20.	Technical feasibility implies to mean -		
A) The adequacy of the proposed plant and equipment to produce the product within the prescribed norms.	B) To ensure before taking in hand a project whether or not the proposed project is viable.	C) Appraisal of project by a team of expert drawn from different disciplines.	D) Working plan for implementation of project proposal after investment decision by a company has been taken.

21.	Financial aspects of project is judged with reference to -		
A) Availability of servicing facilities like machine shops, electric repair shop, etc.	B) Availability of land and site.	C) Availability of work force as per required skill and arrangements proposed for training-in-plant and outside.	D) NPV, Benefit Cost Ratio, Internal Rate of Return, Sensitivity & Risk Analysis

22.	The social analysis consists of -		
A) Identification of the impact on the basic needs objectives of the society.	B) Measurement of the distribution of the income due to the project	C) Both (A) and (B)	D) Neither (A) nor (B)

23.	Which of the following is not one of the three fundamental methods of firm valuation?		
A) Market Share	B) Discounted Cash flow	C) Income or earnings - where the firm is valued on some multiple of accounting income or earnings.	D) Balance sheet - where the firm is valued in terms of its assets.

24.	A project would normally be undertaken if its net present value is:		
A) Positive	B) Zero	C) Negative	D) Exactly the same as the NPV of existing projects

25.	A .... lowers the interest rate risk by neutralizing the inflation risk.		
A) Capital indexed bonds	B) Carrot and stick bond	C) Dual convertible bond	D) Commodity bonds

Chapter 6 Dividend Decisions

1	Cost of capital of MNL Ltd. is less than rate of return on investment. Its market price per share is Rs.62.50 as per Walter's Model at 50% retention ratio. If firm increase its retention ratio then -		
A) Its price will increase above Rs.62.50	B) Its price will fall below Rs.62.50	C) Its price will increase above Rs.100	D) It price will not change

2	Khemka Ltd. paid dividend per share of Rs.3, Rs.3.6, Rs.4.32, Rs.5.18 & Rs.6.22 for last five year. What is the expected dividend for next year?		
A) Rs.7.46	B) Rs.7.25	C) Rs.8.32	D) Rs.6.80

3	Following details are available for PQR Ltd.: Earnings per share Rs.27.5 Cost of capital 16% Internal rate of return on investment 20% Retention ratio 50% Calculate the price per share as per Walter's Model.		
A) Rs.193.36	B)) Rs.315.40	C) Rs.282.86	D) Rs.292.91

4	The cost of capital and rate of return on investment of GOD Ltd. is 10% and 15% respectively. The company has 10 lakh shares of Rs.10 each. Its earnings per share is Rs.7.5. Calculate the value of the firm per share using Walter's Model assuming all earnings are distributed as dividend.		
A) Rs.100	B) Rs.75	C) Rs.150	D) Rs.125

5	Following details are available for PQR Ltd.: Earnings per share Rs.27.5 Cost of capital 16% Internal rate of return on investment 20% Retention ratio 60%		
A) Rs.188.72	B) Rs.190.60	C) Rs.189.06	D) Rs.176.28

6	. Following details are available to you for Beauty Ltd. Internal rate of return 15% Capitalization rate 15% Earnings per share 712 Cash dividend per share 75 Calculate the value of an equity share.		
A) 780	B) 770	C) 795	D) 790

7	Rosa Ltd. has outstanding 1,20,000 shares selling at 720 per share. The company hopes to make a net income of 73,50,000 during the year. Company is thinking of paying a dividend of 72 per share at the end of current year. Capitalization rate has been estimated to be 15%. On the basis of MM model how many new shares the company must issue if the dividend is paid and company needs 79,50,000 for an approved investment expenditure?		
A) 50,000 equity shares	B) 40,000 equity shares	C) 70,000 equity shares	D) 60,000 equity shares

8	EPS of Kalki Ltd. is Rs.20. Its cost of capital is 16%. Internal rate of return on investment is 20% and retention ratio is 50%. What is the market price per share of Kalki Ltd. as per dividend growth model?		
A)Rs. 76.66	B) Rs.164.55	C) Rs.166.67	D) Rs.167.33

9	Current price of share of X Ltd. is 760 and just paid dividend per share is 74. If the capitalization rate is 12%, what is the dividend growth rate?		
A) 5%	B) 3%	C)) 6%	D) 4%

10	Take the data of above question and calculate total market value of the company.		
A) Rs.32,90,000	B) Rs.35,40,000	C) Rs.34,30,000	D) Rs.33,60,000

11	Consider following two statements: (1) Buyback can be used by companies to defend against hostile takeovers since they increase the proportion of debt in a firm's capital structure. (2) After a 3-for-l stock split, a company's price per share will fall and its number of shares outstanding will rise total value remaining the same. Which of the above statement is correct?		
A)) Neither (1) nor (2)	B) (2) only	C) Both (1) and (2)	D) 1) only

12	Historical growth rates, analysis forecasts and retention growth model are approaches to estimate:		
A) Growth rate	B) Net present value of gain	C) Discounted gain	D) Growth gain

13	The dividend growth model can be used to compute the cost of equity for a firm in which of the following situations? I. Firms that have a 100% retention ratio. II. Firms that pay a constant dividend. III. Firms that pay an increasing dividend IV. Firms that pay a decreasing dividend. Select correct answer from the options given below.		
A)) II & III only	B) I & II only	C)) I, II & III only	D) II, III & IV only

14	Forecast by analysts, retention growth model and historical growth rates are methods used for an -		
A) Estimate option future value	B) Estimate future growth	C) Estimate option present value	D) Estimate growth ratio

15	If markets are in equilibrium, which of the following will occur:		
A) Each investment's expected return should equal its required return.	B) Each investment's expected return should equal its realized return	C) Each investment should have the same realized return.	D)) All of the statements above are correct

16	The primary goal of a publicly-owned firm interested in serving its stockholders should be to		
A) Maximize expected EPS	B) Maximize expected total corporate profit	C) Maximize expected net income.	D) Maximize the stock price per share

17	The repurchase fit stock is considered .... decision rather them .... decision.		
A) financing; an investment	B) an investment; a financing	C) a dividend; a financing	D) an investment; a dividend

18	Modigliani and Miller argue that the dividend decision		
A) is relevant as the value of the firm is not based just on the earning power of its assets.	B) is irrelevant as the value of the firm is based on the earning power of its assets.	C) is relevant as cash outflow always influences other firm decisions	D) is irrelevant as dividends represent cash leaving the firm to shareholders, who own the firm anyway.

19	Regular Dividend Policy means -		
A) payment of low dividend per share constantly plus extra dividend in the year when the company earns high profit.	B) investors get dividend at usual rate.	C) reserve fund is created to pay fixed amount of dividend	D) All of the above

20	If OML Corporation buyback ten per cent of its outstanding common stock from the secondary market, the result would be		
A) A decrease in total assets.	B) A decline in EPS.	C) An increase in the number of stockholders.	D) An increase in cash.

21	Constant payout ratio means -

A) Constantly paying same dividend if EPS is same for all the year.	B) Declaration same bonus ratio every year.	C) The payment of fixed percentage of earning as dividend every year.	D) None of the above

22	Which of the following examples best represents a passive dividend policy?		
A) The firm pays dividends with what remains of net income after taking acceptable investment projects.	B) The firm sets a policy such that the proportion of dividends paid from net income remains constant.	C) The firm sets a policy such that the quantity (dollar amount per share) of dividends paid from net income remains constant.	D) All of the above are examples of various types of passive dividend policies

23	A decrease in a firm's willingness to pay dividends is likely to result from an increase in its -		
A) Profitable investment opportunities	B)) Earnings stability	C) Access to capital markets	D) Collection of accounts receivable.

24	Which of the'following is correct formula to calculate P/E Ratio?		
A)) EPS -E Market Price	B) Market Price -f- EPS	C)) EPS -f- PAT	D) PAT -T- EPS

25	The .... is the proportion of earnings that are paid to common shareholders in the form of a cash dividend.		
A) 1 + Retention rate	B) Retention rate	C) Dividend payout ratio	D) Growth rate

Chapter 7a.1 Working Capital

1	Working capital = ...		
A) Core current assets less core current liabilities	B) Current assets less current liabilities	C) Core current assets less current liabilities	D) Liquid assets less current liabilities

2	Working capital is also known as -		
A) Current assets capital	B) Operation capital	C) Operating capital	D) Capital relating to main projects of the company

3	A positive working capital means that -		
A) the company is able to select profitable projects.	B) the company is able to pay-off its short-term liabilities.	C) the company is unable to meet its short-term liabilities.	D) the company is able to pay-off its long-term liabilities.

4	Which of the following will be considered while calculating working capital? (1) Short Term Advances (2) Stock of WIP (3) Short Term Investments (4) Perpetual inventory policy Select the correct answer from the options given below.		
A) (2) & (3)	B) (1) & (3)	C) (1), (2) & (3)	D) All of the above except (4)

5	For reducing and controlling working capital requirement which of the following step is required to be taken -		
A) Increase of credit period allowed by creditors to the extent that do not affect the production.	B) Increase in credit period given to customers	C) Increase in manufacturing cycle	D) All of the above

6	Total sales of OLX Ltd. are Rs.31,248 out of which 259f are cash sales. Closing balance of debtors are Rs.9,468 Debtors collection period = Rs. Note: 1 Year = 365 days		
A) 157 days	B) 148 days	C) 4.2 months	D) 4.43 month

7 From the following data calculate finished goods conversion period for the year 2019 & 2020.

Particulars	2019	2020
Raw material inventory	18,000	20,400
Finished goods inventory	10,000	15,000
Other information for 1 year:		
Raw material consumed	11,000	13,000
Cost of goods sold	1,25,000	1,40,000

Note: 1 Year = 360 days

A) 39 days & 29 days	B) 29 days & 39 days	C) 25 days & 35 days	D) 35 days & 25 days

8	Explain the important ratio that would be used in following situation:

	A bank is approached by a company for a loan of Rs.50 lakh for working capital purposes.		
A) Liquidity Ratios	B) Capital Structure/Leverage Ratios	C) Profitability Ratios	D) Activity Ratios

9	Maximum permissible bank finance as per first method of Tandon Committee norms was Rs.57,41,813 while current liabilities are reported at 32,50,000. Current assets = Rs.		
A) Rs.81,79,313	B) Rs.1,09,07,550	C) Rs.1,09,05,750	D) Rs.1,05,09,750

10	KT Ltd. opening stock was Rs.2,50,000 and closing stock was Rs.3,75,000. Sales during the year was Rs.13,00,000 and gross profit ratio was 25% on sales. Average accounts payable are Rs.80,000. Creditors Turnover Ratio = Rs.		
A) 14.44	B) 14.33	C) 13.33	D) 13.75

11	Following information is provided by the DPS Ltd. for the year ending 31st March, 2019. Raw material storage period 55 days WIP conversion period 18 days Finished goods storage period 22 days Debt collection period 45 days Creditor's payment period 60 days Annual operating cost including depreciation of Rs.2,10,000 wasRs. 21,00,000. [1 Year = 360 days] You are required to calculate working capital on cash cost basis.		
A) Rs.4,66,667	B) Rs.4,20,000	C) Rs.7,35,000	D) Rs.8,16,667

12	Raw material conversion period is 36 days. Raw material consumed and cost of goods sold in the year is Rs.1,80,000 & Rs.2,16,000 respectively. How much raw material stock will appear in working capital statement? Note: 1 Year = 360 days		
A) Rs.20,000	B) Rs.21,600	C) Rs.18,000	D) Rs.19,800

13	Instead of "Annual Factory Cost" WIP Conversion Period can be calculated taking " .... " as base.		
A) Cost of Goods Sold	B) Annual Sales	C) Cost of Sales	D) Cost of Production

14	Creditors payment period = 60 days Material consumed = Rs.1,20,000 Material purchased in cash = Rs.10,000 Material purchased on credit = Rs.90,000 Creditors that will appear in balance sheet and working capital statement = Rs. Note: 1 Year = 360 days		
A) Rs.15,000	B) Rs.16,667	C) Rs.20,000	D) Rs.36,667

15	Current assets of Z Ltd. are Rs.3,70,000 which includes stock Rs.1,00,000 and prepaid expense Rs.70,000. Its current liability are Rs.1,60,000 which includes provision for tax Rs.60,000. Liquid Ratio = Rs.		
A) 0.95	B) 1.52	C) 1.25	D) 1.22

16	Opening and closing balance of creditors are Rs.2,00,000 & Rs.2,40,000 respectively. Raw material purchased on credit was Rs.11,00,000. Creditors payment period for the purpose of working capital statement will be - [1 Year — 360 days]

A) 78 days	B) 72 days	C) 32 days	D) 65 days

17	Which of the following statements is most correct?		
A) If a company increases its current liabilities by Rs.1,000 and simultaneously increases its inventories byRs. 1,000, its current ratio must rise.	B) If a company increases its current liabilities by Rs.1,000 and simultaneously increases its inventories byRs. 1,000, its current ratio must rise.	C) A company's quick ratio never exceed its current ratio.	D) (B) & (C) is correct.

18	Capital which is needed to meet the seasonal requirements of the business -		
A) Net working capital	B) Fluctuating Working Capital	C) Reserve Margin Working Capital	D) Gross Working Capital

19	A higher current assets/fixed assets ratio indicates -		
A) Matching/hedging Approach	B) Hedging Approach	C) Conservative Approach	D) Aggressive Approach

20	Statement I: Maintaining adequate working capital is not just important in the short-term. Sufficient liquidity must be maintained in order to ensure the survival of the business in the long-term as well. Statement II: Even a profitable business may fail if it does not have adequate cash flow to meet its liabilities as they fall due. Select the correct answer from the options given below.		
A) Statement II is correct while Statement I is incorrect.	B) Statement I is correct while Statement II is incorrect.	C) Both Statement I and Statement II are incorrect.	D) Both Statement I and Statement II are correct.

21	Which of the following analyzes the accounts receivable, inventory and accounts payable cycles in terms of number of days?		
A) Operating cycle	B) Current asset cycle	C) Operation cycle	D) Business cycle

22	Initial Working Capital -		
A) is used to raise the volume of production by improvement or extension of machinery.	B) supplies the funds necessary to meet the current working expenses.	C) is required at the time of the commencement of business	D) represents the amount utilized at the time of contingencies.

23	Aggressive approach covers those policies -		
A) seeks to increase dependence on long term financing	B) where the firm relies heavily on short term bank finance.	C) Both (A) and (B)	D) Neither (A) nor (B)

24	Gross working capital refers to -		
A) the capital which is required at the time of the commencement of	B) the amount utilized at the time of contingencies.	C) the working capital which is necessary on a continuous and	D) the firm's investment in current assets.

business.			uninterrupted basis.	

25	Outstanding overheads appearing in balance sheet are 9,75,000. Lag in payment of overheads is 30 days. Overheads accrue evenly throughout the year, total overheads incurred by the company are -

A) Rs.2,92,50,000	B) Rs.1,17,00,000	C) Rs.32,500	D) Rs.2,40,721

Chapter 7b Debtors Management

1	K Ltd. had sales last year of Rs.265 million, including cash sales of Rs.25 million. If its average collection period was 36 days, its ending accounts receivable balance is closest to - (Assume a 365-day year)		
A) Rs.7.4 million	B) Rs.26.1 million	C) Rs.23.7 million	D) Rs.18.7 million

2	The credit policy of S Ltd. is "1.5/10, Net 35." At present 3096 of the customers take the discount, 6296 pay within the net period, and the rest pay within 45 days of invoice. What would receivables be if all customers took the cash discount?		
A) No change from the present level.	B) Lower than the present level.	C) Higher than the present level.	D) Unable to determine without more information.

3 A company has sales of Rs.25,00,000. Average collection period is 50 days, bad debts losses are 5% of sales and collection expenses are Rs.25,000. The cost of funds is 15%. The company has two alternative collection programmes:

Particulars	/	II
Average collection period	40 days	30 days
Bad debt reduced to	4% of sales	3% of sales
Collection expenses	Rs.50,000	Rs.80,000

Debtors are calculated on sales.

Advice the company by selecting the most correct option -

A) The company may shift to Programme I or Programme II as both have incremental profit of Rs.10,274 & Rs.15,548 respectively but Programme II will be selected as it has more incremental profit as compared to Programme I.	B) The company should shift toward Programme I as profit is increasing by Rs.10,274.	C) The company should shift toward Programme II as profit is increasing by Rs.15,548.	D) The company should not change its policy as Programme I & Programme II does not have any incremental profits.

4	Ninety-per cent of X company's total sales of Rs.6,00,000 is on credit. If its year-end receivables turnover is 5, the average collection period (based on a 365 day year) and the year-end receivables are, respectively:		
A) 81 days and Rs.1,08,000	B) 365 days and Rs.1,08,000	C) 73 days and Rs.1,08,000	D) 73 days and Rs.1,20,000

5	Firoz has been analyzing the accounts receivables of his firm. Based on the current credit policy, 2196 of the customers pay in 14 days, 7696 pay in 41 days and 396 pay in 112 days. Based on his best estimates and a new policy that he is proposing, Firoz feels that 4296 of the customers would pay in 21 days, 5696 would pay in 35 days and 296 would pay in 90 days. What is the effect of the new credit policy proposal on the average collection period?		
A) Average collection period would decrease by 4 days.	B) Average collection period would increase by 4 days.	C) Average collection period would increase by 7 days.	D) Average collection period would decrease by 7 days.

6 Following are the details regarding then operation of firm:

	Sales : Rs.12,00,000 Selling price p.u. : 10 Variable cost p.u. : 7 Total cost p.u. : 9 Credit period : 1 month Firm is considering a proposal to change credit period from 1 month to 2 months. The sales are expected to increase by 25%. Firm's required return is 25%. Debtors are calculated on cost. Which of the following statement is correct?

A) Total profit of the firm after change in policy will beRs. 2,10,000.	B) Incremental return will be 72%	C) Incremental profit and investment in debtors will be Rs.90,000 & Rs.1,25,000 respectively	D) All of the above

7	H Ltd. has current sales of Rs.20,00,000. It is planning to introduce a discount policy of 2 /10, Net 30. As a result, the Company expects the average collection period to go down by 10 days and 80% of the sales opt for cash discount facility. Required return on investment is 20%, should it introduce the new discount policy?

A) No, as profit is decreasing by Rs.20,889.	B) No, as profit is decreasing by Rs.20,837.	C) Yes, as profit is increasing by Rs.20,888.	D) Make no policy change.

8	M Ltd. expects annual sales of Rs.2.45 million next year. They have a strict credit policy of 2/10, net 20. Based on a 365-day year, 1% of their customers pay in 1 day, 41% pay in 10 days, 5696 pay in 23 days and 2% pay in 60 days. What is the expected value of their accounts receivable for next year?

A) Rs.4,09,639	B) Rs.1,22,097	C) Rs.1,26,583	D) Rs.4,55,699

9	You are analyzing two separate credit policies. Policy A will produce annual sales of Rs.6,45,000 and annual interest expense of Rs.11,500. Cost of goods sold will equal 53% of sales and bad debts will be 3% of sales. The tax rate is 35%. In comparison, Policy B would have 5% less in sales, interest expense of Rs.6,000,53% cost of goods sold, and bad debts equal to 1% of sales. All other expenses are equal to Rs.1,21,000 under both policies. Which one of the following statements is correct concerning these two credit policies?

A) Policy B produces Rs.8,317 more in net income than Policy A.	B) Policy A produces Rs.34,250 more in sales than Policy B.	C) Policy B produces Rs.8,317 more in net income than Policy A.	D) Policy B produces Rs.2,317 more in net income than Policy A.

10	Amit Gupta, a trader is considering changing its credit policy. The incremental cash flows associated with this change are as follows: Increase in sales of Rs.13,100, increase in cost of goods sold of Rs.6,900, increase in bad debts of Rs.1,500, increase in other costs of Rs.2,700 and an increase in taxes of Rs.750. The incremental initial cash outflow at time zero is Rs.16,450. The applicable discount rate is 9.5%. What is the net present value (NPV) of this proposed change in the credit policy?

A) (1,089)	B) (3,292)	C) (1,444)	D) (15,200)

11	The accounts receivable that cannot be collected because of their bankruptcy or another reason are termed as:

A) Bad customers	B) Collectible accounts	C) Doubtful accounts	D) Uncollectible accounts

12	Accounts receivable are reported in the balance sheet:		
A) At gross value	B) At face value	C) At net credit sales value	D) At net realizable value

13	..................................may also be offered for the early payment of dues.		
A) Special discounts	B) Trade discounts	C) Cash discounts	D) Both (A) and (B)

14	Increasing the credit period from 30 to 60 days, in response to a similar action taken by all of our competitors, would likely result in:		
A) An increase in sales.	B) A decrease in bad debt losses.	C) An increase in the average collection period.	D) Higher profits.

15	A decrease in the firm's receivable turnover ratio means that -		
A) it is collecting credit sales more slowly than before	B) sales have gone down	C) it is collecting credit sales more quickly than before	D) inventories have gone up

16	Which of the following sentence describes correct strategy for proper administration of receivables?		
A) Most of the firms dissuade credit sales to first time customers.	B) Promoting cash sales	C) Firms must have special staff earmarked for recovery efforts.	D) (A) and (C)

17	The cash discount is given to customers for:		
A) Good business relations	B) Bulk purchase	C) Early payments	D) Frequent purchases

18	Risk of non-payment may due to -		
A) Intention of cheating	B) Insolvency	C) Liquidity problems	D) All of the above

19	The goal of receivables management is to maximize the value of the firm by achieving a trade-off between —		
A) Return & Liquidity	B) Risk & Profitability	C) Liquidity & Profitability	D) Return & Profitability

20	Which of the following tool may be used to determine the degree of risk associated with cash collections? A. Standard deviation B. Co-efficient of variation Select correct answer from the options given below:		
A) A only	B) B only	C) Neither A nor B	D) Both A and B

21	Credit rating is a study of credit standard of a customer ie. 5 C's. Which of the following correctly describes those 5 C's?		
A) Character, Capacity, Complaint, Conditions & Collateral security	B) Character, Capacity, Capital, Conditions & Collateral security	C) Character, Charm, Capital, Conditions & Collateral security	D) Charter, Capacity, Capital, Conditions & Collateral security

22	An exercise of credit rating involves -		
A) Doing it through external special agencies.	B) Doing it internally by a team within the firm	C) (A)or(B)	D) None of the above

23	What do we call, when a firm extends credit terms that encourage the buyers of certain products to take delivery before the peak sales period and to defer payment until after the peak sales period?		
A) Cash discount	B) Trade account	C) Peak trade account	D) Seasonal dating

24	Selling accounts receivable to a third party at a reduced price is part of the collection process known as -		
A) suing	B) Settling	C) Writing off	D) Factoring

25	Which one of the following would help to reduce the number of accounts receivable delinquencies?		
A) Know your customers' situations	B) Ease the credit approval process	C) Refuse to extend payments	D) Stop sending reminder letters

Chapter 7c Inventory Management

1	Raw materials are directly identifiable as part of the final product and are classified as		
A) Fixed costs	B) Period costs	C) Direct materials	D) Any of the above

2	Which of the following method is based on the assumption that, latest consignment of materials or goods manufactured are exhausted first and the closing stock is valued at the cost of earliest lot in hand?		
A) Highest-in-first-out method	B) FIFO Method	C) LIFO Method	D) Average cost method

3	When materials are unloaded, the warehouse staff checks the material unloaded with the delivery note. Then the warehouse staff prepares a .... , a copy of which is given to the supplier' carrier as a proof of delivery.		
A) Purchase Requisition	B) Delivery note	C) Bill of Material	D) Material receipt note

4	Wood used in production of tables and chairs, steel bars used in steel factory etc. are the examples of		
A) Fixed material	B) Indirect material	C) Direct material	D) All of the above

5	.. are those items, which are moving at a slow rate and this may arise due to general depression in demand due to keen competition.		
A) Dormant stocks	B) Slow moving stocks	C) Written-off stocks	D) Any of the above

6	Inventory consists of		
A) Tangible property	B) Intangible property	C) (A) & (B)	D) (A)or(B)

7	.... are those cost, which can be identified and traceable to particular product or costing unit or cost centre.		
A) Fixed costs	B) Indirect material costs	C) Direct material costs	D) Period costs

8	Under .... of inventory valuation, the historical cost of inventory is estimated by calculating at selling price and then deducting an amount equal to the estimated gross margin of profit on such stocks.		
A) Market Price Method	B) Simple Average Price Method	C) Weighted Average Price Method	D) Adjusted Selling Price Method

9	Which of the following statement is correct in relation to "need for proper inventory control"?		
A) Materials do not constitute a significant part of the total production cost hence proper planning and controlling of inventories is not a big deal.	B) Inadequate inventory may lead to keep men and machines waiting.	C) Funds are not tied up in surplus stores and stocks.	D) All of the above

10	When materials are delivered, a supplier's carrier will usually provide a document called to confirm the details of delivery.		
A) Delivery Note	B) Material Transfer Note	C) Materials Inspection Note	D) Purchase Requisition

11	CIMA defines .... as, "an internal instruction to a buying office to procure goods or services.		
A) Bill of Material	B) Bin card	C) Store accounting	D) Purchase requisition

12	Inventory is valued at		
A) At cost or net realizable value whichever is less.	B) Replacement price	C) Replacement price or purchase value, whichever is less.	D) Replacement price or net realizable value, whichever is less.

13	Which of the following accounting treatment is correct in relation to "Spoilage"?		
A) It may be charged to factory overheads so that the loss is borne by all products.	B) If spoilage occurs on a specific job/special order, it is charged to that job itself.	C) Loss due to spoilage can be debited to the job/ product/process in which it occurred.	D) All of the above

14	.... represents the unusable loss, which can be sold. It is a residue, which is measurable and has a minor value.		
A) Defective	B) Waste	C) Spoilage	D) Scrap

15	CIMA defines .... as, "the recording as they occur of receipts, issues and the resulting balances of individual items of stock in either quantity or quality and value".		
A) Perpetual Inventory System	B) Per-paid Inventory System	C) Continuous Stock Taking	D) Budgetary Control System

Answer next 5 question on the basis of following data

Monthly demand (units) 1,000	
Cost of placing an order (Rs.)	100
Annual carrying cost (Rs. per unit)	15
Normal usage (units per week)	50
Minimum usage (units per week)	25
Maximum usage (units per week)	75
Re-order period (weeks)	4-6

16	Re-order quantity = Rs.		
A) 188.47 units	B) 115.47 units	C) 186.19 units	D) 166 units

17	Re-order level = Rs.		
A) 200 units	B) 368 units	C) 536 units	D) 450 units

18	Minimum level = Rs.		
A) 200 units	B) 536 units	C) 368 units	D) 450 units

19	Maximum level - Rs.		
A) 200 units	B) 368 units	C) 536 units	D) 450 units

20	Average stock level = Rs.		
A) 200 units	B) 368 units	C) 536 units	D) 450 units

21	Pooja Pipes Ltd. uses about 75,000 valves per year and the usage is fairly constant at 6,250 valves per

	month. The valve costs Rs.1'.50 per unit when bought in large quantities; and the carrying cost is estimated to be 20% of average inventory investment on an annual basis. The cost to place an order and process the delivery is Rs.18. Frequency of order = Rs.

A) 20 orders per year	B) 52 orders per year	C) 25 orders per year	D) 50 orders per year

22	Details of lead time; Average - 10 days Maximum - 15 days Minimum - 6 days Emergency purchases - 4 days. Danger level = Rs.

A) 150 units	B) 440 units	C) 440 units	D) 60 units

23	A manufacturer used 400 units of a Component every month and buys them entirely from an outside supplier @ Rs.40 per unit. The order placing and receiving cost is Rs.100 and storage and carrying cost is 1596 of the value of Stock. To get maximum benefit the manufacturer should place order at a time for ....

A) 400 units	B) 300 units	C) 450 units	D) 500 units

24	Average monthly market demand = 2,000 tubes, Ordering cost = Rs.100 per order, Inventory carrying cost = 20% per annum, Cost of tubes = Rs.500 per tube, Normal usage =100 tubes per week. If the supplier is willing to supply quarterly 1,500 units at a discount of 5%, is it worth accepting?

A) EOQ purchase is the best policy of purchase and hence there is no need to accept any discount offer form supplier.	B) Accept offer of quarterly supply of 1,500 tubes at 5% discount as it will save Rs.68,601.	C) Do not accept offer of quarterly supply of 1,500 tubes at 5% discount as it will increase total annual cost.	D) Accept offer of quarterly supply of 1,500 tubes at 5% discount as it will save Rs.64,851.

25	About 50 items are required every day for a machine. A fixed cost of Rs.50 per order is incurred for placing an order. The inventory carrying cost per item amount to Rs.0.02 per day. The lead period is 32 days. Re-order Level - Rs.

A) 600 units	B) 500 units	C) 1,100 units	D) 1,600 units

Chapter 7d Cash Budget

1	Z Ltd. has a separate account for cash disbursement. An estimated cash payments of Rs.6,56,250 for a one month period and the payments are expected to steady over the period. The fixed cost per transaction is Rs.20 and interest rate on marketable securities yields 10% p.a.

A) Rs.56,125	B) Rs.57,283	C) Rs.57,125	D) Rs.56,283

2	In a firm, the forecast of wages for month of December, January, February and March are Rs.4,800, Rs.6,000, Rs.6,400 and Rs.6,800. The time-lag in payment of wages is 1/8 month. Determine the amount of wages payable in each month January to March.

A) Rs.5,850, Rs.6,350 and Rs.6,750	B) Rs.5,850, Rs.6,750 and Rs.6,350	C) Rs.6,750, Rs.6,350 and Rs.5,850	D) None of the above

3	The annual cash requirement of A Ltd. is Rs.10,00,000 Cost of conversion of marketable securities per lot is Rs.1,000. The company can earn 5% annual yield or its securities. Optimal cash balance = Rs.and No. oi transactions = Rs.

A) 1,00,000; 5	B) 4,00,000; 10	C) 2,00,000; 10	D) 2,00,000; 5

4	Given estimated sales in February, March, April, May & June are Rs.90,000, Rs.96,000, Rs.54,000, Rs.87,000 & Rs.63,000. In case 50% of sales are realized in the next month and balance in the next of next month, determine cash collection from sales in April and May.

A) Rs.75,000 and Rs.70,500	B) Rs.93,000 and Rs.75,000	C) Rs.93,000 and Rs.70,500	D) Rs.75,000 and Rs.75,000

5	Dec 2014: The following information is available: Wages for January: Rs.20,000 Wages for February: Rs.22,000 Delay in payment of wages: 1/2 month The amount of wages paid during the month of February is —

A) Rs.22,000	B) Rs.11,000	C) Rs.20,000	D) Rs.21,000

6	June 2015: In Rise Ltd., cash sales is 25% and credit sales 75%. Sales for November, 2014 is Rs.15,00,000, December, 2014 Rs.14,00,000, January, 2015 Rs.16,00,000, February, 2015 Rs.10,00,000 & March, 2015 Rs.9,00,000.

	60% of the credit sales are collected in the next month after sales, 30% in the second month and 10% in the third month. No bad debts are anticipated. The cash collected in the month of March, 2015 from debtors is —

A) Rs. 9,15,000	B) Rs. 14,60,000	C) Rs. 12,20,000	D) Rs. 14,20,000

7	Which of the following is/are motive(s) for holding cash? 1. Transactional Motive 2. Speculative Motive 3. Derivative Motive 4. Contingency Motive 5. Promissory Motive Select the correct answer from the options given below

A) 1,2,3	B) 1,2,4	C) 1,3,5	D) 2,4,5

8	Which of the following is least likely to be considered a short-term marketable security?

A) 90 days Treasury bill.	B) Short-term corporate debt instruments with 9 months original maturity.	C) An original issue 30 years corporate bond with 1 year remaining until final maturity	D) An original issue 30 years government bond with 1 year remaining until final maturity.

9	Cash Budget statement shows the position of business as on .... of the business period.

A) Closing date	B) Opening date	C) Between opening and closing date	D) None of the above

10	Which one of the following events will reduce the cash balances of a business?

A) Creditors paid amounts owed	B) Dividend proposed pending shareholder approval	C) Purchase of stock on credit	D) Purchase of fixed assets on interest free credit

11	Which of the following would NOT lead to an increase in net cash flow?

A) Reduced materials costs	B) Higher selling price	C) Larger sales volume	D) Lower depreciation charge

12	The statement of cash flows tells us -		
A) The forecast cash movements over a period of time.	B) How much cash has been received and paid during an accounting period.	C) The financial position of the business at a point in time.	D) How much profit the business has made during an accounting period.

13	Which of the following statement is false?		
A) If the firm is engaged in cash purchase of raw material from a number of sources, its requirement of cash would be less than that a firm which buys on credit.	B) Realistic cash forecasting mean that cash forecast for the entire next year should be prepared at its commencement.	C) A firm having cash purchase and cash sale would need to maintain more cash balance than a firm which buys on credit and sells on credit.	D) All of the above

14	A business may incur an operating loss in a given financial year yet has more cash in the bank at the end. A reason for this could be that:		
A) Dividends paid were higher this year than last	B) Some fixed assets were sold for cash	C) Payments to creditors were made more promptly	D) Debtors were allowed a longer period of credit

15	The optimal balance of marketable securities held to take care of probable deficiencies in the firm's cash account is referred to as the segment in the firm's portfolio of short-term marketable securities.		
A) Cash and cash equivalent	B) Ready cash	C) Controllable cash	D) Free cash

16	Companies hold cash time to time. Transaction motive of holding cash means		
A) Keeping the transactions for foreign trading.	B) Keeping the cash for all the transactions made during a periodic term.	C) Keeping the cash for transactions mandatory for day to day activities	D) Keeping a cash reserve for purchasing goods and services to balance out the cash inflows and outflow.

17	Which of the following is not an operating cash flow?		
A) Payment of income tax	B) Collection of cash from receivables	C) Purchase of equipment for cash	D) Payment of cash for operating expenses

18	A Ltd. has observed its receivable collection pattern to be as follows: 40% in the month of the sale, 45% in the month following the sale, and 13% in the second month following the sale. Sales for the last 3 months of the year were as follows: October? 3,00,000; November,Rs. 4,50,000 and December, Rs.6,25,000. Sales for January are budgeted to be Rs.3,75,000. What are the budgeted cash collections for January?

A) Rs.4,95,750	B) Rs.3,75,000	C) Rs.4,89,750	D) Rs.6,25,000

19	Z Ltd. has an estimated cash payments of Rs.8,00,000 for a one month period and the payments are expected to steady over the period. The fixed cost per transaction is Rs.250 and interest rate on marketable securities is 12% p.a. Optimal cash balance — Rs.and No. of transaction = Rs.

A) 2,00,000;48	B) 20,000; 4.8	C) 20,00,000;480	D) 2,00,00,000:4,800

20 A company has made the following budget forecasts for next year:

Opening cash balance 1 January	24,000
Net profit from trading for the year	1,00,000
Payment of tax	25,000
Payment of dividends	20,000
Purchase of new fixed assets	70,000
Annual depreciation charge	22,000

	1 January	31 December
	Rs.	Rs.
Stocks	32,000	35,000
Debtors	41,000	28,000
Creditors	16,000	31,000

No other relevant information is available. What is the company's budgeted cash holding at 31 December next year?

A) Rs.26,000	B) Rs.34,000	C) Rs.56,000	D) Rs.6,000

21	N Ltd. has a separate account for cash disbursement. An estimated cash payments of Rs.2,62,500 for a one month period and the payments are expected to steady over the period. The fixed cost per transaction is Rs.25 and interest rate on marketable securities yields 7.5% p.a. Optimal cash balance = Rs.		
A) Rs.45,826	B) Rs.4,583	C) Rs.14,491	D) Rs.43,826

22	The budgeted sales for the next four quarters are Rs.1,92,000, Rs.2,88,000, Rs.2,88,000 & Rs.3,36,000, respectively. It is estimated that sales will be paid as follows: 75% of the total will be paid in the quarter that the sales were made. Of the balance 50% will be paid in the quarter after the sale was made. The remaining 50% will be paid in the quarter after this. The amount of cash received in quarter 3 will be		
A) Rs.1,44,000	B) Rs.2,76,000	C) Rs.3,24,000	D) Rs.2,40,000

23	BDL Ltd. is currently preparing its cash budget for the year to 31 March 2019. An extract from its sales budgel for the same year shows the following sales values. March 60,000 April 70,000 May 55,000 June 65,000 40% of its sales are expected to be for cash. Of its credit sales, 70% are expected to pay in month after sale and take a 2% discount. 27% are expected to pay in the second month after the sale, and the remaining 3% are expected to be bad debts. The value of sales budget to be shown in the cash budget for May 2018 is		
A) Rs.86,620	B) Rs.66,532	C) Rs.60,532	D) Rs.61,120

24	. Concentration banking -		
A) moves excess funds from a concentration bank to regional banks.	B)) improves control over corporate cash.	C)) increases idle balances.	D) is less important during periods of rising interest rates.

25	As per Cash flow method, the amount of expected net operating cash profit during the fiscal is		
A) Not included in cash budget	B) Added to the opening balance of cash	C) Deducted from the opening balance of cash	D) None of the above

Chapter 8 & 9 Security Analysis & Portfolio Management

1	Following details are available for EX Ltd. & FX Ltd. securities.		
	Probability	Return in %	
		Security EX	Security FX
	0.5	2096	1696
	0.3	3096	4096
	0.2	4096	3096
	Covariance between Security EX and Security FX is -		

A) 58	B) 85	C) -54	D) -58

2	Standard deviation determine -		
A) Total risk of security	B) Premium of security	C) Unsystematic risk of security	D) Systematic risk of a security

3	. Which of the following is correct formula to calculate beta (P)Rs.		
A) (A) $\frac{\Sigma XY - n\bar{X}\bar{Y}}{\Sigma Y^2 - n\bar{Y}^2}$	B) (B) $\frac{Cov_{SM}}{(\sigma_M)^2}$	C) (C) $\frac{\sigma_S}{\sigma_M} \times Corr_{SM}$	D) (D) All of the above

4	Covariance between Security P & Q is 48.91. Standard deviation of Security P is 5.36 while that of Security Q is 9.13. Compute value of correlation coefficient.		
A) 1	B) 0	C) 0.899	D) -1

5	Zero covariance indicate that -		
A) There is close relationship between the movements in returns of two assets	B) There is strong relationship between the movements in returns of two assets.	C) There is positive relationship between the movements in returns of two securities.	D) (D) There is no distinct relationship between the movements in returns of two securities

6	An investor has invested in Security A & B in the ratio of 70:30. Standard deviation of Security A & B is 4.47 & 7.62 respectively. Covariance AB is 34. Correlation Coefficient of Security A & B is 1. Risk of portfolio is-		
A) 6.4896	B) 5.4196	C) 7.2696	D) 3.1396

7	The opportunity line is the:		
A) Set of portfolios among which the investor is indifferent.	B) Set of investment opportunities made available by mixing two risky assets	C) Set of investment opportunities made available by mixing a risky asset and a risk-free asset.	D) Set of all portfolios with the same expected rate of return but different standard deviations.

8	Following details are available for two securities:		
	Return in %		
	Probability	Security X	Security Y
	0.05	30%	3996
	0.20	2596	2996
	0.50	2096	2196

	0.20 1596 1396 0.05 1096 396 Calculate the expected return. Security X Security Y

A)2196,2096	B) 1996,2196	C)2096,2196	D)2296,2496

9	Systematic Risk is -		
A) Controllable	B) Voidable	C) Avoidable	D)) Uncontrollable

10	. Which of the following investment advice will you provide to your client investor if CAPM Return = Expected return?		
A) Hold	B) Buy	C) Sell	D) Put

11	If expected return is more than required return as per CAPM, then		
A) Security is correctly priced and hence should be hold	B) Security is undervalued and hence can be sold	C) Security is overvalued and hence can be bought	D) Security is undervalued and hence can be bought

12	. According to Dow Jones theory, share prices demonstrate a pattern over 4 to 5 years. These patterns can be divided into three distinct cyclical trends -		
A) Primary, secondary and minor trends	B) Preliminary, primary and secondary trends	C) Preliminary, bullish and bearish trends	D) Primary, secondary and major trends

13	Capital market line (CML) represents – L Portfolios that optimally combine risk and return. II. The trade-off between risk and return for efficient portfolios. HI. Covariance value in order to help comparison with corresponding values for the other pairs of securities constituting the portfolio. IV. The relationship between return and risk. Select the correct answer from the options given below.

A) (D) H, IV and I only	B) HI and n only	C) H, ED and IV only	D) IV and I only

14	K and H are two securities in portfolio for which following information is available.		
		Security K	Security H
	Return	12%	1896
	SD	10%	1596
	Correlation coefficient is + 0.5. Calculate the risk of portfolio using 20:80 weights.		

A) 13.12%	B) 12.13%	C) 12.31%	D) 13.21%

15	Security A has return of 12% with 10% risk (o). Security B has return of 18% with 15% risk (a). If investor makes investment in two securities in weight of 20:80 his return for portfolio is 16.80% with 13.12% risk (a). If investor makes investment in two securities in weight of 14.29 : 85.71 his return for portfolio is 17.14% with 13.63% risk (a). Which of the following strategy will be adopted by the rational investor?

A) Invest 100% in Security B.	B) Invest 100% in Security A.	C) Invest the ratio of 20:80 in Security A & B.	D) Invest the ratio of 14.29 : 85.71 in Security A & B.

16	An investor is seeking the price to pay for a security, whose standard deviation is 3%. The correlation coefficient for the security with the market is 0.8 and the market standard deviation is 2.2%. The return from government security is 5.2% and from the market portfolio is 9.8%. The investor knows that, by calculating the required return, he can then determine the price to pay for security. What is the required return on the security?		
A)12.66%	B)8.44%	C)10.22%	D)9.77%

17	ABC Ltd beta is 1.45. Rate of market return is 16%. Rate of return on government securities is 8%. What is the expected return as per Capital Asset Pricing Model? If the risk premium on the market goes up by 2.5% points, what would be revised expected return on this stock?		
A) 18.7%; 24.28%	B) 16.9%; 32.32%	C) 19.6%; 16.7%	D) 19.6%; 23.23%

18	Mohan has a portfolio of 6 securities, each with a market value of Rs. 10,000. The current beta ((3) of the portfolio is 1.30 and |3 of the riskiest security is 1.80, Mohan wishes to reduce his portfolio p to 1.15 by selling the riskiest security and replacing it with another security with a lower p. What must be the p of the replacement security?		
A) 0.8	B) 0.7	C) 0.9	D) 1.1

19 . Following information is available in respect of the return from Reliance's stock under different economic conditions:

Economic Condition	Return (%)	Probability
Good	20	0.2
Average	16	0.4
Bad	10	0.2
Poor	4	0.2

Find out risk associated with it

A) 6.5%	B) 5.6%	C) 4.8%	D)) 8.4%

20	Portfolio risk will be when two components of a portfolio stand perfectly positively correlated and will be when the same are perfectly negatively correlated.		
A) Maximum; Minimum	B) Minimum; Maximum	C) Maximum; More	D) Minimum; Less

21	Non-systematic risk is furthermore identified as -		
A) Company specific risk	B) Random risk	C) Market risk	D) No diversifiable risk

22	The beta of the market is:		
A) 1.0	B) 0	C) -1.0	D) 0.5

23	Holding two securities as an alternative of will not decrease hazard occupied by an investor if two securities are:		
A) Perfectively positive correlated	B) No correlation	C) Perfectively negative correlated	D) All of answers are correct

24	Covariance between Security X and security Y is - 42. This indicate that -		
A) Returns on Security X &	B) Returns on Security X	C) If return on Security X	D) Covariance of these to

Security Y bear a tendency to off-set each other.	& Security Y tend to go together, i.e. if return on X is above par, return on Y is also likely to be above par	is below par, return on Security Y is likely to be above par.	two securities is positive that means standard deviation of both securities must be negative.

25	Investors should be agreeing to invest in riskier investments merely			
A)	If expected return is adequate for risk level	B) If there are no safe alternatives except for holding cash	C) If there are true speculators	D) If return is short

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FINANCIAL AND STRATEGIC MANAGEMENT

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Chapter 11 Introduction to Management

Lesson Outline

• Introduction to Management	• Concept of Management
• Characteristics of Management	• Theories on the Functions of Management
• The Five Functions of Management 1. Planning 2. Organizing 3. Staffing 4. Directing/Leading 5. Controlling	• LESSON ROUND UP
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CONCEPT OF MANAGEMENT

Management is a process containing a human element and makes most efficient client use of resources through and with people for attaining defined organizational objectives by most economical and effective planning and execution. Therefore, management can be viewed as:

A process of continuing and inter-related activities	Concentrates on attaining organizational goals
Focuses on working with and through human and other organizational resources	

Definitions of Management

1. Harold Koontz in his book "The Management Theory Jungle", defined management as "the art of getting things done through and with people in formally organized groups."	2. Henri Fayola in his book "Industrial and General Administration", defined management as "To manage is to forecast and to plan, to organize, to command, to co-ordinate and to control."
3. Similarly, Peter Drucker in his book "The Principles of Management" conceived management as "Management is a multi-purpose organ that manages business and manages managers and manages workers and work."	4. According to George R. Terry, "Management is distinct process consisting of planning, organizing, actuating and controlling performed to determine and accomplish the objectives by the use of people and resources."

5. According to American Management Association, "Management is getting things done through people."	6. According to Mary Parker Fillet, "Management is the art of getting things done through people."

Characteristics of Management

Management is an indispensable facet of the economic life of all human beings and of every business organization too. This is so because, it is concerned with leading and effective utilization of human, physical and financial resources of a business, so that the set objectives and goals may be accomplished in a desired manner. Based on this, the following characteristics of management may be identified:

Features of Management

- 1. Continuous and Never Ending Process.
- 2. Art of Getting Work Done from People.
- 3. Is Result-Oriented.
- 4. Multidisciplinary in Nature.
- 5. Group and Not an Individual Activity.
- 6. Follows Established Principles or Rules.
- 7. Aided but Not Replaced by Computers.
- 8. Situational in Nature.
- 9. Separate from Ownership.
- 10. Both an Art as well as a Science.
- 11. Is All Pervasive.
- 12. Intangible but its Impact is Felt.
- 13. Uses a Professional Approach in Work.
- 14. Dynamic in Nature.

1. Continuous and perpetual process

Management is a process that comprises of four key functions, viz., Planning, Organizing, Directing and Controlling. Every manager has to perform all these functions incessantly.	Management is not just about what is to be done, when to be done and how to do it, but, this is about getting the things done constantly by bringing the element of improvement in performance of these functions day by day while facing the hurdles coming in the way of its performance.

2. Getting the things done through and with people

The managers never execute the work themselves rather	The workers should not be forced or threatened to do the

they get the work done through and with the people working in the organization. However, management is said to be the art of getting the things done tactfully.	things rather they should be motivated by creating a favorable work environment and creating a win-win situation.

3. Result oriented science and art

Management is a result oriented science and discipline having features of 'art' as it emphasizes on "results" or targets such as boosting market share, augmenting protest, success of a new product or product line etc.	The task of the management is to get the most excellent results for whole organization.

4. Multidisciplinary in nature

Since, management is supposed to get the work done through and with people, managing 'people' is viewed as most tricky job itself as each human being is unique and possesses emotions, feelings, aspirations, mood and temperament etc. that are subject to swinging. It makes management a very tedious job.	It necessities the managers to acquire and apply knowledge gained from many diverse subjects such as Economics, Information Technology, Psychology, Sociology, Anthropology, Mathematics and statistics, Political Science, Geography, Operations Research etc. Therefore, it is indeed multidisciplinary in nature.

5. Group Exercise

Management is not an individual but group activity. It uses team efforts to attain organization's objectives. It tries to satisfy the needs and wants of a target group and other stakeholders. Therefore, management is a team work.

6. Follows established universal principles or rules

On the basis of observations and experience over time, certain universally established principles for management have been established such as division of work, specialization, discipline, unity of command, unity of direction, subordination of individual interest to group interest etc.	These universal principles are based on certain fundamental truths and serve as a really useful guide for decision making for managers.

7. Aided but not replaced by technology

Now-a-days, all managers rely a lot on technology. Computers and technology aid the managers to form a basis for making accurate decisions. However, artificial intelligence is only an aid and cannot replace management.	This is because; management involves humans who are held responsible for every decision that is taken to attain organizational goals. However, technology and artificial intelligence if utilized properly can make such decisions excellent one as these will be based on facts and calculations rather than intuition and experience only.

8. Situational

Management makes plans, policies and decisions according to the requirement of the current situation. It changes its style as per the changing situation. It makes use of different plans, policies, decisions and styles for diverse situations by studying the needs of the situation.	Thereafter, it draws conclusions and chooses the plans, policies and decisions, etc., which are best for the current situation. This is called Situational approach to management.

9. Management and ownership may not be same

In smaller organizations or sole proprietorship, most of the times, management and ownership are one and the same. However, in larger organizations such as company form, management is separate from ownership.	The managers are highly qualified and experienced professionals who are on the rolls of the company while the owners are the shareholders of the company who may be large in number and geographically dispersed.

10. Both an art and science

Management is result-oriented. Therefore, it is an art of getting the things done through and with people as per demand of the situation. Management conducts constant research.	Thus, it is also a science as decisions are taken based on the facts that come from fields such as statistics and operations research.

11. Management is all pervasive

There is field where management is not present. Be it home, business, educational, charitable and religious and other non-profit institutions, management is a must for all activities and organizations, and therefore, it is all pervasive.

12. Management is intangible

Management is intangible, i.e. it cannot be seen and touched, but it can be felt and realized by its outcomes of its decisions. The efficiency or inefficiency of any management can be decided only by its results of its actions.	If there is first-rated discipline, high quality productivity, good profits, outstanding motivation level, satisfied stakeholders etc., then, the management is successful and vice-versa.

13. Uses a professional approach in work

Managers use a professional approach for getting the work done from their team mates. The work is not done themselves by the managers but delegated to their subordinates.	The participation of subordinates is invited and considered in attaining objectives. They also motivated subordinates to take the novel initiatives and think out-of-the-box. Therefore, management follows a professional approach in getting the work done.

14. Dynamic in nature

Management has to be dynamic in nature. It is supposed to act as per need of the situation with creativity and innovation. The organization who fails to embrace change and remains dynamic cannot survive in the rapidly changing environment.	Therefore, the element of brainstorming has to be chipped in to make room for new and creative ideas, new products, new product features, new ads, new marketing techniques, etc.

Theories on the Functions of Management

Since, management is about getting the things done through and with people to attain the desired objectives by making best utilization of the resources. With the passing times, scholars began studying and theorizing the essence of management, which gave birth to diverse ideas and concepts of management. Here are some the most influential theories outlined about the ideas about the functions of management.

Henri Fayola

At the beginning of the last century (1916), the French engineer Henri Fayola shelled out the first ever 14 principles of 'classical management theory' formally. Henri Fayola is classified as 'the founding father' of a variety of concepts including the line and staff organization.

Based on his experience as a thriving director or a mining company, he developed numerous theories which still find their relevance in contemporary times. At the time when Henry Fayola gave such principles, there was no formal training mechanism in existence for managers; therefore, Fayola principles were ground breaking. However, the growing complexity of organizations visibly generated a call for professional management.	While developing fourteen principles of management, Fayola also defined the five core functions of management, which are still used and form the basis of theories developed by other scholars later on. As per Fayola, management is a process, which includes functions such as forecasting, planning, organizing, commanding and controlling. These functions are the fundamental foundation of setting the relationship between the subordinates and the superior in tune and the five core functions help the managers to solve troubles/dilemmas in this relationship or within the organization in a creative and innovative manner.

George R. Terry

After Henry Fayola, the subject became a matter of interest for various theorists and which resulted in analysis of the functions of management from various viewpoints and many more ideas emerged which deviated only to some extent from Fayal's core functions of management. George R. Terry wrote a book Principles of Management in the year 1968 and elaborated his viewpoint.

Terry believed there existed four core functions of management, each function addressing a specific problem/issue the management must solve. The question, the fundamental function and the resulting action are outlined in the below table:

The Question	The Function	The Result
What is the need?	Planning	Objectives, goals, policies, procedures and methods
Where should actions take place and who should do what work?	Organizing	Work division, work assignment, and authority utilization
Why and how should group members perform their tasks?	Actuating	Leadership, communication, development, and incentives
Are the actions being performed according to plan?	Controlling	Reports, comparisons, costs and budgets

Harold Koontz and Cyril O'Donnell

In the year 1976, Harold Koontz and Cyril O'Donnell published an essay 'Management: A Systems and Contingency Analysis of Managerial Functions'. They were of the opinion that the preceding studies in the past have been successful in describing the functions of management, but, they were of viewpoint that the division of such functions needs to be more comprehensive. Koontz and O'Donnell believed there ought to be five key functions of management:

Planning	Organizing
Staffing	Directing/Leading
Controlling	

These five functions of management have become perhaps the most cited ones and have been explained further in the following section:

THE FIVE FUNCTIONS OF MANAGEMENT

While there are slight variations in how the functions are named and the different management theories might combine or divide certain functions into smaller parts, the consensus points to five core functions.

Planning

The first and foremost managerial function is 'planning'. Planning means looking ahead and chalking out future courses of action to be followed. It is a preliminary step. The function aims at developing a comprehensive sketch for achieving an explicit organizational objective. Planning involves identification of tasks which are required to realize the desired goals, demarcation of how such tasks should be performed, chalking out who, when and where such task will be performed.

According to Koontz & O'Donnell, "Planning is deciding in advance what to do, how to do and who is to do it. Planning bridges the gap between where we are to, where we want to go. It makes possible things to occur which would not otherwise occur"

A meticulous knowledge about vision and mission of the organization forms the pre-requisite of short as well as long term success of planning. It has been aptly said "well planned is half done". Therefore, planning takes into consideration existing as well as potential human and physical resources of the organization. It is the basic management function which includes formulation of one or more detailed plans to accomplish optimum balance of needs or demands with the available resources. According to Uric, "Planning is a mental predisposition to do things in orderly way, to think before acting and to act in the light of facts rather than guesses".

An example of planning would be a situation where you have an objective, such as raising the profit by 25 per cent in the next quarter. There may exist various alternatives to realize this goal. This might include designing an attractive advertisement campaign which features some celebrity, diminution in price for enhancing the volume of the sales, cutting down futile expenditure, venturing in foreign markets or starting the manufacturing in a tax free zone. The manager's role is to opt for the alternative which is most promising and organizing the same into a logical pattern. Further, the timeline for execution should also be planned.

Planning is on on-going and recurring function. Management will recurrently have to plan the future tasks and adjust the existing plans based on the organizational situation and the achievement of already set goals. Henri Fayola called the function as the most difficult to achieve as a lot of knowledge and flexibility.

Why is planning is significant?

Why planning occupies a significance? This is because, the planning provides the organization a better sense of what it wants to achieve and how to achieve this. In effect, planning ensures the proper utilization of the available resources and the capability to comprehend how these should be used in order to achieve the goal.

A key part of planning is also the vital role it plays in pacifying risks. When management plans for the tasks ahead, they are looking at the situation and detailing the probable difficulties ahead.

Steps in Planning Function

The Planning function involves the following sequence of steps:

1. Establishment of objectives

Planning requires a systematic approach and starts with the setting of goals and objectives. The objectives provide a rationale for carrying out a range of activities as well as indicates the direction of the efforts of the team. Besides, the objectives also focus the attention of managers on the end results to be achieved.	Objectives form nucleus of the planning process. Therefore, the objectives should be stated in a clear, precise and explicit language. In the lack of this, the activities are bound to be futile and unproductive.
As far as possible, the objectives should be stated in quantitative terms. For example, number of wage earners, per hour wages, number of units produced in each quarter, profit desired as a percentage of sales etc.	The objectives should be practical, acceptable, feasible and realizable.

2. Establishment of planning premises

Planning premises are the assumptions about the events in future and serve as a basis of planning.	Establishment of planning premises is concerned with determining the possible deviations from the actual plans and reasons of such deviations. Establishment of planning premises is concerned to take such steps that avoid such obstacles to a great extent.
Planning premises may be internal or external. Internal planning premises consist of capital investment policy, management labor relations, philosophy of management, etc. Whereas, external premises include socio- economic, political and economic changes. In terms of control, Internal premises are controllable whereas external are non-controllable.	

3. Choice of alternative courses of action

When forecast are available and premises are established, a number of alternative course of actions have to be considered. For this purpose, each and every alternative will be evaluated by weighing its pros and cons in the light of available resources and organizations requirements. The advantages, disadvantages as well as the consequences of each alternative must be thoroughly examined before making the final choice.	After objective and systematic evaluation, the best alternative is chosen.
The planners should take assistance of a number of quantitative techniques to judge the stability of an alternative.	

4. Formulation of derivative plans

Derivative plans are the sub plans or secondary plans which aid in the accomplishment of master plan.	Secondary plans will flow from the master plan. These are supposed to be act as a support and accelerate the pace of attainment of basic plans. These detail plans include policies, procedures, rules, programmers, budgets, schedules, etc. For example, if profit maximization is the key aim of the enterprise, derivative plans will include sales maximization, production maximization, productivity and cost minimization.
Derivative plans indicate time schedule and sequence of accomplishing a range of tasks.	

5. Securing Co-operation

After the plans have been determined, it is essential to take in confidence the subordinates or those who have to execute these plans. The rationale behind taking team into confidence are: Subordinates may feel motivated as they have a say in the decision making process.	Such involvement may result in valuable suggestions and improvement in formulation as well as implementation of plans.
The employees will be willingly ensuring that such plans see light of the day due to being attached with these.	

6. Follow up/Appraisal of plans

After choosing a certain plan, it needs to be put into action and appraised for its effectiveness. Such an appraisal is done on the basis of feedback or information received those who are responsible for its execution.	Feedback enables the management to take corrective actions for rectifying deviations.

Follow up establishes a link between planning and controlling function.	Execution and follow up must go side by side so that the planning exercise in the future may be made more realistic in the light of observations.

Organizing

Organizing is the function of the management which follows the first function of management i.e. planning. It is a function which brings together human, physical and financial resources of the organization. The synchronization of all three resources is essential to derive the results. Therefore, the 'organization 'function facilitates the achievement of results.	According to Chester Barnard, "Organizing is a function by which the concern is able to define the role positions, the jobs related and the co-ordination between authority and responsibility. Hence, a manager always has to organize in order to get results."

For example, if the task is to augment the sales volume, then a plan to increase such a sales volume will determine how to divide the resources to execute such plan. This can be about arranging the finances, ensuring the right plant and machinery is in place and deputation of the personnel to the specific tasks.	The objective of the manager is to arrange the concerned team or department which uses the resources to put the plan into reality. The organizing function is about the overall structure of the specific managerial level.
Depending on the managerial level, managers will have different responsibilities and resources to organize.	

Why is organizing essential?

(1) Benefits of Specialization

While organizing, every activity is subdivided into a host of sub-tasks. For performing these sub tasks, competent people are appointed who eventually convert in to experts by doing a specific job over and over. In this way, utmost work is accomplished in the least span of time and the organization is the ultimate gainer of such specialization.

(2) Clarity in Working Relationship

Organizing makes a clear cut picture of the working relations among employees. It specifies a clear line of reporting. This in turn makes the communication clear, effective and productive. Moreover, such clarity in working relationship also helps in fixing accountability.

(3) Optimum Utilization of Resources

Under the process of organizing the whole work is divided into a variety of miniature activities. There is a certain employee deputed for performing a different job. By doing so, there is no possibility of an activity being left out or unnecessary duplicating. Consequently, there is best possible utilization of all the existing resources (physical, financial as well as human) in the organization.

(4) Adaptation to Change

Organizing process makes the organization capable of adapting to any change associated with the position of the employees. This becomes possible only because of the fact that there is a clear Scalar chain of authority for the manager's right from the top to the bottom. Whenever a managerial position falls vacant, it is straight away filled up by promotion. Since every subordinate is well aware of the working of his senior, there is no difficult for his taking up the new position.

(5) Effective Administration

It has normally been observed that there is always a condition of doubt about the authority of the managers among themselves. The process of organizing makes a clear mention of each and every activity of every manager and also of their extent of authority. One and all also knows to whom they are accountable. Consequently, efficient administration sees light of the day.

(6) Development of Personnel

Under the process of organizing, delegation of authority is practiced. This is done not because of the restricted capacity of any individual, but also to realize new techniques of work. It provides opportunities of taking decisions for the subordinates. By taking advantage of this situation, they try to find out the latest techniques and implement them. Subsequently, it helps them to grow and develop and also in career and succession planning.

(7) Expansion and Growth

The process of organizing allows the employees the freedom to take decisions which helps them to grow. They are relentlessly ready to face new challenges. This situation can aid in the development of the enterprise. This helps in escalating the earning capacity of the enterprise which in turn helps its growth and development.

Steps in organizing

When done efficiently, organizing tends to follow the pattern and steps outlined below:

Identification of activities – All those activities which need to be performed in a concern shall have to be identified first. Prima facie, it is extremely important to prepare a list of tasks to be done. For example, preparation of accounts, making sales, record keeping, quality control, inventory control etc. All these activities have to be grouped and classified into units.	**Departmentally organizing the activities –** In this step, the manager tries to combine and group similar and related activities into units, divisions or departments. This organization of dividing the whole concern into independent units and departments is called depart mentation.
Classifying the authority – Once the departments are made, the manager likes to classify the powers and its extent to the managers. This activity of giving a rank in order to the managerial positions is called hierarchy. The top management is into formulation of policies, the middle level management into departmental supervision and lower level management into supervision of foremen. The clarification of authority help in bringing efficiency in the running of a concern. This helps in achieving efficiency in the running of a concern. This helps in avoiding wastage of time, money, effort, in avoidance of duplication or overlapping of efforts and this helps in bringing smoothness in a concern's working.	**Co-ordination between authority and responsibility –** Relationships are established among various groups to enable smooth interaction toward the achievement of the organizational goal. Each individual is made aware of his authority and he/she knows whom they have to take orders from and to whom they are accountable and to whom they have to report. A clear organizational structure is drawn and all the employees are made aware of it.

Staffing

Staffing is an occupying significance as a function of management. The managerial function of staffing involves manning the organization structure through proper and	According to Theo Hayman, "Staffing pertains to

effective recruitment, selection, appraisal and development of the personnel to fill the roles assigned to the employers/workforce. It can be seen closely related to organizing, with both focused on ensuring the resources are directed to the right processes and tasks.	recruitment, selection, development and compensation of subordinates."

The function aims to warrant the organization always has the right people in the right positions and the organizational structure isn't hindered by shortage and surplus of personnel.	The reason staffing is included as a separate function is a crucial part of management is due to the changing nature of the workforce and the organization. Today's companies are much more complex in terms environment in which they operate. Further, going beyond national boundaries and operating as a multinational has also enhanced such complexity. Management has also become more focused on the human behavioral aspect of leadership. Finding the right company fit, ensuring employees are satisfied, and guaranteeing emotional wellbeing as well as physical work safety have emphasized the importance of staffing as a function.

Why is staffing essential?

Staffing is essential to guarantee the operational functionality of the organization. Staffing also assures that the human resources available within the organization are capable to perform the designated tasks and that they are satisfactorily supported in those roles.	This will further lead to the organizational efficiency, since people are motivated and qualified to work towards the common goal. Furthermore, even the most qualified of employees need the occasional help and support. The staffing function helps create these development opportunities.

Nature of Staffing

Staffing is an inseparable managerial function along with planning, organizing, directing and controlling. The operations of these four functions depend upon a strong team which is built through staffing function.	Staffing is a pervasive activity and is carried out by all mangers and in all types of organizations where business activities are carried out.
Staffing is a continuous activity- It continues throughout the life of an organization.	The basis of staffing function is efficient management of personnel- Human resources can be efficiently managed by a system or proper procedure, that is, recruitment, selection, placement, training and development, providing remuneration, etc.
Staffing helps in placing right men at the right job through proper recruitment procedures and then finally selecting the most suitable candidate as per the job requirements.	Staffing is performed by all managers depending upon the nature of business, size of the company, qualification and skills of managers, etc.

How to staff?

According to Koontz &O'Donnell, staffing "involves manning the organization structure through proper and effective selection, appraisal and development of personnel to fill the roles designed on the structure". It consists of a number of separate functions, which are:

Manpower requirements- The foremost step in staffing is to plan the manpower inventory required by a concern in order to match them with the job requirements and demands. Therefore, it involves forecasting and determining the future manpower needs	**Recruitment-** After knowing the requirements, the organization invites people to apply for jobs. The job requirement should unmistakably mention the desired candidate's profile, so that only eligible candidates apply for the job. Though hiring people through internal transfers and promotion is always the best way to go in terms of time and compensation; organizations usually have to work together with placement contractors, consultants, and employment exchanges to meet their needs.

of the concern.	Organizations can also make use of media to advertise their job requirements.

Selection- Selection is the stage in staffing that can 'make or break' the entire process. Scanning candidates for the right skills, experience, and qualification needs the hiring manager to be at the best of his/her ability. Through test or interview or discussion, it may be judged that whether a candidate is a fit for the job or not. Sometimes, the right candidates would not consider the opportunity just because they didn't like the work environment. It's a two-way process, with both the company and the candidate having to be very careful in the way they come across to each other.	**Orientation and Placement-** During orientation, new employees are introduced to the existing ones and are made to feel comfortable within the organization. It is an aspect of staffing with the basic objective of familiarizing the new employee with people, processes, and work space.
Training and Development- Training is a part of incentives given to the workers in order to develop and grow them within the concern. Training is generally given according to the nature of activities and scope of expansion in it. Along with it, the workers are developed by providing them extra benefits of in-depth knowledge of their functional areas. Development also includes giving them key and important jobs as a test or examination in order to analyses their performances.	**Remuneration-** It is a kind of compensation provided monetarily to the employees for their work performances. This is given according to the nature of job- skilled or unskilled, physical or mental, etc. Remuneration forms an important monetary incentive for the employees.
Performance Evaluation- In order to keep a track or record of the behavior, attitudes as well as opinions of the workers towards their jobs. For this regular assessment is done to evaluate and supervise different work units in a concern. It is basically concerning to know the development cycle and growth patterns of the employees in a concern.	**Promotion and transfer-** Promotion is said to be a non- monetary incentive in which the worker is shifted from a higher job demanding bigger responsibilities as well as shifting the workers and transferring them to different work units and branches of the same organization.

Directing

Directing is a process in which the managers instruct, guide and oversee the performance of the subordinates to achieve predetermined goals. Directing is said to be the heart of management process. Planning, organizing, staffing have got no importance if directing is not suitable.	Directing initiates action and is said to be consisting of human factors. In simple words, it can be described as providing guidance to team in doing work. In field of management, direction is said to be all those activities which are designed to encourage the subordinates to work effectively and efficiently.
According to Human, "Directing consists of process or technique by which instruction can be issued and operations can be carried out as originally planned"	

Therefore, Directing is the function of guiding, inspiring, overseeing and instructing people towards accomplishment of organizational goals. Direction has got following characteristics:

Pervasive Function – Directing is required at all levels of organization. Every manager provides guidance and inspiration to his subordinates.	**Continuous Activity –** Direction is a continuous activity as it continuous throughout the life of organization.
Human Factor – Directing function is related to subordinates and therefore it is related to human factor. Since human factor is complex and behavior is unpredictable, direction function becomes important.	**Creative Activity –** Direction function helps in converting plans into performance. Without this function, people become inactive and physical resources are meaningless.
Executive Function – Direction function is carried out by all managers and executives at all levels throughout the working of an enterprise, a subordinate	**Delegate Function –** Direction is supposed to be a function dealing with human beings. Human behavior is unpredictable by nature and conditioning the people's behavior towards the goals of the enterprise is what the executive does in this function.

receives instructions from his superior only.	Therefore, it is termed as having delicacy in it to tackle human behavior.

The function of directing has strong links leadership. A good manager will be able to inspire the workforce to work towards the goals not because they have to do it, but because they are driven to achieve these objectives. The manager's role is not just about ensuring the workplace has the right resources and employees know what they are doing; it's also imperative to create an amicable environment. With proper directing, you are able to set in motion the processes manager has prepared with the above three functions.

Why is directing essential?

Directing is important to strengthen the operational capability of the organization. Directing is a bridge between the operational needs and the human requirements of its employees. Since directing aims to improve productivity, you are strengthening how well the organization succeeds.	Research has pointed out how important human-focused management is in today's organization. When objectives are approached from a human perspective that aims to ensure people's opinions are listened to, the goals are met faster than in task-oriented environments. The management's ability to listen to the workforce, support and inspire them will boost the productivity and profitability of the organization.

Scope of direction

You can direct and lead your team by utilizing four key methods based on the findings of human behavioral studies. These are:

(i) Supervision

Supervision is concerned with overseeing the subordinates at work and is done at all levels of management. It refers to the direct and immediate guidance and control of subordinates in the performance of their task. It is concerned with seeing that the subordinates are working according to plan, policy, programmer, instruction and keeping up the time schedule.	Supervision is inevitable at every level of management for putting the managerial plans and policies into action. It can be compared to the key that keeps the managerial train into motion.

(ii) Communication

It is the process of telling, listening, understanding or passing information from one person to another. A manager has always to tell the subordinates what they are required to do, how to do it and when to do it. He has to create an understanding in the minds of the people at work.	An organization can't operate successfully without an effective system of communication. The process of communication can be carried through different Media's viz., telephone, intercom system, issuing letters and messengers etc.

(iii) Leadership

It can be defined as the process by which a manager guides and influences the work of his subordinates. It is concerned with influencing people for the achievement of common goals. An executive, as an effective leader, should consult his subordinates before starting any line of action to ensure their voluntary cooperation.	The manager as a leader acts as a dynamo which charges a battery.

(iv) Motivation

Employees come forward to work in any enterprise in order to satisfy their needs. Past experience reveals that in most cases they do not contribute towards the organizational goals (as much as they can) because they are not adequately motivated.	Motivation relates to a conscious attempt made by the executive to influence the direction and role of individual and group behaviors. A manager should understand the process of human-behavior while performing his managerial function of directing and leading.
He can get things done through other people willingly by motivation. Motivation inspires the subordinates to work with zeal, willingness and initiates to achieve enterprise goals. It promotes team work. It can tap the human potential in the best possible manner.	Managers must continuously be in search of the causes that motivate employees and develop a motivational system which may satisfy most of their needs. Otherwise, productivity will not increase. Leadership and motivation are thus the two wings of direction in the process of management.

(v) Commanding

Commanding refers to setting the business going to get the desired optimum results from the subordinates. Fayola conceived the function of command as the 'operation of organization.' He emphasized that the managers must possess the requisite personal qualities and knowledge of the principles of management.

Controlling

Controlling consists of verifying whether everything occurs in conformities with the plans adopted, instructions issued and principles established. Controlling ensures that there is effective and efficient utilization of organizational resources so as to achieve the planned goals.	Controlling measures the deviation of actual performance from the standard performance, discovers the causes of such deviations and helps in taking corrective actions

According to Breech

"Controlling is a systematic exercise which is called as a process of checking actual performance against the standards or plans with a view to ensure adequate progress and also recording such experience as is gained as a contribution to possible future needs."

According to Donnell

"Just as a navigator continually takes reading to ensure whether he is relative to a planned action, so should a business manager continually take reading to assure himself that his enterprise is on right course."	As Theo Hayman has put it, controlling is *"The process of checking whether or not proper progress is being made towards the objectives and goals and acting if necessary, to correct any deviation".*

Features of Controlling Function

Following are the characteristics of controlling function of management-

Controlling is an end function- A function which comes once the performances are made in conformities with plans.	Controlling is a pervasive function- which means it is performed by managers at all levels and in all type of concerns.
Controlling is forward looking- because effective control is not possible without past being controlled. Controlling always look to future so that follow-up can be made whenever required.	Controlling is a dynamic process- since controlling requires taking reviewed methods, changes have to be made wherever possible.
Controlling is related with planning- Planning and Controlling are two inseparable functions of management. Without planning, controlling is a meaningless exercise and without controlling, planning is useless. Planning presupposes controlling and controlling succeeds planning.	

Importance of Controlling

Controlling's most important function is the risk-reduction ability. Since you are essentially monitoring the performance of the team and comparing it against the objectives you've set, you can react to problems more easily. Instead of realizing at the end of the month that you've missed your sales target by a huge margin, you can keep an eye on the situation during the process.	If you notice the marketing campaign, for example, is not producing any new customers or leading to increased sales, you can re-tweak it to better attract customers. With the re-tweak, you might be able to change the campaign's attractiveness and recover the situation. This could end up guaranteeing you meet the sales target at the end of the month.
Even if you miss the target, you might not miss it by as much and you've at least had the chance of correcting the situation. With controlling, you are reducing the risk of failure and the impact of failing to meet your objectives. As mentioned, even if you happen to fail, you're prepared for it and you can start analyzing the reasons behind it immediately.	In the business world, measuring performance can be the difference between the successful and the failing companies. Think about a start-up. If the management doesn't have a set of standards to measure its performance against, they don't have any idea what success or failure looks like. Even when they have a set of objectives and they know whether they met them or not, they don't have any more information to go by.
Let's say they want to earn $100,000 in the first three months. Without standards and proper control, after three months all they know is whether they earned it or not. They won't know the why. Was the success down to the product? Did the marketing help? How much did their social media strategy push sales? Was it all about the saving mechanisms they put in place? In the end, understanding the reasons behind success or failure will help the business perform better.	

How to control?

For controlling to be effective, you need to take the four steps of this specific function of management:

Controlling as a management function involves following steps:

1. **Establishment of standards-** Standards are the plans or the targets which have to be achieved in the course of business function. They can also be called as the criterions for judging the performance. Standards generally are classified into two-

Measurable or tangible –	**Non-measurable or intangible-**
Those standards which can be measured and expressed are called as measurable standards. They can be in form of cost, output, expenditure, time, profit, etc.	There are standards which cannot be measured monetarily. For example- performance of a manager, deviation of workers, their attitudes towards a concern. These are called as intangible standards.

Controlling becomes easy through establishment of these standards because controlling is exercised on the basis of these standards.

2. **Measurement of performance-** The second major step in controlling is to measure the performance. Finding out deviations becomes easy through measuring the actual performance. Performance levels are sometimes easy to measure and sometimes difficult. Measurement of tangible standards is easy as it can be expressed in units, cost, money terms, etc. Quantitative measurement becomes difficult when performance of manager has to be measured. Performance of a manager cannot be measured in quantities. It can be measured only by-

Attitude of the workers,	Their morale to work,
The development in the attitudes regarding the physical environment, and	Their communication with the superiors.

It is also sometimes done through various reports like weekly, monthly, quarterly, yearly reports.

3. **Comparison of actual and standard performance-** Comparison of actual performance with the planned targets is very important. Deviation can be defined as the gap between actual performance and the planned targets. The manager has to find out two things here- extent of deviation and cause of deviation. Extent of deviation means that the manager has to find out whether the deviation is positive or negative or whether the actual performance is in conformity with the planned performance.

The managers have to exercise control by exception. He has to find out those deviations which are critical and important for business. Minor deviations have to be ignored. Major deviations like replacement of machinery, appointment of workers, quality of raw material, rate of profit, etc. should be looked upon consciously.	Therefore it is said, "If a manager controls everything, he ends up controlling nothing." For example, if stationery charges increase by a minor 5 to 10%, it can be called as a minor deviation. On the other hand, if monthly production decreases continuously, it is called as major deviation.

Once the deviation is identified, a manager has to think about various cause which has led to deviation. The causes can be-

Erroneous planning,	Co-ordination loosens,
Implementation of plans is defective, and	Supervision and communication is ineffective, etc.

4. **Taking remedial actions-** Once the causes and extent of deviations are known, the manager has to detect those errors and take remedial measures for it. There are two alternatives here-

Taking corrective measures for deviations	After taking the corrective measures, if the actual performance is not in conformity with plans, the manager can revise the targets. It is here the controlling process comes to an

which have occurred; and	end. Follow up is an important step because it is only through taking corrective measures, a manager can exercise controlling.

CONCLUSION

Henri Fayola developed his ideas regarding the functions of management and his theory has largely shaped the current understanding of the core elements any management would have to perform. The functions are key to management in all levels, from the entry positions to higher roles of management.

Furthermore, each five functions – planning, organizing, staffing, directing and controlling – are linked to each other. In order to use one function, you typically need to follow with another or have established one beforehand. While certain theorists and experts might disagree whether there are three, four, five or six functions, the consensus agrees on the detailed representations of the above skills, processes and structures.	The question is often more about how broadly you want to define each function. If one of the functions is missing, management is operating insufficiently and the organizational efficiency might suffer. A good manager has to be able to keep an eye on all of the five functions, often at the same time, to guarantee productivity and profitability.
The functions of management are crucial to understand if you want to succeed as a manager. Knowing the above will guide you as a manager to focus on the right aspects when doing the job and give you confidence in your ability. It also helps provide more clarity in terms of the skills and characteristics you need to possess to be a good manager.	By studying the above, you have hopefully identified the areas you need to develop and gain more knowledge. While your management style might differ from someone else's style, the above functions will be necessary in order for you to do a good job as a manager. Since management is a crucial part of any organization, emphasis and proper understanding of the above functions will boost the company's operational efficiency and therefore, its chances of success.

LESSON ROUND UP

Management is a process containing a human element and makes most efficient use of resources through and with people.	Management is a Process that comprises of four key functions, viz., Planning, Organizing, Directing and Controlling.
Be it home, business, educational, charitable and religious and other non-profit institutions, management is a must for all activities and organizations, and therefore, it is all pervasive.	At the beginning of the last century (1916), the French engineer Henri Fayola shelled out the first ever 14 principles of 'classical management theory' formally. While developing fourteen principles of management, Fayola also defined the five core functions of management.
The first and foremost managerial function is 'planning'. Planning means looking ahead and chalking out future courses of action to be followed.	Organizing is the function of the management which follows the first function of management i.e. planning. It is a function which brings together human, physical and financial resources of the organization.
The managerial function of staffing involves manning the organization structure through proper and effective recruitment, selection, appraisal and development of the personnel to fill the roles assigned to the employers/workforce.	In field of management, direction is said to be all those activities which are designed to encourage the subordinates to work effectively and efficiently.
Controlling measures the deviation of actual performance from the standard performance, discovers the causes of such deviations and helps in taking corrective actions.	

SELF TEST QUESTIONS

1. Define management.	2. Discuss features of management.
3. Discuss functions of management in detail.	4. Define planning and its steps.
5. Why is organizing essential?	6. Discuss nature of staffing.
7. Define directing and its characteristics.	8. Discuss scope of directing.
9. Define controlling and its features.	10. Elaborate control process.

Chapter 12 Introduction to Strategic Management

LESSON OUTLINE

Strategic Management: An Overview- Meaning & Process;	Strategic Leadership;
Functions and Importance for Professionals Like Company Secretaries;	Environmental Influences of Business
Components of Business	Environment
Factors of Micro & Macro Environment of Business;	Competitive Environment
Porter's Five Force Model	LESSON ROUND UP
SELF TEST QUESTIONS	

STRATEGIC MANAGEMENT

MEANING

Strategic Management is a discipline that deals with long-term development of an organization with a clear-cut vision about organizational purpose, scope of activities and objectives.

Chandler describes strategic management as the "determination of the basic long-term goals and objectives of an enterprise and adoption of course of action and allocation of resources necessary to carry out these goals."	As per Gluck "That set of decisions and actions which leads to the development of an effective strategy or strategies to help achieve corporate objectives.
According to Paine and Names, "Strategic management involves the decision-making and the activities in an organization which (1) have wider ramify captions, (2) have a long time perspective, and (3) use critical resources towards perceived opportunities or threats in a changing environment."	Ham brick and Chen, "Strategic management is the formulation and implementation of the major goals and initiatives taken by a company's top management on behalf of owners, based on consideration of resources and an assessment of the internal and external environments in which the organization competes."
Therefore, it can be understood from the analysis of above definitions that strategic management provides overall direction to the organization and includes specifying the organization's objectives, developing policies and plans designed to accomplish these objectives, allocating resources to for the implementation of such plans.	Michael Porter identifies as three principles underlying strategy: creating a "unique and valuable [market] position", making trade-offs by choosing "what not to do", and creating "fit" by aligning company activities with one another to support the chosen strategy.

Process

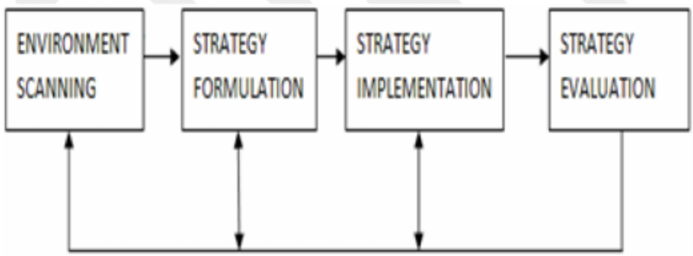
The strategic management process is defined as the process by which the managers'/decision makers' are able to make a choice of a set of strategies for the organization that will enable it to accomplish improved performance.	Strategic management is not a static but continuous process as it involves continuous appraisal of the micro and macro environment surrounding the organization and choosing between alternatives that meet the objectives and thereafter re-assessment of such strategy. The strategic management consists of different phases, which are sequential in nature.

Four Phases of Strategic management process

There are four indispensable phases of every strategic management process. In diverse companies these phases may have altered nomenclatures and different sequences, nevertheless, the fundamental substance remains same. The four phases can be listed as below.

Environmental Scanning- The Board of Directors and the top management will have to review the current performance of the documented. In view of the reeve We, the organization will have to scan the internal environment for the strengths and weaknesses and the external environment for opportunities and threats. The internal and external scan helps in selecting the strategic factors. These have to be reviewed and redefined in relation to the mission and objectives. All the organizations have missions that define the significance of their existence.	**Strategy Formulation-** Strategy formulation is the process of deciding about the best course of action for accomplishing organizational objectives and therefore, attaining organizational purpose. After conducting environment scanning, managers formulate corporate, business and functional strategies.
Strategy Implementation- Strategy implementation implies putting the chosen strategy into action. Strategy implementation includes designing the organization's structure, distributing resources, developing decision making process, and managing the human resources.	**Strategy Evaluation-** Strategy evaluation is the final step of strategy management process. The key strategy evaluation activities are: appraising internal and external factors that are the root of present strategies, measuring performance, and taking remedial/corrective actions. Evaluation ascertains that the organizational strategy as well as its implementation is in line with the organizational objectives.

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



Components of Strategic Management Process

Strategic Leadership

As per May, "Strategic Leadership is the ability to influence others to voluntarily make decisions that enhance the prospects for the organization's long-term success while maintaining long-term financial stability. Different leadership approaches impact the vision and direction of growth and the potential success of an organization. To successfully deal with change, all executives need the skills and tools for both strategy formulation and implementation."	Strategic leadership refers to a manager's potential to articulate the strategic vision for the organization, and to motivate, guide and influence his subordinates to attain the objectives of that vision. Strategic leadership can also be defined as utilizing strategy in the management of employees. It is the ability to influence organizational members and to accomplish organizational change. Strategic leaders generate organizational structure, assign resources and communicate strategic vision. Strategic leaders have to work in an uncertain environment on various strategic issues.

The main purpose of strategic leadership is strategic productivity. Another aim of strategic leadership is to generate

an environment in which employees match the organization's needs in context of their individual job. Strategic leaders instill confidence to the employees in an organization to follow their own ideas, yet, moving in the direction of organization's overall goals. Strategic leaders make better use of reward and incentive system for encouraging productive and quality employees. Functional strategic leadership is about creativity, resourcefulness, and preparing to assist an individual in realizing his objectives and goals.

Functions and Importance of a Strategic Leader

Following are the nine key strategic leadership roles and brief definitions of each.

Navigator – Clearly and quickly works through the complexity of key issues, problems and opportunities to affect actions (e.g., leverage opportunities and resolve issues).	**Strategist –** Develops a long-range course of action or set of goals to align with the organization's vision.
Entrepreneur – Identifies and exploits opportunities for new products, services, and markets.	**Mobilizer –** Proactively builds and aligns stakeholders, capabilities, and resources for getting things done quickly and achieving complex objectives.
Talent Advocate – Attracts, develops, and retains talent to ensure that people with the right skills and motivations to meet business needs are in the right place at the right time.	**Captivator –** Builds passion and commitment toward a common goal.
Global Thinker – Integrates information from all sources to develop a well-informed, diverse perspective that can be used to optimize organizational performance.	**Change Driver –** Creates an environment that embraces change; makes change happen – even if the change is radical – and helps others to accept new ideas.
Enterprise Guardian – Ensures shareholder value through courageous decision-making that supports enterprise – or unit-wide interests.	

These nine roles are important at senior strategic levels because they help leaders understand what to do to be strategic. They address the broader challenges leaders face as they transition from managing more narrowly focused "silos, "to taking on the challenges of more enterprise-wide leadership.

STRATEGIC MANAGEMENT: Functions and Importance for Professionals Like Company Secretaries

A lot has changed since the passage of Indian Companies Act, 2013. A Company Secretary is no more a 'Glorified Clerk' now rather he is a Key Managerial Personnel and plays a pivotal role in ensuring best governance practices of the corporate world.

In order to ensure that every activity of the business organization are conducted in a manner not harmful to the interests of the stakeholders, i.e. shareholders, employees, suppliers, government agencies etc. it is essential that a Company Secretary work as a strategist and not as a simple knowledge worker.	He is required to contemplate the future changes in the political, economic, social, technological and legal environment and its impact on the industry as well as the company per se. Further, the job of a company secretary is a balancing act, meaning that on the one hand he needs to take care of almost all the aspects of corporate affairs, i.e. acting as a mediator between the board and the shareholders, communicating with the outside world on various corporate issues, conducting of meetings and proper maintenance of its records etc.
On the other hand, he needs to take care of a bigger but extremely important aspect, in absence of which, it may exert a debilitating impact on the business, i.e. Corporate Governance. At times, while performing his duties, he may ND himself at a crossroad or a dilemma, where he need to choose between the two, i.e. what is good for the company and what is ethically correct.	Due to higher degree of association with business matters, now a company secretary's platter is full of various tasks. For instance they interact with the top management on a continuous basis to apprise them of the latest developments taking place in the capital market, corporate laws, securities laws and their impact on the organization and also communicating with different external agencies and regulatory authorities, thereby enlarging their role in the organization.
Further, a company secretary has to take care of the following critical facets of the business, i.e. Risk	Thus, from the above discussion it is clear that the role of a Company Secretary encompasses almost all the

management, assessing the sustainability of an organization, contribution towards corporate vision and mission, assessment of the magnitude of business competition, guiding the company on the path of corporate social responsibility etc. have enhanced the sign cancel of a company secretary manifold.	functions which a top management official needs to perform and in view of this, strategic management is of paramount significance for a company secretary. The ensuing paragraph makes an attempt to comprehend how a company secretary is also a part and parcel of strategic management.

A company secretary in today's era while discharging his or her professional obligations has to perform several key roles which are also integral components of strategic management. A brief discussion on some of the roles is as follows:

Advisory: As an advisor to the Board Members, the Company Secretary must build a good relationship with them provide impartial or unbiased advice which is in the best interest of the company. He is required to offer necessary assistance to the Chairman with all development processes including board evaluation, induction and training. This involves implementation of a rigorous plan for the assessment of the performance of Directors and taking requisite measures based on the review report. Further, the company secretary should take the lead in developing tailored induction plans for new directors and devising a training plan for individual directors and the Board. Although these tasks are ultimately the responsibility of the chairman, the company secretary can add value by fulfilling, or procuring the fulfillment of, these best practice governance requirements on behalf of the chairman.	***Communication with Stakeholders***: The company secretary is a distinctive interface between the Board and management and as such they act as an important link between the Board and the business. Through effective communication they can coach management to understanding the expectations of, and value brought by the Board. The company secretary also has an important role in communicating with external stakeholders, such as investors, and is often the first point of contact for queries. The company secretary should work closely with the chairman and the Board to ensure that effective shareholder relations are maintained.
Flawless Disclosure and Reporting: In recent years there has been increased emphasis in the quality of corporate governance reporting and calls for increased transparency. The company secretary usually has responsibility for drafting the governance section of the company's annual report and ensuring that all reports are made available to shareholders according to the relevant regulatory or listing requirements.	***Management of Board Meetings and Committees:*** The company secretary plays a leading role in good governance by helping the Board and its committees function effectively and in accordance with their terms of reference and best practice. Providing support goes beyond scheduling meetings to proactively managing the agenda and ensuring the presentation of high quality up-to-date information in advance of meetings. This should enable directors to contribute fully in board discussions and debate and to enhance the capability of the Board for good decision making. Following meetings the company secretary should pursue and manage follow up actions and report on matters arising.
Compliances: In current scenario a business has to adhere to various laws and regulations failing which may invite various legal hassles. A company secretary is required to ensure compliance with various laws and regulations and for doing so he / she should be conversant with the laws as well as the amendments that take place. For instance, in Indian context a company secretary has to ensure compliance of the following laws but not limited to- Companies Act; SEBI Act, Securities Contracts (Regulation) Act and rules and regulations made there under; Foreign Exchange Management Act; Consumer Protection Act; Depositories Act; Environment and Pollution Control Laws; Labor and Industrial Laws etc.	***Representation***: A Company Secretary has to represent before various tribunals and courts in order to present the legal issue of the company. In India, a company secretary appears before the following legal bodies- National Company Law Tribunal (NCLT); National Company Law Appellate Tribunal (NCLAT); Competition Commission of India (CCI); Registrar of Companies; Tax Tribunals etc.

Conclusion

World over, several committees and task forces have strongly advocated for corporate governance viz. Kumar Mandala Birla Committee, Narayan Murthy Committee,	The company secretary being an important human

Cadbury Committee etc. Some of the corporate governance practices would include independent oversight of management and accounts of the company, fair and equitable treatment for all the shareholders of the company, fair voting processes conducted by the company, prohibition of insider trading and abusive self-dealing, open and efficient markets, timely and effective disclosure of financial and operating results to the stakeholders of the company, foreseeable risk factors and matters related to corporate governance and regulation and legal recourse if principles of fair dealing are violated.	capital of the management of the business organization should put all the efforts to ensure that through his roles the corporate governance prevails and the business is able to attain astral heights.

However, to be an effective player of strategic management, a company secretary needs to embrace the following core competencies:

Possessing a thorough knowledge of the company's business.	Sound knowledge of laws relating to company, capital markets, industry related etc.
Must have strong Communication and Professional Skills; Legal Skills; Management Skills and IT	Skills.
Being intuitive and sensitive to the thoughts and feelings of board directors and the CEO.	Staying current with changes in corporate governance and giving the board and managers a "heads up" about new developments.
Being able to work and achieve a consensus within multidisciplinary settings.	Being flexible, creative and detailed.
Remaining calm under pressure and not losing sight of perspective	

Environmental In fences of Business

The term environment in context of business refers to all external forces or factors having a direct or indirect bearing on events related to functioning of business. Business helps a country to accomplish economic growth, generates employment opportunities and makes available various types of goods and services for human consumption. A business organization does not exist in a vacuum but has to take into account external and internal environment.

Business environment may offer opportunities for any firm or pose threats to the firm. A business firm is also affected by a number of internal factors, which are forces inside the business organization. While the policy makers and the managers on the top are concerned with the external environment, the middle level and lower level management are more concerned with the internal environment.	According to Keith Davis, "Business environment is aggregate of all conditions, events and influences that surround and affect the business".
Bayard O. Wheeler defines business environment as "the total of all the things, external to a business firm, which affect the organization and its operations".	As per Arthur M. Weimer, "Business environment encompasses the climate or set of conditions- economic, social, political, or institutional- in which business is conducted".
Therefore, business environment may be defined as: "The sum total of all individuals, institutions and other forces that are outside the control of a business enterprise but the business still depends upon them as they affect the overall performance and sustainability of the business."	The forces which compose the business environment are its suppliers, competitors, consumers, government, bankers, customers, economic conditions, market conditions, investors, technologies, political parties, international institutions and multiple other institutions working externally of a business constitute its business environment. These forces influence the business even though they are outside the business boundaries.
For example, changes in income tax rate by the government while announcing the budget may make the customers reduce their consumption expenditure and reduce quantity of products purchased earlier from the company. Due to this macro level change, the business will need to re-work with its pricing policy to adapt to the tax rate change. Here, even though the business had no participation in initiating the tax rate change, still had to adapt to this change by re-working its pricing policy to maintain its previous profits.	

Importance of Environmental Study

The bean test of studying business environment are as follows:

Development of strategies and long-term policies and objectives of the firm.	Development of action plans to deal with changes in environment.
To forecast the consequences of socio-economic changes at the national and global levels on the company's stability.	Analysis of competitor's strategies and formulation of effectual countermeasures.
To keep the business dynamic and up-to-date.	

Characteristics and Components of Business Environment

The various components of business environment are –

External Environment	Internal Environment

EXTERNAL ENVIRONMENT

External environment consists of all those factors that affect a business enterprise from outside its boundaries. It consists of shareholders, legal, competitors, customers, society, government rules and regulations, policies and technology etc. These are uncontrollable factors and rams have to adapt to the components of this environment.	External environment is can be sub-divided into micro environment and macro environment. Different players in the micro environment normally do not affect all firms of a particular industry equally. However, sometimes micro environment of the various businesses may remain more or less same.

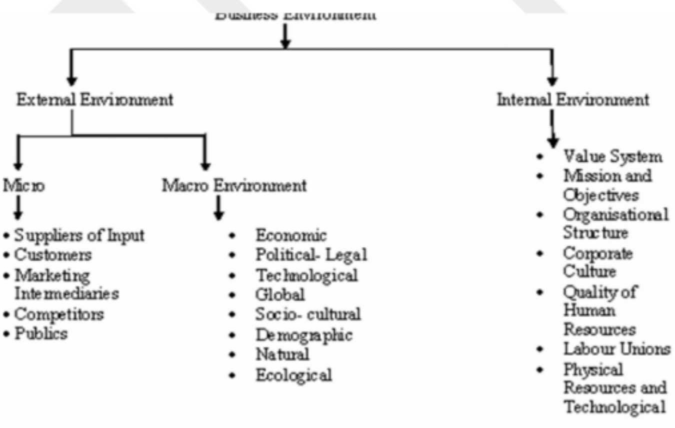


Fig: Components of Business Environment

A. External Micro- Environment

"The micro environment consists of factors in the company's immediate environment". Micro environment includes those players whose decisions and actions have a direct bearing on the company. Production and sale of goods are the two important aspects of modern business. The various constituents of micro environment are as under:

Suppliers of inputs: These supply of resources (finances, raw materials, fuel, power	**Customers:** The people who buy and use products and

and other factors of production) and pave the way for smooth conduct of the business. Firms should keep themselves updated about the policies of suppliers as rise in the cost of inputs will Influence their sales volume and profitability. The scarcity of inputs also have a bearing on the production schedules. For smooth production and sales, the business should have more than one supplier in their list to have an unhampered production schedules.	services of business and are an important part of external micro environment. A business may have diverse customers such as households, producers, retailers, Government and foreign buyers on its portfolio. Since sales of a product or service is critical for a firm's survival and growth, it is necessary to keep the customers satisfied.
Marketing intermediaries: In the firm's external micro environment, marketing intermediaries play an essential role of selling and distributing its products to the final customers. They are the physical distribution firms (transport firm), service agencies (media firms), financial intermediaries (banks, insurance companies) etc. that assist in production, marketing and insurance of the goods against loss of theft, fire etc. Business has to maintain healthy relations with them to carry their activities smoothly. All these factors are largely controllable by the firms but they operate in the larger macro environment beyond their control.	**Competitors:** Different firms in an industry compete with each other for sale of their products. This competition may be on the basis of pricing of their products and also non- price competition through competitive advertising such as sponsoring some events to promote the sale of different varieties and models of their products. They constantly watch competitors' policies and adjust their policies to gain customer confidence.

Public: Finally, publics are an important force in external micro environment. Public, according to Philip Kotler, "is any group that has an actual or potential interest in or impact on the company's ability to achieve its objective." A public is any group that has an actual or potential interest in or impact on an organization's ability to achieve its interest. Environmentalists, media groups, women's associations, consumer protection groups, local groups, citizens association are some important examples of publics which have an important bearing on the business decisions of the firm. Companies observe the behavior of these groups to make functional policies.

B. External Macro Environment

Apart from micro environment, business firms also come across some other external environmental forces which are beyond their control and operate at macro level. Because of the uncontrollable nature of such macro forces, a firm has to adjust or adapt itself to harness the opportunities thrown by such forces and mitigate the threats. These factors are:

1. Economic Environment: Economic environment includes all those forces which have an economic impact on business. Accordingly, total economic environment consists of agriculture, industrial production, infrastructure, and planning, basic economic philosophy, stages of economic development, trade cycles, national income, per capita income, savings, money supply, price level, fiscal and monetary policies and population.

The economic environment has definitely an impact on the activities of business enterprises. In the capitalist economies, the economic decisions concerning investment, production and sale are driven by profit motives. While in socialist economies, such decisions are taken by the public sector and driven by social welfare motive rather than profit maximization. In a mixed economy, public and private sectors have a co-existence and they may individually or jointly own the factors of production.	Choice of alternatives regarding allocation of resources such as what to produce, how to produce and for whom to produce; nature of technology and the techniques of production, timing of production etc. will be different in capitalist, social and mixed economies, therefore, the business firm has to keep in mind the economic environment in which it operates.

2. Political-legal Environment: The political- legal environment includes the activities of three political institutions, namely, legislature, executive and judiciary which usually play a useful role in shaping, directing, developing and controlling business activities. In order to attain a meaningful business growth, a stable and dynamic political-legal environment is very important. Legal environment is also significant for functioning of the business as various laws are in force to regulate the operations of the business enterprises. They relate to standard of products, packaging, protection of environment and ecological balance, ban on advertisement of (alcohol and medicines), advertisement of certain products with statutory warning (cigarette) etc. Laws also exist to prevent restrictive trade practices (RTP) and monopoly.

3. Technological Environment:	**4. Global or International Environment:**
Technology implies systematic application of scientific or other organized knowledge to practical tasks or activities. It includes innovations too. As technology is changing fast, businessmen should keep a close look on those technological changes for its adaptation in their business activities. Not adopting technological changes and imitating innovation is not possible as technical threats from external environment have to be converted into opportunities and gainfully employed in business operations.	The Global environment or 'borderless world' plays an important role in shaping business activity. With the liberalization and globalization of the Indian economy in 1991, there have been significant economic and political changes and increasing role for the private sector to play since then. The global business environment is radically affected by the principles and agreements of World Trade Organization (WTO) as it keeps a watch and regulates the business transacted in the international environment.

5. Socio-cultural Environment: The social environment consists of the social values; concern for social problems like protection of environment against pollution, providing employment opportunities, health care for the aged and old etc.; consumerism (indulging in fair trade practices) to satisfy human wants.

The cultural environment represents values and beliefs, norms and ethics of the society. The buying habits, buying capacities, tastes, preferences and many other factors are dependent on the cultural environment. For example, in India, beef is not eaten by a majority of people as it is not part of their culture. Similarly, white wedding dress is very less preferred in Hindu weddings.	Therefore, business has to offer socially acceptable goods to maintain its positive business image and survive competition. Every business has to keep in mind that the business operations successfully meet the ethical and value system of the society and if not, making necessary changes?

6. Demographic environment:	**7. Natural Environment:**
The demographic environment includes the gender ratio, size and growth of population, life expectancy of the people, rural-urban distribution of population, the technological skills and educational levels, language skills of labor force. All these demographic features have an important bearing on the functioning of business firms. For example, huge populated countries such as Indian and China can adopt labor-intensive technologies than capital intensive ones to give employment to its labor force. Similarly, the population of kids will decide product range and space for such products to be offered in a mall while planning logistics.	The natural environment is the ultimate source of many inputs such as raw materials and energy, which firms use in their productive activity. The natural environment which includes geographical and ecological factors such as minerals and oil reserves, water and forest resources, weather and climatic conditions and port facilities are all highly significant for various business activities. For example, steel producing industries are set up near the coal mines to save cost of transportation to distant locations. The natural environment also affects the demand for goods. For example, places with hot temperatures will have high demand for air conditioners. Areas which are highly polluted will have more scope of selling air-pure errs. Similarly, weather and climatic conditions influence the demand pattern for clothing, building materials for housing etc. Natural calamities like floods, droughts, earthquake etc. are devastating for business activities.

8. Ecological environment:

Though natural resources such as air, water and solar energy can be replenished, yet, business organization are polluting these resources by dumping chemical industrial wastes in water and affecting the ozone layer. The environment damage to water, earth and air caused by industrial activity of mankind is harmful for future generations. Business enterprises should understand their social responsibility and use these resources meticulously. Legislative measures are also brought in by the Government (Pollution Control Board) to protect the natural environment. Even, as a part of self-accountability, the renewable resources should be used wisely so that rate of consumption does not exceed the rate of replenishment.

INTERNAL ENVIRONMENT

Survival and growth of a business depends upon its strengths and adaptability to the external environment. The internal strengths represent its internal environment. These consist of financial, physical, human and technological resources. The factors in internal environment of business are to a certain extent controllable because the firm can change or modify these factors to improve its efficiency. However, the firm may not be able to transform all the factors. The various internal factors are:

1. Value system: The value system of an organization means the ethical beliefs that guide the organization in achieving its mission and objectives. The value system of a business organization also determines its behavior towards its employees, customers and society at large. The value system of a business organization makes an important contribution to its success and its prestige in the world of business.

For instance, the value system of J.R.D. Tata, the founder of Tata group of industries, was its self-imposed moral obligation to adopt morally just and fair business policies and practices which promote the interests of consumers, employees, shareholders and society at large. This value system of J.R.D. Tata was voluntarily incorporated in the articles of association of TISCO, a premier Tata company.	Infosys Technologies which won the first national corporate governance award in 1999 attributes its success to its high value system which guides its corporate culture. To quote one of its reports, "our corporate culture is to achieve our objectives in environment of fairness, honesty, transparency and courtesy towards our customers, employees, vendors and society at large" Thus value system of a business firm has an important bearing on its corporate culture and determines its behavior towards its employees, shareholders and society as a whole.

2. Mission and objectives: The business domain of the company, direction of development, business philosophy, business policy etc. are guided by the mission and objectives of the company. The objective of all firms is assumed to be maximization of profit. Mission is defined as the overall purpose or reason for its existence which guides and influences its business decision and economic activities.

The Mission, vision and values of Reliance are as under:

a. Mission

To provide the best and most value-adding advice within investor relations, financial communications, media relations, crisis communications, issues management and CSR reporting	To be an independent sparring-partner and to provide excellent advice for our clients in connection with IPOs, ECM and M&A transactions, corporate governance-related issues as well as in connection with preparations of contingency communications plans regarding public takeovers
Reliance's activities shall be of benefit for both our clients, collaboration partners, employees and shareholders	

b. Vision

To be our clients' 'first call' and preferred collaboration partner within our business areas	To consistently exceed our clients' expectations for professional and value-adding advice
Our objective is long-standing and trustful client relationships created via excellent advice and service	

c. Values

Reliance is governed by our fundamental values:

Quality: We do not compromise – we have a passion for the best quality	Innovation: We are innovative and wish to enthuse our clients
3. Organization structure: The organizational structure, the composition of the board of directors, the professionalism of management etc. are important factors influencing business decisions. An efficient working of a business organization requires	**4. Corporate culture:** Corporate culture and style of functioning of top managers is important factor for determining the internal environment of a company. Corporate culture is an important factor for determining the internal environment of any company. In a closed and threatening type of corporate culture the business decisions are

that the organization structure should be conducive for quick decision-making. The board of directors is the highest decision making body in a business organization. For efficient and transparent working of the board of directors in India it has been suggested that the number of independent directors be increased.	taken by top level managers while the middle level and lower level managers have no say in business decision making. This leads to lack of trust and confidence among subordinate officials of the company. In an open and participating culture, business decisions are taken by the lower level managers and top management has a high degree of confidence in the subordinates. Free communication between the top level management and lower-level managers is the rule in this open and participatory type of corporate culture.

5. Quality of human resources: Quality of employees that is of human resources of a firm is an important factor of internal environment of a firm. The characteristics of the human resources like skill, quality, capabilities, attitude and commitment of its employees etc. could contribute to the strength and weaknesses of an organization. It is difficult for the top management to deal directly with all the employees of the business firm. Therefore, for efficient management of human resources, employees are divided into different groups. The manager may pay little attention to the technical details of the job done by a group and encourage group cooperation in the interests of a company.	**6. Labor unions:** Labor unions collectively bargains with the managers for better wages and better working conditions of the different categories of workers etc. For the smooth working of a business firm good relations between management and labor unions is required.

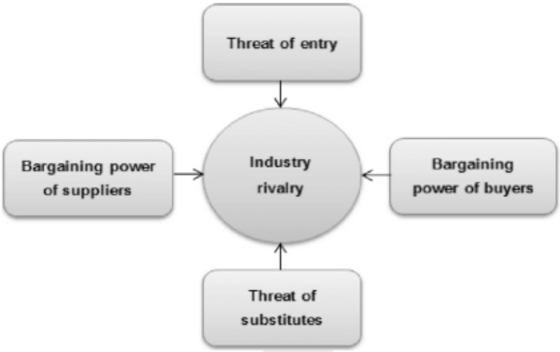
7. Physical resources and technological capabilities: Physical resources such as plant and equipment and technological capabilities of a firm determine its competitive strength which is an important factor for determining its efficiency and unit cost of production. Research and development capabilities of a company determine its ability to introduce innovations which enhances productivity of workers.

PORTER'S FIVE FORCES

Definition

The tool was created by Harvard Business School professor Michael Porter. Porter's five forces model is an analysis tool that uses five industry forces to determine the intensity of competition in an industry and its profitability level. Since its publication in 1979, it has turned into one of the most popular and highly regarded business strategy tools.	Porter was of the firm viewpoint that the organizations should keep a close watch on their rivals, but he also encouraged them to go beyond the boundaries of their competitors and make an assessment of other factors impacting the business environment. In this process, he identified five forces that build competitive environment, and have a take away its profitability.

The five forces identified are:



These five forces establish an industry structure and the level of competition in that industry. The stronger the competitive forces are in the industry, the less profitable it becomes ultimately. An industry with low barriers to enter, having not many buyers and suppliers but many substitute products and competitors will be viewed as highly competitive and thus, lesser attractive due to its low profitability.

It is every strategic leader's job to make an assessment of company's competitive position in the industry and to identify its strengths or weaknesses to make stronger that position. The model is very valuable in formulating firm's strategy as it reveals the strength of each of these five key forces.

- **Threat of new entrants:** This force determines the ease of new entrants to enter a particular industry. If an industry is profitable and there are hardly any barriers to enter, competition intensifies rapidly. Therefore, with the entry of more rivals, firms begin to compete for the fixed market share, profits start to decline. Hence, it is critical for existing organizations in the industry to build high barriers to enter to discourage new entrants. Threat of new entrants is high when:

Smaller capital is required to make an entry;	Existing companies are not influential/dominant to prevent new entrants;
Existing firms do not have patents, trademarks or do not strong brand value;	There is no/little government regulation;
Customer switching costs are low;	There is low customer loyalty;
Products are not being able to be differentiated; and	Economies of scale can be effortlessly acquired.

- **Bargaining power of suppliers:** This is determined by the power of the suppliers to raise their prices. It is also determined by the volume of potential suppliers in case existing supplier increase the price. Bargaining power will also be lower in case suppliers are not supplying identical product/service but a unique one. And the cost of switching from one supplier to another. Suppliers have dominant bargaining power when:

There are a small number of suppliers but plenty of buyers;	Suppliers are large in number and pose a threat to forward integrate;
There are not many substitutes of raw materials;	Suppliers hold scarce/unique resources;
Cost of switching supplier is relatively high.	

- **Bargaining power of buyers:** Bargaining power of the buyers would depend on the number of the buyers and the volume of their order. It would also be a product of the cost of switching from company's products and services to products/services of the competitors. Buyers exert strong bargaining power when:

They buy in high volumes or control many access points to the final customer;	There are only few buyers in the market;
Switching costs to competitors are low;	They threaten to backward integrate;
There are many close substitutes;	Buyers are price sensitive.

- **Threat of substitutes:** This force is especially threatening when buyers can easily find substitute products with attractive prices or better quality and when buyers can switch from one product or service to another with little cost. For example, if a company supplies a unique software product that automates data related to human resource records, the buyer/client may substitute the software either by making the process manual or outsourcing it.
- **Rivalry among existing competitors:** it refers to the number and strength of competitors in the industry. How does the quality of their products and services compare with the company? Where rivalry is intense, companies can attract customers with aggressive price cuts and high-impact marketing campaigns. On the other hand, where competitive rivalry is minimal, and the product is differentiated, there will be high monopoly and steady profits for the company. This force is the major determinant on how competitive and profitable an industry is. In competitive industry, firms have to compete aggressively for a market share, which results in low profit. Rivalry among competitors is intense when:

There are several competitors;	Exit barriers are high;
Industry of growth is slow or negative;	Products are not differentiated
Products can be easily substituted;	Low customer loyalty.

Although, Porter originally introduced five forces affecting an industry, scholars have suggested including the sixth force: complements. Complements increase the demand of the primary product with which they are used, thus, increasing firms and industry's profit potential. For example, Amazon Prime complements Amazon and Jiu TV complements Jiu telecom business. As a result, the sale of both products shot up as compared to competitors.

Implementing the model

The following steps are to be followed to implement the Porter's Model:

Step 1. Gather the information on each of the five forces	Step 2. Analyze the results and display them on a diagram
Step 3. Formulate strategies based on the conclusions	

Step 1. Gather the information on each of the vet forces. What managers should do during this step is to gather information about their industry and to check it against each of the factors (such as "number of competitors in the industry") in fencing the force. We have already identified the most important factors in the table below.

Porter's Five Forces Factors

Threat of new entry

Amount of capital required	Retaliation by existing companies
Legal barriers (patents, copyrights, etc.)	Brand reputation
Product differentiation	Access to suppliers and distributors
Economies of scale	Sunk costs
Government regulation	

Supplier power

Number of suppliers	Suppliers' size
Ability to find substitute materials	Materials scarcity
Cost of switching to alternative materials	Threat of integrating forward

Buyer power

Number of buyers	Size of buyers
Size of each order	Buyers' cost of switching suppliers
There are many substitutes	Price sensitivity
Threat of integrating backward	

Threat of substitutes

Number of substitutes	Performance of substitutes	Cost of changing

Rivalry among existing competitors

Number of competitors	Cost of leaving an industry
Industry growth rate and size	Product differentiation
Competitors' size	Customer loyalty
Threat of horizontal integration	Level of advertising expense

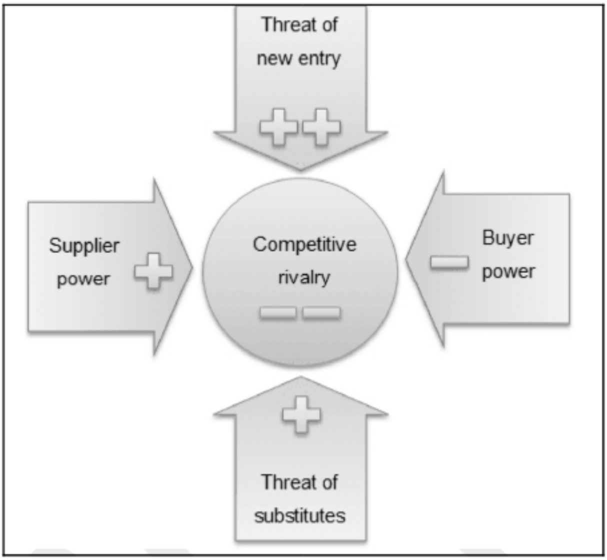
Step 2. Analyze the results and display them on a diagram. After gathering all the information, you should analyze it and determine how each force is affecting an industry. For example, if there are many companies of equal size operating in the slow growth industry, it means that rivalry between existing companies is strong. Remember that vet forces affect different industries differently so don't use the same results of analysis for even similar industries!

Step 3. Formulate strategies based on the conclusions. At this stage, managers should formulate ram's strategies using the results of the analysis For example, if it is hard to achieve economies of scale in the market, the company should pursue cost leadership strategy. Product development strategy should be used if the current market growth is slow and the market is saturated.

Although, Porter's five forces is a valuable tool to analyze industry's structure and to formulate firm's strategy, it has its limitations and requires supplementary analysis to be done, such as SWOT, PEST or Value Chain analysis.

Example

This is Porter's five forces analysis example for an automotive industry.



Porter's Five Forces Model – Pizza Hut Case study

Pizza Hut is world famous multinational fast food chain. It is a subsidiary of Yum! Brands (a Fortune 300 company), the world's largest restaurant company. It is an American restaurant chain with more than 6,000 Pizza Hut restaurants in the United States, and more than 5,600 store locations in 94 other countries and territories around the world.	It offers a range of different styles of pizza along with other dishes such as salads, pastas, buffalo wings/potato rings, breadsticks, and garlic breads. It entered India in 1996, with its first branch in Bangalore and expanding all over thereafter, creating a large customer base for itself.

The vet force model for Pizza Hut may be drawn as under:

Competitive Rivalry (Very High)

Pizza Hut competes with some other large global pizza chains, Domino's Pizza, and Papa John. They all are similar in many respects such as deal in many countries across Globe, fast food offerings, dynein and delivery service, creating intense competition.	Ferocious price discounting and coupons by these all rivals which creates intense competition.
Except for those pizza companies, Pizza Inn competes with some small local pizza restaurants as well. They offer low price products and faster service, taking the competitive advantages of Pizza Inn.	The pizza segment is made more challenging for traditional restaurants by other close substitutions, including supermarkets, which not only sell frozen pizzas, but ready to bake pizza, and warehouse clubs sell large size pizzas.

Threat of New Entrants (Low)

Pizza chains are juggling with the side-effects of a deep	Existing competitors keep lowering prices and

recession, because of higher ingredient prices, the thin margins and elevated competition from non-traditional channels.	discounting discounts, and expanding distribution channels creating barriers to new entrants.
Existing competitors have first-mover advantages such as mature technology in specialty production, and a healthy relationship with distribution channels, therefore, second mover can hardly survive without innovation in the industry.	

Threat of Substitutes (High)

Pizza is a fast food product having plenty of substitutes.	Competition from other fast food chains such as sandwich chains, chicken fast food chains, family owned local restaurants etc.
Traditional food chains Bikani, Hadrian etc. offer customers' fast, convenient and cheap products and services that cater to Indian taste as well.	Substitutes make price elasticity high since customers have more alternatives.

Power of Customers (Medium/Low)

Being a large population fan of fast food, this makes bargaining power of customers.	Every single customer is unlikely to purchase a large quantity of product, and it's not likely that each of them contributes a large proportion of sales.
Fast food chains are in high demand in shopping centers, malls, residential areas, college campuses and offices. In addition, customers are fragmented, with no particular effect on product or price. Therefore, they will not be hurt by losing a petite amount of customers.	In the industry, customers are less sensitive to price fluctuations, which is relatively inelastic, so that providers have large price controlling power.

Power of Suppliers (Low)

The major suppliers of the fast food industry are raw material suppliers. As raw material is common and available in plenty such as flavour, cheese, vegetables, therefore, bargaining power of suppliers is low	Raw material is perishable and can't be stored for long.
The industry is labor intensive. Labor is in abundant in India.	Suppliers tend to keep a long term relationship with the concentrated purchasers.
Many big fast food chain companies are vertically integrated with the suppliers in order to maintain low costs and high quality products.	

LESSON ROUND UP

Strategic Management is a discipline that deals with long-term development of an organization with a clear-cut vision about organizational purpose, scope of activities and objectives.	The strategic management process is de Ned as the process by which the managers'/decision makers' are able to make a choice of a set of strategies for the organization that will enable it to accomplish improved performance. There are four indispensable phases of every strategic management process.
Strategic leadership refers to a manager's potential to articulate the strategic vision for the organization, and to motivate, guide and in hence his subordinates to attain the objectives of that vision.	Strategic leadership refers to a manager's potential to articulate the strategic vision for the organization, and to motivate, guide and influence his subordinates to attain the objectives of that vision.
The internal strengths represent its internal environment. These consist of financial, physical, human and technological resources.	Porter's vet forces model is an analysis tool that uses vet industry forces to determine the intensity of competition in an industry and its pro stability level.

SELF TEST QUESTIONS

1. Define strategic management.	2. Discuss four phases of strategic management process.
3. What is the concept of Strategic Leadership?	4. What are functions and importance of a Strategic Leader?
5. What are the functions and importance of strategic management for professionals like Company Secretaries?	6. What are environmental in fences of business?
7. What are components of Business Environment?	8. What are Porter's Five Forces?

Chapter 13 Business Policy and Formulation of Functional Strategy

LESSON OUTLINE

Introduction to Business Policy	Framework of Strategic Management
Strategic Decision Model	Vision
Mission	Objectives and Goals
Strategic Levels of the Organization	Formulation of Functional Strategy
Formulation of Financial; Marketing Production; Human Resource and Logistics Strategies.	LESSON ROUND UP & SELF TEST QUESTIONS

BUSINESS POLICY:

INTRODUCTION

Business policies are the guidelines developed by an organization to govern the actions of those who are a part of it. They define the potential limits within which decisions must be made.

Business policy also deals with acquisition of resources with which organizational goals can be achieved. Business Policy defines the scope within which decisions may be taken by the subordinates in an organization. It permits the lower level management to deal with the routine problems and issues on their own without reverting back to top management for the purpose of decision making.	Business policy is the study of the roles and responsibilities of top level management, significant issues affecting organizational success and the decisions affecting organization in long-run. The top management consists of those managers who are primarily responsible for long-term decisions and carry designations such as Chief Executive, President, General Manager, or Executive Director. These are the persons who are not concerned with the day-to-day problems but are expected to devote their time and energy for thinking and deciding about the future course of action.

Features of Business Policy

Business Policy is "The study of the functions and responsibilities of senior management, the crucial problems that affect success in the total enterprise and the decisions that determine the direction of the organization and shape its future. The problems of policy in business, like those of policy in public affairs, have to do with the choice of purposes, the moldings of organizational identity and character, the continuous definition of what needs to be done, and the mobilization of resources for the attainment of goals in the face of competition or adverse circumstance". An effective business policy must have following features-

Specific – Every policy must have a basic feature of being specific/definite. If it is uncertain, then its implementation will become difficult.	***Clear –*** Policy must be unambiguous and as clear as possible in order to guide the subordinates effectively. It should avoid frequent use of jargons and connotations to create any chaos.
Reliable and Uniform – Policy must be uniform and reliable enough to be efficiently followed by the subordinates.	***Appropriate –*** Policy should be appropriate to the represent the organizational goals.
Simple – A policy should be simple and easily understood by each and every person in the organization.	***Inclusive/Comprehensive –*** In order to have a wide scope, a policy must be comprehensive.
Flexible – Policy should be flexible in application. It should be wide in scope so as to ensure that the line managers use them in repetitive/routine scenarios.	***Stable –*** Policy should be stable so as to avoid the scope of any indecisiveness and uncertainty in minds of those who look into it for guidance.

Evolution of Business Policy

The origins of business policy can be traced back to the year 1911, when Harvard Business School introduced an integrative course in management aimed at the creation of general management capability. This course was based on some case studies which had been in use at the school for instructional purposes since 1908.

However, the real impetus for introducing business policy in the curriculum of business schools came with the publication of two reports in 1959. The Gordon and Howell report, sponsored by the Ford Foundation, recommended a capstone course of business policy "... which will give students an opportunity to pull together what they have learned in the separate business fields and utilize this knowledge in the analysis of complex business problems. The Pierson report, sponsored by the Carnegie Foundation and published simultaneously, made a similar recommendation.

In 1969, the American Assembly of Collegiate Schools of Business, a regulatory body for business schools, made the course of business policy a mandatory requirement for the purpose of recognition. During the last four decades, business policy has become an integral part of management curriculum. From the US, the practice of including business policy in the management curriculum spread to other parts of the world.

• Evolution Based on Managerial Practices

The development in business policy as arising from the use of planning techniques by managers. Starting from day-to-day planning in earlier times, managers tried to anticipate the future through preparation of budgets and using control systems like capital budgeting and management by objectives.

With the inability of these techniques to adequately emphasize the role of future, long-range planning came to be used. Soon, long-range planning was replaced by strategic planning, and later by strategic management: a term is currently used to describe the process of strategic decision – making. Strategic management is the theoretical framework for business policy courses today. Policy-making became the prime responsibility of erstwhile entrepreneurs who later assumed the role of senior management.

The Indian Scenario

Formal management education started in India in the late fifties and gained an impetus with the setting up of the Indian Institutes of Management (IIMs) and the Administrative Staff College of India in the early sixties. In the formative years of the IIMs, the curriculum and philosophy of management education "...were borrowed substantially from the American business schools". The IIM, Ahmedabad based its teaching methodology on the Harvard model of developing and using case studies as the major tool. With the setting up of three more IIMs at Bangalore, Calcutta and Luck now and the creation of university departments, management education has experienced an unparalleled growth in the last three decades. Different nomenclature used for the course title include, besides business policy; corporate planning, corporate strategy and planning, management policy and, lately, strategic planning or strategic management.

Importance of Business Policy

Business policy is important as a course in management curriculum and as a component of executive development programmers for middle-level managers preparing to move up to the senior management level. A study of business policy fulfils the needs of management students as well as those of middle-level managers.

To highlight the importance of business policy, we consider four areas where this course proves to be beneficial.

• From the viewpoint of the Course itself

Business policy seeks to integrate knowledge and experience gained in various functional areas of management. It enables the learner to understand and make sense of the complex interaction that takes place between different functional areas.

Business policy deals with the constraints and complexities of the real-life business. In contrast, the functional area courses are based on a structured, specialized and well-developed body of knowledge resulting from the simplification of the complexity of the overall takes and responsibilities of management.	For the development of a theoretical structure of its own, business policy cuts across the narrow functional boundaries and draws upon a variety of sources; other courses in management curriculum and from a wide variety of disciplines like economics, sociology, psychology, demography, political science, etc. In doing so, business policy offers a very broad perspective to its learners.
Business policy makes the study and practice of management more meaningful as one can view business decision-making in its proper perspective. For instance, in the context of business policy, a short-term gain for a department or a sub-unit is willingly sacrificed in the interest of the long-term benefit that may accrue to the organization as a whole.	

- **For the Understanding of Business Environment**

Regardless of the level of management where a person is, business policy creates an understanding of how policies are formulated. This helps in creating an appreciation of the complexities of the environment that the senior management faces in policy formulation.

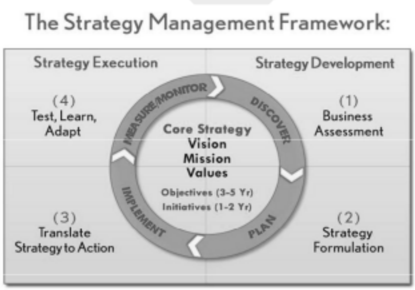
By gaining an understanding of the business environment, managers become more receptive to the ideas and suggestions of the senior management. Such an attitude on the part of managers makes the task of policy implementation simpler.	By being able to relate the environmental changes to policy changes within the organization, managers feel themselves to be a part of a greater design. This helps in reducing their feelings of isolation.

- **For Understanding the Organization**

Business policy presents a basic framework for understanding strategic decision-making while a person is at the middle level of management. Such a framework, combined with the experience gained in working in a specialized functional area, enable a person to make preparations for handling general management responsibilities. This benefits the organization in a variety of ways.

Business policy, like most other areas of management, brings to the organization and also to its managers, the benefit of years of distilled experience in strategic decision-making. Case study, which is the most common pedagogical tool in business policy, provides illustrations of real-life business strategy formulation and implementation.

FRAMEWORK OF STRATEGIC MANAGEMENT



Vision

Vision serves the purpose of stating what an organization wishes to achieve in the long run. It articulates the position that the organization would like to occupy in future. The vision is about looking forward and about formalizing where you, and the business, are going. It is a future aspiration that leads to an inspiration of being the best in one's business sphere. It creates a common identity and a shared sense of purpose.	A vision statement is a company's road map, indicating both what the company wants to become and guiding transformational initiatives by setting a defined direction for the company's growth. Vision statements undergo minimal revisions during the life of a business, unlike operational goals which may be updated from year-to-year.
A consensus does not exist on the characteristics of a "good" or "bad" vision statement.	

Features

Concise: able to be easily remembered and repeated	*Clear:* de nest a prime goal
Time horizon: defines a time horizon	*Future-oriented:* describes where the company is going rather than the current state
Stable: offers a long-term perspective and is unlikely to be impacted by market or technology changes	*Challenging:* not something that can be easily met and discarded
Abstract: general enough to encompass all of the organization's interests and strategic direction	*Inspiring:* motivates employees and is something that employees view as desirable

Purpose

Vision statements may fill the following functions for a company:	Serve as foundations for a broader strategic plan
Motivate existing employees and attract potential employees by clearly categorizing the company's goals and attracting like-minded individuals	Focus company efforts and facilitate the creation of core competencies by directing the company to only focus on strategic opportunities that advance the company's vision
Help companies differentiate from competitors. For example, profit is a common business goal, and vision statements typically describe how a company will become profitable rather than list profit directly as the long-term vision	

VISION STATEMENT RELIANCE

Reliance's vision is:

To be our clients' ' rest call' and preferred collaboration partner within our business areas	To consistently exceed our clients' expectations for professional and value-adding advice

VISION TATA STEEL

We aspire to be the global steel industry benchmark for Value Creation and Corporate Citizenship.

JK TYRE

VISION

- To be amongst the most admired companies in India, committed to excellence

amazon

AMAZON: Our vision is to be earth's most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online.

DISNEY: To make people happy.

GOOGLE: To organize the world's information and make it universally accessible and useful.

INSTAGRAM: Capture and Share the World's Moments.

MICROSOFT: Empower people through great software anytime, anyplace, and on any device.

HARLEY-DAVIDSON: To fulfill dreams through the experiences of motorcycling.

AVON: To be the company that best understands and satisfies the product, service and self-fulfillment Needs of women – globally.

ALZHEIMER'S ASSOCIATION: Our Vision is a world without Alzheimer's disease.

INFOSYS

We aim to be a globally respected and sustainable company

MISSION

A mission statement defines the basic reason for the existence of that organization. Such a statement reflects the corporate philosophy, identity, character, and image of an organization. It may be defined explicitly or could be deduced from the management's actions, decisions, or the chief executive's press statements.

A mission statement is a short statement of an organization's purpose, identifying the goal of its operations: what kind of product or service it provides, its primary customers or market, and its geographical region of operation.	It communicates primarily to the people who make up the organization—its members or employees—giving them a shared understanding of the organization's intended direction.
Characteristics of a 'Good' Mission Statement There are no hard and fast rules to developing a mission - what matters most is that is generally be considered to be an accurate reflection and useful summary of UH Hilo and 'speaks' to our stakeholders.	

What follows though are some general principles that we could bear-in-mind:

Make it as succinct as possible. A mission statement should be as short and snappy as	**Make it memorable.** Obviously partially linked to the above, but try to

possible - preferably brief enough to be printed on the back of a business card. The detail which underpins it should be mapped out elsewhere.	make it something that people will be able to remember the key elements of, even if not the exact wording
Make it unique to you. It's easy to fall into the 'motherhood and apple pie' trap with generic statements that could equally apply to any institution. Focus on what it is that you strive to do differently: how you achieve excellence, why you value your staff or what it is about the quality of the student experience that sets you apart from the rest.	**Make it realistic.** Remember, your mission statement is supposed to be a summary of why you exist and what you do. It is a description of the present, not a vision for the future. If it bears little or no resemblance to the organization that your staff know it will achieve little 5. Make sure it's current. Though it is not something which should be changed regularly, neither should it be set in stone.

Comparison Chart

Someone has rightly said, "**A man without eyes is blind, but a man without a vision is dead**.

Mission Statement versus Vision Statement comparison chart

	Mission statement	Vision statement
About	A Mission statement talks about HOW you will get to where you want to be. Defines the purpose and primary objectives related to your customer needs and team values.	A Vision statement outlines WHERE you want to be. Communicates both the purpose and values of your business.
Answer	It answers the question, "What do we do? What makes us different?"	It answers the question, "Where do we aim to be?"
Time	A mission statement talks about the present leading to its future.	A vision statement talks about your future.
Function	It lists the broad goals for which the organization is formed. Its prime function is internal; to define the key measure or measures of the organization's success and its prime audience is the leadership, team and stockholders.	It lists where you see yourself some years from now. It inspires you to give your best. It shapes your understanding of why you are working here.
Change	Your mission statement may change, but it should still tie back to your core values, customer needs and vision.	As your organization evolves, you might feel tempted to change your vision. However, mission or vision statements explain your organization's foundation, so change should be kept to a minimum.
Developing a statement	What do we do today? For whom do we do it? What is the benefit? In other words, Why we do what we do? What, For Whom and Why?	Where do we want to be going forward? When do we want to reach that stage? How do we want to do it?

Mission Statement versus Vision Statement comparison chart

	Mission statement	Vision statement
Features of an effective statement	Purpose and values of the organization: Who are the organization's primary "clients" (stakeholders)? What are the responsibilities of the organization towards the clients?	Clarity and lack of ambiguity: Describing a bright future (hope); Memorable and engaging expression; realistic aspirations, achievable; alignment with organizational values and culture.

State bank of India

Vision: Be the bank of choice for a transforming India.	**Mission:** Committed to providing simple, responsive and innovative financial solutions

Tesla

Mission: To accelerate the world's transition to sustainable energy.	**Vision:** To create the most compelling car company of the 21st century by driving the world's transition to electric vehicles.

Amazon

Mission: We strive to offer our customers the lowest possible prices, the best available selection, and the utmost convenience.	**Vision:** To be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online.

TED

Mission: Spread ideas.	**Vision:** We believe passionately in the power of ideas to change attitudes, lives and, ultimately, the world.

LinkedIn

Mission: To connect the world's professionals to make them more productive and successful.	**Vision:** To create economic opportunity for every member of the global workforce.

Google

Mission: To organize the world's information and make it universally accessible and useful.	**Vision:** To provide access to the world's information in one click.

Umber

Mission: Transportation as reliable as running water, everywhere for everyone.	**Vision:** Smarter transportation with fewer cars and greater access. Transportation that's safer, cheaper, and more reliable; transportation that creates more job opportunities and higher incomes for drivers.

Intel

Mission: Utilize the power of Moore's Law to bring smart, connected devices to every person on earth.	**Vision:** If it is smart and connected, it is best with Intel.

Ferrari

Mission: We build cars, symbols of Italian excellence the world over, and we do so to win on both road and track. Unique creations that fuel the Prancing Horse legend and generate a "World of Dreams and Emotions".	**Vision:** Ferrari, Italian Excellence that makes the world dream.

Toyota USA

Mission: To attract and attain customers with high-valued products and services and the most satisfying ownership experience in America.	**Vision:** To be the most successful and respected car company in America.

Samsung

Mission: Become one of the world's top five brands by 2020.	**Vision:** Inspire the world. Create the future.

Wikimedia

Mission: To empower and engage people around the world to collect and develop educational content under a free license or in the public domain, and to disseminate it effectively and globally.	**Vision:** Imagine a world in which every single human being can freely share in the sum of all knowledge. That's our commitment.

EBay

Mission: To be the world's favorite destination	**Vision:** Our vision for commerce is one that is enabled by

for discovering great value and unique selection.	people, powered by technology, and open to everyone.

Cisco

Mission: Shape the future of the Internet by creating unprecedented value and opportunity for our customers, employees, investors, and ecosystem partners.	**Vision:** Changing the way we work, live, play, and learn.

Sony

Mission: A company that inspires and fulfils your curiosity.	**Vision:** Using our unlimited passion for technology, content and services to deliver groundbreaking new excitement and entertainment, as only Sony can.

Facebook

Mission: To give people the power to build community and bring the world closer together.	**Vision:** People use Facebook to stay connected with friends and family, to discover what's going on in the world, and to share and express what matters to them.


Organizational Levels of Strategies
CORPORATE STRATEGIES
• Type of Business to compete in
• Competitive position
• Resource development
BUSINESS STRATEGIES
• How to compete in a particular market
• How to achieve competitive advantage
FUNCTIONAL STRATEGIES
• Action plans for each functional area


The Relationship among Corporate, Business, and Functional Strategies
Corporate Strategy
Business Strategy
Functional Strategy
What business(es) should we be in?
What competitive methods do we invest in to achieve competitive advantage?
What financial, marketing, operations, and other strategies will be important to implement business strategy?

Corporate Level Strategy

Corporate Strategy is the essence of strategic planning process. It determines the growth objective of the company, i.e. direction, timing, extent and pace of the firm's growth. It highlights the pattern of business moves and goals concerning strategic interest, in different business units, product lines, customer groups, etc. It define how the firm will remain sustainable in the long run.

Corporate level strategy occupies the highest level of strategic decision making and covers actions dealing with the objective of the firm, acquisition and allocation of resources and coordination of strategies of various SBUs for optimal performance.	Corporate Strategy can be explained as the management plan formulated by the highest level of organization echelon, to direct and operate the entire business organization. It alludes to the master plan that leads the firm towards the success. So the more the aptness in the degree of the corporate level strategy, the higher will be the chances of firm's success in the market.
According to Andrews: "the corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes or goals, produces the principal policies and plans for achieving those goals and define the range of business the company pursues, the kind of economic and noneconomic contribution it intends to make for its shareholders, employees, customers and communities. " (Andrews, 1997, p.245)	Johnson et al (2009), been describing corporate strategy, highlighted the choices of markets and products as a first step, and how a company is planning to operate on those markets or with particular products. They have also discussed the corporate strategy from overall scope of an organization and how value should be added to the different parts (business units) of an organization.

Business-Level Strategy

Business level strategy is – applicable in those organizations, which have different businesses-and each business is treated as Strategic Business Unit (SBU). The fundamental concept in SBU is to identify the discrete independent product / market segments served by an organization.

Since each product/market segment has a distinct environment, a SBU is created for each such segment. For example, Reliance Industries Limited operates in textile fabrics, yarns, fibers, and a variety of petrochemical products. For each product group, the nature of market in terms of customers, competition, and marketing channel differs.	Therefore, it requires different strategies for its different product groups.
Thus, where SBU concept is applied, each SBU sets	Such strategies operate within the overall strategies of

its own strategies to make the best use of its resources (its strategic advantages) given the environment it faces. At such a level, strategy is a comprehensive plan providing objectives for SBUs, allocation of resources among functional areas and coordination between them for making optimal contribution to the achievement of corporate-level objectives.

the organization. The corporate strategy sets the long-term objectives of the firm and the broad constraints and policies within which a SBU operates. The corporate level will help the SBU define its scope of operations and also limit or enhance the SBUs operations by the resources the corporate level assigns to it. There is a difference between corporate-level and business-level strategies.

For example, Andrews says that in an organization of any size or diversity, corporate strategy usually applies to the whole enterprise, while business strategy, less comprehensive, define the choice of product or service and market of individual business within the firm. In other words, business strategy relates to the 'how' and corporate strategy to the 'what'. Corporate strategy define the business in which a company will compete preferably in a way that focuses resources to convert distinctive competence into competitive advantage.'

Corporate strategy is not the sum total of business strategies of the corporation but it deals with different subject matter. While the corporation is concerned with and has impact on business strategy, the former is concerned with the shape and balancing of growth and renewal rather than in market execution.

Michael Porter (1998) has identified business-level strategies which are cost leadership, differentiation, and focus to achieve a sustainable competitive advantage. The strategy of cost leadership was common in 1970s. This strategy requires construction of efficient-scale facilities, cost reductions, control over expenses, and cost minimization etc. The low-cost strategy gives several advantages before rivals. It may be explained by the possibility to be more efficient than competitors. (Porter, 1998)

Hill and Jones (2007) have developed the curve which connects together the three issues in developing a Successful business model.

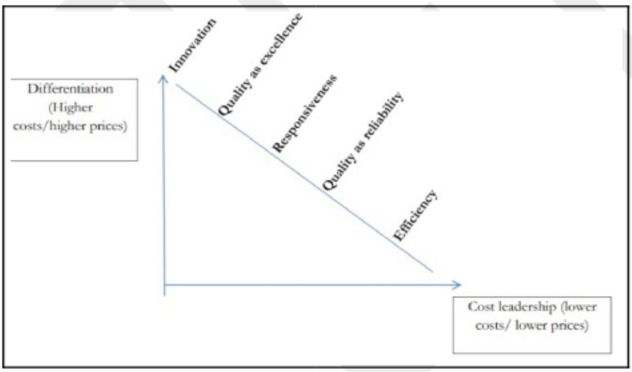


Figure 2-2 Competitive Positioning and the Value Creation Frontier (Hill and Jones, 2007, p.160)

Brown and Blackmon (2005) have defined business-unit strategy as a process of decision making at the strategic business unit (SBU) level. According to them, primarily it identifies is how SBU supports organizational goals.

Furthermore, business-unit strategy refers to aggregated strategies of single firms or SBU within one diversified End Corporation (Brown, Blackmon, 2005). While corporate strategy deals with the question in what businesses the company should compete in, business unit level strategy decides on how to compete in these particular businesses. (Beard, Dress, 1981)

Functional-Level Strategy

Functional strategy, as is suggested by the title, relates to a single functional operation and the activities involved therein. Decisions at this level within the organization are often described as tactical. Such decisions are guided and constrained by some overall strategic considerations.	Functional strategy deals with relatively restricted plan providing objectives for specific function, allocation of resources among different operations within that functional area and coordination between them for optimal contribution to the achievement of the SBU and corporate-level objectives.
Below the functional-level strategy, there may be operations level strategies as each function may be divided into several sub functions. For example, marketing strategy, a functional strategy, can be subdivided into promotion, sales, distribution, pricing strategies with each sub function strategy contributing to functional strategy.	

Comparison Chart

Basis of Comparison	Business Strategy	Corporate Strategy
Meaning	It is the strategy framed by the business managers to strengthen the overall performance of the enterprise.	It is stated in the mission statement, which explains the business type & ultimate goal of the firm.
Created By	Middle level management	Top level management
Nature	Executive & Governing	Decisive & Legislative
Relates to	Selection of plan to fulfill the objectives of the organization	Business selection in which the company should compete
Deals with	Particular business unit or division	Entire business organization
Term	Short term strategy	Long term strategy
Focus	Competing successfully in the marketplace	Maximizing profitability & business growth
Approach	Introverted	Extroverted
Major strategies	Cost leadership , focus & differentiation	Expansion , stability & retrenchment

Key Differences between Business Strategy and Corporate Strategy

The fundamental differences between corporate and business strategy are explained in the points hereunder:

Business Strategy can be viewed as the strategy designed by the business managers to improvise the overall performance of the firm. On the other hand, Corporate Strategy is the one expressed in the mission statement of the company, which describes the business type and ultimate goal of the organization.	Business Strategy is framed by middle-level management which comprises of division, unit or departmental managers. Conversely, corporate strategy is formulated by top level managers, i.e. board of directors, CEO, and managing director.
The nature of business strategy is executive and governing, whereas the corporate strategy is deterministic and legislative.	While the business strategy is a short term strategy, corporate strategy is a long term one.
The business strategies aim at selecting the business plan to fulfil the objectives of the organization. As against, the corporate strategy focuses on the business selection in which the company wants to compete in the marketplace.	Business strategy is concerned with a particular unit or division. Unlike corporate strategy which focuses on the entire organization, comprising of various business units or divisions.
The business strategy focuses on competing successfully in the market place with other firms. On the contrary, corporate strategy stresses on increasing profitability and business growth.	
Business Strategy has an introverted approach, i.e. it is concerned with the internal working of the organization. In contrast, Corporate Strategy uses	At the business level, strategies which are employed by the organization includes, Cost Leadership, Focus and Differentiation. On the other hand, at the corporate

extroverted approach, which links the business with its environment.	level, the strategies used are Expansion, Stability and Retrenchment.
The strategy is the management's plan for improving the performance of the firm and gaining a competitive advantage. At the business level, the strategies are more about developing and sustaining competitive advantage for the products offered by the enterprise. It is concerned with positioning the business against competitors, in the marketplace.	Conversely, at the corporate level, the strategy is all about formulating strategies to maximizing profitability and exploring new business opportunities.

FORMULATION OF FUNCTIONAL STRATEGY

Finance Strategy

Financial metrics have long been the standard for assessing a firm's performance. Financial goals and metrics are established based on benchmarking the "best-in-industry" and include:

1. Free Cash Flow

This is a measure of the firm's financial soundness and shows how efficiently its financial resources are being utilized to generate additional cash for future investments.	It represents the net cash available after deducting the investments and working capital increases from the firm's operating cash flow. Companies should utilize this metric when they anticipate substantial capital expenditures in the near future or follow-through for implemented projects.

2. Economic Value-Added

This is the bottom-line contribution on a risk-adjusted basis and helps management to make effective, timely decisions to expand businesses that increase the firm's economic value and to implement corrective actions in those that are destroying its value. It is determined by deducting the operating capital cost from the net income.	Companies set economic value-added goals to effectively assess their businesses' value contributions and improve the resource allocation process.

3. Asset Management

This calls for the efficient management of current assets (cash, receivables, inventory) and current liabilities (payables, accruals) turnovers and the enhanced management of its working capital and cash conversion cycle.	Companies must utilize this practice when their operating performance falls behind industry benchmarks or benchmarked companies.

4. Financing Decisions and Capital Structure

Here, financing is limited to the optimal capital structure (debt ratio or leverage), which is the level that minimizes the firm's cost of capital.	This optimal capital structure determines the firm's reserve borrowing capacity (short and long-term) and the risk of potential financial distress. Companies establish this structure when their cost of capital rises above that of direct competitors and there is a lack of new investments.

5. Profitability Ratios

This is a measure of the operational efficiency of a firm.	Companies must set profitability ratio goals

Profitability ratios also indicate inefficient areas that require corrective actions by management; they measure profit relationships with sales, total assets, and net worth.	when they need to operate more effectively and pursue improvements in their value-chain activities.

6. Growth Indices

Growth indices evaluate sales and market share growth and determine the acceptable trade-off of growth with respect to reductions in cash flows, profit margins, and returns on investment.	Growth usually drains cash and reserve borrowing funds, and sometimes, aggressive asset management is required to ensure surf client cash and limited borrowing. Companies must set growth index goals when growth rates have lagged behind the industry norms or when they have high operating leverage.

7. Risk Assessment and Management

A firm must address its key uncertainties by identifying, measuring, and controlling its existing risks in corporate governance and regulatory compliance, the likelihood of their occurrence, and their economic impact. Then, a process must be implemented to mitigate the causes and effects of those risks.	Companies must make these assessments when they anticipate greater uncertainty in their business or when there is a need to enhance their risk culture.

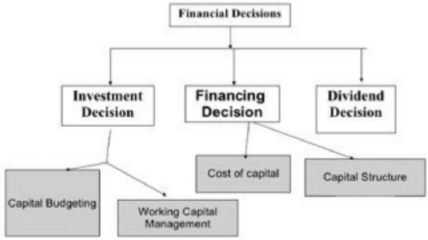
8. Tax Optimization

Many functional areas and business units need to manage the level of tax liability undertaken in conducting business and to understand that mitigating risk also reduces expected taxes. Moreover, new initiatives, acquisitions, and product development projects must be weighed against their tax implications and net after-tax contribution to the firm's value. In general, performance must, whenever possible, be measured on an after-tax basis. Global companies must adopt this measure when operating in different tax environments, where they are able to take advantage of inconsistencies in tax regulations.	The introduction of the balanced scorecard emphasized financial performance as one of the key indicators of a firm's success and helped to link strategic goals to performance and provide timely, useful information to facilitate strategic and operational control decisions. This has led to the role of finance in the strategic planning process becoming more relevant than ever.

Formulation of Finance Strategy

Strategic Financial Management (SFM): Strategic Financial Management (SFM) SFM is concerned with development of a finance strategy by identification of some key strategic alternatives which are capable of maximizing entity's Net Present Value (NPV) and by allocation of scarce capital resources among the competing opportunities. It is concerned with taking these three key financial decisions:

Financial Strategy



INVESTMENT DECISION

It is the first and foremost important component of financial strategy. In the course of business, the available finance with business is usually limited but the opportunities to invest are plenty? Hence the finance manager is required to access the profitability or return of various individual investment decisions and choose a policy which ensures high liquidity, profitable of an organization. It includes short term investment decisions known as working capital management decisions and long term investment decisions known as capital budgeting decisions.

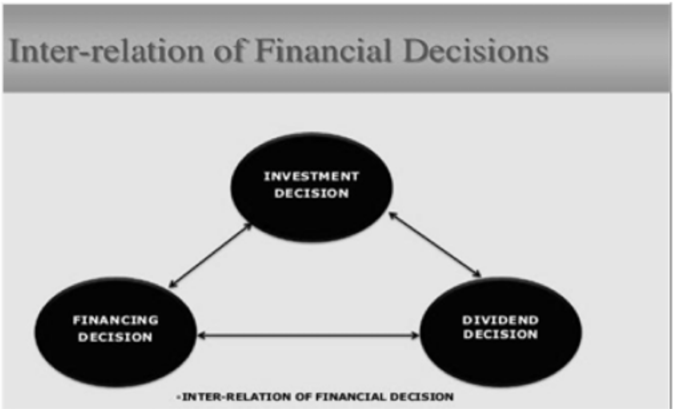
Capital Budgeting: -	***Short Term Investment Decision: -***
It is the process of making investment decisions in capital expenditure, benefit of which are expected over a long period of time exceeding one year. Investment decision should be evaluated in the terms of expected profitability, costs involved and the risks associated. This decision is important for setting new units, expansion of present units, reallocation of funds etc.	It relates to allocation of funds among cash and equivalents, receivables and inventories. Such decision is influenced by trade-off between liquidity and profitability. Proper working capital management policy ensures higher profitability, proper liquidity and sound structural health of the organization.

FINANCING DECISION

Once the requirement of funds has been estimated, the next important step is to determine the sources of finance. The manager should try to maintain a balance between debt and equity so as to ensure minimized risk and maximum profitability to business.

DIVIDEND DECISION

The third and last function of finance includes dividend decisions. Dividend is that part of profit, which is distributed to shareholders as a reward to high risk investment in business. It is basically concerned with deciding as to how much part of profit will be retained for the future investments and how much part of profit will be distributed among shareholders. High rate of dividend ensures higher wealth of shareholders and also increase market price of shares.	Influences on financial strategy: Businesses may be reluctant to obtain extra funds due to a variety of reasons such as fear of loss of control, fear of equity not getting subscribed, fear of inability to service its debts, tax shields, not having enough asset base to provide as security or to maintain good rating etc. Therefore, the manager must keep in mind such factors to make a trade-off for finance.



Although the basic decisions of finance includes three types of decisions i.e. investing, finance and dividend decisions but they are interlinked with each other in a way. This is so because:	The main aim of all three decisions is profit maximization and wealth maximization of shareholders.
In order to make investment decisions such as investing in some major projects, the first thing is the finance available to make investment.	Finance decision is also a function of dividend decision. The more the dividend distribution, the more the dependency on external sources to raise finance and vice versa.

Marketing Strategy

Formulation of marketing Strategic Marketing is the means by which a firm is effectively able to differentiate itself from its competitors by capitalizing on its strengths (both existing as well as potential) to provide consistently better value to its customers than its competitors.	Marketing strategy is a long-term, forward-looking approach for attaining sustainable competitive advantage. It involves an analysis of the company's existing strategic situation before the formulation, evaluation and selection of market-oriented competitive position that contributes to the company's goals and marketing objectives.

Definitions of Marketing Strategy

Marketing Strategy is:

"The marketing strategy lays out target markets and the value proposition that will be offered based on an analysis of the best market opportunities." (Philip Kotler & Kevin Keller)	"An over-riding directional concept that sets out the planned path." (Asker and Mills)
"Essentially a formula for how a business is going to compete, what its goals should be and what policies will be needed to carry out these goals." (Michael Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*)	

In short, the Strategic Marketing answers three 'W's:

1. Which markets to compete in	2. What is the basis of the firm's competitive, and
3. When to compete	

The strategic gap

STRATEGIC MARKETING PLANNING: AN OVERVIEW

The Strategic Gap

Marketing strategy involves mapping out the company's direction for the future, be it three, five or ten years. It involves carrying out a 360° review of the firm and its operating environment with a view to identify new business opportunities that the firm could potentially leverage for competitive advantage. Strategic planning may also reveal market threats that the firm may need to consider for long-term sustainability.	Strategic planning is concerned with identifying the business opportunities that are likely to be successful and evaluates the firm's capacity to leverage such opportunities. It seeks to identify the *strategic gap*; that is the difference between where a firm is currently situated where it should be situated for sustainable, long-term growth.

Market Position and Strategy

In terms of market position, firms may be classified as market leaders, market challengers, market followers or market niches.

Market leader: The market leader is the one who controls significant market share. The goal of a market leader is to reinforce their prominent position through the use of branding to develop and maintain their corporate image and to restrict the competitor's brand. Market leaders may adopt unconventional or unexpected approaches to building growth and their tactical responses are likely to include: product proliferation; diversification; multi-branding; erecting barriers to entry; vertical and horizontal integration and corporate acquisitions.	***Market challenger***: The market challenger holds the next highest market share in the industry, following closely the most dominant player. Their market posture is generally offensive because they have less to lose and more to gain by taking risks. They will compete 'neck to neck' with the market leader in an effort to grab their market share. Their overall strategy is to gain market share through product, packaging and service innovations; new market.
Market follower: Followers are generally content by taking a backseat and follow the policy of wait and watch. They rarely invest in their own funds in R&D and sit and relax to watch market leaders to bring out novel and innovative products and afterwards adopt a "me-too" approach. Their strategy is to maintain their market position by preserving existing customer base. They strategy is to maintain steady profits by controlling costs.	***Market niche***: The market niche occupies a small niche in the market in order to avoid 'neck to neck' competition. Their objective is to build strong ties with the existing customer base and develop strong loyalty with them. Their strategy is to develop and build the smaller segment and protect it. Tactically, niches are likely to improve the product or service offering, leverage cross-selling opportunities, offer value for money and build relationships through superior after sales service, service quality and other related value adding activities.

A key aspect of marketing strategy is to keep marketing consistent with a company's overarching mission statement. Strategies often specify how to adjust the marketing mix; firms can use tools such as Marketing Mix Modeling to help them decide how to allocate scarce resources, as well as how to allocate funds across a portfolio of brands. In addition, firms can conduct analyses of performance, customer analysis, competitor analysis, and target market analysis.

Entry strategies

Marketing strategies may differ depending on the unique situation of the individual business. According to Lieberman and Montgomery, every entrant into a market – whether it is new or not – is classified under a Market Pioneer, Close Follower or a late follower.

• *Pioneers*

Market pioneers are known for innovative product development, resulting into some early entry market-share advantages than the followers as they have the first-mover advantage, pioneers must ensure that they are having at least one or more of three primary sources: Technological Leadership, Pre-emption of assets or buyer switching costs.	Technological Leadership means gaining an advantage through either Research or Development or the "learning curve" for using the research and development as a key point of selling.
Pre-emption of Assets can help gain an advantage through acquiring scarce assets within a certain market, allowing the first-mover to be able to have control of existing assets rather than those that are created through new technology.	By being a first entrant, it is easy to avoid higher switching costs compared to later entrants. For example, those who enter later would have to invest more expenditure in order to encourage customers away from early entrants. It has been found that while Pioneers in both consumer goods and industrial markets have gained "significant sales advantages", they are at a disadvantage in terms of cost.

• *Close followers*

If there is a profit potential in the innovation introduced by marker pioneer, many businesses would step in offering the same product. Such people are more commonly known as Close Followers. These entrants into the market can also be seen as challengers to the Market Pioneers and the Late Followers. This is because early followers are more than likely to invest a significant amount in Product Research and Development than later entrants.	Due to the nature of early followers and the research time being later than Market Pioneers, different development strategies are used as opposed to those who entered the market in the beginning, and the same is applied to those who are Late Followers in the market. By having a different strategy, it allows the followers to create their own unique selling point and perhaps target a different audience in comparison to that of the Market Pioneers.

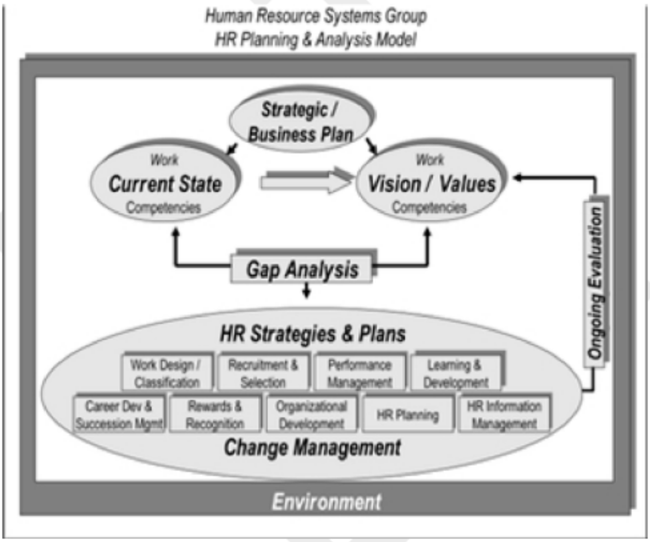
• *Late Entrants*

Those who follow after the Close Followers are known as the Late Entrants. Late entrant has certain advantages such as ability to learn from their early competitors and improving the benefit or reducing the total costs. This allows them to create a strategy that could essentially mean gaining market share and most importantly, staying in the market. In addition to this, markets evolve, leading to consumers wanting improvements and advancements on products. Late Followers could have a cost advantage over early entrants due to the use of product imitation. Late Entry into a market does not necessarily mean there is a disadvantage when it comes to market share, it depends on how the marketing mix is adopted and the performance of the business.	The requirements of individual customer markets are unique, and their purchases sufficient to make viable the design of a new marketing mix for each customer. If a company adopts this type of market strategy, a separate marketing mix is to be designed for each customer. Specific marketing mixes can be developed to appeal to most of the segments when market segmentation reveals several potential targets.

FORMULATION OF HUMAN RESOURCE STRATEGIES

Human resource planning is a process that identifies current and future human resources needs for an organization to achieve its goals. Human resource planning should serve as a link between human resource management and the overall strategic plan of an organization. Ageing workers population in most western countries and growing demands for qualified workers in developing economies have underscored the importance of effective human resource planning.	As defined by Bulla and Scott, human resource planning is 'the process for ensuring that the human resource requirements of an organization are identified and plans are made for satisfying those requirements'.
Reilly defined (workforce planning) as: 'A process in which an organization attempts to estimate the demand for labor and evaluate the size, nature and sources of supply which will be required to meet the demand.	Human resource planning includes creating an employer brand, retention strategy, absence management strategy, flexibility strategy, (talent management) strategy, (recruitment) and selection strategy.

This Strategic HR Planning and evaluation cycle is depicted in the diagram below



Human resource planning is the ongoing process of systematic planning to achieve the best use of an organization's most valuable asset – its human resources. The objective of human resource (HR) planning is to ensure the best fit between employees and jobs, while avoiding workforce shortages or spares. The three key elements of the HR planning process are forecasting labor demand, analyzing present labor supply, and balancing projected labor demand and supply.

IMPLEMENTING HR STRATEGY

1. Assessing the current HR capacity

This includes taking stock of the skills of the existing human resources of the organization to have a clear understanding of the current skill set of the company. This will help in forecasting future HR requirements.

2. Forecasting HR requirements

This step includes projecting what the HR needs for the future will be based on the strategic goals of the organization and assessment of total skill set of existing human resources. Some questions to ask during this stage include:

The positions to be filled in the future period	The number of staff will be required to meet the strategic goals of the organization
Effect of external environmental forces in getting new human resources	

3. Gap analysis

In this stage, one will make a comparison between existing and desired position of the organization in terms of strategic. During this phase you should also review your current HR practices and if these require any amendments.

4. Developing HR strategies to support the strategies of the organization

The five HR strategies which may be adopted to attain the organizational goals are given hereunder:

- **Restructuring strategies**

This includes reducing staff, regrouping tasks to create well-designed jobs, and reorganizing work groups to perform more efficiently.

- **Training and development strategies**

This includes providing the current staff with training and development opportunities to encompass new roles in the organization

- **Recruitment strategies**

This includes recruiting new hires that already have the skills the organization will need in the future.

- **Outsourcing strategies**

This includes outreaching to external individuals or organizations to complete certain tasks.

- **Collaboration strategies**

This includes collaborating with other organizations to learn from how others do things, allow employees to gain skills and knowledge not previously available in their own organization.

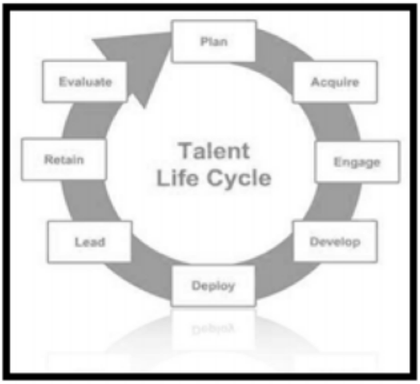
- **Retention strategy**

Every area of the employer-employee relationship in your organization deserves your attention.

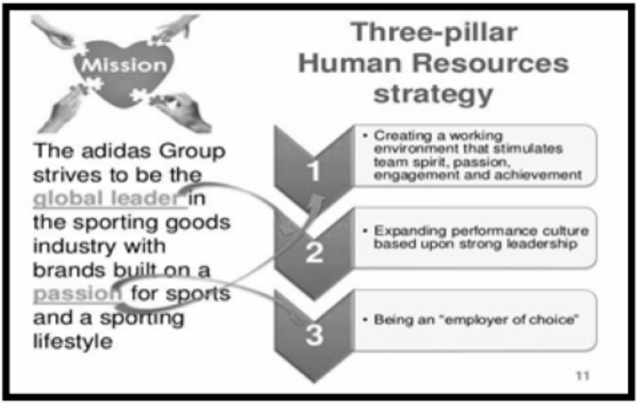
Embrace these key strategies to improve your organization's employee retention and boost employee satisfaction:

Onboarding and orientation – The job orientation is just one component of onboarding, aim to develop an onboarding process where new staff members not only learn about the job but also the company culture and how they can contribute and thrive, with ongoing discussions, goals and opportunities to address questions and issues as they arrive.	**Mentorship programs –** Pairing a new employee with a mentor is a great for retention. New team members can learn from the experience of a senior.
Employee compensation – the organization should offer competitive compensation packages which include salaries, bonuses, paid time off, health benefit, retirement plans and all the other perks.	**Recognition and rewards systems –** Every person wants to feel appreciated for what they do. When they go the extra mile, they should be recognized. Some companies set up rewards systems that incentivize great ideas and innovation.
Work-life balance – A healthy work-life balance is essential. Companies should give a serious thought for offering telecommuting or flexible schedules to improve work-life balance for their employees.	**Training and development –** Smart managers invest in their workers› professional development and seek opportunities for them to grow. Some companies pay for employees to attend conferences or industry events each year, or provide tuition reimbursement or continuing education training.

Communication and Feedback – Lines of communication should be kept open for ensuring employee retention. Their ideas, questions and concerns must be welcomed.	**Dealing with change** – If the organization is going through a merger, layoffs or other big changes, the employees must be taken into confidence beforehand to maintain their trust.
Fostering teamwork – When people work together, they can achieve more than they would have individually. Foster a culture of collaboration by clarifying team objectives, business goals and roles, and encouraging everyone to contribute ideas and solutions.	**Team celebration** – Celebrate major milestones for individuals and for the team. Whether the team just finished that huge quarterly project under budget or an employee brought home a new baby, seize the chance to celebrate together with a shared meal or group excursion.



Case Study: HR Strategy Adidas Group



Formulation of Production Strategy

The different types of production strategies are grouped, listed and explained under following three categories, viz.,

The ty peso of production strategies under **Business Strategies** are as follows:

Differentiation strategy	Cost leadership strategy
Market segmentation strategy	

The production strategies under **Competitive Priorities** are as follows:

Price or cost strategy	Quality strategy
Delivery strategy	Product mix or flexibility strategy
Service strategy	Eco-friendly products

The production strategies under **Competitive Advantages** are as follows

Flexible response strategy	Low cost strategy

The types of production strategies listed above are discussed as follows:

1. Differentiation strategy

Under a differentiation strategy, the company tries to be make a product different and unique from that offered by its competitors in the market. Such a differentiation may be done in terms of enhanced quality, quantity, pricing, appearance, and after sales-service than its rivals.	Such a uniqueness and divergence in its product quality and customer service may lead to fetching higher prices by the company in the same market.

2. Cost leadership strategy

Under a cost leadership strategy, the company tries to diminish its cost of production by reaping economies of the scale on a larger volume of production in a single batch.	Higher the scale of production, lower will be the cost of production due to reduction in fixed costs per unit of production be it raw materials, labor, advertising, sales promotion, R & D, etc.

3. Market segmentation strategy

In market segmentation strategy, the company divides the market according to the type of customers it has to focus and target. It sells different products and services to different types of customers.	To achieve this goal, it produces and sells goods and services as per the needs of the customers. Therefore, market segmentation strategy is also called **Focus Strategy**. For example, many detergent companies offer different variants of detergents with different price brackets.

4. Price or cost strategy

Under price or cost strategy, the company sells its product at a very small price. This strategy is used when the products are homogeneous in nature and company is not able to differentiate that. That is, when the customers cannot distinguish the company's product from the competitors' products.	In this case, the company will fix a low price to fetch maximum market share. For example, match sticks; the customer will not care much about brand while buying this and will easily switch to other brand, if his current company tries to raise the price.

5. Quality strategy

Under quality strategy, the company produces and sells 'premium' goods and services. The prices of such goods and services are naturally very high such as luxury cars and bikes.	However, this strategy attracts those customers who have huge incomes and therefore prefer top quality products as a status symbol and are ready to pay high prices intentionally. To gain success in the market, the company must smartly invest to make quality innovative products that are free from any defects.

6. Delivery strategy

Under delivery strategy, the company delivers its product and services to their customers as early as possible within a fixed time period. The company gives top priority to fast delivery of products and providing quickest accessibility of services.	Speed delivery of products and fastest accessibility of services removes the problem of scarcity and unnecessary delays in the market. Delivery strategy is used as a selling tactic to fight cut-throat competition.

7. Product mix or flexibility strategy

Under this strategy, the company produces and sells a product mix. A product mix is a group of products, which are sold by the same company for example Hindustan Lever. Here, the company does not depend only on a single product for its survival and growth.	It uses a product mix because it offers many advantages to the company. However, only large companies with huge production capacity can adopt this strategy.

8. Service strategy

Under this strategy, the company uses a service to attract the customers. It gives quicker and better aftersales service. It gives around the clock, i.e. 24-hour customer service.	It may render this service directly via the company or through the network of call centers. Service is required for both consumer goods as well as industrial goods.

9. Eco-friendly products

Under eco-friendly strategy, the company produces and sells environment-friendly products also called as **Green Products**. For e.g. producing and selling lead-free petrol to reduce pollution, manufacturing mercury free television panels, etc., are some good steps to preserve nature. This is a new type of production strategy. It is used to reduce pollution and protect the biosphere. Companies may also recycle certain materials like plastic, metals and papers.	The properly recycled products are later used for manufacturing new products and in packaging. Companies use biodegradable packing material to reduce the problem of waste disposal. Recycling reduces continuous demand cycle of natural resources and hence somewhat minimize the exploitation of environment. The company informs the public about their environment-friendly manufacturing approach through advertisements.

10. Flexible response strategy

Flexible response strategy is said to be used when a company makes required changes in its production plans in accordance with the emerging changes in the market. Here, focus is given to speed and reliability. That is, the company must make swift changes as per the emerging changes in the market demand.	It must also give a regular supply of goods to its customers. There must not be any shortage of goods in the market. To achieve this, the company must follow a strict production schedule.

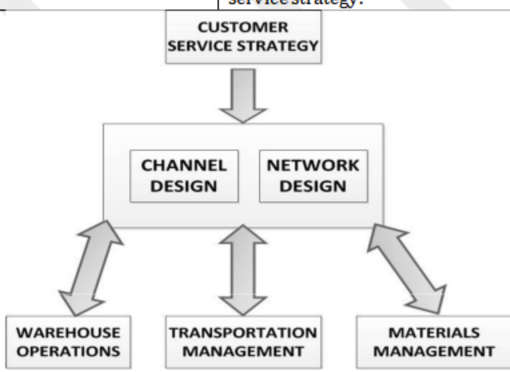
11. Low cost strategy

Under low cost strategy, the company fights massive market competition by selling its products at very lower prices. Simultaneously, it must also maintain the quality of its products. A company can only sell its goods at minimum prices if it maintains a low cost of production and distribution. T	His can be done by producing and distributing goods on a large scale. That is, company must take advantage of economies of large-scale production.

FORMULATION OF LOGISTICS STRATEGY

Logistics strategy is defined as "the set of guiding principles, driving forces and ingrained attitudes that help to coordinate goals, plans and policies between partners across a given supply chain."	Logistics is not confined to tactical decisions about transportation and warehousing. Longer-term decisions are needed to put in place the capabilities that ensure that logistics plays a full role in supporting a company's products in the market place.
When a company creates a logistics strategy it is define the service levels at which its logistics organization is at its most cost effective. Because supply chains are constantly changing and evolving, a company may develop a number of logistics strategies for specific product lines, specific countries, or specific customers.	

Strategic Level: By examining the company's objectives and strategic supply chain decisions, the logistics strategy should review how the logistics organization contributes to those high-level objectives. The top level is the Strategic level that defines **customer's service strategy**. Customer service strategy is the driving force behind the design and operations of a company's logistics supply chain. The key inputs that go into define a customer service strategy are the company's products, its markets and its customer service goals.	***Structural and Functional Levels:*** In any Strategic planning exercise, there is an interplay between strategy and functional operations. In our logistics strategy framework, functional layers provides important inputs to finalize the Structural layer.
Channel Design: Pertains to activities and functions that need to be carried out to achieve the Customer service goal.	***Network Strategy:*** Locations and missions of facilities and strategies for using these facilities to achieve the Customer service strategy.



The process of designing the Structural element of the strategy is integrated with the Functional elements of the strategy as well. Warehouse Operations, Transportation Management and Material management decisions are inputs to a detailed Structural strategy.

Implementation: In this final phase, people, business processes and IT come together to support and execute the Logistics Strategy. Implementation is one of the most important and challenging aspects of your Logistics strategy.

An example of one function is the Logistics Strategy plan:

Elements of the Logistics Strategy plan

The Logistics Strategy plan is then developed within eight elements:

Customer service policy – The appropriate level of service for customers, by product group or market segment; considering: order fulfilment requirements, enquiry and investigation capability and the available information. The customer service policy informs the nodes and links of the supply network	**Inventory location policy (Supply Network nodes) -** Centralized or decentralized inventory; whether to differentiate facilities by fast and slow moving stock; location of sites; use of specific technologies and layouts; company-owned or contracted facilities
Inventory policy – form and function of inventory by location; the appropriate amount of stock to hold for various groups of inventory; planning structure that links outbound and inbound materials	**Cost plan –** trade-off analysis between cost and service level requirements; cost of Logistics operations
Transport and distribution (Supply Network links) policy – affected by whether enterprise imports or exports and the size and structure of conurbations being served. This incorporates transport modes, delivery pattern and storage location considerations, based on the time taken for deliveries.	**IT and Communications capability:** technologies (including software) that will be internally developed; buy planning and scheduling applications from single supplier or obtain 'best of breed' applications
Logistics organization structure: function or flow based; allocation of responsibilities; managed or self-managed teams	**Logistics Targets and metrics:** measures of performance and achievement targets; operations improvements process and management

LESSON ROUND UP

Business policies are the guidelines developed by an organization to govern the actions of those who are a part of it. They define the potential limits within which decisions must be made.	The origins of business policy can be traced back to the year 1911, when Harvard Business School introduced an integrative course in management aimed at the creation of general management capability.
Vision serves the purpose of stating what an organization wishes to achieve in the long run.	A mission statement defines the basic reason for the existence of that organization. Such a statement reflects the corporate philosophy, identity, character, and image of an organization.
Corporate Strategy highlights the pattern of business moves	Where SBU concept is applied, each SBU sets its

and goals concerning strategic interest, in different business units, product lines, customer groups, etc. It defines how the firm will remain sustainable in the long run.	own strategies to make the best use of its resources (its strategic advantages) given the environment it faces.
Functional strategy, relates to a single functional operation and the activities involved therein. Decisions at this level within the organization are often described as tactical.	

SELF TEST QUESTIONS

1. What is Business Policy? Give its definition and features.	2. Discuss features of Business Policy
3. Discuss the importance of Business Policy	4. Elaborate framework of Strategic Management
5. Discuss: Vision, Mission, Objectives, Goals, Purpose, Policy, Procedure	6. Formulation of Functional Strategy
7. Discuss tools and techniques of Strategic analysis	8. What are different types of production strategies?

Chapter 14 Strategic Analysis and Planning

LESSON OUTLINE

Situational Analysis	Strategic Choices-SWOT and TOWS Analysis
Programmed Evaluation Review Technique And CPM (Critical Path Method)	Portfolio Analysis-Boston Consulting Group (BCG) growth share Matrix
Handoff's Product Growth Matrix	ADL Matrix
General Electric (GE) Model	Strategic Planning
Strategic Alternatives-Gluck and Gauche	Michael Porter's Generic Strategies
LESSON ROUND UP	SELF TEST QUESTIONS

STRATEGIC ANALYSIS AND PLANNING

Strategic analysis and planning involves careful formulation of the strategies and goals taken by a company's top management on behalf of the organization. It is based on deliberation of resources and an assessment of the internal and external environments in which the organization competes based on a variety of models.	It aims at providing overall direction to the organization and specifying the organization's objectives, developing policies and plans designed to achieve these objectives, and then allocating resources to implement the plans. All this requires a careful analysis of the vision, mission, objectives, goals and resources of the organization and in-depth analysis of the external environment.

Situation Analysis

Before developing any strategy, the foremost requirement is carrying out a Situation Analysis. A **Situation analysis** or environmental analysis is an essential component of any strategy formulation and it has to be assured that such analysis is conducted periodically to keep the strategies up to date. A complete situation analysis focuses on four areas i.e.:

- The problem (its severity and its causes)
- The people (potential stakeholders)
- The broad context (in which the problem prevails)
- Factors (facilitating behavior change)

A situational analysis takes into account the internal and external environment of an entity or organization and clearly identifies as its own capabilities, customers, potential customers, competitors and the business environment and the impact they are going to have on the entity or organization.	It can also help in identifying strengths, weakness, opportunities and threats to the organization or business which can help in forecasting the choices required to be made keeping in view the environmental developments.

Need of Situation Analysis

A **Situation Analysis** paves the way for strategy development by identification of priorities by bringing out a clear, detailed and realistic picture of the opportunities, resources, challenges and barriers regarding a formulating a business plan.	The quality of the Situation Analysis will affect the success of the whole plan.

Suitability of Situation Analysis

A small, well knitted and focused team from different functional areas of the organization should conduct the **situation analysis.** Throughout the data collection process, team members should also consider about engagement of concerned stakeholders including opinion leaders, service providers, policy makers, partners, and potential beneficiaries to reap maximum output.	It may be done by conducting in-depth interviews, focus group discussions, community dialogues, small group meetings, taskforce engagements or participatory **stakeholder workshops.**

Timing of Conducting Situation Analysis

A **situation analysis** should be conducted at the beginning of any program or project but before developing a strategy.

Elements of Situation Analysis

- **Product Situation**

It relates with the products being offered by the business at present. It may further be sub-divided into the core product and any secondary/ancillary or supporting products/services.	While doing so, the needs of the customers should be taken into. This is so because, now a days, consumer is the king, therefore, everything needs to be tailor-made to the requirements of the customers.

- **Competitive situation**

This involves analysis of the competitive forces to identify the closest competitors.	It involves finding out core competencies of the competitors as compared to our own organization and the areas in which they are have strong hold and the characteristics of the customers segment that are attracted by the competitors.

- **Distribution Situation**

Review your distribution and logistics network.

- **Environmental Factors**

The external and internal environmental factors which need to be taken into account. This includes economic or sociological factors that impact performance.

- **Opportunity and Issue Analysis**

Carrying out a SWOT analysis (Strengths, Weaknesses, Opportunity and Threats). Current opportunities available in the market, the main threats that business is facing and may face in the future, the strengths that the business can rely on and any weaknesses that may affect the business performance.	Effectiveness of Situation Analysis

The following questions may bring out the effectiveness of situation analysis:

Is currently adopted situational analysis simple and practical to use?	Is it easy and clear for even an outsider to understand?
Is it focused on key factors that are impacting my business both internally and externally?	Does it clearly identify future goals for the business?

SWOT/ TOWS ANALYSIS

Every manager is entrusted with the responsibility of	SWOT is a tool for strategic analysis of any organization,

setting up his/her organization's mission and goals and creating a strategic plan that will guide the company to achieve its goals. For doing this, managers make use a variety of tools and methods to make a basis for decision making that includes SWOT and TOWS analysis, which are two closely related brainstorming exercises.	which takes into account both examination of the company's internal as well as of its external environment. It consists in recognition of key assets and weaknesses of the company and marching them to exploit future opportunities and combating threats. SWOT is quite helpful in formulating a company's strategy" (Jeers, 2000).

SWOT may be expanded as:

S – Strengths

W – Weaknesses

O – Opportunities

T – Threats.

The origin of the SWOT analysis is supposed to be rooted in the concept of 'Force Field Analysis' pronounced by K. Levin in 1950s. However, 'Force Field Analysis' concept was too complex to be practically applied.	Yet, it became a reference for scholars to develop some simpler methods that included the SWOT analysis as well. It is noteworthy that SWOT may be successfully applied in any kind of organization, be it business or corporate sector, political party, public institutions, sport club, schools or universities etc.

TOWS

Though TOWS was created through rearrangement of the letters of SWOT analysis, yet, it may not be considered as just reversal of sequence of the SWOT analysis. This is so because, while in the SWOT analysis, one starts with evaluation of internal strengths and weaknesses and seeks the manner of the their best application taking into account the external business environments, TOWS analysis scans opportunities and threats existing in external environment of any organization, and then generates, compares and selects strategies based on internal strengths and weakness to utilize such opportunities and reduce threats.	Michael Watkins of the "Harvard Business Review" says that focusing on threats and opportunities and helps lead to productive discussions about what is going on in the external environment rather than getting bogged down in abstract discussions about what a company is good at or bad at.
Therefore, it is not just reversal of letters of SWOT, but, a tool for strategy generation and selection. SWOT analysis is a tool for audit and analysis. One would use a SWOT at the beginning of the planning process, and a TOWS later as one decides upon ways forward.	

- **Who can use SWOT/TOWS**

The SWOT/TOWS Matrix is not just meant for the top levels of management in an organization. Rather, these two can be very useful tool for divisions, products, functions as well as departments.	These can also be used for individual employees on an operational level. (Campbell, 2017).

• Why SWOT/TOWS

The SWOT/TOWS analysis is a very simple yet valuable technique which aids in identifying opportunities and threats from an external environment, and analyzing its own strengths and weakness. Such a review helps in establishing the relationship between threats, opportunities, weaknesses, and strengths for developing strategies and making decisions.

Further, use of TOWS by examining threats and opportunities before analyzing strengths and weaknesses can further allow for more productive analysis and interpretation of external environment leading to more informed decisions (Watkins, 2007). The TOWS Matrix also helps in brainstorming to bring out great ideas to generating effective strategies and tactics.

Four TOWS strategies: product of Trade-off between Internal and External factors

As said earlier, whereas SWOT Analysis starts with an internal analysis, the TOWS Matrix takes the other route, with an external environment analysis; the threats and opportunities are examined first.

Then, in TOWS makes a trade-off between internal and external factors. As we know, Strengths and weaknesses are internal factors and opportunities and threats are external factors.

This trade-off is the point where four potential strategies derive their importance, these are Strength/Opportunity (SO), Weakness/Opportunity (WO), Strength/Threat (ST) and Weakness/Threat (WT) as shown in matrix given below:

TOWS Analysis

		INTERNAL FACTORS	
EXTERNAL FACTORS		Strengths (S)	Weaknesses (W)
	Opportunities (O)	Strengths/ Opportunities (SO)	Weaknesses/ Opportunities (WO)
	Threats (T)	Strengths/ Threats (ST)	Weaknesses/ Threats (WT)

www.marketingteacher.com/tows-analysis/

Strength/Opportunity (SO):
Strengths of the companies are utilized to exploit the opportunities.

Weakness/Opportunity (WO):
The organization finds options that overcome weaknesses, and then take advantage of opportunities. Therefore, it mitigates weaknesses, to exploit opportunities.

Strength/Threat (ST):
Exploiting strengths to overcome any potential threats.

Weakness/Threat (WT):
With Weakness/Threat (WT) strategies one is attempting to minimize any weaknesses to avoid possible threat.

Strategies in TOWS

There are 4 types of strategies differentiated:

Aggressive strategy	(maxi-maxi)	Conservative strategy	(maxi-mini)
Competitive strategy	(mini-maxi)	Defensive strategy	(Mini-mini)

	External Opportunities (O) 1. 2. 3.	External Threats (T) 1. 2. 3.
Internal Strengths (S) 1. 2. 3.	**SO** *'Maxi-Maxi' Strategy* Strategies that use **strengths** to maximise **opportunities.**	**ST** *'Maxi-Mini' Strategy* Strategies that use **strengths** to minimise **threats.**
Internal Weaknesses (W) 1. 2. 3.	**WO** *'Mini-Maxi' Strategy* Strategies that minimise **weaknesses** by taking advantage of **opportunities.**	**WT** *'Mini-Mini' Strategy* Strategies that minimise **weaknesses** and avoid **threats.**

Aggressive Strategy (maxi-maxi)

According to Krzysztof Oboe (2007) "the aggressive strategy (maxi-maxi) consists in maximum exploitation of the synergy effect present between the strong sides of the organization and opportunities generated by the environment. It is a strategy of strong expansion and diversified development (...)".	Therefore, maxi-maxi refers to an organization, within which the synergy effect is present and opportunities are dominating in the environment. It consists in strong expansion and development, with maximum application of strengths and available opportunities.
The aggressive strategy embraces actions such as: capturing opportunities, strengthening position on the market, taking over organizations of the same profile, concentration of resources on competitive products. It is a strategy that exploits a synergy effect of company's strong sides and opportunities that appear in the environment (Lasik, 1993).	

Conservative Strategy (maxi-mini)

It is present in an organization in a situation, when with high internal potential, it undergoes unfavorable system of external conditions or threats. The threats need to overcome with use of the strengths, e.g. the competitors should be bought and its shares taken over (Gierszewska I Romanowska, 2009).	The conservative strategy embraces such actions as: selection of products, market segmentation, reduction of costs, improvement of competitive products, development of new products, searching for new markets. It is a strategy, where success of an organization is mainly sought in its strong sides and reduction of threats (Lasik 1993).

Competitive Strategy (mini-maxi)

It is present in an organization, where weaknesses dominate over the strengths still there are opportunities prevailing in the environment. The competitive strategy consists in "(...) elimination of weak sides of company's operation and construction of its competitive strength through maximal exploitation of the existing opportunities that support development" (Oboe 2007).	The competitive strategy embrace such actions as: expansion of financial resources, improvement of commercial resources, improvement of a line of products, improvement of productivity, reduction of costs, maintenance of competitive advantage. It is a strategy that embraces construction of a competitive strength of an organization (Lasik, 1993).

Defensive Strategy (mini-mini)

This strategy enables survival in a situation, when an organization works in an unfavorable environment, it is deprived of strengths. It may lead to take maximal benefits from the company before its liquidation, or to combine it with another enterprise.	The defensive strategy encompasses such actions as: gradual withdrawal, reduction of costs, reduction of productive ability, ceasing the investment process. It is a strategy that provides survival, through counteracting weak sides and threats (Lasik, 1993).

CASE STUDY TOWS MATRIX FOR APPLE INC.

Strengths

Market leader in an array of products and services	Highly strong brand image
Financial strength	Innovative and highly sophisticated supply chain
High profit margins	Large and loyal customer base

Weaknesses

Products not priced competitively	Thin product range in comparison to the competitors
Products incompatible with the other brands	

Opportunities

Rising demand for the electronic gadgets	Product diversification

Threats

Elevated competition	Rise in cost of inputs

Apple TOWS MATRIX

	Strengths (S)	**Weaknesses (W)**
Opportunities (O)	SO – Using strengths to capitalize on existing opportunities. Use brand image to diversify and develop partnership with other brands by introducing compatibility feature.	WO – Overcome weaknesses to capitalize on opportunities. Attract middle class customers by reducing price. Find new customer segments and introduce new products tailored for them.
Threats (T)	ST – Use strengths to combat threats. Control cost to beat competition. Focus on cultural change.	WT- Reduce weaknesses to combat threats. Exploit existing supply chain capabilities to reduce costs. Introduce competitively priced products.

Nike TOWS Matrix

Incorporated in 1967, Nike is known as a globally renowned brand in best sports shoe and apparels in the world and its main strategic suppliers for footwear are 127 footwear factories located in 15 countries. While it makes products mainly for athletic use, its products have also being liked in casual wear segment. Apart from	However, that does not mean it does not have changes in its way. Currently, Nike has outsourced its supply chain operations entirely. It is focused on product innovation

a strong image and a market leading position, the brand is also known for its excellent marketing capabilities.	and extending its international presence. However, US is still its largest market

More points in the brief SWOT analysis below.

Strengths

Brand Image	Excellent Marketing capabilities
Financial strength	International presence
Huge well managed supply chain and Distribution network	

Weaknesses

Over dependence on the US market	Increasing marketing and overhead operating expenses

Opportunities

Digitization and product innovation	Acquisitions
International expansion	Backward integration

Threats

Stronger US dollar hurting earnings	Increased competitive pressure
Growing HR and marketing expenses	Higher legal pressures

	Strengths (S)	Weaknesses (W)
Opportunities (O)	SO – Using strengths to capitalize on available opportunities. Invest more in digitization and product innovation. Explore Asian markets. Take hold of supply chain.	WO – Overcome weaknesses to capitalize on opportunities. Expand faster in international markets by reducing dependence on US market alone. Controlling operational costs
Threats (T)	ST – Use strengths to avoid threats. Use its marketing and innovation capabilities to keep the competitive pressure under control. Keep investing in marketing, R&D as well as HR management. Remain focused on compliance using internal compliance teams to control legal and regulatory pressures.	WT- Reduce weaknesses to avoid threats. To invest more in marketing and grow its brand faster.

TOWS MATRIX OF PEPSI

We have discussed SWOT analysis of Pepsi-Co in our previous topic now here we are going to discuss the TOWS Matrix of Pepsi-Co, keeping in mind its SWOT analysis. Following is the detailed analysis of Pepsi-Cola TOWS matrix:

'WT' ANALYSIS

One weakness that Pepsi possess is that it has very strong taste it really feels that something highly toxic going	They also have a problem of imitators as receives complaints from customers that they find take product in disguised of Pepsi's product. During the last years, it was published in financial post that there has been big

inside the body, whereas the same product of the coke is not much strong.	complaints from the customers with regard to the bad taste that they experienced during the span of six months. If they soon pay no attention towards that this will create a big problem for them.
Large size may lead to conflicting interests.	New one calorie products have no existing customer base; generic brands can make similar drinks – cheaper. It is also big threat for any company people may like or dislike new launching product.
Such as in Pakistan, Hama Yun Akhtar is its franchisee who has a strong political support from a political party which is in opposition. In; their era in government less taxes are imposed on them but relation increases as they come in opposition. So the selection is not appropriate as this thing is harmful to their image as well as the strategies. So this may become a big threat for the Pepsi.	

'WO' ANALYSIS

They have a lack of emphasis on this in their advertising such as currently when they losses the bid for official drink in the 96 cricket world cup. They started a campaign in which they highlight the factor such as "nothing official about it". If they don't focus on sudden changing's in their advertising then they can convert this weakness into opportunity.	They lack behind in catering the rural areas and just concentrating in the urban areas. They should try to increase their distributions and also focus on capturing rural areas; this will become a big opportunity for them.
The other big weakness on Pepsi is that they don't pay any attention towards garments. They may enter in garments business in order to promote their brand name, by making sports cloths from players which represent their name by wearing their clothes. That must increase the customer and income of the Pepsi.	High expenses may have trouble balancing cash-flows of such a large operation. The staff may show dishonesty. They should try to pay much attention towards their cash flow, and audit there statements on regular basis.

'ST' ANALYSIS

In many countries Pepsi had more expensive products than Coke; such a high price may limit a lower income family from buying a Pepsi product, therefore which is a big threat for Pepsi that may Pepsi have to face in the future.	In western countries, Pepsi have many branches with different flavors as compare to Asian countries, which has only 2 or 3 Pepsi products. Non-carbonated substitutes, such as juices and tea brands are maintaining a strong foothold in the market. Pepsi has a big threat from COKE, which are its main competitor from about 100 years.
Pepsi is a multinational company therefore they have a big threat every time on them of Political instability and civil unrest.	The whole culture and business operating environment at Pepsi-Cola-West Asia has quick access to a centralized database and they use computers as business tools for analysis and quick decision making. Computer breakdowns, viruses and hackers can reduce efficiency, and must constantly update products or other competitors will be more advanced.
Continuous efforts to research trends a reinforce creativity, if they fail in their efforts then there is a big threat for the company. The competitors may get benefit by their plans.	

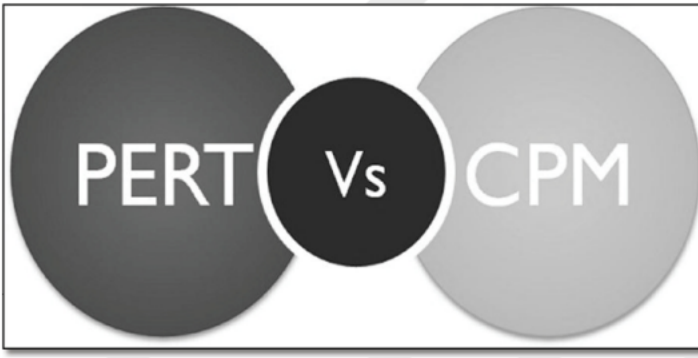
'SO' ANALYSIS

The whole culture and business operating environment at Pepsi-Cola-West Asia has quick access to a centralized database and they use computers as business tools for analysis and quick decision making. Internet promotion such as banner ads and keywords can increase their sales, and more computerized manufacturing and ordering processes can increase their efficiency and that will become such a big opportunity for Pepsi.	Large No. of diversity businesses is also its main strength as it has diversity in many businesses such as Pepsi beverages, Pepsi foods, Pepsi Restaurants, and due to large number of diversity they can capture more customer, therefore it will become such a big opportunity for Pepsi.
Pepsi is also a reputable organization, and is well known all over	They maintain a high quality as Pepsi Cola

the world. Perception of producing a high quality product and strength can become a big opportunity for Pepsi if they use it in well-arranged manner, such as advertising more and also by conducting concerts to attract more customers.	International collect sample from its different production facilities and send them for lab test in Tokyo, if they show test reports on label of their products this will also attract customers.
They mainly use celebrities in their advertising campaigning like Imran Khan, Waist Aram, and Wear Yuns etc. Also sponsor social activates programmed like music etc. this will become such a big opportunity to build such a large number of customers. So we can say that it is one of the big strength that may become a big opportunity for Pepsi.	

PERT (Programmed evaluation Review Technique) and PM (Critical Path Method): Techniques of Project Management

Source: http://stepheny.hubpages.com/hub/pepsi-swot-analysis-with-other-soft-drinks



One of the most challenging jobs that any manager can take on is the management of a large-scale project that requires coordinating numerous activities throughout the organization. A myriad of details must be considered in planning how to coordinate all these activities, in developing a realistic schedule, and then in monitoring the progress of the project. Therefore, the managers have to rely on Project management techniques to handle such large scale projects. Project Management is a systematic way of planning, scheduling, executing, monitoring, controlling the different aspects of the project, in order to attain the goal made at the time of project formulation.	PERT and CPM two complementary statistical techniques utilized in Project management. These two are network based scheduling methods that exhibit the flow and sequence of the activities and events. These techniques make heavy use of networks to help plan and display the coordination of all the activities.
First developed by the United States Navy in the 1950s to support the U.S. Navy's Polaris nuclear submarine project, PERT is commonly used in conjunction with the critical path method (CPM). After discovery by Navy, It found applications all over industry.	

DuPont's Critical Path Method was invented at roughly the same time as PERT. Today, PERT and CPM have been used for a variety of projects, including the following types.

Construction of a new plant	Research and development of a new product
NASA space exploration projects	Movie productions
Building a ship	Government-sponsored projects for developing a new weapons system
Relocation of a major facility	Maintenance of a nuclear reactor
Installation of a management information system	Conducting an advertising campaign

PERT/CPM identify the time required to complete the activities in a project, and the order of the steps. Each activity is assigned an earliest and latest start time and end time. Activities with no slack time are said to lie along the critical path– the path that must stay on time for the project to remain on schedule.

CPM: Key Points

The critical path method (CPM) is a project modeling technique developed in the late 1950s by Morgan R. Walker of DuPont and James E. Kelley Jr. of Remington Rand.	CPM computes the longest path of planned jobs/ activities to logical end points/the end of the project, and the earliest and latest time by which each activity can start and finish without making the project longer. This process determines the activities that are "critical" or on the longest path and having "total float" (i.e., can be delayed without making the project longer).

Critical Path Analysis is an effective and powerful method of assessing:

What jobs/activities must be carried out?	Where parallel activities can be performed.
The shortest time to complete a project.	Resources needed for a project.
The sequence of activities, scheduling and timings.	Task priorities.
The most efficient way of shortening time on urgent projects.	

An effective Critical Path Analysis can make the difference between success and failure on complex projects. It can be very useful for assessing the importance of problems faced during the implementation of the plan.

Steps in PERT and CPM

• Each project consists of numerous independent jobs/activities. It is vital to identify and distinguish the various activities required for the completion of the project and list them separately.	• After listing, the order of precedence for these jobs needs to be determined. Certain jobs will have to be done first. Therefore, jobs have to be completed before others should be determined. Also, a number of jobs may be carried out simultaneously. All such these relationships between the different jobs need to be clearly laid down.
• Then, a picture/graph portraying each of these jobs should be drawn showing the predecessor and successor relations among them. This graph shows the time required for completion of each job. This is known as the project graph or the arrow diagram.	

The three steps given above can be understood with the help of an example. Suppose, a manger wishes to draw a project graph for preparing an operating budget for a manufacturing room. To accomplish this project, the company salesmen must provide sales estimates in units for the period to the sales manager who would consolidate it and provide it to the production manager. He would also estimate market prices of the sale and give the total value of sales of the units to be produced and assign machines for their manufacture. He would also plan the requirements of labor and other inputs and give all these schedules together with the number of units to be produced to the accounts manager who would provide cost of production data to the budget officer.

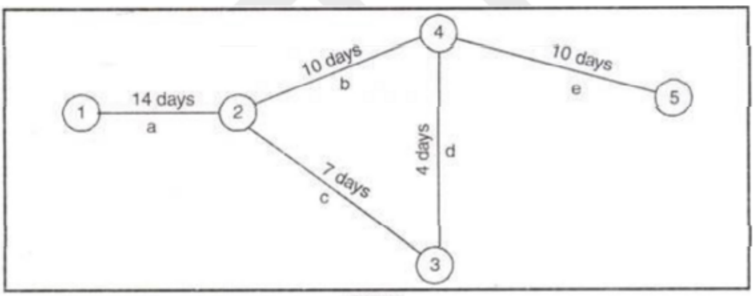
Using the information provided by the sales, production and accounting departments, and the budget officer would make the necessary arrangements for internal financing and prepare the budget. We have seen that the project of preparing the budget involves a number of activities.

These activities listed in the order of precedence are given below:

TABLE 1. The project of budgeting for company A

Job identification	Alternate	description	Deptt.	Time of performing the Job
a	(1,2)	Forecasting units of sale	Sales	14 days
b	(2,4)	Pricing sales	Sales	10 days
c	(2,3)	Preparing production schedules	Production	7 days
d	(3,4)	Costing the production	Accounting	4 days
e	(4,5)	Preparing the budget	Budget	10 days
				45 days

In this graph jobs are shown as arrows leading from one circle on the graph to another. Thus, the arrow connecting the two circles represents a job. Circle one and two represent job an i.e. forecasting of units sale
Which would take 14 days.

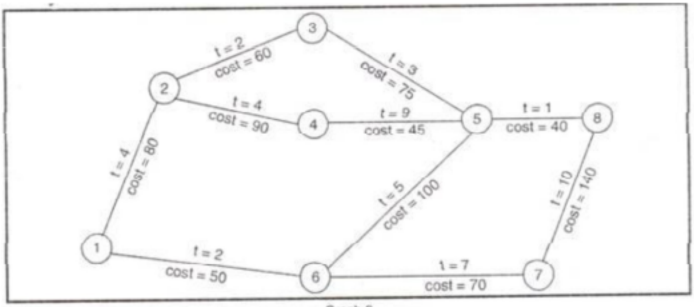


Graph 1

Circles 2 and 4 represent job b which will take ten days and so on. It would be seen that job c is not dependent upon job b and therefore, the two jobs can be done simultaneously. Once we reduce the project to network of activities and events and we estimate activity durations, we are in a position to determine the minimum time required for completion of the whole project. To do so, one must find the longest path or sequence connecting the activities through the network. This is called the 'critical path' of the project. In ongoing example, there are two paths. One is connecting circle numbers 1, 2, 4 and 5. This path will take 14+10 + 10 = 34 days. The other path, is connecting circles 1,2,3,4 and 5, this path will takes 14 + 7 + 4+ 10 = 35 days. Clearly, the 2nd path is the critical path. It may, however, be noticed that this time is shorter than the total time listed under Table 1 which will be 45 days. This is because jobs b and c can be done simultaneously.

This technique is very useful in case of projects which involve a large number of activities. It makes the project manager list out all the possible activities, their relationships, find out which activities can be performed first, which next and which can be performed simultaneously so as to find out the best possible manner of completing

The project.



Graph 2
t = time
Cost = In thousands of Rs.

Advantages of PERT

Compels managers to plan their projects critically in considerable detail from beginning to the end and analyses all factors affecting the progress of the plan.	Provides management a tool for forecasting the impact of schedule changes. The likely trouble spots are located early enough to take preventive measures or corrective actions.
A considerable amount of data may be presented in a precise manner. The task relationships are presented graphically for easier evaluation.	The PERT time is based upon 3-way estimate and hence is the most objective time in the light of uncertainties and results in greater degree of accuracy in time forecasting.
Results in improved communication with all concerned parties such as designers, contractors, project managers etc. The network will highlight areas that require attention of higher priority to the key jobs without ignoring the lower priority tasks.	

Limitations of PERT

Uncertainly about the estimate of time and resources due to being based on assumptions.	The costs may be higher than the conventional methods of planning and as it needs a high degree of planning skill and minute details resulting in rise in time and manpower resources.
Not suitable for relatively simple and repetitive processes such as assembly line work which are fixed-sequence jobs.	

Comparison Chart

BASIS FOR COMPARISON	PERT	CPM
Meaning	PERT is a project management technique, used to manage uncertain activities of a project.	CPM is a statistical technique of project management that manages well defined activities of a project.
What is it?	A technique of planning and control of time.	A method to control cost and time.
Orientation	Event-oriented	Activity-oriented
Evolution	Evolved as Research & Development project	Evolved as Construction project
Model	Probabilistic Model	Deterministic Model

Focuses on	Time	Time-cost trade-off
Estimates	Three time estimates	One time estimate
Appropriate for	High precision time estimate	Reasonable time estimate
Management of	Unpredictable Activities	Predictable activities
Nature of jobs	Non-repetitive nature	Repetitive nature
Critical and Non-critical activities	No differentiation	Differentiated
Suitable for	Research and Development Project	Non-research projects like civil construction, ship building etc.
Crashing concept	Not Applicable	Applicable

PORTFOLIO ANALYSIS

Majority of business organizations have a portfolio of products on offer to their customers, rather than individual products or brands, and will in many cases have branded products which complement each other is some way. Analysis of such portfolio becomes a necessity as the strengths and weaknesses of a company in such portfolio determine its internal capabilities to compete in a market and fulfill customer expectations.

The tool to identify the strengths and weaknesses of a company is a Product Portfolio Analysis. The Product Portfolio Analysis was proposed in 1973 by Peter Drucker as a way to classify current and expected profitability.	Drucker classified the offerings of a particular company into seven categories i.e. Today`s Breadwinners, Tomorrow`s Breadwinners, Yesterday`s Breadwinners, Developments, Sleepers, Investments in Managerial Ego, and Failures. He classified products in the first three categories, "Today`s Breadwinners," "Tomorrow`s Breadwinners," and "Yesterday`s Breadwinners," as strengths of the company while those in the last two categories, "Investments in Managerial Ego" and "Failures," as weaknesses. Then such portfolio analysis was made by other renowned entities also.

The most quoted ones are:

BCG MATRIX

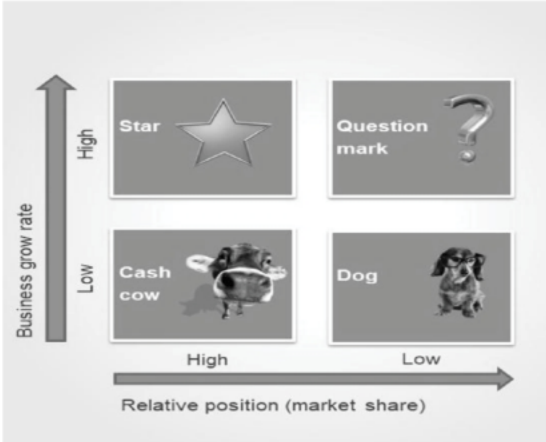
"A company should have a portfolio of products with different growth rates and different market shares. The portfolio composition is a function of the balance between cash flows.… Margins and cash generated are a function of market share."—Bruce Henderson, "The Product Portfolio," 1970.

The BCG Matrix was developed by the Boston Consulting Group (BCG) and is used for the evaluation of the organization's product portfolio in marketing and sales planning.	BCG analysis is mainly used for Multi-Category/ Multi Product companies. All categories and products together are said to be the part of a Business portfolio.

It aims to evaluate each product, i.e. the goods and services of the business in two dimensions:

Market growth	Market share

The combination of both dimensions creates a matrix into which the products from the portfolio are placed:



1) Cash Cows

Cash cows are products which have a high market share in a low growing market (see diagram above). As the business growth rate of market is low, cash cow gains the maximum advantage by generating maximum revenue due to its higher market share. Therefore, for any company, the cash cows is the category of products which require minimal investment but ensure higher returns. These higher returns raise the level of overall profitability of the firm because such excess revenue generation can be used in other businesses which carry products falling in the category of Stars, Dogs or Question marks.	Strategies for cash cow– Cash cows are the most stable product/service line for any business and hence the strategy includes retention of the market share for such category. As the market growth rate is low and acquisition is less and customer retention is higher. Thus, customer satisfaction programs, loyalty programs and other such promotional methods form the core of the marketing plan for a cash cow product.

2) Stars

The products/services falling in this category are best products/services in the product portfolio of any company. This is so because, for such category of products, both market share as well as growth rate is high. Unlike cash cows, Stars cannot be complacent when they are top on because they can immediately be overtaken by another company which capitalizes on the market growth rate. However, if the strategies are successful, a Star can become a cash cow in the long run.	Strategies for Stars – All types of marketing, sales promotion and advertising strategies are used for Stars. Similarly in Stars, because of the high competition and rising market share, the concentration and investment needs to be high in marketing activities so as to increase and retain market share.

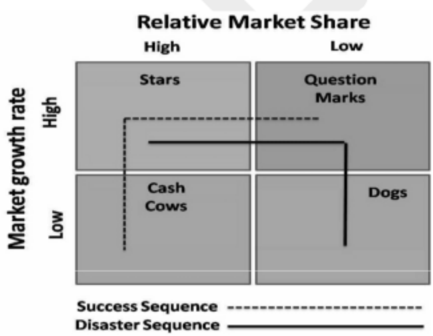
3) Question Marks

<table>
<tr><td>Several times, a company might come up with an innovative product which immediately gains good growth rate. However the market share of such a product is unknown. The product might lose customer interest and might not be bought anymore in which case it will not gain market share, the growth rate will go down and it will ultimately become a Dog.</td><td>On the other hand, the product might increase customer interest and more and more people might buy the product thus making the product a high market share product. From here the product can move on to be a Cash Cow as it has lower competition and high market share. Thus Question marks are products which may give high returns but at the same time may also flop and may have to be taken out of the market. This uncertainty gives the quadrant the name “Question Mark”. The major problem associated with having Question marks is the amount of investment which it might need and whether the investment will give returns in the end or whether it will be completely wasted.</td></tr>
<tr><td colspan="2">Strategies for Question marks – As they are new entry products with high growth rate, the growth rate needs to be capitalized in such a manner that question marks turn into high market share products. New Customer acquisition strategies are the best strategies for converting Question marks to Stars or Cash cows. Furthermore, time to time market research also helps in determining consumer psychology for the product as well as the possible future of the product and a hard decision might have to be taken if the product goes into negative profitability.</td></tr>
</table>

4) Dogs

Products are classified as dogs when they have low market share and low growth rate. Thus these products neither generate high amount of cash nor require higher investments. However, they are considered as negative profitability products mainly because the money already invested in the product can be used somewhere else. Thus over here businesses have to take a decision whether they should divest these products or they can revamp them and thereby make them saleable again which will subsequently increase the market share of the product.	Strategies for Dogs – Depending on the amount of cash which is already invested in this quadrant, the company can either divest the product altogether or it can revamp the product through rebranding / innovation / adding features etc. However, moving a dog towards a star or a cash cow is very difficult. It can be moved only to the question mark region where again the future of the product is unknown. Thus in cases of Dog products, divestment strategy is used.

Sequences in BCG Matrix



Success Sequence in BCG Matrix –	**Disaster sequence in BCG Matrix –**
The Success sequence of BCG matrix happens when a question mark becomes a Star and finally it becomes a cash cow. This is the best sequence which really gives a boost to the company's profit and growth. The success sequence unlike the disaster sequence is entirely dependent on the *right decision making*.	Disaster sequence of BCG matrix happens when a product which is a cash cow, due to competitive pressure might be moved to a star. It fails out from the competition and it is moved to a question mark and finally it may have to be divested because of its low market share and low growth rate. Thus the disaster sequence might happen because of *wrong decision making*. This sequence affects the company as a lot of investments are lost to the divested product. Along with this the money coming in from the cash cow which is used for other products too is lost.

Steps in BCG Matrix

BCG matrix is a framework to help understand, which brands the firm should invest in and which ones should be divested. Following are the steps involved:

Step 1. Choose the unit	Step 2. Define the market
Step 3. Calculate relative market share	Step 4. Find out market growth rate
Step 5. Draw the circles on a matrix	

Step 1. Choose the unit.	**Step 2. Define the market.**
BCG matrix can be used to analyze SBUs, separate brands, products or a firm as a unit itself. Which unit will be chosen will have an impact on the whole analysis. Therefore, it is essential to define the unit for which you'll do the analysis.	Define the market is one of the most important things to do in this analysis. This is because incorrectly defined market may lead to poor classification. For example, if we would do the analysis for the Daimler's Mercedes-Benz car brand in the passenger vehicle market it would end up as a dog (it holds less than 20% relative market share), but it would be a cash cow in the luxury car market. It is important to clearly define the market to better understand firm's portfolio position.

Step 3. Calculate relative market share. Relative market share can be calculated in terms of revenues or market share. It is calculated by dividing your own brand's market share (revenues) by the market share (or revenues) of your largest competitor in that industry. For example, if your competitor's market share in refrigerator's industry was 25% and your firm's brand market share was 10% in the same year, your relative market share would be only 0.4. Relative market share is given on x-axis. Its top left corner is set at 1, midpoint at 0.5 and top right corner at 0 (see the example below for this).

$$\text{Relative Market Share} = \frac{\text{Your firm's market share (or revenues)}}{\text{Largest competitor's market share (or revenues)}}$$

Step 4. Find out market growth rate.	**Step 5. Draw the circles on a matrix.**
The industry growth rate can be found in industry reports, which are usually available online for free. It can also be calculated by looking at average revenue growth of the leading industry firm. Market growth rate is measured in percentage terms. The midpoint of the y-axis is usually set at 10% growth rate, but this can vary. Some industries grow for years but at average rate of 1 or 2% per year. Therefore, when doing the analysis you should find out what growth rate is seen as significant (midpoint) to separate cash cows from stars and question marks from dogs?	After calculating all the measures, you should be able to plot your brands on the matrix. You should do this by drawing a circle for each brand. The size of the circle should correspond to the proportion of business revenue generated by that brand.

Strategies based on the BCG Matrix.

There are four strategies possible for any product / SBU and these are the strategies which are used after the BCG analysis. These strategies are

Build – By increasing investment, the product is given an impetus such that the product increases its market share. Example – Pushing a Question mark into a Star and finally a cash cow (Success sequence)	**Hold –** The Company cannot investor it has other investment commitments due to which it holds the product in the same quadrant. Example – Holding a star there itself as higher investment to move a star into cash cow is currently not possible.
Harvest – Best observed in the Cash cow scenario, wherein the company reduces the amount of investment and tries to take out maximum cash flow from the said product which increases the overall profitability.	**Divest –** Best observed in case of Dog quadrant products which are generally divested to release the amount of money already stuck in the business.

Thus the BCG matrix is the best way for a business portfolio analysis. The strategies recommended after BCG analysis help the firm decide on the right line of action and help them implement the same.

THE ORIGINAL BCG MATRIX

At the height of its success, in the late 1970s and early 1980s, the growth share matrix (or approaches based on it) was used by about half of all Fortune 500 companies, according to estimates.	The matrix helped companies decide which markets and business units to invest in on the basis of two factors— company competitiveness and market attractiveness—with the underlying drivers for these factors being relative market share and growth rate, respectively. The logic was that market leadership, expressed through high relative share, resulted in sustainably superior returns. In the long run, the market leader obtained a self-reinforcing cost advantage through scale and experience that competitors found difficult to replicate. High growth rates signaled the markets in which leadership could be most easily built.
Putting these drivers in a matrix revealed four quadrants, each with a specified strategic imperative. Low-growth, high-share "cash cows" should be milked for cash to reinvest in high-growth, high-share "stars" with high future potential. High-growth, low-share "question marks" should be invested in or discarded, depending on their chances of becoming stars. Low-share, low-growth "pets" are essentially worthless and should be liquidated, divested, or repositioned given that their current positioning is unlikely to ever generate cash.	

The utility of the matrix in practice was twofold:

The matrix provided conglomerates and diversified industrial companies with a logic to redeploy cash from cash cows to business units with higher growth potential. This came at a time when units often kept and reinvested their own cash—which in some cases had the effect of continuously decreasing returns on investment. Conglomerates that allocated cash smartly gained an advantage.	It also provided companies with a simple but powerful tool for maximizing the competitiveness, value, and sustainability of their business by allowing them to strike the right balance between the exploitation of mature businesses and the exploration of new businesses to secure future growth.

Criticism of the BCG Matrix

The BCG Matrix has lost some of its popularity following the development of other models, and drawn criticism for making some false suppositions such as: