expand. For instance, merger may enable a company to grow faster as compared to firms that undertake internal expansion.
2. **Competitive Advantage:** Corporate restructuring may enable an organization to gain competitive advantage in the market. For instance takeover or merger may enable a firm to gain economies of large scale production and distribution. Therefore, a firm would be in a better position to produce quality goods and at lower prices.
3. **Corporate image:** Corporate restructuring may be undertaken to improve the performance of the firm. Improved performance enables a firm to improve its image.
4. **Concentration on core business:** Corporate restructuring may be undertaken to enable a firm to focus on core business. In

some cases, a firm may find it difficult to manage growing business, and therefore, it may divest non-core business to concentrate on core business.

5. **Debt servicing problem:** Some firms may face the problem of debt burden. They may find it difficult to service the debt .i.e., repayment of loan installment and interest. Some firms may divest a part of the business so as to generate funds for the purpose of repayment of debt.
6. **Market Share:** Corporate restructuring may be undertaken to increase market share. For instance, firms may adopt the strategy of merger or takeover in order to increase the market share. The merger or takeover may enable the firm to take the advantage of goodwill of enjoyed by the merged firms or takeover firm.
7. **Mismatch Problem:** Restructuring may be undertaken to overcome the problem of mismatch of business. At times, a business firm may take over another business or entered into a new line of business which may not match with the current line of business.
8. **Obsolete Products:** At times, a firm may withdraw obsolete products from the market. After withdrawing obsolete products the firm can utilize its resources on existing bran

**Forms of Corporate Restructuring**



## A. MERGERS, ACQUISITION AND TAKEOVERS

### 1) MERGERS

The term ‘merger’ is used to mean the unification of two or more business houses to form an entirely new entity.

It is a strategy adopted by the company to maximise company’s growth by expanding its production and marketing operations, that results in synergy, increased customer base, reduced competition, introduction to a new market/product segment, etc.

**Forms of Merger**

- **Merger through Absorption:** When two or more companies are combined and only one company survives after the merger, while the rest of all cease to exist as they lose their identity is called merger through absorption. E.g. Tata Chemicals Limited (TCL) absorbed Tata Fertilizers Limited (TFL).

- **Merger through Consolidation:** When two or more companies are combined and give birth to a new company, it is known as merger through consolidation. This implies that all the companies to the merger are dissolved, i.e. they lose their identity and a new company is created. E.g. Consolidation of Hindustan Computers Limited, Indian Reprographics Limited, Indian Software Company Limited Hindustan Instruments Limited, to form a new company HCL Limited.

**Advantages of Merger :**

i) It enables the pooling of resources and streamlining of operations, thereby, resulting in **improved operational efficiencies**.

ii) The merged firms enjoy benefit of **economies of scale**. Merger may result into increasing demand. This in turn results into increasing production and distribution capacity of firm. When production increases the firm purchases raw material on large scale and they get discount. So the firm saves on raw material. The firm also save on transportation cost as the transportation cost is mostly fixed..

iii) Merger provides **faster growth to business** as it offers advantages in several areas such as marketing, production, finance, R&D and so on.

iv) When a company is having accumulated losses and it is merged with another company. The newly formed company gets **benefit in taxation**.

v) Merger allows companies to **share technology and other facilities** such as plant, market, human resources etc.

vi) The benefit of economies of large scale is shared with customers in the form of reduced price. Also due to R&D activity customers get better quality and innovative product. So when customers get better quality products at lesser price, it results into **customer satisfaction**.

**2) ACQUISITIONS**

An acquisition takes place when one of the company purchases mostly all of the shares of the other company for gaining the control of other companies. Purchasing the target company's shares and other assets by more than 50% allows the acquirer to take the decisions of the acquired company without the approval of the company's shareholders. The acquisition is considered to be a critical component and an important change agent of any strategy of the business. Example - Acquisition of the Company Ranbaxy by the Sun Pharmaceuticals.

**Advantages of Acquisition Strategy:**

Answer same as "Advantages of Merger"

**3) TAKEOVERS**

A takeover is a special form of acquisition that occurs when a company takes control of another company without the acquired firm's agreement. In other words, takeovers occur when a company takes over and purchases a company without the permission of the company or its Board of Directors.

**There are two methods by which companies can undertake takeover which are as follows:**

- **Tender Offers involve** after the refusal from the management of target company for the initial offer proposed, the acquiring company purchases the shares of the target firm directly from shareholders, or on the secondary markets. Therefore, buying all or a majority of the company's shares allows the acquiring company to possess ownership of the target company. To purchase shares, the acquiring corporation offers a higher price to shareholders than the market value of the stock.

- **Proxy Fight involves** the acquirer company after being refused for their initial offer for the acquisition of the target company, tries to change the members of management for the decision to be in their favour. For such to happen, the acquirer company will convince the shareholders to exercise their proxy vote and try to change the members of the management who are opposing the takeover and replace them with the new members who are more reliable and receptive to the decision of takeover and give their decision for the change of ownership of the business.

**Advantages of Takeover:**
Answer same as “Advantages of Merger”

**B. PORTFOLIO RESTRUCTURING:**
Portfolio restructuring basically involves modifying the business portfolio divestiture and de – merger.

1) **Purchase of Division / Plant:** A firm can purchase a division or plant of another firm for the purpose of improving its market or financial position. For instance, a large cement company can purchase a cement division of a diversified firm, or a large food and beverage company can purchase foods division of another diversified company.

2) **Divestiture:** A divestiture involves the sale of a division or a plant or a unit of one firm to another. From seller’s point of view, it represents contraction of portfolio, and from the buyers point of view it represents expansion.

**Reasons of Divestiture:**
- Raising capital
- Reduction of losses
- Concentration on core business
- Improvement in Efficiency

3) **De-merger:** A demerger takes place, when a firm transfers one or more of its units to another firm. The company whose unit is transferred is called Demerger Company, and a firm to which the unit is transferred is called the resulting company. A scheme of demerger, is in effect a corporate partition of a company into two undertakings, thereby retaining one undertaking with it and by transferring the other undertaking to the resulting company. It is a scheme of business reorganization

**De-merger can takes place in two forms:**
- ✓ **In spin – off:** A division or unit is spun-off into an independent company.
- ✓ **In split – up:** An existing company is split up into two or more independent companies.

**Reasons of Demerger:**
- Sharper focus
- Improved initiatives and accountability

**There are 2 modes of demerger as follows:**

- **Partial demerger:** In the case of a partial demerger, the existing company also continues to maintain its separate legal identity and the new company being a separate legal identity, carries on the separated or spun off business and undertaking of the existing company.

- **Complete demerger:** In the case of a complete demerger, the existing company is voluntarily wound up and its entire business, undertaking etc. are transferred to one or more new companies.

**C. FINANCIAL RESTRUCTURING:**

Financial restructuring of a company involves a re-arrangement of its financial structure to make the company's finances more balanced.

A company may re-organize its capital in different ways, such as reduction of paid up share capital; conversion of one type of shares into another; conversion of shares into debentures or other securities. It involves a significant change in the financial structure of the firm or the pattern of ownership and control.

1) **Going Public:** Private Limited companies, closely held public companies, and even sole trading concerns and partnership firms may go public. The main reason is mainly to access capital for its growth and expansion plans.
2) **Debt – equity Swap:** When a firm finds it difficult to service its existing debt, it may decide to convert debt into equity.
3) **Leveraged buyout:** It normally involves an acquisition of a division or unit of a company; and occasionally, it involves the purchase of an entire company.
4) **Buy back of shares:** A share buyback involves a firm's decision to repurchase its own shares from the market. The main reasons of buy back are:
   - Reduce Dilution and Increase Ownership
   - It is a defensive strategy against a potential takeover.
   - Enhancing Financial Ratios

**D. ORGANIZATIONAL RESTRUCTURING:**

A good number of firms are resorting to organizational restructuring to face competition and to improve their financial position. Some of the ways are:

1) **Regrouping of business:** Firms are regrouping the existing businesses into a few compact Strategic Business Units (SBUs), which are often referred to as profit centers.
2) **Business process re-engineering:** It aims at improvements in performance by redesigning the processes through which an organization operates.
3) **Downsizing:** It involves retrenchment of surplus manpower through voluntary retirement scheme and other schemes.
4) **Outsourcing:** Companies are resorting to outsourcing or sub contracting, which helps to reduce manpower and convert fixed costs into variable costs.

**E. REHABILITATION SCHEMES:**

A sick unit can be revived to improve its financial position by adopting revival schemes. Some of the important revival schemes are:

1) **Settlement with creditors:** A sick units is normally not in a position to honor its commitments, and therefore, it must enter into a settlement with its creditors.
2) **Divestment:** A sick unit may divest or dispose of unprofitable units, and plants, and other non – essential assets in order to improve liquidity.
3) **Strict control over costs:** A sick unit should have a strict control over costs, especially over its discretionary expenses.
4) **Streamlining of operations:** Business operation must be reviewed to find out any unproductive activities
5) **Provision of Additional capital:** A sick unit normally requires additional capital for working capital needs, repair and modernization of plant and machinery.

## 5.3 CORPORATE RENEWAL STRATEGIES

**Concept**

Corporate Renewal strategy is also known as turnaround strategy. This strategy helps to transform underperforming organizations to achieve short term profitability and long run success. Today’s increased competition, cyclical and volatile financial markets, and economic trends have created a climate in which no business can take stability for granted.

In other words, a corporate renewal strategy, or a corporate turnaround strategy, is a response to a decline in the corporation's performance. If customers start buying less of a company's products, or the company has unexpected cost increases for materials and labor, the corporation can create a strategy to alleviate these problems. Another corporation can buy out a poorly performing firm, and use a corporate renewal strategy to make it more productive.

**Internal factors affecting Corporate Renewal**

**i) Value System:** Values refers to principles or standards of behavior. The value system is helm (the position of control) of affairs of the founders. Therefore it is widely acknowledge fact that the extent to which the value system is shared by all in the organization is an important factor contributing to success. If the founder has progressive value system, they will undertake corporate renewal strategies and vice-versa.

**vii) Human Resources :** Human resources are most important resources among all other resources required by the firm. These resources are very sensible; therefore every business need to tackle them with carefulness and cautiousness. The success of corporate renewal strategy is largely depend on quality and quantity of human resources in the organization.

**viii) Physical Resources :** Physical resources consist of machines, equipments, buildings furniture's and fixtures. These resources play vital role in production activity. The analysis of these resources helps in successful implementation of corporate renewal strategy.

**vi) Financial resources:** Finance is the back bone of every business. So every business needs to have proper financial management, which includes arrangement of finance and utilization of finance. Corporate renewal strategy requires a firm to analyse financial resources.

**ix) Labour-management relations:** It is stated that the business flourish to a greater extent, if it is supported by labour / human resources well. Even if there are certain shortcomings on the part of other physical and financial resources, but there is good relation between management and labour then there would not be a problem. To keep a good relationship with labours a management needs to take care of all types of problems of the labour. This helps in successful implementation of corporate renewal strategy

**x) Inter-departmental Co-operation:**

There are various departments functioning in an organization which includes purchase, sales, finance, production, accounts etc. Each department is depend on another. Eg. Production department is depend on purchase department whereas purchase department is depend on finance department and finance department is depend on sales department. So in order to reap maximum benefit out of corporate renewal strategy, there has to be inter-departmental co-operation.

**External factors affecting Corporate Renewal**

c) **Customer preferences :** Customer is the king of the market. Therefore every company strives to create & sustain customers. So that it can survive & be success in the market. In fact monitoring the customer requirements is the pre-requisite for the business success. corporate renewal strategy requires to know customer preferences and accordingly serve them which may result into customer satisfaction.

**e) Competitors:** In simple word competitors means the firms which market the same products. Corporate renewal strategy requires a business firm should come up with effective marketing strategy to have competitive advantage over its competitors. Business firm must analyse marketing strategy of competitor from time to time.

**h) Government Policies:** A business firms intend to undertake corporate renewal strategy must analyse various government policies. If government policies are favourable, the firm must take advantage and introduce corporate renewal strategy, to improve its performance.

**i) International Environment:** International environment includes export-import policies, economic conditions, international competition, foreign exchange regulations and so on. The firm should analyse international environment to implement corporate renewal strategy successful.

**j) Suppliers:** Suppliers supply inputs to business firm like raw materials, components and other supplies. They place important role in smoother functioning of the production department. corporate renewal strategy requires a business firm to maintain good relationship with suppliers.

**k) Investors:** Investors provide required funds for business for its growth and expansion activities. Support of investors is necessary for effective implementation of corporate renewal strategy.

**l) Support of Society:** A business firm must get support of society for undertaking its corporate renewal strategy successfully. Without support of society it would be difficult to implement corporate renewal strategy. Eg. Nano Car’s project of TATA which was shifted from West Bengal to Gujrat due to objection by society and politicians. It involved huge cost in shifting the project.

**Causes of adopting Corporate Renewal Strategy**

**Internal Causes**

1) Production-related causes
   - Poor Quality Management
   - Inappropriate plant location
   - Outdated technology
   - Lack of Research and Development activity

2) Marketing related causes
   - Poor quality product
   - Faulty pricing strategy
   - Ineffective promotion-mix
   - Faulty distribution channels

3) Finance related causes
   - Obtaining funds from wrong sources where there is higher rate of interest
   - Investing funds in unprofitable business
   - Personal use of funds by some managers
   - Defective capital structure
   - Faulty credit and dividend policies

4) HR related causes
   - Lack of Human resource planning
   - Unscientific recruitment and selection of employees
   - Lack of training to employees
   - Faulty promotion policies
   - Inappropriate compensation policy

**External Causes**

1) **Unhealthy Competition:** It includes unethical ad campaigns to deteriorate image of the firm, duplication of products to malign name of firm, pressure on dealers for not promoting product of a firm, price war etc. can affect corporate renewal strategy.

2) **International problems:** International environment includes export-import policies, economic conditions, international competition, foreign exchange regulations etc. may not be favourable which adversely affects corporate renewal strategy.

3) **Government Policies:** Alternations in government policies may adversely affect corporate renewal strategy. Eg. Entry of Amazon in Indian market has created threat for Indian businesses.

**4) Other Causes**

- Infrastructure related
- Law and order related
- Brand Piracy

## 5.4 STRATEGIC ALLIANCE

**Concept**

The term alliance can be derived from the word **'ally'** or the old **French word 'aligre'** which mean **'to associate with'** or **'to bind or to co-operate with another with some common cause or interest'**. An alliance therefore is an association that involves co-operation and collaboration and merging of complementary interests to achieve individual and mutual goals and objectives.

A strategic alliance is an arrangement between two companies that has come together to share their resources. Two organisations or individuals join hands to achieve a common goal. In this strategy there is co-operation rather than competition. Both companies maintain their independent identity and keep on pursuing their objectives. Now strategic alliances are becoming popular because of the competitive market environment.

Strategic alliances include non-equity agreements, and joint ventures which undertake joint R & D, joint product - development, knowledge sharing, marketing and distribution sharing and joint quality control and research.

Strategic alliance is a relationship between corporations that is characterized by merging of complementary interests, the sharing of privileged information and meaningful collaboration and co-operation to achieve strategic goals and objectives. The strategic alliance may provide technical, operational and / or financial benefits to the corporations.

Strategic alliances are common in business world. They are significant to achieve synergy. Strategic alliance leads to synergy due to sharing of resources and combined efforts of various parties. However, due to involvement of various parties, certain problems or difficulties can occur such as conflicts between parties, government interference, delay in decision making, difference in values & culture, loss, unfair terms and conditions and so on.

**Businessjargons** defines, "Strategic alliance refers to the agreement between two or more firms that unite to pursue the common set of goals but remain independent after the formation of the alliance. In other words, when two companies come together to achieve the common objective by sharing the particular strengths (resources) with each other is called as a strategic alliance."

**Types of Strategic Alliance**

**a) Based on the parties to alliance :**

- **Horizontal Strategic Alliance** - It formed by companies working in the same area. It is done by competitors to consolidate their position in the market. Research and Development collaborations and Logistics companies generally form such an alliance.

- **Vertical Strategic Alliance –** It is formed as a partnership between suppliers and distributors. Such alliances help in improving relationships and enlarging the company's network. Many car manufacturers form close relation with their suppliers.

**b) Based on financial involvement :**

- **Non - Equity Strategic Alliance –** It is created when two or more companies sign a contractual relationship by combining their resources and capabilities together. Such alliances are more of informal type and majority are of this type. Nokia and Microsoft entered into an agreement utilising the very complementary assets of both the companies. Non-equity is through contract rather than ownership. Example - Nike contract with UPS, a supply chain manager to arrange the entire delivery process from factory to even collecting the money from the customer.

- **Equity Strategic Alliance -** It is created when one company purchases a certain equity percentage of the other company. It is a formal type of agreement and entering into such an alliance generally solves the financing needs of the parties involved.

- **Joint Venture Strategic Alliance -** A Joint venture is a commercial enterprise undertaken jointly by two or more parties which otherwise retain their distinct identities. It can be temporary association for the purpose of achieving a specific task. Google's parent company Alphabet announced a Joint Venture with GlaxoSmithKline to research treating diseases with electrical signals.

**c) Based on Participation of the Government :**

- **Host Country's Government -** It acts as local partner in strategic alliance. Such strategic alliances are effective in socialist - countries.

- **Public - Private Venture -** This involves partnership between a government and a private company. This type of Strategic Alliance is created under the following circumstances –
  - ✓ When a country allows entry of foreign companies only through Strategic Alliances with the government.
  - ✓ When the priority of the Government for development matches with the competence of a private company.
  - ✓ Firms can enter centrally controlled economies like China and Sweden only through Strategic Alliances with the Government.

- **Private Partners** - In this case private companies enter into Strategic Alliance agreement.

**Importance of Strategic Alliance**

For companies there are many reasons to enter a strategic alliance:

1. **Shared Knowledge** - A separate single business will never be able to pool the amount of resources which an alliance business can bring. Synergistic advantage can be utilised to the fullest.
2. **Reduced Competition** – Strategic alliance companies reap the benefit of avoiding production of similar products and reduced competition. This benefit is passed to the customers in the form of reduced prices.
3. **Specialisation** - Each partner can help focus on their on core specialisation and take the benefit of the other party without losing its identity. Eg. Starbucks coffee took a wise decision to enter India by entering into an agreement with Tata.
4. **Entering New Markets** - One of the most popular reasons to agree for an alliance is access to new segments and markets. Without investing a huge amount, company can expand its business with the help of its alliance partner.
5. **Increase in Number of Products and Services** - If the strategy is to increase the number of products and services in the new market, company can select a partner who offers complementary products or services. Such similar business can serve the common customers and take benefit of the reduced costs.
6. **Growth Opportunities** - The growth opportunities of a company is manifold with an alliance. Right from brand name to taking advantage of partner's marketing and distribution strategies helps a company grow faster as compared to a single identity.
7. **Shared Risk** - Strategic Alliances works best for companies handling complementary portfolio and not exactly competitors.

Coming together can strengthen their market position and helps them face the risks jointly.

8. **Other Benefits:** A strategic alliance gives access to new markets; technology, combine valuable expertise and resources which sometimes is not possible without the alliance hence should be considered as an opportunity for expansion of the business.

## 5.5 PROBLEMS OF INDIAN STRATEGIC ALLIANCES

Strategic Alliances are common in business world. They are significant to achieve synergy. Synergy means increased effectiveness or achievement gained by combined action or co-operation. Strategic Alliances provide synergy due to sharing of resources and combined efforts of different parties.

However problems or difficulties in the operations of Strategic Alliances can occur due to the following reasons.

1. **Conflict between Partners –** Strategic Alliance can result into conflict between Partners. Conflicts can be due to differences in opinion, difference in values and attitude and so on. Such conflicts can affect the functioning of alliance.

2. **Government Interference –** There may be loss of control over strategic alliance operations when the local government is a partner in the Strategic Alliance. This situation occurs in industries considered important to national security such as broadcasting, infrastructure and defense. The profitability of the Strategic Alliance could suffer because the local Government would have motives that are based on national interest, which may compel them to interfere in the operations of the Strategic Alliances.

3. **Delay in Decision Making -** Decision making is normally slowed down due to involvement of a number of parties. This may lead to inefficient - operations. Opportunities may be lost which may affect the growth of the business.

4. **Differences in Work Culture -** The work culture of the companies forming Strategic Alliances are different. MNCs who generally are parties to the Strategic Alliances are profit centered. All decisions are taken from economic angle. This may conflict with the culture of the local company as it's decisions may be socially oriented. This may make functioning of the Strategic Alliances difficult.

5. **Losing of Secrecy –** There can be some alliances regarding complex transactions requiring extensive coordination and intensive information sharing. It may create a a risk of losing secrecy of proprietary information.

6. **Expensive and Time Consuming -** The procedure for formation of Strategic Alliances is lengthy, complicated and time consuming. The formation of Strategic Alliance can increase costs because of the absence of a formal hierarchy and administration within the strategic alliance. Even costs can rise due to the element of hidden costs and activities outside the scope of original agreement and inefficiency in management.

7. **Problems Due to Changes in Government Policies -** The changes in government policies relating to foreign exchange and technology transfer may create problems in the formation of Strategic Alliances.

8. **Unfair Terms and Conditions -** The terms and conditions laid down in the agreement may not be fair and reasonable to both partners.

Thus, there are several risks and limitations associated with Strategic Alliances. Failures are often caused due to lack of mutual trust and confidence, unrealistic expectations, lack of commitment, cultural differences, and so on.

## PROBLEMS OF INTERNATIONAL BUSINESSES

International business refers to trade of goods and services across the national borders. It is cross border transaction between two or more countries. Advent of technology has made a world a very much connected place. Going international has its own pros and cons, but now going global is inevitable. Some of the problems of international businesses are discussed as follows:

1. **Faulty Planning** - Planning is a must for every activity. To achieve success, planning along with the correct implementation is necessary. Planning for an international market is an expensive process. Expected risks can be thought of and alternative plans should be kept ready.

2. **Problem of Market Research** - What may work in the local country may not work in the global work, hence market research is the first major step for going at international level. If market is not analysed properly, it may not yield the desired results. Companies and brands fail without research. It is not only expensive but a wrong analysis may ruin the business. Trained executives and personnel is an asset for this function especially

while entering the foreign market. Is selling saree profitable outside India? Such questions are best answered with market research.

3. **International Laws and Regulations** - Every country has its own laws and paper work which may not be easy. Right from business registration and actual start of the business all such legal formalities have to be followed so that there are no legal complications in the future. Thorough understanding is needed otherwise they may pose problem any time. It takes time and sometimes they are very confusing too.

4. **Competition** - Going global is handling and facing competition not only from local people but also from third countries. To gain competitive edge, needs thorough understanding and research of the competitors in those markets. Survival of the fittest is the rule. But, when it comes to international level, any wrong step may lead to the failure of the business. Eg. Kellogs cornflakes are still finding its place in the Indian market.

5. **Cultural and Language Barriers** – This is something very sensitive and must be taken care of before entering the market. International businesses require studying culture of other countries. Culture sensitive market does not easily accept the unacceptable things to their culture. Eg. Mc Donalds cannot sell beef in such countries where not acceptable. Language can also affect international businesses. Most countries where English is not the accepted language may be a challenge.

6. **Issues related to HR** - People moving from one country to the other need a lot of patience as well adaptability to that place. The way Human Resource Department functions in that country may be completely different. HR people need to be very cautious as such challenges may be difficult to tackle and may affect the employees badly, which ultimately may not go well for the business in the near future. Managing workforce diversity is never an easy task.

7. **Heavy Tariffs and Duties** - The production and the product may become more expensive owing to the tax rate or structure of that country. Few products may become difficult to buy if the tariffs are excessively levied. The business if unable to generate money may not be able to survive the taxation in the long run.

8. **Political Risks** - Entering a new territory or place has its own risks. If there is no political stability in the country, the venture may suffer badly. Issues can arise because of the government and the political scenario in that country. Trading partners need to share amicable relations.

**International business helps a nation earn money and goodwill too. Customers also want better products. Apple would have remained a fruit only, but all thanks to foreign markets we know that it is a phone brand too.**

## 5.6 PUBLIC PRIVATE PARTNERSHIP (PPP)

**Concept**

The advent of PPP framework can be dated back to 1980s, when governments in countries like U.K and Chile, post success of privatization in sectors like electricity, telecommunication and sanitation, sought to extend benefits of privatization to sectors deemed exceedingly difficult to privatize, such as transportation, schools, and hospitals under suitable PPP models.

A public private partnership is a contract between a government agency and a private sector company. It is a co-operative arrangement involving government and business to complete a project typically of a long term nature.


PPP are contractual arrangements of varied nature in which the two parties share rights and responsibilities during the duration of the contract. Different forms of PPPs may exist involving various combinations of public and private sector finance and exposure to project risk. The role of the private party varies according to the type of sector and the nature of the market.

PPP are often confused with Privatisation. There is a clear difference between these two forms of private sector engagement. Privatisation involves the permanent transfer of a previously publicly owned asset to the private sector, where as a PPP necessarily involves a continuing role for the public sector as a `Partner' in an ongoing relationship with the private sector.

Under a PPP, accountability for provision of the service remains the public sector, and there is a direct contractual relationship between the Government and private sector provider.

With Privatisation, immediate accountability for providing the service may often be transferred to the private provider (although ultimately the citizen may hold government accountable.) If the telephone in a privatized telecommunications utility does not work, the citizen will normally complain to the private provider but if a PPP hospital is closed, the citizen will still hold the government immediately accountable.

There are PPP in which a private party provides public infrastructure under a long term contract with a public sector body. Under such an arrangement, the private sector party usually agrees to under take the following.

1) Design and build, expand or upgrade the public sector infrastructure.
2) Assume substantial financial, technical and operational risks.
3) Receive a financial return through payments over the life of the contract from users, from the public sector, a from a combination of the two.
4) Usually return the infrastructure to public sector ownership at the end of the contract.

Terms such as BOT (build, operate and transfer) and DBFO (design, build, finance & operate) are often used to describe such schemes. Such terms also apply to long term concessions where the private sector is responsible for the operation, maintenance and expansion of existing assets. When the underlying asset is not returned to the public sector, it is sometimes referred to as a BOO (build, own and operate) contract, and the procedures to select, prepare and bid these types of projects are usually no different. Each sector may have its own particular issues, but these approaches can apply across a wide range of infrastructure provision.

Whether in power generation, the building and maintenance of roads, or the provision of schools or hospitals, the broad nature of the PPP is determined by what rights, obligations and risks are assumed by the public or private parties within the partnership.

**Examples of PPP in India**

1) **Second Vivekananda Bridge (now Sister Nivedita Bridge) in Kolkata -** This bridge is one the first BOT projects, undertaken in 1995. The concession agreement was signed in September 2002. The consortium members are from USA, UK, Mauritius and India.

2) **Mumbai Metro -** First MRTS project in India being implemented on Public Private Partnership (PPP) format. DMRC (Delhi Metro Rail Corporation) prepared the master plan for Mumbai Metro. The Private party involved was- Reliance Energy Ltd.

3) **DND Link Road -** The 4 lane 1.5 km long road will intersect the Delhi Noida link road at the intersection of the proposed Mayur Vihar District Centre.

4) **Underground Car Parking System City- Kolkata, West Bengal -** The Kolkata Municipal Corporation (KMC) decided to utilize the rights to underground space and undertake the parking project as a Public Private Partnership project on a Build-Own-Operate-Transfer (BOOT) basis for 20 years. The Private parties involved were- KMC and Simplex

**Importance of Public Private Participation (PPP):**

1. **Each participant gives best to the partnership:** When two entities work for one mutual goal, both combine their best and get better returns as compared to a single project. Each may give best to what it is specialised at.
2. **Mutual sharing of benefits:** Such projects are one with long gestation period and even very expensive. All this is easily carried out with a good business partner. The risks and the benefits are easily shared and both parties benefit mutually.
3. **Government can focus on its socio-economic activities:** With someone sharing the project costs and the actual work, government can focus on other important socio-economic areas.
4. **Smooth and faster completion of project:** As generally PPP is for long term, coming together of two parties help in smooth and faster completion of the project.
5. **Benefit to nation:** Although such projects are not very easy to carry out but definitely involving a reliable private party not only helps in sharing the costs and risks but benefits the nation in the long run.
6. **Strengthen small town enterprises**: Small enterprises in rural small towns of developing countries do not usually get opportunities to subcontract with large organizations which often are foreign-owned and keen on subcontracting with other foreign firms or developing their own subsidiaries in the host country, without such opportunities for experience and investments, the enterprises fail to develop strong track records for growth and potential competition. Strategic government policy and regulatory mechanisms that encourage a variety of public-private partnership in these areas would strengthen

small-town enterprises while at the same time stimulating entrepreneurial interest.

7. **Other Importance**:

- Government may find it difficult to invest in capital intensive projects but a private entity may be interested in exchange for a long term benefit.
- Exploring PPPs as a way of introducing private sector technology and innovation in providing better public services through improved operational efficiency
- They provide better infrastructure solutions than an initiative that is wholly public or wholly private. Each participant does what it does best.
- A public-private partnership would typically improve efficiency in the public sector and increase capacity development for local business.

As outlined in its XII Five Year Plan (2012–2017), India has an ambitious target of infrastructure investment (estimated at US$1 trillion). In the face of such an enormous investment requirement, the Government of India is actively promoting PPPs in many sectors of the economy.

A country prospers quickly if both public and private work in co-operation. Such models typically improves efficiency of the public sector and increases the capacity development of the local business.

**Problems of Public Private Participation (PPP)**

1. **Problem of common interest:** As government works for social welfare and private sector for profits there should be a common interest on the project to be initiated. The initial excitement or the interest may decline in the long run if differences crop up because of this mind-set.

2. **Lack of Ownership -** This model is a joint effort. In case either of the party does not contribute equally, one of them will always have more pressure than the other. Such problem exists especially more when the project fails to deliver what it promised.

3. **Dominance of private party-** It may happen government takes a backseat and the private party may dominate due to the share of the capital. With this government is at an inherent disadvantage. Generally companies with more funding tries to take the lead for which sometimes the public may be at a loss.

4. **Problem of communication and objectives -** Lack of communication and unclear of objectives may impact the delivery of the project. Initial level comfort and maintaining complete transparency helps in smooth running of the project. Realistic objectives along with proper decision may help solve this problem.

5. **Different style of workings:** Private sector may be more cautious with the delay in such capital intensive projects. Their style of working and execution may not go well with the government party as such huge projects may turn costly if not executed as per the projected time.

6. **Differences -** Large projects involves a proper planning before the execution. There may be differences of opinion and competing objectives may have an impact on the relationship of the people involved. If there is lack of discipline the entire team suffers and result may be not as planned.

7. **Poor Control -** Lack of discipline and poor control owing to multiple participants is one of the disadvantage of any business. Regular and proper control over the resources not only saves time but helps in delivering the best.

8. **Every PPP involves more risk for private partner** either due to the system or long waiting approvals which may affect the business relationship and the private partner may expect the government to compensate.

## 5.7 GOVERNING STRATEGIES OF PPP MODEL

**1) Joint Venture Strategy:** Joint Venture can be described as a business arrangement, wherein two or more independent firms come together to form a legally independent undertaking, for a stipulated period, to fulfil a specific purpose such as accomplishing a task, activity or project. In other words, it is a temporary partnership, established for a definite purpose, which may or may not uses a specific firm name.

In PPP model joint venture, the government and private firm come together and establish temporary partnership for a definite purpose of undertaking project.

Example - To create a special purpose vehicle (SPV), Pipavav Railway Corporation Ltd (PRCL) was set up in May 2000 under the Companies Act, 1956, as a joint venture (JV) company with Indian Railways and Gujarat Pipavav Port Ltd (GPPL – which was formed by signing Memorandum of Understanding between

Sea King Infrastructure Ltd's, Gujarat Maritime Board and Government of Gujarat in 1992).

PRCL is a unique example of public-private participation (PPP) in the development of infrastructure. The SPV was assigned the task of converting the metre gauge line between Surendranagar and Rajula City to broad gauge and its further extension to Pipavav Port. The company is also entrusted the task of managing all operations and commercial functions in connection with the carriage of freight traffic on the 271 km Pipavav Railway connecting port of Pipavav.

2) **Build-Operate-Transfer (BOT) Strategy:** It contract is a model used to finance large projects, greenfield infrastructure projects developed through public-private partnerships.

   Under a build-operate-transfer (BOT) contract, an entity—usually a government—grants a concession to a private company to finance, build and operate a project for a period of 20-30 years, hoping to earn a profit. After that period, the project is returned to the government.

   Example - Setting up 20 MW hydel based power unit at Telbeila in Pune. This BOT project was between Water Resources Department, Maharashtra and Satind Infrastructures Pvt. Ltd. signed in 2013.

3) **Turnkey Project Strategy:** In this a private party agrees to fully design, construct and equip the project and turn it over to the government when it is ready for operation. Generally the finance is provided by the government. After transferring the project to government, operation part is looked after by government. But project maintenance is part is looked after by private party.

   This is very common adopted practice in Oil AND Gas Sector, Power Plant Sector, Port Development, Railway Network or Station Development , Metro Rail etc. Project.

   Deliveries in the form of turn-key projects are used in many areas, e.g. in IT (turn-key implementation of information systems), engineering, large construction projects, civil engineering and a number of other areas.

4) **Build-Own-Operate (BOO) Strategy:** BOO (build, own, operate) is a public-private partnership (PPP) project model in which a private organization builds, owns and operates project with some degree of encouragement from the government. Although the government doesn't provide direct funding in this

model, it may offer other financial incentives such as tax-exempt status. The private party is allowed to recover the total investment by collecting user fees from the facility users. The developer owns and operates the facility independently. Unlike the build-operate-transfer (BOT) structure, the private sector party owns the project and does not have to transfer it to the government entity at the end of the term.

5) **Concession Contract Strategy:** In this strategy the private party (concessionaire) is responsible for fully design the project. The government is responsible for establishing service standards and to ensure that private party charges the right user fees. The private party is responsible for investment. In some cases government may provide finance. A concession contract is for longer period of time say 20-30 years, so that the private party gets enough time to recover their investment plus fair Return on Investment (RoI).

6) **Lease Contract Strategy:** Under this strategy, the Government allows the private party to use the existing assets of the project. This contract is generally for 10 years and renewed further for more 10 years.

7) **Management Contract Strategy:** Under this contract private party is responsible for the management of public services facilities like hospital, utilities (water supply, power supply, transport) port etc.
   The public sector is responsible for investment in fixed assets, and the private sector provides working capital to manage the facilities. The public sector pays to the private party a certain rate for operating expenses. This contract is signed for 3 to 5 years and may be renewed further.

8) **Service Contract Strategy:** Under this contract, the public sector enters in a contract with private sector party relating to provisions of certain services such as maintenance of and repairs of roads, highways and other infrastructure. This contract is signed for a period of 1 to 3 years and may be renewed further. The Government pays the private party a predetermined fee for services which may be one-time fee during the contract period.

9) **Design-Finance-Build-Operate (DFBO) Strategy:** This strategy is variation of Build-Own-Operate (BOO)

10) **Design-Build Strategy:** This strategy is variation of Turnkey Project Strategy

## 5.8 SUMMARY

A restructuring involves radically changing a company's organizational, financial and operating structure to permanently and swiftly address serious financial and operational issues that could lead to a corporation's shutdown or liquidation. Restructuring essentially acts as an in-depth reorganization conducted for the primary purpose of returning a corporation to profitability and productivity. Restructuring strategies can be Merger, acquisition, takeovers, Portfolio restructuring, Financial restructuring, organizational restructuring, rehabilitation scheme etc.

When A corporate strategy designed to address declining performance, then this type of strategy is called renewal strategy. This type of strategy helps an organization stabilize operations, revitalize organizational resources and capabilities, and prepare to compete once again.

A strategic alliance is an arrangement between two companies to undertake a mutually beneficial project while each retains its independence. The agreement is less complex and less binding than a joint venture, in which two businesses pool resources to create a separate business entity. Indian strategic alliance face certain problems such as Conflict between Partners, Government Interference, Delay in Decision Making, Differences in Work Culture etc.

PPP is an arrangement between government and private sector for the provision of public assets and/or public services. ... These partnerships work well when private sector technology and innovation combine with public sector incentives to complete work on time and within budget.

## 5.9 QUESTIONS

**Select the most appropriate answer from the options given below**

1) ________________means process of redesigning one or more aspects of a company.

   (Corporate Restructuring Strategy, Public Private Participation, Strategic Alliance, None of these)

2) Corporate restructuring involves_________________.

   (Purchase of Division, Divestiture, De-merger, All of these)

3) ___________affects to the corporate renewal strategy of a firm.

(Value system of management, Customers, International Environment, All of these)

4) ___________ is an arrangement between two companies that has come together to share their resources.

(Corporate Restructuring Strategy, Public Private Participation, Strategic Alliance, None of these)

5) ________________ is a strategic alliance based on financial involvement.

(Equity Strategic Alliance, Vertical Strategic Alliance, Horizontal Strategic Alliance, All of these)

6) __________problem can be involved in Indian strategic alliance.

(Differences in work culture, Reduced Competition, Entry in new market, Growth Opportunities)

7) ___________is a contract between a government agency and a private sector company

(Corporate Restructuring Strategy, Public Private Participation, Strategic Alliance, None of these)

8) _____________issue is involved in strategy analysis and choice.

(Corporate Culture, Impact of Past Strategies, Governmental Policies, All of these)

9)_________ is one of the Public Private Participation (PPP) models.

(Build-Operate-Transfer, Sole Trading Concern, Joint Hindu Family Business, Co-operative Societies)

**State whether the following statements are True or False.**

1) Merger is one of the forms of Corporate Restructuring Strategy.
2) Poor quality of product can be a cause for a firm to adopt Corporate Renewal Strategy.
3) Culture and Language barrier can never be the problems of International Businesses
4) Public Private Participation strategy enables Government can focus on its socio-economic activities.
5) Mumbai Metro is an example of Public Private Participation strategy.
6) In turnkey project, the private party does not handover project to Government after it is completed.

**Match the Pair**

| Group 'A' | Group 'B' |
|---|---|
| 1. Financial Restructuring | i. Public Private Participation (PPP) Model |
| 2. Build-Operate-Transfer (BOT) Strategy | j. Form of Corporate Restructuring Strategy |
| 3. Take Over | k. Issues related to HR |
| 4. Problems of International Business | l. Debt-equity swap |
| | e. Outsourcing |

**Long Answers**

1) Explain the concept of Corporate Restructuring Strategy and its need.
2) What different forms of Corporate Restructuring Strategy.
3) What is Corporate Renewal Strategy? Discuss internal and external factors affecting it.
4) Describe the causes of Corporate Renewal Strategy.
5) Highlight the types of Strategic Alliance.
6) Elucidate importance of Strategic Alliance.
7) Explain various problems of Indian Strategic Alliances.
8) Discuss the problems of International Businesses.
9) Describe the importance of Public Private Participation Strategy.
10) 'Public Private Participation Strategy involves problems'. Explain.
11) Write a note on Governing Strategies of PPP Model.

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# Unit -6

## NEW EMERGING STRATEGIES IN INFORMATION TECHNOLOGY (IT)

**Unit Structure:**



## 6.0 OBJECTIVES

After studying this unit the student will be able to

- Explain the Importance of Information Technology Driven Strategies
- Know Limitations of Information Technology Driven Strategies
- Discuss Contribution of IT sector in Indian Business

## 6.1 INTRODUCTION

Information technology fosters innovation in business. Innovation results in smarter apps, improved data storage, faster processing, and wider information distribution. Innovation makes businesses run more efficiently. And innovation increases value, enhances quality, and boosts productivity.

This chapter discussed about Information Technology (IT) driven strategies used in business.

## 6.2 INFORMATION TECHNOLOGY DRIVEN STRATEGIES

Information Technology (IT) is a subset of Information and Communications Technology (ICT). IT is the application of the computers to store, analyse, retrieve, transmit and manipulate data or information.

**Examples**

- Data networks and all associated communications equipment such as servers, bridges, routers, hubs & wiring.
- Software and support for office automation systems such as word processing and spreadsheets, as well as the computer to run them.


**Importance of Information Technology:**

1. **Make efficient business:** Goal of IT is to make business more efficient. It helps in expedite the normal work. It has made it possible for business to be open 24*7 and benefits those who have access it.
2. **Faster work:** Machine cannot get tired unlike humans. It has replaced many men with a single machine. Hence, wherever possible IT is used to make, work, things move faster.
3. **Reduced burden on employees:** Efficiency has improved by automation which has to a certain extent reduced being dependent on humans and has taken burden off from the employees which enables employees to focus on their core areas.
4. **Changed traditional way of working:** IT has completely changed the methods and the way we do work. It allows organisations to work more efficiently and to maximise productivity and work much more in a shorter amount of time.
5. **Centralization of data:** IT has created electronic storage and helps save our records and use them whenever and wherever we want.
6. **Work from home:** Working from home was once a dream, but now it is the new way. Productivity increases as work is done even without been at the work place and IT gives remote access to company's network and servers.
7. **Employment opportunities:** It provides employment to many individuals as it has created lot more opportunities with its

advent. Be it a computer programmer, hardware or software developers are the new employment opportunities for the coming generation.

8. **Growth in Indian IT industry:** It has helped the country accelerate its growth and since past two decades Indian IT industry has achieved phenomenal growth and it is changing the way world is.

## 6.3 LIMITATIONS OF INFORMATION TECHNOLOGY DRIVEN STRATEGIES

Although there are advantages of the IT still there are many pitfalls of it. Every coin has two sides. It completely depends on the way how it is used and how it is abused.

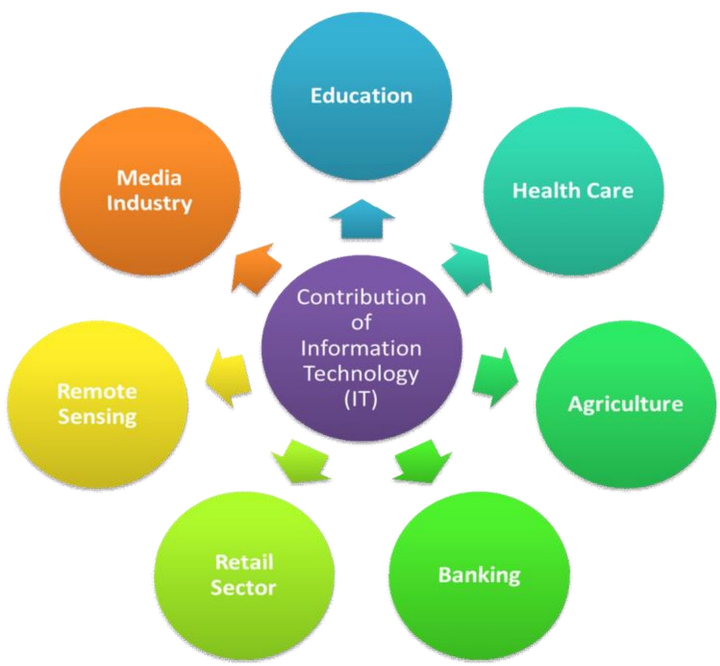
1. **Excessive dependence**: Excessive dependence on the IT and machines make us vulnerable and in case internet or power supply goes off, complete work comes to a standstill till the time it is resumed.
2. **Costly:** Implementation and the initial cost are very expensive plus employees also need to be trained. It is time consuming and it needs continuous up gradation. Although now survival is difficult without technology but we have to be aware of the loopholes as well as of the challenges associated with it.
3. **Work life imbalance:** If work from home is beneficial but sometimes it is not good for the work life balance of an individual. Continuous screen time and increasing work pressure has its own disadvantages which should not be ignored.
4. **Security Issues:** Personal information shared and confidential data can easily be hacked. Security risk is too much high with this ever growing use of technology. Just a single lapse can ruin the business. Hence, the system should be very much in place.
5. **Complexity -** We can no longer understand the working of the devices we use and it may affect to our personal privacy. Controlling our personal information and its misuse is very difficult and sometimes impossible.
6. **Job Insecurity -** There is a fear of the unknown. A constant need to upgrade and continuous threat of been replaced is the worst aspect of this system. Cost cutting and downsizing makes job tougher for an individual.
7. **Dominating -** nations with strong IT and technology systems are dominating the world. Whatever we do, is influenced by someone. Right from the way we eat to the way we speak is

largely automated and our own culture and practices are lost in between.

## 6.4 CONTRIBUTION OF IT SECTOR IN INDIAN BUSINESS

Information Technology in **India** is an **industry** consisting of two major components: IT services and business process outsourcing (BPO). The **sector** has increased its **contribution** to **India's GDP** from 1.2% in 1998 to 7.7% in 2017. As of 2020, **India's** IT workforce accounts for 4.36 million employees. This data very well reflects contribution of IT sector in Indian Business.

With the introduction of technology, the working of any business has changed drastically. It is no longer the way it was before the advent of computers. Information Technology (IT) is used almost everywhere and with the pace technology changes, what makes it challenging is how we upgrade and how we protect us from its negative aspects. The contribution of IT sector is discussed as below:




1. **IT in Education** - We never thought our classrooms will shift into our mobile devices. Yes, but it has!!! With this lockdown of COVID-19 pandemic situation, we all started studying and learning online. Electronic devices are used by instructors and students everywhere in the world. It is a boon to people who cannot access actual classrooms. We have so many apps now

for all such learning purpose. SWAYAM, BYJUS, VEDANTU all have changed the way we studied.

2. **IT in Health Care** - Whether it is seeking consultation or sometimes doctors sharing some information with their colleagues, everything is online now. By adopting digital technology and processes, healthcare providers are focusing on giving better quality and time to patients. E-diagnosis may soon become the future of the health care sector. All records are digitalised and soon we may have BOTS (known as internet robots) as health assistants too.

3. **IT in Agriculture** - Government is assisting farmers in India for improvement in the way they practise farming. DD Kisan TV channel launched in 2015 is exclusively for farmers which help them with real time inputs on new farming techniques, water conservation, organic farming and many more information for better farming practises.

4. **IT in Banking** - Customers are benefitting with easy access by new technology like ATMs, online banking, mobile banking etc. Many things have been streamlined due to IT and machines. No longer for every activity we need to rush to the bank. It has helped save bank's time as well customer's time.

5. **IT in Retail Sector** - Buying and shopping was never so easy. We can order at midnight also to buy our favorite products. The moment we surf or browse the internet, chat bots and advertisements pop up and helps us in directing us to the right websites. Retailers use technology in serving customers in an efficient manner. The choice of customers and what they want is easily tracked with the help of IT.

6. **Remote Sensing:** It is a blessing for mankind. It is scanning off earth by satellite or high flying aircraft in order to obtain information about it without physical contact. Researchers can easily sense things about the earth because of its help. Our daily use Global Positioning System (GPS) is widely used in many applications related to surveying and navigation.

7. **Media Industry:** IT has opened doors for Media Industry too. Advertising, broadcasting, telecasting, e-papers, animation, etc. everything is now only possible through this advance system. Technology has revolutionised the print and electronic medium. We can easily access all information online without even moving from our homes.

## 6.5 SUMMARY

Technology has come so far now that we cannot live without it now as it makes everything so easy and convenient. It's just we need to understand how to use it for our benefit and not to allow it to make us its slave.

Information technology fosters innovation in business. Innovation results in smarter apps, improved data storage, faster processing, and wider information distribution. Innovation makes businesses run more efficiently. And innovation increases value, enhances quality, and boosts productivity. At the same time IT has created some problems which include Excessive dependence, Costly, Work life imbalance, Security Issues, Security Issues, Job insecurity etc.

## 6.6 QUESTIONS

**Select the most appropriate answer from the options given below**

1) Information Technology (IT) helps business in ____________
(Increase efficiency, costly, security issue, complexity)

2) ___________is one of the limitations of Information Technology (IT) in business.
(Job Security, Centralized Data, Faster Work, All of these)

3) Today Information Technology (IT) contributes in _____ business.
(Health Care, Education, Agriculture, All of these)

**State whether the following statements are True or False.**

1) Information Technology (IT) does not have any limitations for the business.

2) Information Technology (IT) can be used in retail sector also.

3) Information Technology (IT) can result into unemployment in the country.

**Match the Pair**

| Group 'A' | Group 'B' |
|---|---|
| 1. SWAYAM | a. IT in Agriculture |
| 2. DD Kisan Channel | b. Centralization of Data |
| 3. Information Technology | c. IT in education |
| 4. | d. IT in Health care |

**Long Answers**

1) What are the importance of Information Technology (IT) in business?
2) Discuss the limitations of Information Technology (IT) in business.
3) 'How of IT sector contributes in Indian Business' Discuss with examples

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MODULE - IV

# Unit -7

# EMERGING TRENDS IN GLOBAL BUSINESS ENVIRONMENT

**Unit Structure:**



## 7.0 OBJECTIVES

After studying this unit the student will be able to

- Know the concept of Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO)
- Explain Strategies of BPO and KPO
- Understand the reasons for growing BPO and KPO businesses in India
- Describe Business Process Reengineering

## 7.1 INTRODUCTION

Outsourcing is subcontracting a process, such as product design or manufacturing, to a third-party company. The decision to outsource is often made in the interest of lowering firm or making better use of time and energy costs, redirecting or conserving energy directed at the competencies of a particular business, or to make more efficient use of land, labor, capital, (information) technology and resources

Business Process Reengineering involves the radical redesign of core business processes to achieve dramatic improvements in productivity, cycle times and quality. In Business Process Reengineering, companies start with a blank sheet of paper and rethink existing processes to deliver more value to the customer.

This chapter discusses about the outsourcing and Business Process Reengineering strategy of business.

## 7.2 BUSINESS PROCESS OUTSOURCING AND KNOWLEDGE PROCESS OURSOURCING

**Concept:**

BPO is the contracting of a business task to a third party service provider. Back office outsourcing refers to internal business functions like billing or purchasing, while front-office outsourcing includes customer-related services such as technical support, marketing and customer service. The focus in BPO is on reducing transaction costs, optimizing process efficiency and providing size and scale to handle a large volume of transaction processing engagements.

**BPO provides an array of services such as:**

- Customer care, i.e. call center, help desk, etc.
- Human resources, i.e. recruitment and selection, training and placement, payroll processing, etc.
- Technical support
- Services related to finance and accounting.
- Website services, i.e. web hosting, etc.
- Transcription


**Strategies of BPO in India**

1) **The Global Delivery Model –** Global Delivery Model is usually associated with organizations involved in the IT industry including consulting and business services. It is the process of executing IT projects with the help of teams located at multiple locations across the globe. The teams might be located at the client site or at a remote site (onshore or nearshore or

offshore). The tasks associated with the project could be divided among different teams. This model could also be used to deliver customized projects based on the requirements of the clients.

Also called Blended outsourcing. It combines. There are different types of models such as:

- **Onsite delivery model -** Here the consultants are located on the client's site(s), from the initial consultation to the completion of the project. The representatives will have face-to-face interaction with the client.
- **Offsite delivery model -** In this model, a consultant works remotely but resides in the same city or country as that of the client.
- **Offshore delivery model -** All the tasks, from the start until completion will be accomplished at one or more offshore sites using an outsourcing team.

Example - Accenture, EDS, and IBM
.

2) **The Hybrid Delivery Model or Dual-shore Model -** It takes advantage of onsite and offshore services to deliver results to clients at reduced costs. Midsize service providers headquartered offshore commonly adopt this delivery model. Ideally, 20%–30% of work is done onsite and 70%–80% is sent offshore, depending upon the criticality of the project. The purpose of this model is to save the cost as well as getting expertise services.

Let us understand how Hybrid Delivery Model works - A software development project undertaken by a hybrid provider would go something like this: A local team stationed onsite with the client would control the defined portion of the project that required interaction with experts and software architects onsite. Meanwhile, the team based at the provider's offshore facilities would take care of the coding, testing, and bug fixing etc.

3) **The Offshore Multi-sourcing Model or Hub-and-spoke Model -** In the Multi-sourcing model, the company enters into separate, parallel agreements with different suppliers/vendors to satisfy all the needs of the business. The multisourcing approach is usually in contrast with full in-house facilities and outsourcing to a single vendor. A typical multi-sourcing model involves having various suppliers offering different services needed for the successful running of the business. It provides access to the services from best in breed suppliers and often

offers a way around the common pitfalls of being locked in a long-term deal with a single vendor.

A classic example of the multi-sourcing model could be the following: if supplier A is performing data center functions, supplier B might be performing desktop functions while supplier C could be handling network functions. One such company that is following this outsourcing model is German utility E. ON. It is outsourcing its data center and desktop environments to Hewlett Packard and its network environment to T-systems.

4) **The Build-operate-transfer or BOT Model -** This model typically has three phases: Build phase, Operate phase and transfer phase. The Build phase involves setting up an operation unit that includes everything – from selecting the buildings, installing the infrastructure, employing the staff, maintaining the required administration and legal framework. The Operate phase is mainly about managing offshore projects. It involves program management, development, maintenance, enhancements, and product support. The third phase of this model is the Transfer phase in which the project owner is handed over to the client. Generally, project ownership is transferred when the client is fully ready to control the project or when the contract expires. This phase involves transferring the assets and handing over the other operations.

5) **The Global Shared Services Model -** Global shared services is a collaborative strategy which involves delegating or centralizing a subset of business functions to a new and separate, semi-autonomous business center. This model of outsourcing could also define the partnerships formed between the separate businesses located in different locations. Services that could be outsourced and shared among various business units include finance, purchasing, payroll, inventory management, hiring process, and information technology.

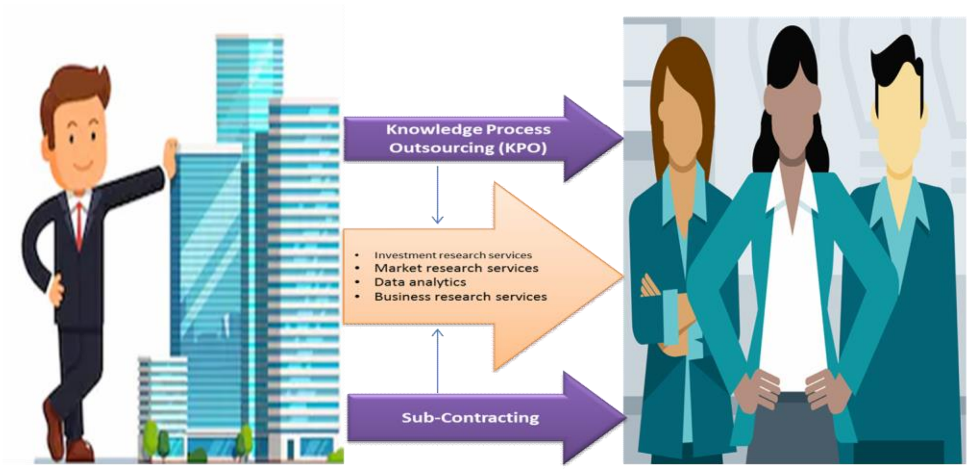
## KNOWLEDGE PROCESS OUTSOURCING

Knowledge process outsourcing (KPO) is the outsourcing of core, information-related business activities. KPO involves outsourcing work to individuals that typically have advanced degrees and expertise in a specialized area.

KPO involves outsourcing of core functions which may or may not give cost benefit to the parent company but surely helps in value addition. The processes which are outsourced to KPOs are usually more specialized and knowledge based as compared to BPOs. Services included in KPO are related to R&D, Capital and insurance market services, legal services, biotechnology, animation and design, etc. are the usual activities that are outsourced to KPOs.

**KPO provides an array of services such as:**

- Investment research services
- Market research services
- Data analytics
- Business research services




**The basic difference between BPO and KPO is discussed below**

| Basis for comparison | BPO | KPO |
|---|---|---|
| Meaning | BPO refers to the outsourcing of non-primary activities of the organization to an external organization to minimize cost and increase efficiency. | KPO is another kind of outsourcing whereby, functions related to knowledge and information are outsourced to third party service providers. |
| Requirement | Process Expertise | Knowledge Expertise |
| Talent required in employees | Good communication skills | Professionally qualified workers are required |
| Focus on | Low level process | High level process |

**Strategies of KPO in India**

Answer same as “Strategies of BPO in India”

**Reasons for growing BPO and KPO businesses in India**

1) **Cost-advantage:** India is chosen by many developed countries to outsource their activities is because of availability large fluent English-speaking workforce at lower cost and availability of tech-savvy manpower. Outsourcing activities reduces the expenses without affecting the profit. Indeed that is quite beneficial from a company's perspective.

2) **Competent Talent Pool:** Despite the stiff competition from The Philippines, Vietnam and other Asian countries, the Indian BPO industry still remains an attractive destination. This is because of the availability of vast skilled labour and their proficiency in understanding progressive technology. Companies, lately, have started realizing that outsourcing is more than just saving cost. Thereby choosing India for enhancing the business productivity along with efficiency.

3) **Government Support:** Government of India has extended its support to the BPO and KPO Sector in India resulted in growing its importance. The Government of India has introduced various policy concessions and initiatives to accelerate the growth of the IT-enabled outsourcing market. Eg. he Government of India (Central Board of Direct Taxes — CBDT) has allowed total income tax exemption on the export of IT enabled outsourcing services under Sections 10A/10B of the Income Tax Act, 1961.

4) **Ability to Focus on Core Business:** Many businesses are outsourcing their activities to specialized agency so that they can focus on their core business. This can result into customer satisfaction. This also ends in better employee productivity and allows them make better and greater informed business decisions.

5) **Different time zones:** The client and the vendor can operate in two different time zones that are far apart. Many Indian outsourcing agencies working 24X7. It enables them to adjust their shifts to match the office hours of the client company.

6) **Reliability and High-Quality Standards:** Indian outsourcing companies provide high-quality work, meeting all the international standards. They follow the best international standard practices, that includes:
   - The International Standard Organization (ISO 9000) that assures quality in design, development, production and installation.
   - Total Quality Management (TQM)
   - Six Sigma Quality Certification

## 7.3 BUSINESS PROCESS REENGINEERING

Business Process Re-engineering (BPR) is also known as Business Process Re–design, Business Transformation, or Business Process Change Management. Business Process Re-engineering (BPR) is more than just business improvising'. It is an approach for re-design the way work is done to better support the organization's mission and reduce costs.

**According to Hommor and Champy,** "BPR is a fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary modern measures of performance, such as quality, cost, service and speed".

Business process reengineering is the act of recreating a core business process with the goal of improving product output, quality, or reducing costs. Typically, it involves the analysis of **company** workflows, finding processes that are sub-par or inefficient, and figuring out ways to get rid of them or change them. It is a business management strategy, originally pioneered in the early 1990s, focusing on the analysis and design of workflows and business processes within an organization. BPR aimed to help organizations fundamentally rethink how they do their work in order to improve customer service, cut operational costs, and become world-class competitors.

Example - Many companies like Ford Motors, GTE, and Bell Atlantic tried out BPR during the 1990s to reshuffle their operations. The reengineering process they adopted made a substantial difference to them, dramatically cutting down their expenses and making them more effective against increasing competition.

**Business Process Reengineering**

1) **Define Objectives and Framework:** First of all, the objective of re-engineering must be defined in the quantitative and qualitative terms. The objectives are the end results that the management desires after the reengineering. Once the objectives are defined, the need for change should be well communicated to the employees because, the success of BPR depends on the readiness of the employees to accept the change.

2) **Identify Customer Needs:** While, redesigning the business process the needs of the customers must be taken into prior consideration. The process shall be redesigned in such a way that it clearly provides the added value to the customer. One must take the following parameters into the consideration:

- Type of Customer and customer groups.
- Customer's expected utilities in product and services
- Customer requirements, buying habits and consuming tendencies.
- Customer problems and expectations about the product or service.

3) **Study the Existing Process:** Before deciding on the changes to be made in the existing business process, one must analyze it carefully. The existing process provides a base for the new process and hence "what" and "why" of the new process can be well designed by studying the right and wrongs of the existing business plan.

4) **Formulate a Redesign Business Plan:** Once the existing business process is studied thoroughly, the required changes are written down on a piece of paper and is converted into an ideal re-design process. Here, all the changes are chalked down, and the best among all the alternatives is selected.

5) **Implement the Redesign:** Finally, the changes are implemented into the redesign plan to achieve the dramatic improvements. It is the responsibility of both the management and the designer to operationalise the new process and gain the support of all.

## 7.4 SUMMARY

Outsourcing is an allocation of specific business processes to a specialist external service provider. Most of the times an organization cannot handle all aspects of a business process internally. Additionally some processes are temporary and the organization does not intend to hire in-house professionals to perform the tasks.

Business Process Reengineering seeks to help companies radically restructure their organizations by focusing on the ground-up design of their business processes.

## 7.5 QUESTIONS

**Select the most appropriate answer from the options given below**

1) _____________ refers to subcontracting a process, such as product design or manufacturing, to a third-party company.

   (Outsourcing, Turnaround, Marketing, HRM)

2) ____________is a strategy of BPO business in India

(Global Delivery Model, Hybrid Delivery Model, Offshore Multi-sourcing Model, All of these)

3) KPO provides an array of services in the area of _____________

(Customer care, Human resources, Data Analytics, Website service)

4) ___________ is one of the reasons for growing BPO and KPO businesses in India.

(Lack of Indian Government Support, Higher Cost, Lack of Talent Pool, Different time zones)

5) ___________is an approach for re-design the way work is done to better support the organization's mission and reduce costs.

(Turnaround, Marketing, HRM, Business Process Re-engineering)

**State whether the following statements are True or False.**

1) Global Delivery Model takes advantage of onsite and offshore services to deliver results to clients at reduced costs.
2) BPO is another kind of outsourcing whereby, functions related to knowledge and information are outsourced to third party service providers.
3) Business Process Re-engineering requires to study the existing process.

**Match the Pair**

| **Group 'A'** | **Group 'B'** |
|---|---|
| 5. BPO | e. Business Transformation |
| 6. Different time zones | f. Good communication skills |
| 7. Business Process Re-engineering | g. Global Delivery Model |
| 8. IBM | h. Reasons for growing BPO and KPO businesses in India |
| | e. Knowledge Expertise |

**Long Answers**

1) What is BPO? Explain its business strategies.
2) Explain the various reasons for growing BPO and KPO businesses in India.
3) Write a note on "Business Process Re-engineering".

# Unit -8

## DISASTER MANAGEMENT

**Unit Structure:**



## 8.0 OBJECTIVES

- Discuss the Concept of Disaster
- Know the Problems and Consequences of Disasters
- Understand the Strategies for Managing and Preventing disasters
- Explain the disaster cope up Strategies.

## 8.1 INTRODUCTION

Disaster means the occurrence of a sudden and major misfortune that disrupts and damages normal functioning of a society or community in the form of loss of life and property. Such event can be natural and/or manmade. The natural disasters take place due to imbalance in the natural environment such as storm, flood, earthquake, drought etc. Manmade disasters are created by human beings because of imbalance in their behavior such as greed to acquire a get something, ignorance or negligence, and desire to get control over something. These can be war, riots, accidents of vehicles, deforestation, air pollution and so on.

Disaster management is a specialized and professional activity requiring the expertise of different professionals such as engineers, doctors, architects, social workers and administrators. The impact of disasters can be minimized through advance planning, developing, working system as well as prompt implementation Disasters especially natural disasters cannot be avoided altogether but advance planning can mitigate sufferings. With necessary safety precautions, research, analysis and documentation are also required. Concrete action plan is required to avoid lunge economic losses miseries and somas which can be prevented.

## 8.2 DISASTER MANAGEMENT

**Concept**

The term **`Disaster'** is derived from **French word `Disaster'** which is the combination of two terms **`des'** meaning **bad or evil** and **`astre'** meaning **`star'**. The combined expression is `Bad or Evil Star' In the earlier days, a disaster was considered to be the loss due to some unfavorable star.

A disaster is a sudden, calamitous event that seriously disrupts the functioning of a community or society and causes human, material, and economic or environmental losses that exceed the community's or society's ability to cope using its own resources. Though often caused by nature, disasters can have human origins.

**The United Nations defines disasters** as, “the occurrence of a sudden or major misfortune which disrupts the basic fabric and normal functioning of a society or community”.

**The Webster’s Dictionary, defines disaster** as, “any event that over whelms existing resources to deal with the event”.

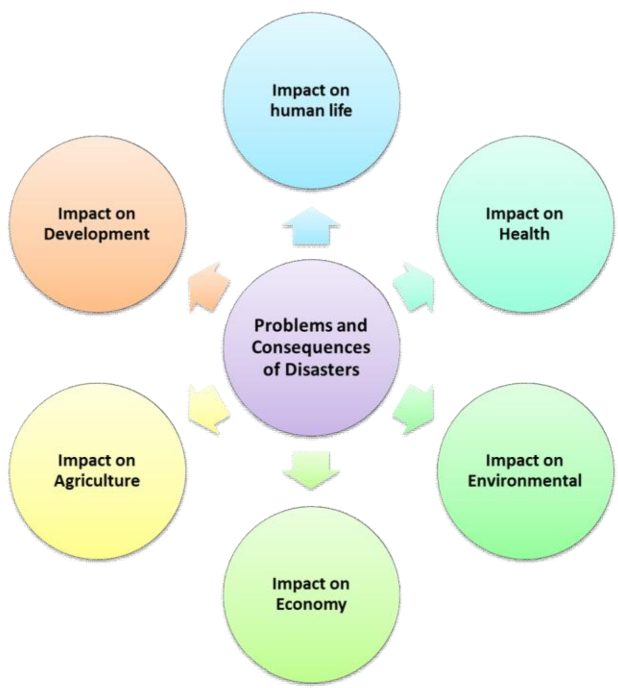
**Classification of Disaster**

Disasters can basically be classified into two ‘Categories i.e.

1) **Natural Disasters** – such as
   - **Wind related** - Storm, Cyclone, tornado, Huricane, Tidal waves, **Storm surge.**
   - **Water related** - Flood, cloud burst, Flash flood, excessive rains, Drought, Communicable diseases,
   - **Earth related** - Earthquake, Tsunamis, Avalanches, Land slides, Volcanic eruptions.

2) **Man-made Disasters:** Such as: war, battle, enemy actions, riots, Accidents of vehicles, Industrial accidents, Fire and Forest Fires. Nuclear explosion, Ecological disasters like deforestation, soil erosion air, water pollution, HIV / AIDS, Life Style diseases, Violence and so on.

## 8.3 PROBLEMS AND CONSEQUENCES OF DISASTERS




1) **Impact on human life:** In a disaster, you face the danger of death or physical injury. You may also lose your home,

possessions, and community. Such stressors place you at risk for emotional and physical health problems. Stress reactions after a disaster look very much like the common reactions seen after any type of trauma..

2) **Impact on Health:** Natural and manmade disasters have the direct and indirect impact on the health of the population, resulting in physical trauma, acute disease and emotional trauma along with increase in the morbidity and mortality associated with chronic diseases..

3) **Impact on Environmental:** The disasters such as wildfires, floods, and cyclones can completely destruct forests and cause other types of structural changes to ecosystems. Wildlife can be killed by the force of the disaster or impacted indirectly through changes in habitat and food availability.

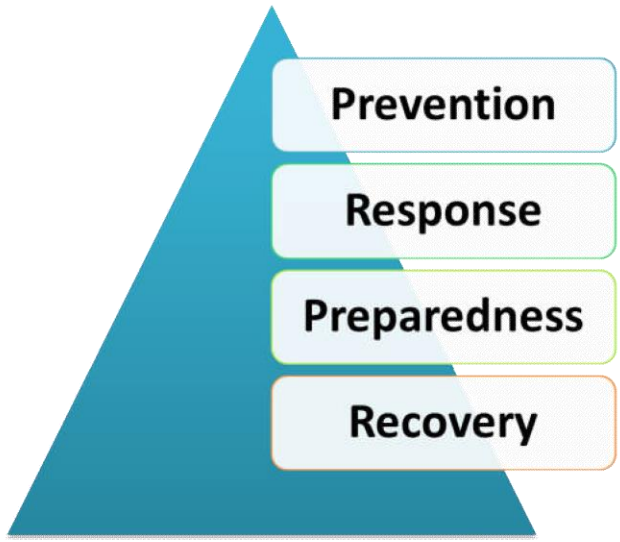
4) **Impact on Economy:** Natural disasters such as earthquakes, floods, typhoons, and hurricanes inflict serious damage and so seem to be bad for the economy. For firms, natural disasters destroy tangible assets such as buildings and equipment – as well as human capital – and thereby deteriorate their production capacity.

5) **Impact on Agriculture:** According to preliminary findings of a new study of the Food and Agricultural Organization (FAO) - Nearly a quarter of damages caused by natural disasters in the developing world are borne by the agriculture sector. The findings, released at the UN World Conference on Disaster Risk Reduction, say more than 22 per cent of the damages caused by natural hazards—such as drought, floods, storms or tsunamis—are accounted for by the agriculture sector. According to study, during drought period, agriculture absorbs up to 84 percent of all economic impacts. Within the agricultural sector, 42 per cent of assessed losses were that of crops.

6) **Impact on Development:** Disasters have a devastating impact on development. Families lose homes, livelihoods and loved ones, communities lose businesses, jobs and services, children and particularly girls miss school and are at risk of early marriage – the list of impacts goes on. Disasters can cancel progress on poverty reduction.

## 8.4 STRATEGIES FOR MANAGING AND PREVENTING DISASTERS

There is no doubt that hazards are integral aspects of our environment. Disaster management is normally viewed as a post disaster mitigation focusing on rescue, relief and rehabilitation in the events such as earthquakes, cyclones, floods, droughts and fires. It has been realised that effects of disasters on human population can be mitigated if not avoided altogether, by integrating disaster prevention and mitigation with development planning. Some of the strategies to cope up with disaster are discussed below:




1) **Prevention –** actions undertaken in advance. Sometimes this is referred to as mitigation. Examples include back-burning or constructing sea walls to protect from tidal waves, having alternative sources of electricity or alternative communication systems in place. Prevention activities should be happening all the time.

2) **Preparedness –** making arrangements, creating and testing plans, training, educating and sharing information to prepare communities should an emergency eventuate. These are also ACTIONS and they are happening all the time.

3) **Response –** the assistance and intervention during or immediately after an emergency. Focus is on saving lives and protecting community assets (buildings, roads, animals, crops, infrastructure). Usually measured in hours, days or weeks.

4) **Recovery –** the coordinated process of supporting emergency-affected communities in reconstruction of physical infrastructure and restoration of emotional, social, economic and physical wellbeing. Usually measured in months and/or years

## 8.5 DISASTER COPE-UP STRATEGIES

- Effective and efficient administration and commitment by all i.e. Government, People and Voluntary organizations.

- Treatment and care of victims through provision of goods and services and especially sympathy.

- Restoration of essential services such as communications, water supply and power supply as early as possible.
- Information and advice to the public.
- Maintenance of public morale and motivation.
- Counseling of victims and their relatives.
- Measures for long-term rehabilitation.
- Goods Inventory Management.
- Monitoring at regular intervals.
- Allocation of duties and responsibilities clearly to avoid ambiguity & duplication.
- Provision of shelters for human beings & animals.
- People’s participation in their own welfare.

## 8.6 SUMMARY

Disaster management is primarily the responsibility of the State Governments. The Government of India supplements their efforts by providing financial and logistic support in case of disaster of exceptionally severe magnitude.

While managing disaster, generally confusion and crisis are caused by lack of co-operation and interaction between governmental and nongovernmental/organizations giving relief at all levels. Also attention needs to be paid to have close links between the administration and different sectors of civil society. With strategies for preventing disasters and preparedness measures, governments, communities and individuals can respond rapidly to disaster situations to cope with them effectively. Mitigation vefors to all measures taken to reduce both the effect of the hazard itself and the vulnerable conditions involved in it in adder to reduce the scale of a future disaster.

## 8.7 QUESTIONS

**Select the most appropriate answer from the options given below**

1) _____________is an example of man-made disaster.

   (Storm, Riots, Flood, All of these)

2) Disaster has impact on______________.

   (Human Life, Environment, Economy, All of these)

3) __________ is not the strategy for Managing and Preventing Disasters.

(Ignorance, Preparedness, Response, Prevention)

**State whether the following statements are True or False.**

1) Disaster can be created only by the nature.
2) 'Information and advice to the public' is one of the Disaster Cope-up Strategies.
3) Only natural disaster can have adverse impact on agriculture.

**Match the Pair**

| **Group 'A'** | **Group 'B'** |
|---|---|
| 1. Tsunamis | a. Impact of disaster on Health |
| 2. Physical trauma | b. Impact of disaster on development |
| 3. Recovery | c. Man-made Disasters |
| 4. Loss of Home | d. Natural Disasters |
| | e. Strategy for Preventing Disasters |

**Long Answers**

1) What is Disaster? Problems and Consequences of Disaster.
2) Explain the various Strategies for Managing and Preventing disasters.
3) Write a note on "Disaster Cope up Strategies".

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# Unit -9

## START-UP BUSINESS STRATEGIES AND MAKE IN INDIA MODEL

**Unit Structure:**



## 9.0 OBJECTIVES

- Describe the Process of business start-ups
- Explain Challenges of business start-ups
- Discuss the Growth Prospects and government initiatives in Make in India Model with reference to National manufacturing
- Know Contribution of Make in India Policy in overcoming industrial sickness

## 9.1 INTRODUCTION

A startup is a young company founded by one or more entrepreneurs to develop a unique product or service and bring it to market. By its nature, the typical startup tends to be a shoestring operation, with initial funding from the founders or their friends and families.

Make in India is a major national programme of the Government of India designed to facilitate investment, foster innovation, enhance skill development, protect intellectual property and build best in class manufacturing infrastructure in the country

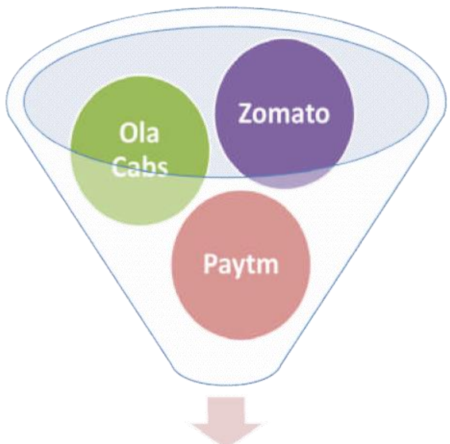
This chapter discusses how start-ups and Make in India initiatives of Government of India have helped in making business strategies by young entrepreneurs.

## 9.2 BUSINESS START- UPS

### CONCEPT

The term startup refers to a company in the first stage of its operations. Startups are founded by one or more entrepreneurs who want to develop a product or service for which they believe there is a demand. These companies generally start with high costs and limited revenue which is why they look for capital from a variety of sources such as venture capitalists.

Example - Ola Cabs, Zomato, Paytm, FreshToHome etc. are top Indian start-ups.




Top Indian start-ups

## PROCESS OF BUSINESS START UPS

1) **Ideation:** At this stage an entrepreneur undertake following in order to select and validate his idea:

   - **Generate business concept** that has information relating to service/product, the target audience, and a unique value proposition that gives a company an advantage over competitors.

   - **Get an idea of a start-up** by recognise that the problem they wish to get solved. It is is actually a start up idea

   - It is always advisable to **segment customers** according to their demographics, psychographics, geographics, and behaviour and direct all or most of your marketing efforts to the most profitable segment. This is because needs, demands, and luxuries are different for different customer segments.

- **Market research** provides him with the relevant data to help him solve the challenges he'll face during his business tenure.

2) **Co-Founder:** Start-ups with 2 or more co-founders are more likely to succeed. The co-founder is necessary for moral and emotional support, funding, better decision making, division of responsibility, complementary skills, complementary skills, risk mitigation etc.

3) **Prototype:** A prototype is a basic working sample, model, or just a simulation of the actual product based on which the final product is developed. The main motive behind prototyping is to validate the design of the actual product. Sometimes, creating a prototype is called materialization as it is the first step of transforming the conceptualized design into the real physical form. The prototype is required because of
    - Presenting to Investors
    - Intellectual Property Protection
    - Remove problems in manufacturing
    - Testing and refining product

4) **Business Plan:** A business plan is a guide which outlines the goals of the business and roadmap of how to achieve them. It is the written description of your business's future. Business Plan includes following elements:
    - Executive Summary
    - Market Overview and Customer Analysis
    - Product / Service overview
    - Business and Revenue Model
    - Competitive Analysis
    - Marketing Plan
    - Management Teams
    - Funding and Financials

5) **Branding:** A brand is not just the name of the product/organization but the whole perception you consciously and sub-consciously have of the entity. Thus, a brand constitutes of :
    - Brand Name
    - Brand Logo
    - Brand Image
    - Brand Perception
    - Brand Personality
    - Brand Experience

   It is a known fact that the launch of your product is going to be the biggest factor that will decide whether your product is going to skyrocket or have a crash landing. Maximum impact is attained by marketing a brand that the target demographic relates to. This can be proven by a lot of examples.

Let’s take the example of Indian Motor Vehicle manufacturer TATA Motor’s economy range TATA Nano. When launched, TATA Nano was the most pocket-friendly car. This created ripples in the automobile industry all over the world. India was considered the best market for such a product but the response received in the Indian market was underwhelming. It didn’t garner enough market attention. The marketing flaw that TATA Nano had was that they branded the car as the cheapest car in the world. No one wants to drive around a car which everyone else can identify as the cheapest car in the world. The branding didn’t allow it to make a huge splash in the Indian market.

6) **Registration of Firm:** The business should always be registered before launching your idea in the market. Moreover, registering a firm is not a tedious task as it used to be. Different firms can be registered under different acts such as
    - Sole Trading Concern – No need to register
    - Partnership Firm – Indian Partnership Act, 1932
    - Joint Hindu Family Business – Hindu Succession Act
    - Joint Stock Company – Indian Companies Act, 2013
    - Co-Operative Society – Co-operative Society Act

7) **Capital Raising:** At this stage capital raising is done from different sources which include:
    - Initial Public Offer (IPO)
    - Loans from Banks and Financial Institutions
    - Crowd funding
    - Personal Finance and others

8) **Starting functions of start-up:** At this stage the start-up can start functioning. AT initial stage the profit may be less. But the entrepreneur must keep patience. He should focus on customer satisfaction which will enable him to achieve his goal of higher profit and sales, expansion of business, corporate image, etc.

## CHALLENGES OF BUSINESS START UPS

1) **Competition from giant companies:** There is always a competition going on between the giants. Competition poses one of the biggest challenges for the survival of start-up businesses. Due to lack of capital and other problems they cannot compete with giants and may result into close down of start-ups.

2) **Finding right Partner:** Going into a partnership may benefit the start-ups in many ways such as finance, moral and emotional support, better decision making, division of responsibility, complementary skills, complementary skills, risk mitigation etc. But they need to consider a variety of factors before making partnership. There may be difference in opinion and other such problems may arise which may affect functioning of the start-up.

3) **Financial Management:** Financial management includes raising of finance from right source and investing it for productive purpose. Many start-ups have lack of financial management skills. The inappropriate use of funds can increase the interest burden of the start-up entrepreneur.

4) **Wining trust of customers:** Customer is the king. Winning a customer's trust is one of the most important challenges that businesses in general – and start-ups in particular – face today. With a highly satisfied and loyal customer base, start-ups can scale and make progress towards excellence. But start-ups may not be able to satisfy customers may be due to:
   - Poor quality product
   - Higher prices
   - Ineffective promotions
   - Poor channel of distribution etc.

5) **Handling Space and Equipment Problems:** A precondition for a successful business is a good location, with enough space and proper equipment. However, it's not easy to find and to renovate, if necessary. Start-up entrepreneur also have to think about the accessibility of their location, mostly because of the clients, customers, and suppliers.

6) **Time Management:** A start-up entrepreneur should master decision-making skill. Entrepreneur can't waste time! Therefore, entrepreneur needs to prioritize all tasks, decide on the best approach for each of them and start working immediately. Entrepreneur should not delay anything unless required. Start-up entrepreneur need to be productive as much as possible if he/she want his/her start-up to become successful.

7) **Finding the right People:** Selecting associates and employees is one of the vital tasks of any start-up. Before choosing a person for each position, start-up entrepreneur has to know how many full-time employees he/she needs and how many part-timers or freelancers. In many cases (but not always, and not for every business), the best option is to hire more freelancers than full-time employees in the beginning. Mostly because it is going

to save a lot on the hiring costs and salaries. Also, think about the vital skills that are needed by startup and try to find the right candidates as soon as possible. Delays can only eat up and waste time, and you can't afford that to happen.

8) **Understand the Power of a Business Plan:** People often underestimate the fact that they have to write a thorough business plan before getting into the business. The strategy has to cover all segments of business in order to be useful and successful. Some of the crucial areas are finance, staff, suppliers, marketing, and sales. Also, each segment has to be realistic and has to follow the exact budget limits. The start-up entrepreneur can take his/her time, think about every possible outcome, and should not start any work until he/she find the right approach. He/she can also consider hiring business advisors to help in creating a good business plan.

## 9.3 CONCEPT OF MAKE IN INDIA

The Make in India initiative was launched by Prime Minister in September 2014 as part of a wider set of nation-building initiatives. It was devised to transform India into a global design and manufacturing hub.

Make in India was a timely response to a critical situation. By 2013, India's growth rate had fallen to its lowest level in a decade. The promise of the BRICS Nations (Brazil, Russia, India, China and South Africa) had faded. India was tagged as one of the so-called 'Fragile Five' (Fragile Five represent emerging market economies that have become too dependent on unreliable foreign investment to finance their growth ambitions. The five members of the Fragile Five include **Turkey, Brazil, India, South Africa and Indonesia)**.


Global investors debated whether the world's largest democracy was a risk or an opportunity. India's 1.2 billion citizens questioned whether India was too big to succeed or too big to fail.

India was on the edge of severe economic failure, desperately in need of a big push.

Make in India was launched by Prime Minister against the backdrop of this crisis and quickly became a rallying cry (encourages people to unite and to act in support) for India's innumerable stakeholders and partners. It was a powerful, stimulating call to action to India's citizens and business leaders, and an invitation to potential partners and investors around the world.

But Make in India is much more than an inspiring slogan. It represents a comprehensive and unique overhaul (repair/renovation)of outdated processes and policies. Most importantly, it represents a complete change of the government's mindset – a shift from issuing authority to business partner, in keeping with Prime Minister's principle of 'Minimum Government, Maximum Governance'.

**GROWTH PROSPECT AND GOVERNMENT INITIATIVES IN MAKE IN INDIA MODEL WITH REFERENCE TO NATIONAL MANUFACTURING**

The need to raise the global competitiveness of the Indian manufacturing sector is vital for the country's long term-growth. The National Manufacturing Policy is by far the most comprehensive and significant policy initiative taken by the Government. The policy is the first of its kind for the manufacturing sector as it addresses areas of regulation, infrastructure, skill development, technology, availability of finance, exit mechanism and other pertinent factors related to the growth of the sector.

**SALIENT FEATURES OF NATIONAL MANUFACTURING POLICY**

**1) Focus Sectors:**

- Employment-intensive industries like textiles and garments, leather and footwear, gems and jewellery and food processing industries.

- Capital goods industries like machine tools, heavy electrical equipment, heavy transport, earthmoving & mining equipment.

- Industries with strategic significance like aerospace, shipping, IT hardware & electronics, telecommunication equipment, defence equipment and solar energy.

- Industries where India enjoys a competitive advantage such as automobiles, pharmaceuticals & medical equipment.

- Small & medium enterprises.

- Public sector enterprises.

**2) National Investment & Manufacturing Zones (NIMZ):**

- The National Investment and Manufacturing Zones are being conceived as giant industrial greenfield townships to promote world-class manufacturing activities.

- The minimum size is 5000 hectares (50 square kilometres) wherein the processing area has to be at least 30%.

- The central government will be responsible for bearing the cost of master planning, improving/providing external physical infrastructure linkages including rail, road, ports, airports and telecom, providing institutional infrastructure for productivity, skill development and the promotion of domestic and global investments.

- The identification of land will be undertaken by state governments. State governments will be responsible for water requirement, power connectivity, physical infrastructure, utility linkages, environmental impact studies and bearing the cost of resettlement and rehabilitation packages for the owners of acquired land.

- The state government will also play a role in its acquisition if necessary.

- In government, purchase preferences will be given to units in the national investment and manufacturing zones

**3) Simplification of Regulatory Environments**

- Timelines will be defined for all clearances.

- Central & State governments to provide exemptions from rules and regulations related to labour, environment etc. subject to the fulfilment of certain conditions.

- Mechanisms for the cooperation of public or private institutions with government inspection services under the overall control of statutory authorities to be developed.

- Process of clearances by centre and state authorities to be progressively web-enabled.

- A combined application form and a common register to be developed.

- The submission of multiple returns for different departments will be replaced by one simplified monthly/quarterly return.

- A single window clearance for units in NIMZ.

**4) Acquisition of Technology & Development**

- The policy intends to leverage the existing incentives/ schemes of government and also introduce new mechanisms to introduce green technologies.

- A technology acquisition and development fund has been proposed for the acquisition of appropriate technologies, the creation of a patent pool and the development of domestic manufacturing of equipment used for controlling pollution and reducing energy consumption.

- The fund will also function as an autonomous patent pool and licensing agency. It will purchase intellectual property rights from patent holders. Any company that wants to use intellectual property to produce or develop products can seek a license from the pool against payment of royalties.

**5) Industrial Training & Skill Upgradation Measures:**

- Skill-building among large numbers of a minimally educated workforce.

- Relevant vocational and skill training through establishment of Industrial Training Institute (ITI) in Public Private Partnerships (PPP) mode.

- Specialized skill development through the establishment of polytechnics.

- Establishment of instructors' training centre in each NIMZ.

## 9.4 CONTRIBUTION OF MAKE IN INDIA POLICY IN OVERCOMING INDUSTRIAL SICKNESS

### Industrial Sickness

A sick unit is one which is unable to support itself through the operation of internal resources.

Once the sick units continue to operate below the break-even point (at which total revenue = total cost), industries are forced to depend on the external sources for funds of their long-term survival.

**Make in India**

Make in India is a Government of India scheme launched by Prime Minister Narendra Modi in 2014 intended to boost the domestic manufacturing sector and also augment investment into the country.

The government wants to revive the lagging manufacturing sector and spur the growth of the economy. The GOI also intends to encourage businesses from abroad into investing in the country and also manufacture here, by improving the country's 'Ease of Doing Business' index. The long-term vision is to gradually develop India into a global manufacturing hub, and also boost employment opportunities in the country.

**Why Make in India?**

There are multiple reasons why the government has chosen to focus on manufacturing. The key ones are discussed below:

1. For the past two decades, India's growth story seems to have been led by the services sector. This approach paid off in the short-run, and India's IT and BPO sector saw a huge leap, and India was often dubbed the 'back office of the world'. However, even though the share of the services sector in the Indian economy rose to 57% in 2013, it contributed to only 28% in the share of employment. So, the manufacturing sector needed to be augmented in order to boost employment. This is because the services sector currently has low absorption potential considering the demographic dividend in the country.

2. Another reason to launch the campaign is the poor condition of manufacturing in India. The share of manufacturing in the overall Indian economy is only about 15%. This is way lower than our neighbours in East Asia. There is an overall trade deficit when it comes to goods. The trade surplus in services hardly covers one-fifth of India's trade deficit in goods. The services sector alone cannot hope to answer this trade deficit. Manufacturing will have to chip in. The government is hoping to encourage businesses, both Indian and foreign to invest in manufacturing in India, which will help this sector and also generate employment in both skilled and unskilled levels.

3. To focus on manufacturing is that no other sector seems to have such a huge multiplier effect on economic growth in a country, according to various studies. The manufacturing sector has larger backward linkages and hence, growth in demand in manufacturing spurs growth in other sectors as well. This

generates more jobs, investments and innovation, and generally leads to a higher standard of living in an economy.

**Make in India – Objectives**

There are several targets aimed by the Make in India mission. They are:

1) Raise in manufacturing sector growth to 12-14% per year.

2) Create 100 million additional jobs in the manufacturing sector by 2022.

3) Increase in the manufacturing sector's share in the GDP to 25% by 2022.

4) Creating required skill sets among the urban poor and the rural migrants to foster inclusive growth.

5) A rise in the domestic value addition and technological depth in the manufacturing sector.

6) Having an environmentally-sustainable growth.

7) Augmenting the global competitiveness of the Indian manufacturing sector.

**Make in India – Initiatives**

1) For the first time, the sectors of railways, insurance, defence and medical devices have been opened up for more Foreign Direct Investment (FDI).

2) The maximum limit in FDI in the defence sector has been raised to 49%.

3) In construction and specified rail infrastructure projects, 100% FDI under the automatic route has been permitted.

4) There is an Investor Facilitation Cell that assists investors from the time of their arrival in India to their departure from the country. This was created in 2014 for giving services to investors in all phases such as pre-investment phase, execution, and also after delivery services.

5) The government has taken steps to improve India's 'Ease of Doing Business' rank. India climbed 23 points in the Ease of Doing Business index to 77th place in 2019, becoming the highest-ranked in South Asia in this index.

6) The Shram Suvidha Portal, eBiz portal, etc. have been launched. The eBiz portal offers single-window access to eleven

government services connected with starting a business in India.

7) Other permits and licenses required to start a business have also been relaxed. Reforms are being undertaken in areas like property registration, payment of taxes, getting power connection, enforcing contracts, and resolving insolvency.

8) Other reforms include licensing process, time-bound clearances for applications of foreign investors, automation of processes for registration with the Employees State Insurance Corporation and the Employees Provident Fund Organization, adoption of best practices by states in granting clearances, decreasing the number of documents for exports, and ensuring compliance through peer evaluation, self-certification, etc.

9) The government hopes to improve physical infrastructure chiefly through the PPP mode of investment. Ports and airports have seen increased investment. Dedicated freight corridors are also being developed.

**Make in India – Schemes**

Several schemes were launched to support the Make in India programme. These schemes are discussed below:

1) **Skill India:** This mission aims to skill 10 million in India annually in various sectors. Make in India to turn into a reality, there is a need to upskill the large human resource available. This is important considering the fact that the percentage of formally skilled workforce in India is only 2% of the population.

2) **Startup India:** The main idea behind this programme is to build an ecosystem that fosters the growth of startups, driving sustainable economic growth and creating large-scale employment.

3) **Digital India:** This aims to transform India into a knowledge-based and digitally empowered economy. To know more on Digital India, click on the linked page.

4) **Pradhan Mantri Jan Dhan Yojana (PMJDY):** The mission envisages financial inclusion to ensure access to financial services, namely banking savings & deposit accounts, remittances, credit, insurance, pension in an affordable manner. Click the linked article to know more about Pradhan Mantri Jan Dhan Yojana (PMJDY).

5) **Smart Cities:** This mission aims to transform and rejuvenate Indian cities. The goal is to create 100 smart cities in India through several sub-initiatives.

6) **AMRUT:** AMRUT is the Atal Mission for Rejuvenation and Urban Transformation. It aims to build basic public amenities and make 500 cities in India more livable and inclusive.

7) **Swachh Bharat Abhiyan:** This is a mission aimed at making India more cleaner and promoting basic sanitation and hygiene. For more information on Swachh Bharat Mission, click on the linked article.

8) **Sagarmala:** This scheme aims at developing ports and promoting port-led development in the country. Read more on the Sagarmala Project in the linked article.

9) **International Solar Alliance (ISA):** The ISA is an alliance of 121 countries, most of them being sunshine countries, which lie either completely or partly between the Tropic of Cancer and the Tropic of Capricorn. This is India's initiative aimed at promoting research and development in solar technologies, and formulating policies in that regard.

10) **AGNII:** AGNII or Accelerating Growth of New India's Innovation was launched to push the innovation ecosystem in the country by connecting people and assisting in commercialising innovations.

    So in long run this can help in reducing industrial sickness in India to greater extend.

## 9.5 SUMMARY

A startup is a company that's in the initial business stage. Until the business gets off the ground, a startup is often financed by its founders. and the startup attracts outside investment. There are many different ways to fund startups including family and friends, venture capitalists, crowdfunding, and credit.

Make in India is a major national programme of the Government of India designed to facilitate investment, foster innovation, enhance skill development, protect intellectual property and build best in class manufacturing infrastructure in the country. The primary objective of this initiative is to attract investments from across the globe and strengthen India's manufacturing sector.

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