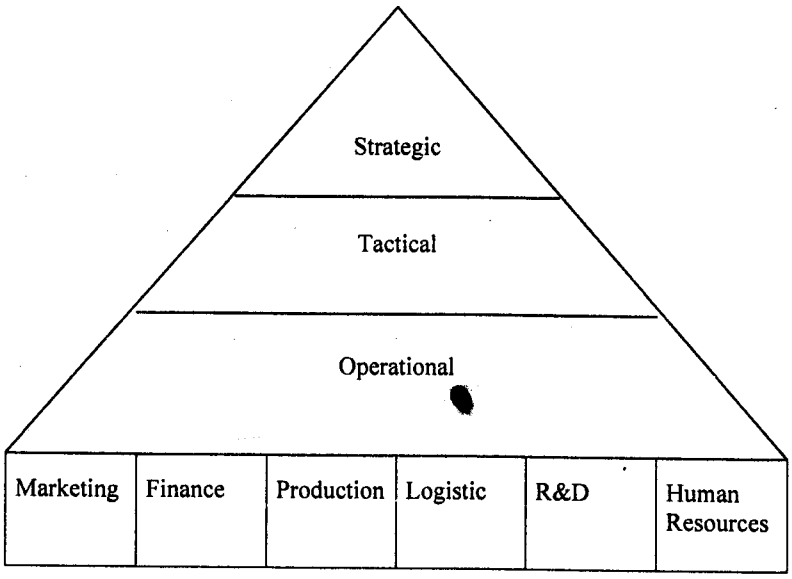
Chapter-5
Formulation of Functional Strategy

What will we study in this chapter?

As explained in the chapter 1 there are three levels of managements.



Functions of Management

And as shown in the above diagram management levels are formed to perform various functions. So in this chapter we will study the formulation of key functional strategies. These key functional strategies are:

- Marketing
- Finance
- Production
- Logistic
- R&D
- Human Resources

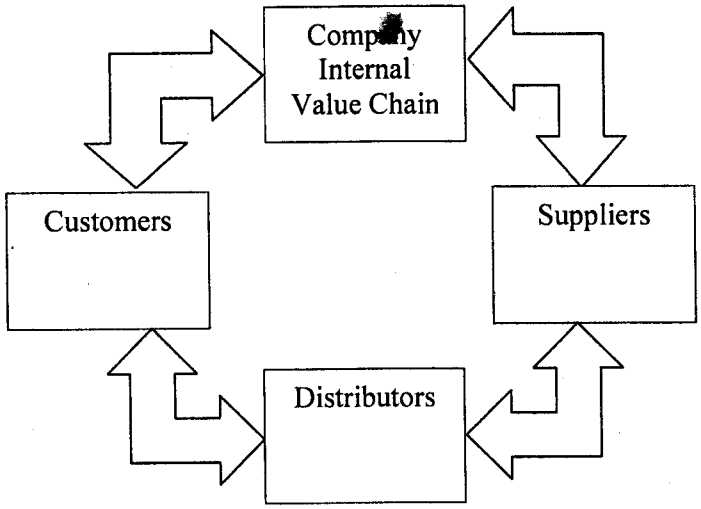
Actually, strategic decisions are implemented in parts at functional level. The development of functional strategies is aimed at making the strategies-formulated at the top management level-practically feasible at the functional level.

1.0 MARKETING STRATEGY FORMULATION

Marketing is considered as one of the most important functions of organization. This function satisfies that need of organization for which organization is formed i.e. serving customers. In the present day it is considered to be the activities related to identifying the needs of customers and taking such actions to satisfy them in return of some consideration. In marketing it is more important to do what is strategically right than what is immediately profitable i.e. marketing always look for long term profit and growth rather immediate profit.

The marketing function maintains a strong relationship with other functions to achieve its objectives.

Marketing always stress for creating a value chain or value delivery network to efficiently distribute goods and services of organization and maintain a strong relationship with all the components of this value chain i.e. customers, supplier, distributors and internal departments of organizations. Marketing play a role of mediators between all departments.



Organization Value Network

For Successful Implementation of strategy marketing need to take care of two elements:

1. Marketing Issues and
2. Marketing Process

Marketing Issues:
Marketing is required to deal with numerous issues for successful marketing strategy implementation and these are:

- To use exclusive dealerships or multiple channels of distribution.
- To use TV, newspaper and online advertising or not.

- To decide on credit limits of particular customer.
- To be a price leader or a price follower.
- To decide on type of warranty i.e. limited or full warranty and duration.
- To reward salespeople based on straight salary, straight commission, or a combination salary/commission.

Marketing Process:
The **marketing process** is to analyze market opportunities, select target markets, develop the marketing mix, etc. Services to customers are the central focus of the marketing process.

Following are the key components of Marketing Process:
1. Connecting to Customers
2 Developing the marketing mix:

The marketing mix consists of everything that the firm can do to influence the demand for its product. These variables are often referred to as the "four Ps."

- Product
- Price
- Place
- Promotion

Product: stands for the "goods-and-service" combination the company offers to the target market. Strategic decisions must also be made regarding branding, packaging and other product features such as warrantees.

Price: stands for the amount of money customers have to pay to obtain the product. Pricing strategies for entering a market, specially with a new product, must be designed.

Place: stands for location of company activities that make the product available to target consumers. Strategies should be taken for the management of distribution to goods to customers

Promotion: stands for activities that communicate the merits of the product and persuade target consumers to buy it. Strategies are needed to combine individual methods such as advertising, personal selling, and sales promotion, etc.

The 4 Ps described above are then further expanded into 4 Cs for to take buyer views because 4 Ps are considered as seller's views.

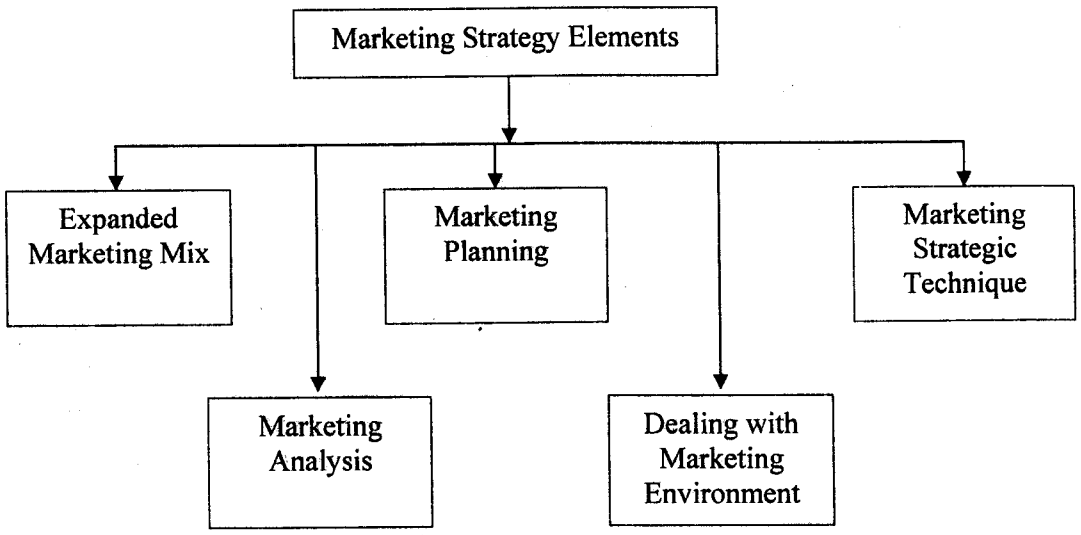
4 Cs are linked with 4 Ps as:

Product = Customer Solution.

Price = Customer Cost.

Place = Convenience
Promotion = Communication.

Some Other Keys Marketing Strategic Elements:



1.0 Expanded Marketing Mix:
In addition to the traditional four Ps the new marketing mix are:

People: all human actors who play a part in delivery of the market offering and thus influence the buyer's perception, namely the firm's personnel and the customer.

Physical evidence: the environment in which the market offering is delivered and where the firm and customer interact.

Process: the actual procedures, mechanisms and flow of activities by which the product / service is delivered.

2.0 Marketing Analysis

Marketing analysis involves a complete analysis of the company's situation. The company performs analysis by:

- Identifying environmental opportunities and threats.

- Analyzing company strengths and weaknesses to determine which Opportunities the company can best pursue.

3.0 Marketing Planning

Marketing planning involves deciding on marketing strategies that will help the company attains its overall strategic objectives. A detailed plan is needed for each business, product, or brand.

A plan may include the following for a new product or brand to be marketed:

- Executive summary of plan in terms goals
- The current marketing situation of similar products
- Target Market description.
- Product overview
- Analysis of the competition.
- A section on distribution.
- Threats and Opportunities
- Marketing Budget

4.0 Dealing with the Marketing Environment

The company must carefully analyze its environment in order to avoid the threats and take advantage of the opportunities. Areas to be analyzed are:

- customers,
- other company departments,
- competitors
- economic forces,
- political and legal forces,
- technological and ecological forces,
- and social and cultural forces.

5.0 Marketing strategy techniques: There are various marketing strategies or techniques, which companies can follow:

- **Social Marketing:** To increase the acceptability of a social ideas. For instance, the publicity campaign for prohibition of smoking in Delhi.
- **Augmented Marketing.** It is provision of additional customer services and benefits like on-line computer repair services,
- **Direct Marketing:** Marketing through various advertising media that interact directly with consumers like telemarketing, door to door sale.

- **Relationship Marketing:** The process of creating a network marketing chain like AMWAY.
- **Services Marketing:** Marketing **of** Services or activities like banking, savings, retailing, educational or utilities.
- **Person Marketing:** For example, politicians, sports stars, film stars, professional i.e., market themselves to get votes, or to promote their careers and income.
- **Organization Marketing:** Both profit and nonprofit organizations practice organization marketing, like TATA market its trust and reliable image
- **Place Marketing: like** tourism marketing.
- **Differential Marketing:** For example. Hindustan Lever Limited has Lifebuoy, Lux and Rexona in popular segment and Liril and Pears in premium segment.
- **Synchro-Marketing:** Marketing as per seasonal or particular segment requirement. For example woolens or coolers.
- **Concentrated Marketing:** To cover particular set of customers like RADO watch market only for premium segment.
- **De-marketing:** Marketing strategies to reduce demand temporarily For example, buses are overloaded in the morning and evening. Here de-marketing can be applied to regulate demand.

2.0 FINANCIAL STRATEGY FORMULATION

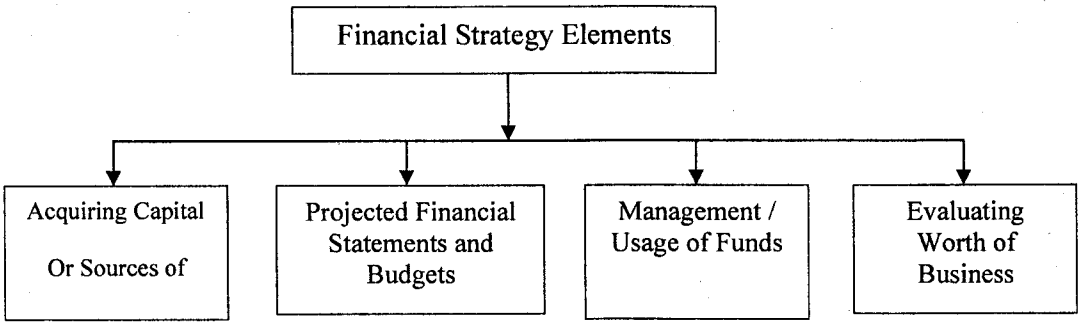
The financial strategy is another most important strategy with marketing. Finance is considered as blood to body. Finance and Accounts is considered to be central to any strategy implementation. Some of the key strategies of finance are for:

- acquiring needed capital/sources of fund,
- developing projected financial statements/budgets,
- management/ usage of funds,
- and establishing valuation of business.

Strategists need to formulate strategies in these areas so that they are implemented. Some examples of decisions that may require finance/accounting policies are:

- To raise capital with short-term debt, long-term debt, preferred stock, or common stock.
- To lease or buy fixed assets.
- To determine an appropriate dividend payout ratio.
- To extend the time of accounts receivable.
- To establish a certain percentage discount on accounts within a specified period of time.
- To determine the amount of cash that should be kept on hand.

Key Elements to Financial Strategy: There are four key elements to Financial Strategy



1.0 Acquiring capital to implement strategies / sources of funds

Successful strategy implementation often requires additional capital. Besides net profit from operations and the sale of assets, two basic sources of capital for an organization are debt and equity. Determining an appropriate mix of debt and equity in a firm's capital structure can be vital to successful strategy implementation. Theoretically, an enterprise should have enough debt in its capital structure to boost its return on investment, but too much debt in the capital structure of an organization can endanger stockholders' return and jeopardize company survival.

The major factors regarding in this have to be made by strategists are:

- Selecting right capital structure;
- procurement of capital and working capital borrowings;
- reserves and surplus as sources of funds;
- and relationship with lenders, banks and financial institutions.

2.0 Projected financial statements / budgets

Projected financial statement analysis is a key to implement financial strategy because it allows an organization to examine the expected results of various actions and approaches.

Projected financial statements

This type of analysis can be used to forecast the impact of various revenue and cost provisions on the future cash flow. Normally some sort Decision Support System (DSS) are created in Excel spreadsheets to prepare projected financial statements. Nearly all financial institutions require a projected financial statements whenever a business seeks capital. A projected (or pro forma) income statement and balance sheet allow an organization to compute projected financial ratios under various strategy-implementation scenarios. Primarily as a result of the Enron collapse and accounting scandal, companies today are being much more diligent in preparing projected financial statements

Projected financial budgets

A financial budget is also a document that details how funds will be obtained and spent for a specified period of time. Annual budgets are most common, although the period of time for a budget can range from one day to more than ten years. Fundamentally, financial budgeting is a method for specifying what must be done to complete strategy implementation successfully. Financial budgets can be viewed as the planned allocation of a firm's resources based on forecasts of the future.

There are almost as many different types of financial budgets as:

- cash budgets,
- operating budgets,
- sales budgets,
- profit budgets,
- factory budgets,
- capital budgets,
- expense budgets,
- divisional budgets,
- variable budgets,
- flexible budgets, and
- fixed budgets.

When an organization is experiencing financial difficulties, budgets are especially important in guiding strategy implementation.

Financial budgets have some limitations.

- First, budgetary programs can become so detailed that they are cumbersome and overly expensive. Over budgeting or under budgeting can cause problems.
- Second, financial budgets can become a substitute for objectives, A budget is a tool and not an end in itself.
- Third, budgets can hide inefficiencies if based solely on precedent rather than on periodic evaluation of circumstances and standards.
- Finally, budgets are sometimes used as instruments of dictatorship in which some senior objective prepare everything. To minimize the effect of this last concern, managers should increase the participation of subordinates in preparing budgets.

3.0 Management / usage of funds

Plans and policies for the usage of funds deal with investment or asset-mix decisions i.e. which asset to purchased and which to dispose off, etc. Some key decisions made in this are:

- investment;
- fixed asset acquisition;

- current assets;
- loans and advances;
- dividend decisions; and
- relationship with shareholders.

Usage of funds is important since it relates to the efficiency and effectiveness of resource utilization in the process of strategy implementation.

Implementation of projects under the expansion and diversifications strategies results in increase in capital expenditures. If planning is not done properly then capital expenditure can be inefficient leading to less than an optimum utilization of resources. An example is of Modi Cement, which followed a deliberate policy of generous capital investment in setting up its plant based on the latest technology. As compared to its competitor Jaypee Rewa's plant, which cost Rs 120 crore, Modi's plant had an investment of Rs 153 crore. The result was high interest liability and depreciation, causing a serious dent in profitability in the initial years. Similarly, payout policies for dividends and bonus distribution play an important role in the usage of funds.

The management of funds is an important area of financial strategies. It basically deals with decisions related to capital expenditures, dividend policy, investment, cost control and tax planning, etc.

The management of funds can play a pivotal role in strategy implementation. For instance, Gujarat Ambuja Cements, currently a highly profitable cement company in the country, has achieved tremendous financial success primarily on the basis of its policies of cost control. This company has been particularly successful in maintaining a low cost for power, which is a major input in cement manufacturing.

4.0 Evaluating the worth of a business

Evaluating the worth of a business is also important financial strategy implementation because company may acquire another firm under diversification, or divest under retrench strategy. Thousands of transactions occur each year in which businesses are bought or sold in the United States. In all these cases, it is necessary to establish the financial worth or cash value of a business to successfully implement strategies.

All the methods of evaluating a business's worth can be grouped into three main approaches:

In the first approach, the worth of a business is determined through net worth or stockholders' equity. Net worth represents the sum of common stock, additional paid-in capital, and retained earnings. After calculating net worth, add or subtract an appropriate amount for goodwill and overvalued or undervalued assets. This total provides a reasonable estimate of a firm's monetary value. If a firm has goodwill, it will be listed on the balance sheet, perhaps as "intangibles".

The second approach is based on largely the future benefits business owners may derive through net profits. A conservative rule of thumb is to establish a business's worth as five to ten times the firm's current annual profit.

In the third approach, the market determined a business's worth through three popular methods.

- First, base the firm's worth on the selling price of a similar company per unit of its capacity, if similar transaction happened recently.
- The second approach is called the price-earnings ratio method. To use this method, divide the market price of the firm's common stock by the annual earnings per share and multiply this number by the firm's average net income for the past five years.
- The third approach can be called the outstanding shares method. To use this method, simply multiply the number of shares outstanding by the market price per share and add a premium. The premium is simply a per-share amount that a person or firm is willing to pay to control (acquire) the other company.

3.0 PRODUCTION STRATEGY FORMULATION

The strategies for production are related to the production system, production planning and control, and research and development (R&D). All these collectively influence the operations system structure and objectives of company. The operations system structure, which is concerned with the manufacturing/ service and supply/delivery system, and operations system objectives, which are related to customer service and resource utilization, both determine what operations, plans and policies are set.

1.0 Production System

The production system is concerned with the production capacity, location of manufacturing, layout of shop-floor, product or service design, degree of automation and extent of vertical integration. Strategies related to production system are significant as they involve decisions which are long-term in nature and influence not only the operations capability of an organization but also its ability to implement other strategies and achieve objectives. For example, Reliance Industries has successfully done backward integration of its production system under a long-term planning to achieve substantial success in its financial and marketing strategy.

2.0 Production / Operations Planning and Control

Strategies related to operations planning and control are concerned with aggregate production planning; materials supply; inventory, cost, and quality management; and maintenance of plant and equipment. Here, the aim of strategy implementation is to see how efficiently resources are utilized and in what manner the day-to-day operations can be managed in the light of long-term objectives.

4.0 LOGISTICS STRATEGY

Logistic means flow of material / goods from source to destination i.e. from supplier to customers. Effective and efficient sourcing of materials from suppliers and distributions of goods to customers plays a very important role in the profitability of organization.

Effective logistic strategy ensures that the right materials are available at the right place, at the right time, of the right quality, and at the right cost; similarly, goods are available to customers. Supply chain management helps in implementation of logistics strategies. For a business organization effective logistic strategy will involve raising and finding solutions to the following questions:

- Which sources of raw materials and components are available?
- How many manufacturing locations are there?
- What products are being made at each manufacturing location?
- What modes of transportation should be used for various products.
- What is the nature of distribution facilities?
- What is the nature of materials handling equipment possessed? Is it ideal?
- What is the method for deploying inventory in the logistics network?
- Should the business organization own the transport vehicles?

Improvement in logistics can results in savings in cost of doing business. These savings can also reveal in the profits of the company. Effective logistics strategy can help a business in:

- Cost savings
- Reduced inventory
- Improved delivery time
- Customer satisfaction
- Competitive advantage

5.0 RESEARCH AND DEVELOPMENT

Research and development (R&D) can play an integral part in overall company's strategy implementation. R&D employees and managers perform tasks that include transferring complex technology, adjusting processes to local raw materials, adapting processes to local markets, and altering products to particular tastes and specifications. Strategies such as product development, market penetration, and concentric diversification require that new products be successfully developed and that old products be significantly improved. But the level of management support for R&D is often constrained by resource availability.

Several past surveys suggest that the most successful organizations use an effective R&D strategy to achieve its objectives. Well formulated R&D policies match market opportunities with internal capabilities. R&D policies can include efforts to:

- Emphasize product or process improvements.

- Stress on basic or applied research.
- Be leaders or followers in R&D.
- Develop robotics or manual-type processes.
- Spend a high, average, or low amount of money on R&D.
- Perform R&D within the firm or to contract R&D to outside firms.
- Use university researchers or private sector researchers.

There must be effective interactions between R&D departments and other functional departments in implementing different types of generic business strategies. Conflicts between marketing, finance/accounting, R&D, and information systems departments can be minimized with clear policies and objectives.

Many firms wrestle with the decision to acquire R&D expertise from external firms and develop R&D expertise internally. There are at least three major R&D approaches for implementing strategies. The first strategy is to be the first firm to market new technological products. This is a glamorous and exciting strategy but also a dangerous one. Firms such as 3M and General Electric have been successful with this approach.

A second R&D approach is to be an innovative imitator of successful products, thus minimizing the risks and costs of start up, for example, LG and Samsung.

A third R&D strategy is to be a low-cost producer by mass-producing products similar to but less expensive than products recently introduced. For example, China made products.

6.0. HUMAN RESOURCE STRATEGY FORMULATION

Human resources are considered as biggest assets to any organization success. Strategic responsibilities of the human resource manager include assessing the staffing needs and developing a staffing plan for effectively implementing the other formulated strategies. This plan must consider how best to manage employee costs and also include how to motivate employees and managers.

The human resource department must develop performance incentives that clearly link performance with pay. The process of empowering managers and employees through their involvement yields the greatest benefits to organizations. A well-designed strategic-management system can fail if insufficient attention is given to the human resource dimension.

In a large number of organizations, human resources are now viewed as a source of competitive advantage. There is greater recognition that different competencies are obtained through highly developed employee skills.

The role of human resources in enabling the organization to effectively deal with the external environmental challenges is well known. Organization should have effective human resource planning, employment, training, appraisal and rewarding system. An organization's recruitment, selection, training, performance appraisal, and compensation practices can have a strong influence on employee competence is very important. The following points should be kept in mind:

- *Recruitment and selection:* The workforce will be more competent if a firm can successfully identify, attracts, and select the most competent applicants.
- *Training.* The workforce will be more competent if employees are well trained to perform their jobs property.
- *Appraisal of Performance.* The performance appraisal is to identify any performance deficiencies experienced by employees due to lack of competence. Such deficiencies, once identified, can often be solved through counseling, coaching or training.
- *Compensation.* A firm can usually increase the competency of its workforce by offering pay and benefit packages that are more attractive than those of there competitors. This practice enables organizations to attract and retain the most capable people.

Strategy and Human Resource Management

The effective human resource strategy of business supports the overall corporate strategy. An effective human resource strategy includes the way in which the organization plans to develop its employees and provide them suitable opportunities and better working conditions so that their optional contribution is ensured. This implies selecting the best available personnel, ensuring a 'fit' between the employee and the job and retaining, motivating and empowering employees to perform well in direction of corporate objectives.

Strategic human resource management may be defined as the linking of human resource management with strategic goals and objectives to improve business performance. The success of an organization depends on its human resources. This means how they are acquired, developed, motivated and retained organization play an important role in organizational success.

Strategic Role of Human Resource Management

The prominent areas where the human resource manager can play strategic role are as follows:

Providing purposeful direction
Creating competitive atmosphere
Facilitation of change
Diversified workforce
Empowering human resources
Building core competency
Developing ethical work culture

Areas of Human Resources Management

- **Providing purposeful direction:** The human resource management must be able to lead people and the organization towards the desired direction. The management have to ensure that

the objectives of an organization becomes the objectives of each person working in the organization.

- **Creating competitive atmosphere:** By creating committed and competitive atmosphere through opportunities.
- **Facilitation of change:** The Human resources are more concerned with substance rather than form, accomplishments rather than activities, and practice rather than theory. The human resources should be provided enough opportunities for the same.
- **Diversified workforce:** In the modern organization management of diverse workforce is a great challenge. Workforce diversity can be observed in terms of male and female workers, young and old workers, educated and uneducated workers, unskilled and professional employee, etc. creating a great culture or non-financial incentives also plays an important role in motivating the workforce.
- **Empowering human resources:** Empowerment means authorizing every number of a society or organization to take of his/her own destiny realizing his/her full potential.
- **Building core competency:** The human resource manager has a great role to play in developing core competency by the firm. A core competence is a unique strength of an organization which may not be shared by others in the form marketing and technical capability.
- **Developing ethical work culture:** A vibrant work culture should be developed in the organizations to create an atmosphere of trust among people and to encourage creative ideas by the people.

Chapter – 6
Strategy Implementation and Control

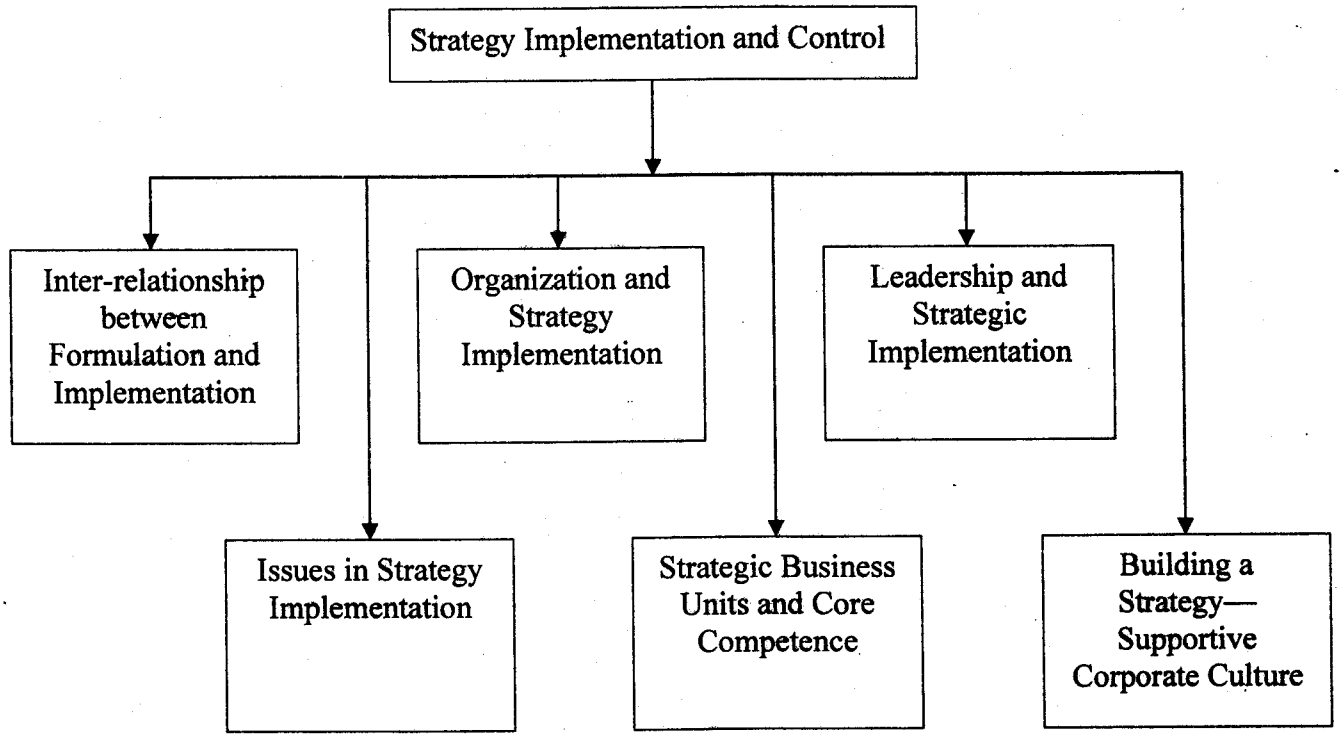
What will we study in this chapter?

Till the last chapter, we studied about strategy formulation and use of functional strategies in strategy formulation and implementation. In this chapter, as its name suggests, we will learn about the last two phases of corporate strategy—Strategy Implementation and Control.

Strategy Implementation: Implementation is putting in place the planned or formulated strategy into action.

Strategy Control: Control is monitoring the implemented strategy and then making changes in the strategy as per the requirement of environment.

Following "Key Topics" we will discuss in this chapter.

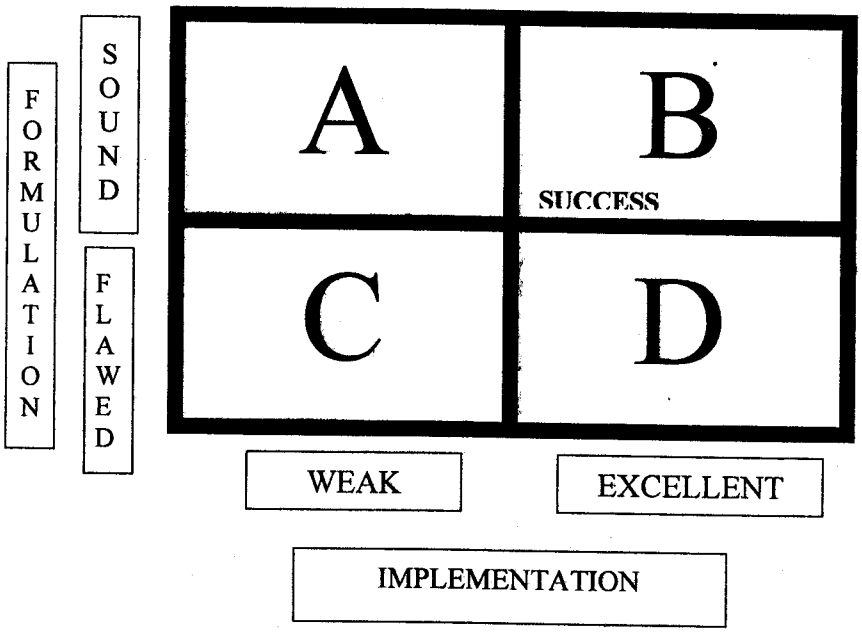


(1) Strategy Formulation and Implementation
(2) Issues in Strategy Implementation
(3) Organization and Strategy Implementation
(4) Strategic Business Units and Core Competence
(5) Leadership and Strategic Implementation
(6) Building a Strategy – Supportive Corporate Culture

1.0 Inter Relationship Between Strategy Formulation and Implementation

Normally, we fail to distinguish between strategy formulation and strategy implementation. But, it is crucial to realize the difference between the two because they both require very different skills. Also, a company will be successful only when the strategy formulation is sound and implementation is excellent.

Thus organizational success is a function of ***formulation*** of good strategy and proper ***implementation***. The matrix in the figure below represents various combinations of strategy formulation and implementation



Strategy formulation and implementation matrix

The Figure shows the distinction between sound/flawed strategy formulation and excellent/ weak strategy implementation.

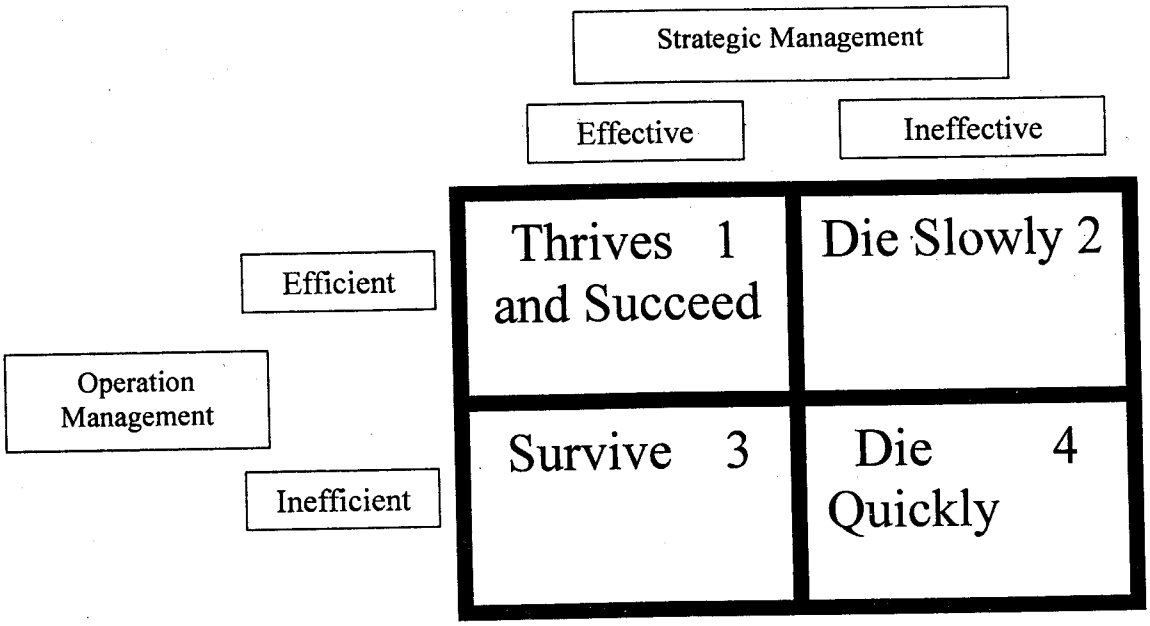
- Square B is the ideal situation where a company has succeeded in designing a sound and competitive strategy and has been successful in implementing it.
- Square A is the situation where a company apparently has formulated a very competitive strategy, but is showing difficulties in implementing it successfully. This can be due to various factors, such as the lack of experience (e.g. for startups), the lack of resources, missing

leadership and so on. In such a situation the company will aim at moving from square A to square B

- Square D is the situation where the strategy formulation is flawed, but the company is showing excellent implementation skills. When a company finds itself in square D the first thing they have to do is to redesign their strategy before readjusting their implementation/execution skills.

- Square C is reserved for companies that haven't succeeded in coming up with a sound strategy formulation and in addition are bad at implementing their flawed strategic model. Their path to success also goes through business model redesign and implementation/execution readjustment.

Principal combinations of efficiency and effectiveness



- An organization that finds itself in cell 1 is well placed and thrives, since it is achieving what it aspires to achieve with an efficient output/input ratio.

- In contrast, an organization in cell 2 or 4 is doomed, unless it can establish some strategic direction.
- The particular point to note is that cell 2 is a worse place to be than is cell 3 since, in the latter, the strategic direction is present to ensure effectiveness even if rather too much input is being used to generate outputs.

Strategy Formulation	Strategy Implementation
Before Action	During Action
Focus on Effectiveness	Focus on Efficiency
Require sound analytical skill	Require motivation and leadership skills
Require coordination among few individuals	Require coordination among many individuals
Involve Planning	Involve Executions or Actions
Involve heavy intellectual process	Involve Operational Process
Primarily Top Management is Responsible for Formulation	Middle and Operational Level Management is responsible for implementation
Entrepreneur Activity	Administrative Tasks

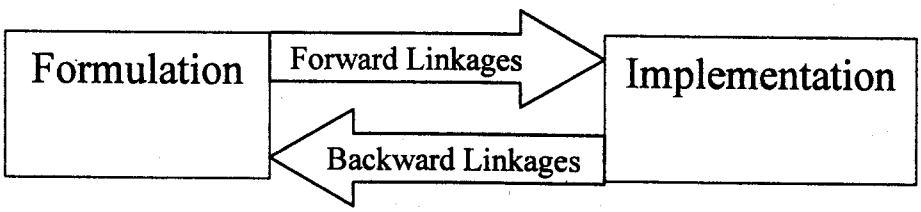
Forward and Backward Linkages:

Forward Linkages:
A strategy formulation requires changes in the organization for implementation. The changes can be in the form of:

- Organization Structure
- Style of Leadership
- Flexibility to adapt new technologies, etc

Backward Linkages: Similarly, the formulation process is also affected by factors related with 'implementation. Organizations should adopt those strategies which can be implemented with the help of the present structure of resources combined with some additional efforts.

It is to be noted that while strategy formulation is primarily an entrepreneurial activity, based on strategic decision -making, the implementation of strategy is mainly an administrative task based on strategic as well as operational decision-making.



2.0 Issues in Strategy Implementation:

Implementation of strategies is not limited to formulation of plans, programmes, and projects. Projects would also require resources. After that is provided, it would be essential to see that a proper organizational structure is designed, systems are installed and functional policies are devised so that plans may work.

Given below are some issues in strategy implementation which are to be considered:

- ♦ Project implementation i.e. group of activities
- ♦ Procedural implementation i.e. method of conducting different activities
- ♦ Resource allocation
- ♦ Structural implementation i.e. organization structure
- ♦ Functional implementation
- ♦ Behavioral implementation

It should be noted that the sequence does not mean that each of the above activities are necessarily performed one after another. Many activities can be performed simultaneously. But the transition from strategy formulation to strategy implementation requires a shift in responsibility from ***strategists*** to ***divisional and functional managers***. Some time this transition may create problems particularly all the activities are not communicated smoothly. Therefore, it is essential that divisional and functional managers be involved as much as possible in strategy-formulation activities.

Managers and employees throughout an organization should participate early and directly in strategy-implementation decisions. Their role in strategy implementation should build upon prior involvement in strategy-formulation activities. The rationale for objectives and strategies should be understood clearly communicated throughout an organization. Major competitors' accomplishments, products, plans, actions, and performance should be apparent to all organizational members. Major external opportunities and threats should be clear, and managers and employees' questions should be answered. Top-down flow of communication is essential for developing bottom-up support.

3.0 Organization And Strategy Implementation

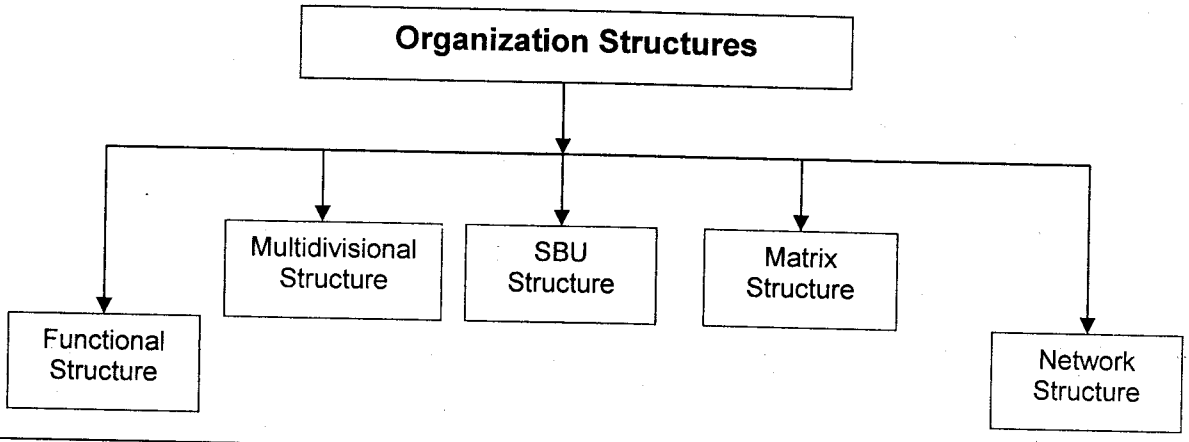
A new strategy often requires changes in the way an organization is structured for two major reasons.

- First, organization structure indicates how objectives and policies will be established.
- Second, organization structure dictates how resources will be allocated.

There are many forms of organization structures which can be adopted by organization to implement and monitor business strategies.

- Functional Structure
- Multidivisional Structure or M-Form Structure

- SBU Structure
- Matrix Organizational Structure
- Network Structure

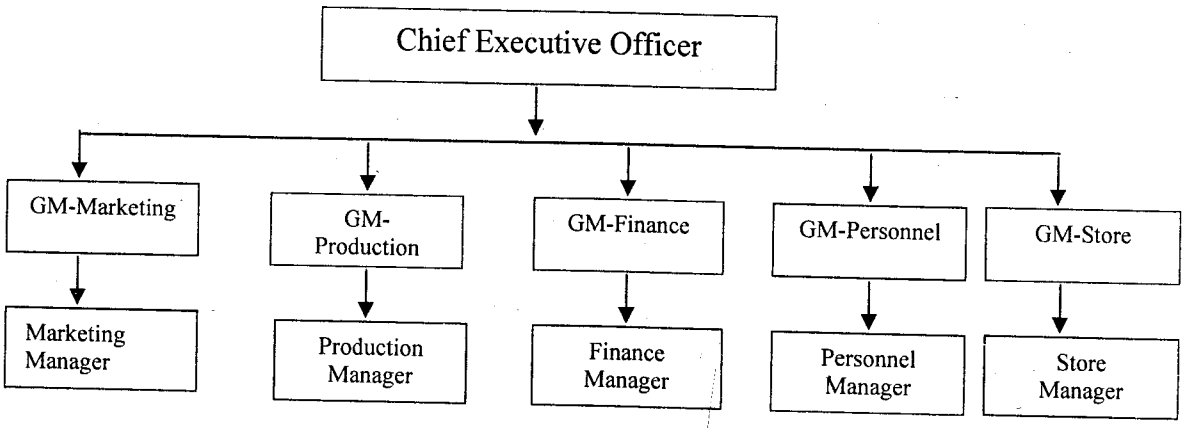


Functional Structure

This structure is created by grouping together similar tasks into different functions like Finance, Marketing, Production and HR, etc.

Normally a functional structure consist of

- Corporate Level: CEO or MD and other heads
- Functional Level: Heads / line managers for major functions like Marketing, Finance, Production and HR, etc



Advantages:

- Promote specialization of labor
- Encourage efficiency
- Expert managed the respective jobs hence provide better supervision

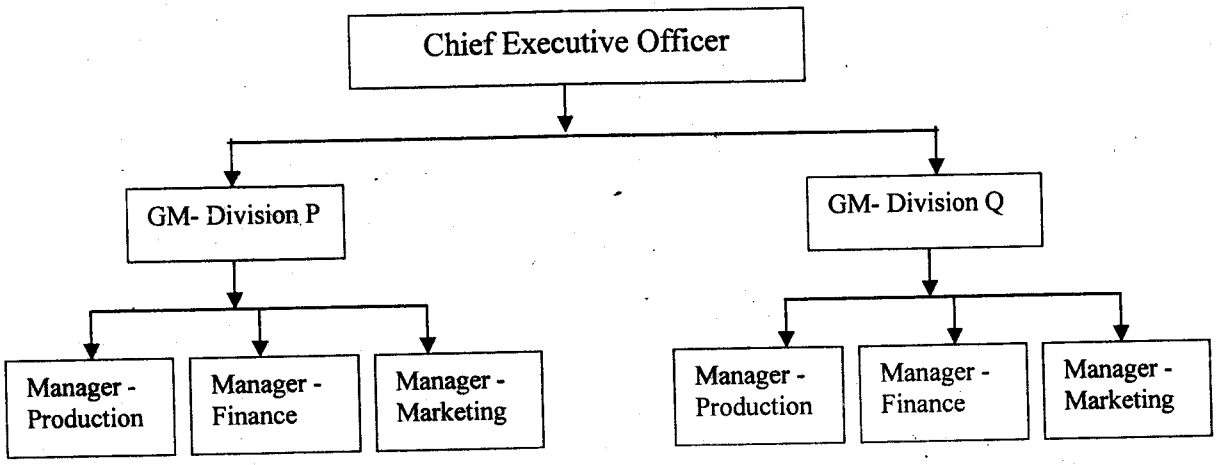
- Better co-ordination due to familiarity with respective tasks
- Allow quick decision making
- Provide better control over individual tasks from functional experts

Disadvantages:

- Accountability remains with top management only
- Minimizes career development
- May provide low employee morale
- Create staff conflicts in inter-functional dept.
- Problems in inter-functional communication, etc

Multi- Divisional Structure (M-Form Structure):

The Multi-divisional structure is composed of operating division where each division is represented as separate business.



This is a very common type of structure for large manpower based organization like banks, etc. This type of structure is also known as M-form structure.

Advantages:

- Promotes accountability since divisional heads are responsible for individual center profitability
- Career development opportunities are higher in this structure
- Allow better control of local situation
- Provides a better competitive environment in the organization
- Easy to add new products and dimensions to business

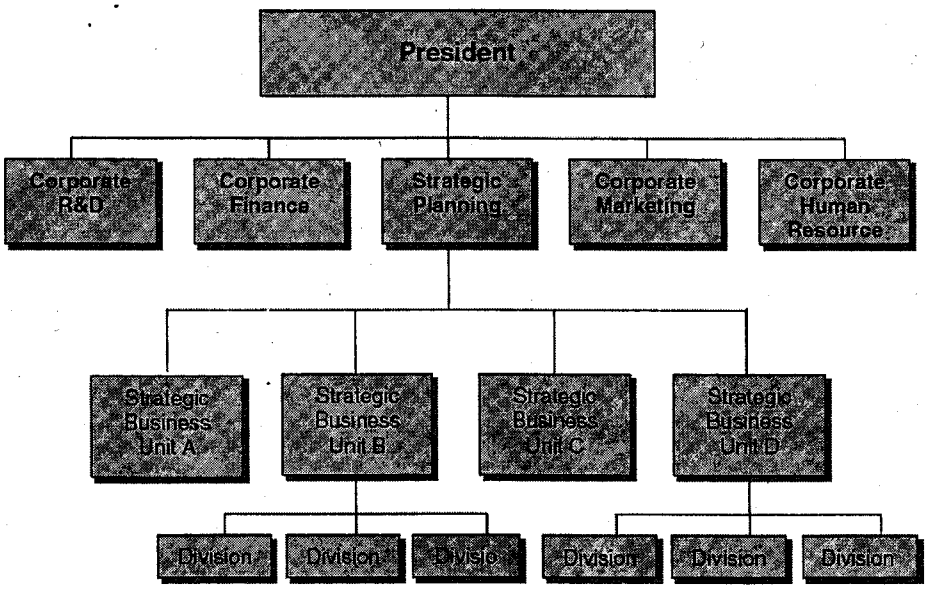
Disadvantages:

- Duplications of staff and services
- Require experts at each division—costly approach

- Requires separate office at each location—integration of each division with Head Quarter is complex process.
- May provide inconsistent approach to tackle customers , etc because each division may work in its own way to handle situations

Strategic Business Units (SBU) Structure:

SBU groups similar divisions into "Strategic Business Units" and then delegate's authority and responsibility of each unit to a senior executive who is normally identified as CEO or MD of that SBU. It is an extension of Divisional structure.



SBU Structure

Big organization like Unilever, etc have many SBUs for their different categories of products like Cosmetics, Food products and Beverages, etc, and each is managed through separate unit head

Advantages:

- Promotes accountability since units' heads are responsible for individual SBU profitability
- Career development opportunities are further higher in this structure
- Allow better control of categories of products manufacturing, marketing and distributions
- Helps to expand in different related and unrelated businesses

Disadvantages:

- May provide inconsistent approach to tackle customers , etc, because each unit may work in its own way to handle situations
- High cost approach

Matrix Organization Structure:

The above structures (Functional, Divisional and SBU) consist of flow of authority from top to bottom i.e. vertical flow whereas Matrix structure contains both vertical and horizontal flow of communications or authority. This type of structure is frequently used in IT organization for managing different projects. Each individual project is managed by a project manager and projects manager will have his team arranged under him.

Advantages:

- Useful for some specific industries like Information Technology, Healthcare etc
- Employee can see visible results of their efforts
- Remove barrier to communications
- Managing projects are easy
- Effective structures when environment is very dynamic

Disadvantages:

- Complex structure as this contains both vertical and horizontal flow of information
- High cost approach due to more management positions
- Dual lines of authority
- Conflicts arises in the allocation of resources

Davis and Lawrence have proposed three distinct phases for Matrix Organization Structure:

1. **Setting *Cross-functional task forces*: *When a new product line is being introduced,*** a project manager is in-charge as the key horizontal link and cross functional tasks. (i.e. Vertical and Horizontal both)

2. ***Product/brand management*: *When a product is in development stage*** the product or brand managers act as the integrators of semi permanent products or brands.

3. ***Mature matrix*: *When a product is mature stage*** both the functional and product structures becomes permanent. All employees are connected to both a vertical functional superior and a horizontal product manager.

Network Structure:

Companies like Nike, Reebok and Benetton use the network structure in their operations function by subcontracting manufacturing to other companies in low-cost.

The network organization structure provides an organization with increased flexibility and adaptability to cope with rapid technological change and shifting patterns of international trade and competition. It allows a company to concentrate on its distinctive competencies.

The network structure becomes most useful when the environment of a firm is unstable and is expected to remain so. Under such conditions, there is usually a strong need for innovation and quick

response. Instead of having salaried employees, it may contract with people for a specific project or length of time. Long-term contracts with suppliers and distributors replace services that the company could provide for itself through vertical integration. Electronic markets and sophisticated information systems reduce the transaction costs of the marketplace, thus justifying a "buy" over a "make" decision. Rather than being located in a single building or area, an organization's business functions are scattered worldwide.

4.0 Strategic Business Units (SBU) & Core Competence

- SBU is a grouping of related businesses, which is open to complex planning treatment.
- Multi-business enterprise groups its various businesses into a few distinct business units in a scientific way known as SBUs.
- The purpose is to provide effective strategic planning treatment to each one of its products/businesses.
- SBU concept is relevant to a multi-product, multi-business enterprises like Unilever Limited
- In other words, the SBU concept helps a multi-business corporation in scientifically grouping its businesses into a few distinct business units. Such a grouping would in its turn, help the corporation to carry out its strategic management practices in better manner.

Some of major reasons of using SBU approach are as follow:

- A scientific method of grouping the businesses of a multi-business corporation which helps the firm in strategic planning.
- An improvement over the geographical grouping of businesses and strategic planning based on locational units.
- An SBU is a grouping of related businesses that can be taken up for strategic planning distinct from the rest of the businesses.
- Grouping the businesses on SBU lines helps the firm in strategic planning by removing the ambiguity and confusion generally seen in grouping businesses;
- Each SBU is a separate business from the strategic planning standpoint. In the basic factors, viz., mission, objectives, competition and strategy-one SBU will be distinct from another.
- Each SBU will have its own distinct set of competitors and its own distinct strategy.
- Each SBU will have a CEO. He will be responsible for strategic planning for the SBU and its profit performance; he will also have control over most of the factors affecting the profit of the SBU.

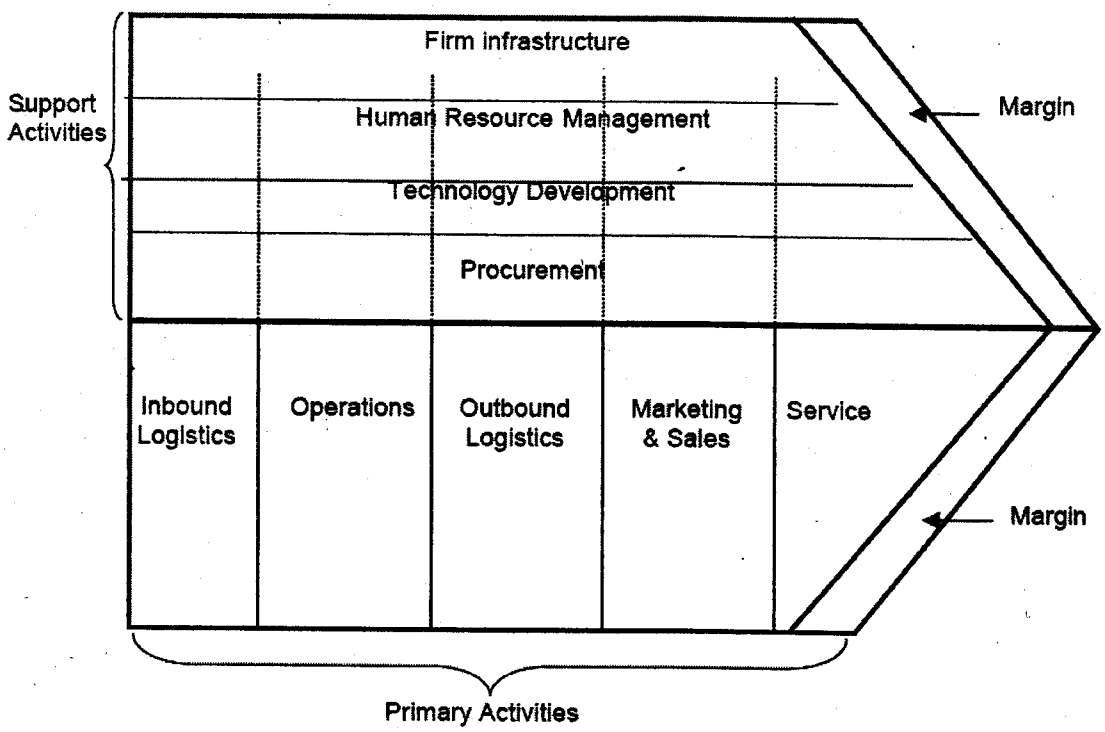
The three most important Characteristics of SBU are:

- It is a single business or a collection of related businesses which offer scope for independent planning and which might feasibly stand alone from the rest of the organization.

- Has its own set of competitors.
- Has a manager who has responsibility for strategic planning and profit performance, and who has control of profit-influencing factors.

The Value Chain Analysis

- A company activities contains set of activities which can be related to each other in the form of a chain and from this set of activities organization can analyze detect which all activities are necessary to add value to organization profitability. This analysis is known as value chain analysis.
- Value chain analysis has been widely used as a means of describing the activities within and around an organization, and relating them to an assessment of the competitive strength of an organization (or its ability to provide value-for-money products or services).
- Michel Porter divided company activities into two set of activities:
  - Primary Activities
  - Support Activities



The primary activities of the organization are grouped into five main areas:

- inbound logistics,
- operations,
- outbound logistics,

- marketing and sales,
- and service.

Each of these groups of primary activities are linked to support activities. These can be divided into four areas:

- Procurement
- Technology Development
- Human Resources Management
- Firm Infrastructure

Identifying Core Competences

- Value chain analysis is useful in describing the separate activities which are necessary to support an organization's strategies.
- Value chain analysis analysis also provide information about activities adding value to organization profitability
- Although a high competence in all of activities is necessary to the organization's successful operation, but it is important to identify those competences which critically support the organization's competitive advantage.
- Activities which provide competitive advantages are known as the core competences.
- Core competencies will differ from one organization to another depending on how the company is positioned and the strategies it is pursuing. For example, AIRTEL core competencies is its premium customer bases and superb coverage and quality of its network. TATA Indicom Core competency is its low cost services and trust of Tata name.
- It is very important to understand that those unique resources and core competences which allow companies to gain competitive advantage over competitors
- The development of global competition in the automobile industry over recent decades also illustrates this issue well. During the 1950s and 1960s, the US giants such as Ford and GM dominated the global market through their market access core competences of establishing dealer networks and later overseas production plants. Meanwhile, Japanese manufacturers were developing competences in defect-free manufacture. By the mid-1970s they were significantly outperforming Ford on quality and reliability - which became critical success factors in allowing them to achieve global sales. By the mid-1980s, both Ford and the major Japanese companies had achieved similar competence in these two areas of global networks and quality. Although maintaining a global network was a critical success factor which continued to distinguish Ford and the Japanese from many European companies such as Peugeot, the production and supplier management activities underpinning quality (reliability) were becoming threshold competences. The competitive arena then switched to competences which would create some uniqueness of product in an increasingly 'commodity-like' industry. The new core competences became the ability to provide unique product designs/features at low volumes of manufacture - the so-called 'lifestyle niche' was produced by companies like

Mazda. This agility in design and manufacturing techniques became a new and important core competence in the global competition.

- Core competences may also be the basis on which the organization stretches into new opportunities. So, in deciding which competences are core is very important.
- Value chain analysis help in identifying those activities which the organization must undertake at a threshold level of competence and those which represent the core competences of the organization.

Managing linkages

Core competences in individual activities may provide competitive advantage for an organization, but nevertheless over time may be imitated by competitors. Core competences are likely to be more robust and difficult to imitate if these exist in chain of link activities. It is the management of these linkages which provides 'leverage' and levels of performance which are difficult to match.

This management of internal linkages in the value chain could create competitive advantage in a number of ways:

- ***There may be important linkages between the primary activities.*** For example, a decision to hold high levels of finished stock might ease production scheduling problems and provide for a faster response time to the customer. However, it will probably add to the overall cost of operations. An assessment needs to be made of whether the value added to the customer by this faster response through holding stocks is greater than the added cost.
- ***It is easy to miss this issue of managing linkages between primary activities in an analysis*** if, for example, the organization's competences in marketing activities and operations are assessed separately.
- ***The management of the linkages between a primary activity and a support activity may be the basis of a core competence e.g. use of*** Computer-based systems have been exploited in many different types of service organization and have fundamentally transformed the customer experience.
- Linkages between different support activities may also be the basis of core competences.
- Vertical integration attempts to improve performance through ownership of more parts of the value system, making more linkages internal to the organization.
- ***A more recent philosophy has been total quality management,*** which seeks to improve performance through closer working relationships between the specialists within the value system. For example, many manufacturers will now involve their suppliers and distributors at the design stage of a product or project.
- The merchandising activities which manufacturers undertake with their distributors are now much improved and are an important

5.0 Leadership And Strategic Implementation

- The tour of good strategic management is simple enough: craft a sound strategic plan, implement it, execute it to the fullest, adjust as needed, win!
- But it's easier said than done. A strategy manager has many different leadership roles to play: visionary, chief entrepreneur and strategist, chief administrator, culture builder, resource acquirer and allocator, capabilities builder, process integrator, crisis solver, spokesperson, negotiator, motivator, arbitrator, policy maker, policy enforcer, and head cheerleader.
- Sometimes it is useful to be strict and rigid; sometimes it is best to be a keen listener and a compromising decision maker; sometimes a strongly participative, mutually respectful approach works best; and sometimes being a coach and adviser is the proper role.
- Many occasions call for a highly visible role and extensive time commitments, while others entail a brief traditional performance with the details delegated to subordinates.
- For the most part; major change efforts have to be top-down and vision-driven. A proper leadership is required to achieve success in set obecjtives and goals

Managers have five leadership roles to play in pushing for good strategy execution:

- Staying on top of what is happening, closely monitoring progress, ferreting out issues, and learning what obstacles lie in the path of good execution.
- Promoting a culture and esprit de corps that mobilizes and energizes organizational members to execute strategy in a competent fashion and perform at a high level.
- Keeping the organization responsive to changing conditions, alert for new opportunities, bubbling with innovative ideas, and ahead of rivals in developing competitively valuable competencies and capabilities.
- Exercising ethics leadership and insisting that the company conduct its affairs like a model corporate citizen.
- Pushing corrective actions to improve strategy execution and overall strategic performance.

For example:

N. R. Narayan Murthy, Infosys, is a celebrated leader because of the value he has added over his tenure at the company. One of the great legacies he will leave with Infosys is a strong management development program that builds management talent that other companies want and that will fill in managerial gaps after his retirement. Mr. Murthy whom some consider the master strategic leader, truly focuses on developing human capital.

Mr. Dhirubhai Ambani, Reliance Group, was an icon in himself because of his ability to conceptualize and communicate sweeping strategies, knowledge of operations to reach financial goals, and proficiency in implementing a new vision for the company. Mr. Ambani was an excellent strategic leader because he was able to provide clear direction for the company and his strong interpersonal skills that inspire loyalty among employees.

A manager with strategic leadership skills exhibits the ability to guide the company through the new competitive landscape by influencing the behavior, thoughts, and feelings of co-workers, managing through others and successfully processing or making sense of complex, ambiguous information by successfully dealing with change and

The strategic leader has several responsibilities, including the following:

- Managing human capital (perhaps the most critical of the strategic leader's skills). Effectively managing the company's operations.
- Sustaining high performance over time.
- Being willing to make candid, courageous, yet pragmatic, decisions.
- Seeking feedback through face-to-face communications.
- Having decision-making responsibilities that cannot be delegated.

Thus, the strategic leadership skills of a company's managers represent resources that affect company performance. And these resources must be developed for the company's future benefit.

6.0 Building A Strategy-Supportive Corporate Culture

Every company has a unique organizational culture. Each has its own business philosophy and principles, its own ways of approaching problems and making decisions, its own work climate, its own embedded patterns of "how we do things around here, etc i.e. every company have its own corporate culture.

Corporate Culture

Corporate culture refers to a company's **values, beliefs, business principles, traditions,** ways of operating, and internal work environment. The bedrock of ***Wal-Mart's culture is dedication to customer satisfaction, zealous pursuit of low costs, a strong work ethic***. At **Microsoft,** there are stories of the ***long hours programmers put in***, the emotional peaks and valleys in encountering and overcoming coding problems, the exhilaration of completing a complex program on schedule, the satisfaction of working on cutting-edge projects, the rewards of being part of a team responsible for a popular new software program, and the tradition of competing aggressively. These are reflections of Bill Gates marvelous leadership.

Where Does Corporate Culture Come From?

An organization's culture is originated from a complex combination of socio-logical forces operating within its boundaries. A company's culture indicates the values and business principles that management preaches and practices. Also indicates its ethical standards and official policies through its stakeholder relationships (especially its dealings with employees, unions, stockholders, vendors, and the communities in which it operates),

The role of stories: Frequently, a significant part of a company's culture emerges from the stories that get told over and over again to illustrate to newcomers the importance of certain values and beliefs and ways of operating.

Culture: ally or obstacle to strategy execution?

An organization's culture is either an important contributor or an obstacle to successful strategy execution. The beliefs, vision, objectives, and business approaches and practices supporting a company's strategy may be compatible with its culture or they may not. When they are, the culture becomes a valuable ally in strategy implementation and execution. When the culture is in conflict with some aspect of the company's direction, performance targets or strategy, the culture becomes a stumbling block that obstructs successful strategy implementation and execution.

How culture can promote better strategy execution a culture?

A culture where creativity, embracing change, and challenging the status quo are pervasive themes is very conducive to successful execution of a product innovation and technological leadership strategy. A culture built around such business principles as listening to customers, encouraging employees to take pride in their work, and giving employees a high degree of decision-making responsibility is very conducive to successful execution of a strategy of delivering superior customer service.

A strong strategy-supportive culture nurtures and motivates people to do their jobs in ways conducive to effective strategy execution; it provides structure, standards, and a value system in which to operate; and it promotes strong employee identification with the company's vision, performance targets, and strategy. All this makes employees feel genuinely better about their jobs and work environment and the merits of what the company is trying to accomplish. Employees are stimulated to take on the challenge of realizing the company's vision, do their jobs competently and with enthusiasm, and collaborate with others as needed to bring the strategy to success.

The Dangers of Strategy-Culture Conflict

The more deep-rooted the mismatched aspects of the culture, the greater the difficulty of implementing new or different strategies until better strategy-culture alignment emerges. A sizable and prolonged strategy-culture conflict weakens and may even defeat managerial efforts to make the strategy work.

Creating a strong fit between strategy and culture

It is the strategy maker's responsibility to select a strategy compatible with the corporate culture. It is the strategy implementer's task, once strategy is chosen, to change whatever facets of the corporate culture hinder effective execution. Once a culture is executed, it is difficult to change.

Changing a problem culture

Changing a company's culture to align it with strategy is among the toughest management tasks--easier to talk about than do. Changing problem cultures is very difficult because of the heavy anchor of deeply held values and habits-people cling emotionally to the old and familiar. It takes concerted management action over a period of time to replace an unhealthy culture with a healthy culture or to root out certain unwanted cultural obstacles and instill ones that are more strategy-supportive.

- The first step is to diagnose which facets of the present culture are strategy supportive and which are not.
- Then, managers have to talk openly and forthrightly to all concerned about those aspects of the culture that have to be changed.
- The talk has to be followed swiftly by visible, aggressive actions to modify the culture-actions that everyone will understand are intended to establish a new culture more in tune with the strategy.

Culture-changing actions

The menu of culture-changing actions includes,

- Revising **policies and procedures** in ways that will help drive cultural change;
- Altering incentive compensation (to reward the desired cultural behaviour);
- Visibly praising and recognizing people who display the new cultural traits;
- Recruiting and hiring new managers and employees who have the desired cultural values and can serve as role models for the desired cultural behaviour,
- Replacing key executives who are strongly associated with the old culture, and taking every opportunity to communicate to employees the basis for cultural change and its benefits to all concerned.

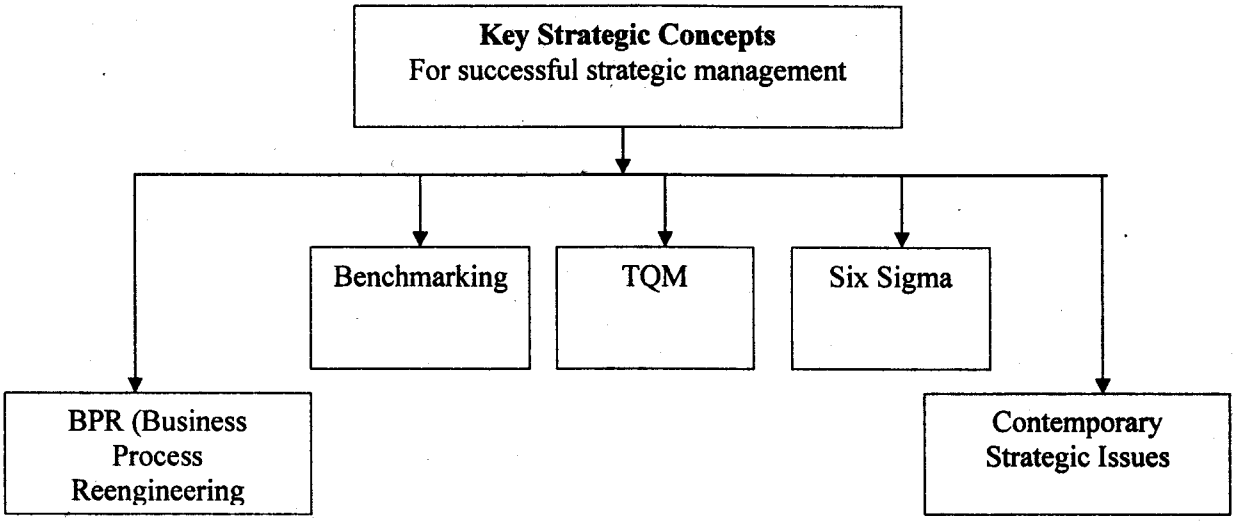
Chapter- 7
Reaching Strategic Edge

What will we study in this Chapter?

This chapter discusses important concepts of successful strategy management. We will discuss some evolving issues which put forward an organization to a better position to achieve set objectives and goals.

Following key concepts would be discussed in this chapter.

- BPR (Business Process Reengineering)
- Benchmarking
- TQM (Total Quality Management)
- Six Sigma
- Contemporary Strategic Issues



Finally, in this chapter presents importance of strategic management under Contemporary Strategic Issues like Strategies in:

- Internet Economy;
- Non- Profit and Government Organization;
- Educational Institutes, and;
- Medical Organization;

1.0 Business Process Re-Engineering:

First, let us understand the three terms involved in above heading:

Business: Business means conducting some activities like sale, purchase, manufacturing, after sale service, customer management, etc to achieve some objective such as growth, profit, etc.

Process: Process means methods adopted to conduct business activities

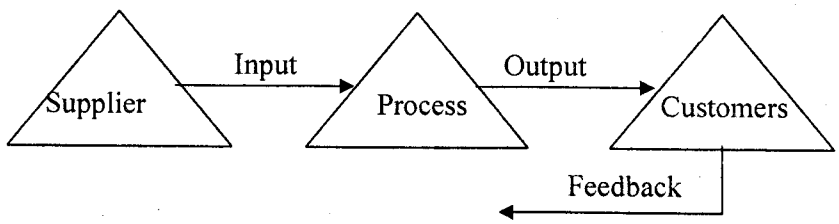
Re-engineering: Means redesigning of methods to conduct business activities

If we combine above three definitions together; we will have Business Process Re-Engineering definitions.

BPR: BPR is redesigning of business processes to achieve dramatic changes in the processes, in terms of costs, time, performance, quality and responsiveness to customers, etc.

Let us try to understand BPR through an example: If you look around the process change in Railway reservation, (i.e. change in method adopted by Railway to provide reservations to its customers), from manual reservation to computerized, and then through internet may help you to have some understanding of BPR.

Business Processes: Business Processes are simply set of activities that transform a set of inputs into set of outputs (goods or services).



In today's competitive market place, the business processes needs to be improved to stay in the market. Now, customers have command over the market, and they are insisting on better quality products and services and companies are forced to improve their business processes in order to satisfy the customer need.

BPR aim at to achieve dramatic improvement by major transformation of business processes.

BPR is fundamental rethinking and radical redesign (reinventing) of business process to achieve dramatic improvement in business process in terms of cost, quality, service and speed.

Principles of BPR

Following are major principles of BPR:

(a) In many organizations the business process is split into many activities and same is assigned to different people. So, single person cannot be held responsible of any business outcome. In such cases it is difficult to determine the status of work and even more difficult to debug the process problem, if it occurs. Wherever possible, BPR would avoid this type of problem by not allowing the process to be executed in parallel by many persons together. ***BPR fist principle says that there should be single point responsibility for any business process.***

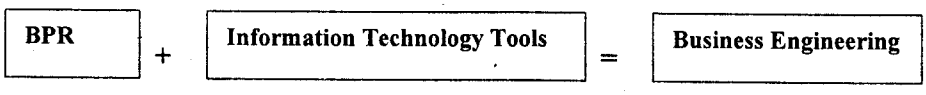
(b) When different people perform work in parallel then it is essential to design a process that demands continuous communication and coordination between these people. Otherwise, integration problems are sure to emerge. ***BPR second principle says if work is to be performed in parallel then there should be perfect co-ordinations among persons / resources performing work in parallel***

(c) Data should be stored in on-line common database form, so that once collected it need never be re-entered. ***BPR third principle says that there should be a common database through which every one can share the common data to avoid duplicity***

Using these principles of BPR the processes in the organization are redesigned to improve the processes in terms of cost, accuracy, quality and speed etc.

Role of Information Technology in BPR: Today BPR and Information Technology go hand in hand. The merger of two concepts has resulted in a new technology term known as Business Engineering. Business Engineering combines the innovations of Information Technology with BPR and focus on better business processes. The main thrust of using information technology in BPR lie in far-reaching (best procedure based) processes oriented solutions.

BPR concepts have been greatly enhanced by the use of Information Technology mainly through Client/ Server computing. So, if we conclude then BPR is more or less unimaginable without the use of information technology tolls i.e. you can achieves better re-engineering or re-design of processes with the help of computers or information technology.



How BPR is implemented?

BPR implementation is a five steps process:

1. Determine the Objectives: Objectives are the desired results from process re-engineering. For example, banks want to provide better services to customers by reducing their waiting time in branch.
2. Identify the customers' needs: Determine customers' needs of services; in terms of maximum time they want to spend for any service.
3. Study the exiting Process: Study and determine how existing processes are providing services and where are the problems due to which customers are spending more time in getting services.
4. Formulate a redesign of process: After finding problems of existing processes, formulate a new design of process which should not have those problems.
5. Implement the redesigned process: Implement the redesigned process and observe the results.

2.0 Benchmarking

In simple words, benchmarking is an approach of setting goals and measuring productivity based on best industry practices. Benchmarking provide standards against which performances can be measured. For example, a customer support engineer of a television manufacturer attends a call within forty-eight hours. If the industry norm is that all calls are attended within twenty-four hours, then the twenty-four hours can be a benchmark.

Benchmarking helps in improving performance by learning from best practices. It involves regularly comparing different aspects of performance with the best practices, identifying gaps and finding out novel methods to not only reduce the gaps but to improve the situations so that the gaps are positive for the organization.

Benchmarking is a process of continuous improvement in search for competitive advantage. It measures a company's products, services and practices against those of its competitors or other acknowledged leaders in their field. Xerox pioneered this process in late 70's by benchmarking its manufacturing costs against those of domestic and Japanese competitors and got dramatic improvement in the manufacturing cost. Subsequently ALCOA, Eastman Kodak, IBM adopted benchmarking. Firms can use benchmarking process to achieve improvement in diverse range of management function like:

- Maintenance operations
- Assessment of total manufacturing costs
- Product development
- Product distribution
- Customer services
- Plant utilization levels
- Human resource management

The Benchmarking Process or Steps

Benchmarking processes lack standardization. However, common steps are as follows:

- Identifying the need for benchmarking and planning:
- Clearly understanding existing business processes:
- Identify best processes:
- Compare own processes and performance with that of others: and identify the gaps
- Prepare a report and Implement the steps necessary to close the performance gap:

  A report on the Benchmarking initiatives containing recommendations is prepared. Such a report includes the action plan(s) for implementation.
- Evaluation:

  Business organizations evaluate the results of the benchmarking process in terms of improvements vis-à-vis objectives and other criteria set for the purpose. It also periodically evaluates and reset the benchmarks in the light of changes in the conditions that impact the performance.

3.0 TQM: Total Quality Management:

TQM (Total Quality Management): This includes three terms

- Total
- Quality
- Management

And, the definitions of these three terms used for TQM are as follow:

- Total: Involving the entire organization, supply chain, and/or product life cycle
- Quality: it has its usual definition-- providing output as per specifications or without fault
- Management: Management is a process including steps like Planning, Organizing, Staffing, Directing and Controlling

If we combined all these definitions together to form the TQM definition then that definitions would be:

"TQM is a management approach for an organization, centered on quality, based on the participation of all its members and aiming at long-term success through customer satisfaction, and benefits to all members of the organization and to society."

"TQM requires that the company maintain this quality standard in all aspects of its business. This requires ensuring that things are done right at the first time and that defects and waste are eliminated from operations."

"Total quality is called total because it consists of two qualities: quality of return to satisfy the needs of the shareholders, and quality of products for customers."

So from above, we can observe that there are many definitions of TQM. Finally, if we conclude about TQM then it is a management concept or philosophy to encourage each and every participant to realize

the importance of quality. To extend it further, it is a concept which state that adopt quality in every step of your work and process.

The TQM philosophy greatly emerged under Deming's guidance; Deming is regarded as the father of TQM. Interestingly, Deming's quality management philosophies were first developed in the years prior to World War II. Deming believed quality management should be pervasive, and should not focus on merely sorting good products from bad. Deming believed the responsibility for quality should be shared by everyone in an organization. Perhaps most significantly, Deming recognized that most quality problems were system-induced and were therefore not related to workmanship. But Deming's work only saw limited application in the United States prior to World War II, Subsequently Deming was brought to Japan by General Douglas MacArthur to serve as a management consultant to the Japanese as they rebuilt their industrial base.

Deming's message had essentially fallen on deaf ears in the United States, but not so in Japan. And Japanese were willing to learn. What followed in Japan during the ensuing decades has been well studied and is now well known. The Japanese dominated almost every market they chose to enter: electronics, cameras, automobiles, steel, shipbuilding, motorcycles, and several others.

Principles of TQM: Followings are some guiding principles of TQM

1. Management Commitment to Quality
2. Preventing rather than detecting defects
3. Focus on Customers
4. Universal quality responsibility i.e. quality responsibility on everyone
5. Quality measurement i.e. continuous evaluating quality to determine where we stand and what we want achieve in terms of quality
6. Continuous improvement and learning
7. Root cause corrective action
8. Employee involvement and empowerment
9. The synergy of teams
10. Thinking statistically and Quantitatively
11. Inventory reduction: The Japanese pioneered the concept of reducing inventories. This management philosophy became known as Just-in- Time (or JIT, for short) inventory management. As inventories grew smaller, quality improved.
12. Value improvement: is not simply cutting costs. It is adding value for satisfying customer requirements and expectations.
13. Supplier teaming: Another principle of the TQM philosophy is to develop long-term relationships with a few high-quality suppliers, rather than simply selecting those suppliers with the lowest initial cost.
14. Training: Training is basic to the TQM process. The concept is based on of empowering employees by providing the tools necessary for continuous improvement. One of the most basic tools is training.

4.0 Six Sigma

Six Sigma provides the highest standards for quality controls of products and processes. Six Sigma is a thorough and disciplined methodology that uses data and statistical analysis to measure and improve a company's products quality by identifying and eliminating "defects" in manufacturing and service-related processes. Commonly defined Six Sigma standard is 3.4 defects per million parts or 99.99966% of products manufactured are defect free.

Six Sigma is a comprehensive whilst flexible system for achieving, sustaining and maximising business success. Six Sigma is uniquely driven by close understanding of customer needs, disciplined use of facts, data and statistical analysis, and diligent attention to managing, improving and reinventing business processes.

Six Sigma efforts target three main areas:

- Improving customer satisfaction
- Reducing process cycle time
- Reducing defects

GE's Key Concepts of Six Sigma	
At its core, Six Sigma revolves around a few key concepts.	
Critical to Quality:	Attributes most important to the customer
Defect:	Failing to deliver what the customer wants
Process Capability:	What your process can deliver
Variation:	What the customer sees and feels
Stable Operations:	Ensuring consistent, predictable processes to improve what the customer sees and feels
Design for Six Sigma:	Designing to meet customer needs and process capability

Six Sigma Methodologies:

There are two methodologies of Six Sigma

1. DMAIC
2. DMADV

DMAIC: The basic method consists of the following five steps:

- ***Define: high-level project goals and the current process.***
- *Measure:* key aspects of the current process and collect relevant data.

- *Analyze:* the data to verify cause-and-effect relationships. Determine what the relationships are, and attempt to ensure that all factors have been considered.
- *Improve:* or optimize the process based upon data analysis using techniques like Design of experiments.
- *Control:* to ensure that any deviations from target are corrected before they result in defects. Set up pilot runs to establish process capability, move on to production, set up control mechanisms and continuously monitor the process.

DMADV

The basic method consists of the following five steps:

- *Define* design goals that are consistent with customer demands and the enterprise strategy.
- *Measure* and identify CTQs (characteristics that are Critical To Quality), product capabilities, production process capability, and risks.
- *Analyze* to develop and design alternatives, create a high-level design and evaluate design capability to select the best design.
- *Design* details, optimize the design, and plan for design verification. This phase may require simulations.
- *Verify* the design, set up pilot runs, implement the production process and hand it over to the process owners

What is New in Six Sigma?

Around 1980s, Total Quality Management (TQM) concept was very popular. As mentioned above it is also very elaborate quality focused concept, but it ultimately died a slow and silent death in many companies. Now the question is what makes Six Sigma different?

Three key characteristic separate Six Sigma from other quality programs of the past.

1. ***Six Sigma is customer focused:*** In Six Sigma it is almost an obsession to keep customer needs and satisfaction utmost in mind.
2. ***Six Sigma projects produce major returns on investment.*** GE's CEO, Jack Welch, wrote in the annual report that in just three years, Six Sigma had saved the company more than $2 billion.
3. ***Six Sigma changes how management operates.*** Six Sigma is much more than improvement projects. It provide new approaches to thinking, planning, and executing to achieve desired results. In a lot of ways, Six Sigma is about putting into practice the notions of working smarter, not harder.

Six Sigma has produced some impressive numbers. But reaching them requires a great deal of organizational teamwork. It means having the systems to provide customers what they want when they want it. It means providing employees with the time and training to tackle work challenges with some basic, and some sophisticated, analytical tools.

Themes of Six Sigma

These 6 themes indicate how Six Sigma works:

- ***Genuine focus on the customer***: Six Sigma improvements are defined by their impact on customer satisfaction and value, so a key element is being able to measure performance against them and identify new developments and unmet needs
- ***Data and fact-driven management***: Six Sigma helps managers to understand what data/information it is that they really need and how it is used to maximum benefit.
- ***Process focus, management and improvement.*** Six Sigma focuses on process since it sees process as a source of competitive advantage.
- ***Proactive management.*** Six Sigma replaces reactive management habits with proactive ones – the "why" rather than the "how"
- ***"Boundary less" collaboration.*** Six Sigma enables people to understand how their roles fit into "the big picture" and the interdependence of activities on each other – create a culture and structure based on true teamwork
- ***Drive for perfection and the tolerance for failure***: "you only learn from mistakes" and at the same time create an understanding of risk. Also, this assumes that the organisation can recognize its strengths and weaknesses honestly.

5.0 Contemporary Strategic Issues

Under this category we will discuss some current evolving strategic aspects. We will discuss following two evolving strategic issues.

- Strategies for Internet Economies
- Strategic management in non-profit and government organization

Strategies for Internet Economies

Internet has changed our way of communication and delivering services. It is not possible for organizations to ignore the impact of internet in their strategy planning, formulation and implementation. Internet has given new methods to organizations for approaching customers and delivering their product and services. For example, banking industry has almost completely shifted their operation based on internet or online services. There is saying that if two decades back the popularity of PC (Personal Computer) had given world's biggest software organization i.e. Microsoft Inc; then similarly in the present decade, the popularity of internet has given world most renowned and famous organization i.e. Google Inc.

What is Internet?

The internet can be defined as a very large network of networks wherein connected devices can communicate with each other from any part of the world. Internet integrates several networks to form a large worldwide network. Internet provides many applications to the organizations, for example:

- Information on products or services can be published in the form of web site at a very low cost for large number of users around the world.
- Inexpensive way of sending information and receiving comments and suggestions for new products from large number of customers.
- Inexpensive medium for communicating with employee located any where in the world through email and intranet sites.
- Books supply, health services, education and online banking are some of the business applications being extensively happening through internet.
- Inexpensive way of Customer Relation Management (CRM) for getting suggestions and complains from customers and addressing the same.
- Inexpensive medium for logistics management [Supply Chain Management, (SCM)] and tracking the locations of transported goods.

Above applications of internet are also known as e-commerce applications. E-commerce has changed the way the organizations provide their services. It has become an essential part of their both short-term and long-term strategic planning.

Following features of internet and e-commerce are reasons behind their importance in the strategic planning.

- Internet is a global network and that makes feasible for companies to makes services reach globally and compete in the global market.

- Entry barriers into the e-commerce world are relatively low.

- Online buyers are gaining much better bargaining power due to fewer obstacles to compare products and prices of competing vendors.

- Internet makes it feasible for companies to reach beyond their borders to find the best suppliers and collaborate closely with them to achieve efficiency gains and cost savings.

- Internet results in much faster distribution of new technologies and new ideas across the world

- The e-commerce environment demands that companies should take actions quickly to gain competitive advantage.

- E-commerce technologies opens up a host of opportunities to reconfigure services provided to customers.
- Internet helps to deliver low cost services to customers.
- E-commerce site is easy to setup due to its low cost and easy availability of capital for funding profitable e-commerce businesses.
- Competition in an industry is greatly intensified due to strategic initiatives of existing and new rivals in the e-commerce space.

Strategic Management in Non-profit and Government Organization:

Business organization can be classified as:

- Commercial, and
- Non-commercial.

A commercial organization has profit as its main aim and non-commercial organization has social services as its main aim. We can find many non-commercial organizations around us, which are not having profit-making as their objective. The Institute of Chartered Accountants of India, Government Schools, IITs and non-governmental organizations such as Help-Age and Child Relief are examples of non-commercial organizations. Their main aim is to provide services to members, beneficiaries or public at large. A non-commercial organization normally comes into existence to meet the needs which are not met by business enterprises. These organizations are not owned by any particular owner.

Normally we think that strategic management is used by private organizations only to better compete in the market. But this is not true; the strategic-management is also effectively used by countless non-profit governmental organizations. Many non-profit and governmental organizations outperform even private organizations by using innovative and productive strategic management techniques.

Below is brief description of use of strategic management in the non-profit and government organizations:

Educational Institutions:

Non-commercial educational institutes are using strategic management techniques and concepts quite frequently, particularly in higher education institutes; and quite outperforming their counterpart private educational institutions. These techniques are: not compromising on quality-intake of students, proving low cost and high quality education. Higher education government institutes normally are first movers to implement new technology for their students which also provide them a better edge over private institutes.

Medical organizations:

Though healthcare is getting more and more privatized, but it still remains the main focus of government to provide affordable medical services to masses. Non-profit medical institutes formulate the strategy to provide their services reach to every corner of the city and country. For example, pulse polio program of government of India to eradicate polio from country is a great strategic plan to reach every nook and corner of the country to eradicate a chronic disease like polio.

Government of India plan to set-up medical institutes like AIIMS in every state is the result of their overall strategy to provide the best medical services in the reach of every state's persons. Non-profit medical institutes frequently organize the free camps for poor patients under their strategy to provide services to masses.

Governmental Agencies and Departments:

Central, state, municipal agencies, public sector units and departments are responsible for formulating, implementing, and evaluating strategies to use taxpayers' money in the most cost-effective way to provide their services and programs to masses at affordable costs. Strategic-management concepts increasingly are increasingly used in the public sector units to compete with counter part private sector in a more effective and efficient manner. Time-to-time MTNL strategically launches its services to deal with their competitors in the internet and telecom areas.

But strategists in governmental organizations operate with less strategic autonomy than their counterparts in private organizations. Public enterprises generally cannot diversify into unrelated businesses or merge with other firms. Governmental employees/strategists usually enjoy little freedom for taking major decisions. Legislators and politicians often have direct or indirect control over major decisions and resources. Strategic issues get discussed and debated in the media and state assemblies/parliament. Issues become politicized, resulting in fewer strategic choices and alternatives.

But, recently, governments (central and state) have started providing more and more autonomy to their employees and departments' heads to quickly employ their strategic decisions for betterment of services and society.

Case Study No.1:

Tangy spices Ltd, the countries' biggest spices marketer has decided to launch a hostile bid for Italy's major spice marketer *Chilliano*. This is a rare case of an Indian company making an unsolicited hostile bid for a foreign company. The Tangy Spices Ltd. has competencies in Indian spices. The major destination markets for the Tangy spices Ltd. exports have been the Europe and America. The competencies of *Chilliano* lie in Italian herbs and spices. The Indian company with the takeover wishes to synergies its operations in the world market. It also wants to take advantage of the reach enjoyed by the Italian company in several countries where its products are not being sold presently.

The move of hostile takeover follows *Chilliano's* rejection to an agreement entered a year back. At that time *Chilliano* was suffering losses and it offered majority shares at a price of € 2.25. A total of 20% shares were transferred at that time. In one year *Chilliano* was able to turnaround its operations and the company made handsome profits in the last quarter. The promoters who have residual holding of 35% in the company are reluctant to transfer the shares now. They have rejected the agreement with a plea that the earlier offer price was not sufficient.

Tangy spices Ltd has revised its offer to € 2.95. By this lucrative offer some of the large shareholders of *Chilliano* reveal their interest for selling their stakes. On the other hand, promoters maintained their position on this matter. Through the process of buying of shares in the market the Tangy spices Ltd. gradually consolidated its holding in *Chilliano to 45%*. Being a major shareholder they were ready for a takeover. At the same time, Tangy spices Ltd. was trying hard to improve their position so that they do not leave any space for *Chilliano's* promoters in future.

Read the above case and answer the following questions:

Q (1) What strategic alternative is followed by Tangy spices Ltd?

There are different general strategic alternatives which are also known as Grand Strategies.
(1) Stability
(2) Expansion
(3) Retrenchment
(4) Combination

Expansion is the most popular strategy followed by organization. In expansion strategy, organizations can expand their operations through acquisition route.

Here Tangy Spicy Limited is following up the expansion strategy by acquiring the Chilliano of Italy.

Q (2) Is the hostile takeover by an Indian company appropriate?

Hostile takeovers are extremely expensive. Acquirer need to be ready to pay extra price than market price of equity. It should be done when a cash rich company sees strategic advantage in that acquisition. Indian companies can do the hostile takeover provided that takeover help them to position much stronger in the

market. Additionally, price paid for takeover should be in line with the strengths or values to be achieved from that takeover.

For example, Corus acquisition by TATA STEEL is an example of hostile takeover but takeover positioned the TATA as market leader in steel manufacturing capacity and technologies. So looking at this takeover, it seems if hostile takeover is done with proper long-term strategy than it is quite appropriate for the Indian companies.

Q.(3) Why the Tangy Spices Ltd. is interested in this takeover?

The Tangy Spices Ltd. has competencies in Indian spices. The major destination markets for the Tangy spices Ltd. exports have been the Europe and America. The competencies of *Chilliano* lie in Italian herbs and spices. Tangy with this takeover will synergies its operations in the world market, particularly in Europe and America—its major exports markets. It also wants to take advantage of the reach enjoyed by the Italian company in several countries where its products are not being sold presently.

Further, rejection of promoters to transfer the shares as agreed in an agreement entered a year back also prompted the Tangy to go for this takeover.

Q.(2) Why the promoters are reluctant to transfer the shares after the agreement?

Around a year back, the promoters of Chilliano had agreed to transfer the equity share to Tangy at € 2.25 per share. But in one year, *Chilliano* was able to turnaround its operations and the company made handsome profits in the last quarter. The promoters who have residual holding of 35% in the company become reluctant to transfer the shares now. They have rejected the agreement with a plea that the earlier offer price of € 2.25 per share was not sufficient. So, it is a case where promoters either feel that they are not getting right value for their equity or they do not intend sell equity due to increased profitability of company in the recent past.

Case Study No.2:

Subhiksha (prosperity in Sanskrit) began with a single grocery store at Chennai in 1997. Subhiksha stores increased from 50 in 2000 to 140 by 2002-03 (spread across 30 towns in Tamilnadu) to 670 by 2006-07 to 1650 by Sepetember, 2008. Its early success was due to its business model based upon no-frills/deep discount and high level of neighborhood focus. Its decision in 2004 to go national from a regional player at a rapid pace proved wrong. With the growing ambition to go national, focus shifted from value to customers to creating valuation for self. The company had recruited all the employees to foray into consumer durables also. Its revenue increased from Rs. 278 crore from 140 stores in 2005 to Rs. 2305 crore in 2008 with a capital base of Rs. 32 crore. Subhiksha's profit after tax for 2007-8 was Rs. 41 crore. It had invested heavily, largely using debt, and paybacks took longer than expected. Repayment of debt had no relationship to cash flow. In the end the company had liabilities of Rs. 900 crore.

Around January, 2009, the company had started to shut down stores pan-India and in February, the top management quit the firm, not just because it defaulted on rentals of its outlets and salaries since October, 2008. Today all the stores are closed. Major suppliers had stopped supplies after it defaulted on payments. It asked its employees to take home groceries; and go on leave without pay. Many employees did not get their salaries. Initially the company was confident to restructure and remain in business.

Indian retail industry comprise of 12 million mom-and-pop stores and kirana stores (many of whom have also started innovating) and unknown number of hawkers in the unorganized sector working on small-sized stores and with low or non rentals and salaries and the organized retailers (market share not more than 5%).

The emergence of a large young population and a growing middle class with strong disposable incomes and credit card culture and the drivers of the organized retail, a mix of two types ones going in for huge expansion announcements and others following "slow and steady wins the race strategy". The industry operates not on a very hefty margin. The yearly top-line growth is likely to remain around 10-15% as against forecasted 35% this year. Compared with players like Pantaloon, Reliance, More, RPG and even Nilgiri's (which has private equity funding), Subhiksha has no large group's backing (except Shri Azim Premji having 10% stake). The strategy was to raise more debt and keep equity low. During 2006, Subhiksha had a good chance to make an initial IPO or raise private equity money, but it was in quest of creating higher valuations. Suddenly retail was no longer so hot and the capital tap had gone dry. Due to inability to raise more debt, working capital was diverted to expand. Many of the organized retailers have survived the downturn through transformation in their strategies and tactics. However, one thing is certain that footfalls have declined for the organized retail.

Debt-ridden retailer Subhiksha Trading Services Ltd. has begun its second innings in February, 2010, with the launch of its first cash-and-carry store (the board outside the outlet reads Subhiksha Maligai Arisi Mandi) in Thiruvanmiyur in Chennai – at its first ever retail outlet.) "Subhiksha's model will be different this time around and will not directly engage with customers," said an industry source.

Read the above case and answer the following questions:

Q.(1) "To understand the nature of competition certain questions need to be answered". What those questions are? **3**

To understand the nature and strength of competition organization can use Porter's five forces model of competition analysis. In general, organizations can ask the following questions to understand the competition nature.

1. Who are the competitors?
2. What are their products and services?
3. What are their market shares?
4. What are their financial positions?
5. What are their prime regions for dominance?
6. Reasons of dominance in those regions
7. What put them to price and cost advantage?
8. How strong is their distribution network?
9. What are their potential strategies?
10. What is their manpower strengths and track record of key managers, etc?

Q.(2) Who were the competitors of Subhiksha? Do you think they were better equipped then it? **5**

Subhiksha's competitors are Pantaloon, Reliance, More, RPG and Nilgiri, and 12 million mom-and-pop stores and kirana stores. If we talk about organized sectors retailers they are better equipped than Subhiksha because their financial strength is better than Subhiksha and their operation is not based more on debt as Subhiksha's operation is based. Further, they have started innovating by adopting franchise model by tying up with persons having store space and who is ready to take cost of employees because rent and employee costs are biggest eating point of retail industry margins.

Additionally, mom-and-pop stores and kirana stores do not have any operating cost and thus providing an intense competition to organized retail industry.

Q.(3) What, where and how the business strategy of Subhiksha might have gone wrong? **4**

Subhiksha's early success was due to its business model based upon no-frills/deep discount and high level of neighborhood focus. Its decision in 2004 to go national from a regional player at a rapid pace proved wrong. With the growing ambition to go national, focus shifted from value to customers to creating valuation for self. The company had recruited large number of employees to foray into consumer durables also. It invested heavily, largely using debt, and paybacks took longer than expected. Repayment of debt taken had no relationship to cash flow. In the end the company had huge debt liabilities.

So, an absence of a proper business strategy of expansion, mainly the lack of proper capital structure and funds management, resulted in problem for Subhiksha. An aggressive expansion plan by employing large number of workers without proper cash flow management resulted in very high operating expenses or a disaster for Subhiksha.

Q.(4) If you were the strategy consultant to the Organised Retailers Association of India, what will you advise to control the cost and convert the threat of dropping footfalls and declining sales into the opportunity? **6**

If I were the strategy consultant to the Organized Retailers Association of India, I would have suggested the following to control the costs and dropping footfalls:

(1) Build a franchise model to control the rent and employees costs which are biggest operating costs of organized retail business.

(2) Build retail operation with appropriate debt levels because interest cost is another big margin eating expense.

(3) Build customer trust, for this organizations can follow slow steady and win the race model rather pursuing aggressively the expansion and not providing the best services and prices to the customers.

(4) Promotional activities should be keeping in focus the target customers, for example middle class customers always prefer to buy the products at some discount or with some scheme.

Q.(5) How is a Cash-and-carry store different from a Retails store? Name any other such Cash-and carry store in India.

While retail stores cater to the demand of goods from end users directly e.g. Reliance Fresh and Big Bazar whereas cash-and-carry stores cater to the demand of kirana stores, retail stores and other institutions (like restaurants) directly. An end user is not permitted to buy goods from cash-and carry stores. These stores are established to serve wholesale or bulk buyers. Example of cash-and carry store is Bharti Walmart which opened its first store in the Punjab.

Case Study No.3:

Meters Limited is a company engaged in the designing, manufacturing, and marketing of instruments like speed meters, oil pressure gauges, and so on, that are fitted into two and four wheelers. Their current investment in assets is around Rs. 5 crores and their last year turnover was Rs. 15 crores, just adequate enough to breakeven. The company has been witnessing over the last couple of years, a fall in their market share prices since many customers are switching over to a new range of electronic instruments from the range of mechanical instruments that have been the mainstay of Meters Limited.

The Company has received a firm offer of cooperation from a competitor who is similarly placed in respect of product range. The offer implied the following:
(i) transfer of the manufacturing line from the competitor to Meters Limited;
(ii) manufacture of mechanical instruments by Meters Limited for the competitor to the latter's specifications and brand name; and
(iii) marketing by the competitor.

The benefits that will accrue to Meters Limited will be better utilization of its installed capacity and appropriate financial compensation for the manufacturing effort. The production manager of Meters Limited has welcomed the proposal and points out that it will enable the company to make profits. The sales manager is doubtful about the same since the demand for mechanical instruments in shrinking. The chief Executive is studying the offer.

Read the above case and answer the following questions:

Q.(1) What is divestment strategy? Do you see it being practised in the given case? Explain. 5

Divestment strategy involves retrenchment of some of the activities in a given business of the company or sell-out of some of the businesses.

This strategy is largely followed in the following cases

- Obsolescence of product/process
- Business becoming unprofitable

- High competition
- Industry overcapacity

Retrenchment Strategy also includes turnaround of declining business operations.

I don't believe this is being completely followed over here. The company is mainly planning a turnaround of business operation through manufacturing other organization's products in order to better utilize the manufacturing capacity. However, it seems customers are switching from mechanical instruments to electronic instruments, so this strategy should not be viewed as turnaround of business operations or divestment strategy.

Q.(2) What is stability strategy? Should Meters Limited adopt it? 5

If a firm is opting for stability of business operations by staying in the same business, same product, market and functions, and firm normally maintains same levels of effort as at present, then it is known as stability strategy.

The main aim of this strategy is to enhance functional efficiencies, better deployment and utilization of resources.

Meters Limited should not adopt the stability strategy. In this strategy, Meters Limited will continue manufacturing the mechanical meters with improved utilization of capacity and reduced costs but we know that market is losing customers base for mechanical meters.

Q(3) What is expansion strategy? What are the implications for Meters Limited in case it is adopted? 5

Expansion strategy is the most popular strategy and most of the business organizations opt for expansion strategy because this strategy prompts for the growth of business organizations.

There are two key types of expansions strategy

(1) Intensifications

(2) Diversifications

Both of them are growth oriented strategies; the difference lies in the way by which the firm actually pursues the growth.

Intensification involves the following:

- Product Development
- Market Penetration
- Market Development

Diversification involves the following:

- Vertically integrated diversification
- Horizontally integrated diversification

- Concentric diversification
- Conglomerate diversification

Yes, company should adopt expansion strategy by adopting intensifications category. In intensification strategy, company can initially focus on product development i.e. developing new electronic instruments and then they can follow market penetration and market development

Q.(4) What are your suggestions to the Chief Executive?

My suggestions to chief executive will be the following:

- for the time being, till the time new products are developed, we can accept the offer of other organization to manufacture their products for better utilization of capacity
- but we have to be cautious about competition / sales of products in the same category and that should be properly laid out in the agreement.
- However, in the long-term, we should focus on new products developments and try to expand product range by including the manufacturing of electronic instruments.

Case Study No. 4:

The ripple effects of the 2008 Global Economic meltdown bad begun to hurt the Rupees 1,268 crore J.K. Paper Ltd. Also, like all other business houses in India, J.K. Paper Ltd. was also finding the going tough. The general trend of soaring prices and contraction in demand had started effecting the sale of J.K. Paper Ltd. products also. Its customers were focusing on correcting their inventory positions (using existing stocks of materials to keep production lines and marketing activities rolling). Consequently, they were not buying much from J.K. Paper Ltd. Even the investors did not like what they saw – J.K. Paper Ltd. Stock fell from Rs. 57.20 on 1 January, 2008 to a low of Rs. 14.12 on 12 March, 2009. The company was in the midst of Economic crisis. Mr. Harshpati Singhania, Managing Director of the company, realized that some strong measures must be taken to extricate the Company from its present crisis. To this end, Mr. Singhania held several brainstorming sessions with the top management team and finally identified the focus areas: Managing working capital flows, cutting costs and paying attention to employee productivity.

Moving away from the traditional approach one usually follows during the recessionary periods, Mr. Singhania instead of shutting down company's plants and cutting production, decided to continue to operate the Company's two plants at Gujarat and Orissa at 100% capacity. To match sales with production, he planned to reach out to newer customers by widening Company's distribution network. He identified packaging boards to be marketed in rural areas where the meltdown had minimal effect. As the market conditions were still difficult, the company also decided to cut the prices by 2 to 3 per cent. Along-with the price cut, its marketing thrust in rural areas ensured that the sales were not impacted much. Net sales remained flat throughout 2008-09, though the profitability of the Company suffered because of the lower margins it received from its rural thrust.

For raising capital, the Company did not approach banks and investors, rather it intensified it efforts to recover its debits from its clients. The efforts resulted in fast recovery of crores of rupees. Disputed debts were also settled expeditiously to raise more cash.

To cut costs further, the Company took steps to improve productivity and reduce its wage bill. Inefficient employees were asked to leave. No new appointments were made unless they were critically important. In addition, employees received lower increments for 2008-09; even Mr. Singhania did not take any increment.

When the global slowdown sent the international prices of the pulp, the main raw material for the paper industry, crashing from Rs. 36,960 per ton in April, 2008 to Rs. 18,240 per ton in September, 2008 the company bought enough pulp to last for about 9 months as against its policy of buying, in the normal course, pulp for about 2-3 months. According to Mr. Singhania, this decision also resulted in a huge saving.

Mr. Singhania and his senior management team also re-evaluated the organizational structure to improve efficiency in the organization.

When all the above strategic decisions had been successfully implemented, Mr. Singhania knew that the worst for the company was over. This was also reflected in gradual increase in the quarterly profits of the company, Mr. Singhania however sounded very modest about his stewardship of the Company while appreciating his Senior management team for the great job done to ride out the slowdown.

Read the above case and answer the following questions:

Q.(1) Where did the recession hit J.K. Paper Ltd.?

J.K. Paper Limited was hit the most due to recession in the following area:

- Sale or revenue of J.K. paper limited goes down as there were no fresh orders from the customers. Because customers were focusing on correcting inventory positions due to high prices and reduced demand rather than giving fresh orders.
- Investors also sharply reacted to declining sales and revenues of the J.K. Paper Limited and stock price OF J.K. paper limited fell from Rs. 57.20 on 1 January, 2008 to a low of Rs. 14.12 on 12 March, 2009.

So we can say that recession affected the profitability of the J.K. Paper and thus it stock price.

Q.(2) Explain with reasoning the corporate strategy the Company had adopted for its survival

Company reacted properly to the recession impacts. For example, the company revised its corporate strategy and adopted the following measures which helped J.K. Paper to emerge winner at the end.

(1) **Managing working capital flows:**
The Company did not approach banks and investors, rather it intensified efforts to recover its debits from its clients. The efforts resulted in fast recovery of crores of rupees. Disputed debts were also settled expeditiously to raise more cash.

(2) **Cost Cutting:**
No new appointments were made unless they were critically important. In addition, employees received lower increments for 2008-09; even Mr. Singhania did not take any increment.

(3) Improvement of employee productivity

The Company took steps to improve productivity and reduce its wage bill. Inefficient employees were asked to leave. Mr. Singhania and his senior management team also re-evaluated the organizational structure to improve efficiency in the organization.

Q.(3) What functional strategies were undertaken by the Company to overcome its crisis?

J.K. Paper limited adopted some key functional strategies in the area of production, marketing and inventory management.

For example:

Production Strategy:

- Instead of shutting down company's plants and cutting production, Mr. Singhania decided to continue to operate the Company's two plants at Gujarat and Orissa at 100% capacity.

Marketing Strategy:

- To match sales with production, he planned to reach out to newer customers by widening Company's distribution network. He identified packaging boards to be marketed in rural areas where the meltdown had minimal effect. As the market conditions were still difficult, the company also decided to cut the prices by 2 to 3 per cent. Along-with the price cut, its marketing thrust in rural areas ensured that the sales were not impacted much.

Inventory strategy:

- Additionally, global slowdown sent the international prices of the pulp, the main raw material for the paper industry, crashing from Rs. 36,960 per ton in April, 2008 to Rs. 18,240 per ton in September, 2008. The company bought enough pulp to last for about 9 months as against its policy of buying, in the normal course, pulp for about 2-3 months. According to Mr. Singhania, this decision also resulted in a huge saving.

Q.(4) State the basic responsibilities of a strategic leader in a business house. Explain whether or not Mr. Singhania provided the strategic leadership to the Company.

The following are some key responsibilities of a strategic leader

- Managing human capital (perhaps the most critical of the strategic leader's skills). Effectively managing the company's operations.
- Sustaining high performance over time.
- Being willing to make candid and courageous decisions.
- Seeking feedback through face-to-face communications.
- Having decision-making responsibilities that cannot be delegated

Yes, Mr. Singhania provided a true leadership to sail out the company from recession impacts. He derived the process with the help of his top management team to tackle the problems arisen due to recession. He took the candid and courageous decisions to take out the company from recession problems.

Q.(5) What lessons are learnt from the experience of J.K. Paper Ltd. to ride out the economic meltdown?

Never give up and form an appropriate dynamic strategy are the biggest lessons one can learn from the experience of J.K Paper limited. Another important lesson is that organization always needs a true leader and capable top management team who are willing to take strong decisions for benefits of company and its shareholders. Finally, organizations need to form and implement the appropriate strategies at both corporate and functional levels. Also, there should be a good coordination among different functional components. For example, when Mr. Singhania took to decision that production will be maintained at 100% capacity utilization, to match the production with sales the company took effective decision at marketing/sales levels.

Case Study No.5

Sahni Auto Industries is a manufacturer and exporter of Autoparts with an annual turnover of Rupees one thousand crores. It employs about 2,00 persons in its factory in Punjab and its other offices in India and abroad.

The Personnel Administration and Human Resources Department of the company is headed by Mr. Amit Kapoor-the Chief Personnel Manager. Mr. Amit Kapoor, an automobile Engineer joined the company ***5*** years ago as Product Development Manager. After a successful stint of 4 years as Product Development Manager, he was transferred to Personnel Administration and Human Resources Department as the Chief Personnel Manager as a part of Career development plan. Mr. Vikas, MBA in Human Resources from a renowned Business school, joined the company as Personnel Manager only **3** months back. He reports to Mr. Amit Kapoor-the Chief Personnel Manager. He handles all routine personnel and industrial relations matters.

One day, during informal discussion with Mr. Amit Kapoor, Mr. Vikas suggested him of linking Human Resources Management with Company's strategic goals and objectives to further improve business performance and also to develop Organisational culture that fosters more innovative ideas. He also advocated creating abundant 'Social Capital' on the ground that people tend to be more productive in an environment which has trust and goodwill embedded in it rather than which is highly hierarchical and formal. Mr. Amit Kapoor disagreed with Mr, Vikas and told him that the role of Human Resources Department was only peripheral to the business and all his suggestions about its strategic role were beyond the purview of Personnel Administration and Human Resources Department. After this, Mr. Vikas started having number of arguments with Mr. Amit Kapoor in several issues relating to personnel and industrial relations since he felt that a person with a degree in Human Resources Management was in a far better position to run Personnel Administration and Human Resources Department. Mr. Amit Kapoor--the Chief Personnel Manager had often shown his displeasure on Mr. Vikas's argumentative - tendency and had made it known to the General Manager.

The General Manager called Mr. Amit Kapoor in his office to inform him that he has been elected for an overseas assignment. He further told him to find a suitable person as his successor; he even suggested Mr. Vikas as a possible candidate. Mr. Amit Kapoor, however, selected Mr. Balram, who was working as Training Manager in a Multinational Company for the last 5 years. Mr. Vikas, soon started having arguments with Mr. Balram also over number of issues relating to industrial relations since he felt that he had no experience in handling industrial relations matters. Mr. Balram now realised that Mr. Vikas was trying to make things

difficult for him. After a series of meetings with the General Manager, Mr. Balram eventually succeeded in convincing him to transfer Mr. Vikas to an office outside Punjab. On learning about his impending transfer, Mr. Vikas wrote a letter to the General Manager joining details of various instances, when Mr. Balram had shown his incompetence in handling problematic situations. When asked for explanation by the General Manager, Mr. Balram had refuted almost all the allegations. The General Manager accepted his explanation and informed Mr. Vikas that most of his allegations against Mr. Balram were unwarranted and baseless. He further advised him to avoid confrontation with Mr. Balram. Mr. Vikas then wrote a letter to the Chairman repeating all the allegations against Mr. Balram. On investigation, the Chairman found most of the allegations true. He then called all the three-the General Manager, the Chief Personnel Manager and the Personnel Manager in his office and implored them to forget the past and henceforth to work in coordination with each other in an environment of Trust
and Goodwill.

Read the above case and answer the following questions:

Q.(1) Identify and discuss the major issues raised in the case.

This case is related with human resources function. The major issues raised in this case can be defined as follows:

- Non-linking of Human Resources Management with Company's strategic goals and objectives.
- Lack of organisational culture that fosters more innovative ideas.
- Highly hierarchical and formal organizational structure which lacks trust and goodwill and thus lacks productivity.
- Human Resources Department was treated as peripheral to the business rather than an integrated function for strategic planning and implementation.

Q.(2) Comment on the recruitment of the two Chief Personnel Managers.

The first Chief Personnel Manager, Mr. Amit Kapoor is an automobile Engineer joined the company ***5*** years ago as Product Development Manager. After a successful stint of 4 years as Product Development Manager, he was transferred to Personnel Administration and Human Resources Department as the Chief Personnel Manager as a part of Career development plan.

I don't see any disadvantage if a capable person without having formal HR qualification being transferred to the HR department. However, over here this transfer is not with an aim to bring some efficiency in the HR function rather it is a simple transfer from one position to another position; which I think is not correct. For example, Mr M. Pillai, a qualified CA, has been made HR director in the Infosys from his earlier position of finance director. This change in position of Mr. Pillai is considering him as most capable person and Infosys now a company with more 1 lakh employee has the HR more challenging task than the finance. Therefore they transferred the most capable person to HR director from finance director.

The second Chief Personnel Manager, Mr. Balram was earlier working as Training Manager in a Multinational Company for the last 5 years. He also has no formal experience and qualifications in the HR management. I don't think his appointment as chief HR manager was also on any merit or to infuse any efficiency in the HR function.

Q.(3) Would you justify Mr. Vikas's argumentative tendency with the Chief Personnel Managers ? Give reasons for your answer.

I agree with Mr. Vikas argumentative tendency with Chief Personnel Managers regarding enhancing role of HR department and industrial relation in the company strategic management. I also agree with his view that Human Resources Management should be linked with Company's strategic goals and objectives. Because I think HR is as equal and important function as finance and marketing; and better HR management helps organizations to achieve their strategic goals and objectives.

But I don't agree with his view that a person with HR qualifications only can better manage the HR department. As said above, Mr M. Pillai, a qualified CA, has been made HR director in the Infosys from his earlier position of finance director. This change in position of Mr. Pillai is considering him the most capable person and Infosys now a company with more 1 lakh employee has the HR management more challenging task than the finance management.

Q.(4) Do you agree with suggestion offered by Mr. Vikas to Human Resources Management with the company's strategic goals ? If yes, suggest prominent areas where Human Resources Department can play role in this regard.

Yes, I agree with suggestion offered by Mr. Vikas to Human Resources Management with the company's strategic goals. In the the following area the HR department can play a role in this regard:

Providing purposeful direction: The human resource management can lead people and the organization towards the desired direction. The HR manager has to ensure that the objectives of an organization become the objectives of each person working in the organization.

Creating competitive atmosphere: By creating committed and competitive atmosphere through opportunities for employees.

Facilitation of change: The Human resources are more concerned with substance rather than form, accomplishments rather than activities, and practice rather than theory. The human resources should be provided enough opportunities for the same.

Diversified workforce: In the modern organization management of diverse workforce is a great challenge. Workforce diversity can be observed in terms of male and female workers, young and old workers, educated and uneducated workers, unskilled and professional employee, etc. creating a great culture or non-financial incentives also plays an important role in motivating the workforce.

Empowering human resources: Empowerment means authorizing every number of a society or organization to take of his/her own destiny realizing his/her full potential.

Building core competency: The human resource manager has a great role to play in developing core competency by the firm. A core competence is a unique strength of an organization which may not be shared by others in the form marketing and technical capability.

Developing ethical work culture: A vibrant work culture should be developed in the organizations to create an atmosphere of trust among people and to encourage creative ideas by the people.