A BRIEF HISTORY OF STRATEGY

Origins

Enterprises need business strategies for much the same reasons that armies need military strategies: to give direction and purpose, to deploy resources in the most effective manner and to coordinate the decisions made by different individuals. Many of the concepts and theories of business strategy have their antecedents in military strategy. The term ‘strategy’ derives from the Greek word strategia, meaning ‘generalship’. However, the concept of strategy did not originate with the Greeks. Sun Tzu’s classic The Art of War, written in about 500 BC, is regarded as the first treatise on strategy. Military strategy and business strategy share a number of common concepts and principles, the most basic being the distinction between strategy and tactics. Strategy is the overall plan for deploying resources to establish a favorable position; a tactic is a scheme for a specific action. Whereas tactics are concerned with the manœuvres necessary to win battles, strategy is concerned with winning the war. Strategic decisions, whether in military or business spheres, share three common characteristics:

- They are important;
- They involve a significant commitment of resources;
- They are not easily reversible.

STRATEGIC MANAGEMENT - MEANING AND IMPORTANT CONCEPTS

Strategic Management is all about identification and description of the strategies that managers can carry so as to achieve better performance and a competitive advantage for their organization. An organization is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry. Strategic management can also be defined as a bundle of decisions and acts which a manager undertakes and which decides the result of the firm’s performance. The manager must have a thorough knowledge and analysis of the general and competitive organizational environment so as to take right decisions. They should conduct a SWOT Analysis (Strengths, Weaknesses, Opportunities, and Threats), i.e., they should make best possible utilization of strengths, minimize the organizational weaknesses, make use of arising opportunities from the business environment and shouldn’t ignore the threats. Strategic management is nothing but planning for both predictable as well as unfeasible contingencies. It is applicable to both small as well as large organizations as even the smallest organization face competition and, by formulating and implementing appropriate strategies, they can attain sustainable competitive advantage. It is a way in which strategists set the objectives and proceed about attaining them. It deals with making and implementing decisions about future direction of an organization. It helps us to identify the direction in which an organization is moving. Strategic management is a continuous process that evaluates and controls the business and the industries in which an organization is involved; evaluates its competitors and sets goals and strategies to meet all existing and potential competitors; and then reevaluates strategies on a regular basis to determine how it has been implemented and whether it was successful or does it needs replacement.

Strategic Management gives a broader perspective to the employees of an organization and they can better understand how their job fits into the entire organizational plan and how it is co-related to other organizational members. It is nothing but the art of managing employees in a manner which maximizes the ability of achieving business objectives. The employees become more trustworthy, more committed and more satisfied as they can co-relate themselves very well with each organizational task. They can understand the reaction of environmental changes on the organization and the probable response of the organization with the help of strategic management. Thus the employees can judge the impact of such changes on their own job and can effectively face the changes. The managers and employees must do appropriate things in appropriate manner. They need to be both effective as well as efficient. One of the major role of strategic management is to incorporate various functional areas of the organization completely, as well as, to ensure these functional areas harmonize and get together well. Another role of strategic management is to keep a continuous eye on the goals and objectives of the organization.

Definition of Business Policy

Business Policy defines the scope or spheres within which decisions can be taken by the subordinates in an organization. It permits the lower level management to deal with the problems and issues without consulting top level management every time for decisions.

Business policies are the guidelines developed by an organization to govern its actions. They define the limits within which decisions must be made. Business policy also deals with acquisition of resources with which organizational goals can be achieved. Business policy is the study of the roles and responsibilities of top level management, the significant issues affecting organizational success and the decisions affecting organization in long-run.

Features of Business Policy

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

1. Policy is a blueprint of the organizational activities which are repetitive/routine in nature. While strategy is concerned with those organizational decisions which have not been dealt/faced before in some form.
2. Policy formulation is responsibility of top level management. While strategy formulation is basically done by middle level management.
3. Policy deals with routine/daily activities essential for effective and efficient running of an organization. While strategy deals with strategic decisions.
4. Policy is concerned with with both thought and actions. While strategy is concerned mostly with action.
5. A policy is what is, or what is not done. While a strategy is the methodology used to achieve a target as prescribed by a policy.

What are the Characteristics of Business?

1. Creation of utilities: Business makes goods more useful to satisfy human wants. It adds time, place, form and possession utilities to various types of goods. In the words of Roger, "a business exists to create and deliver value satisfaction to customers at a profit". Business enables people to satisfy their wants more effectively and economically. It carries goods from place of surplus to the place of scarcity (place utility). It makes goods available for use in future through storage (time utility).

2. Dealings in goods and services: Every business enterprise produces and/or buys goods and services for selling them to others. Goods may be consumer goods or producer goods. Consumer goods are meant for direct use by the ultimate consumers, e.g., bread, tea, shoes, etc. Producer goods are used for the production of consumer or capital goods like raw materials, machinery, etc. Services like transport, warehousing, banking, insurance, etc. may be considered as intangible and invisible goods. Services facilitate buying and selling of goods by overcoming various hindrances in trade.

3. Continuity in dealings: Dealings in goods and services become business only if undertaken on a regular basis. According to Peterson and Plowman, "a single isolated transaction of purchase and sale will not constitute business recurring or repeated transaction of purchase and sale alone mean business." For instance, if a person sells his old scooter or car it is not business though the seller gets money in exchange. But if he opens a shop and sells scooters or cars regularly, it will become business. Therefore, regularity of dealings is an essential feature of business.

4. Sale, transfer or exchange: All business activities involve transfer or exchange of goods and services for some consideration. The consideration called price is usually expressed in terms of money. Business delivers goods and services to those who need them and are able and willing to pay for them. For example, if a person cooks and serves food to his family, it is not business. But when he cooks food and sells it to others for a price, it becomes business. According to Peter Drucker "any organisation that fulfils itself through marketing a product or service is a business".

5. Profit motive: The primary aim of business is to earn profits. Profits are essential for the survival as well as growth of business. Profits must, however, be earned through legal and fair means. Business should never exploit society to make money.

6. Element of risk: Profit is the reward for assuming risk. Risk implies the uncertainty of profit or the possibility of loss. Risk is a part and parcel of business. Business enterprises function in uncertain and uncontrollable environment. Changes in customers’ tastes and fashions, demand, competition, Government policies, etc. creates risk. Food, fire, earthquake, strike by employees, theft, etc. also cause loss. A businessman can reduce risks through correct forecasting and insurance. But all risks cannot be eliminated.

7. Economic activity: Business is primarily an economic activity as it involves production and distribution of goods and services for earning money. However, business is also a social institution because it helps to improve the living standards of people through effective utilization of scarce resources of the society. Only economic activities are included in business. Non-economic activities do not form a part of business.

8. Art as well as science: Business is an art because it requires personal skills and experience. It is also a science because it is based on certain principles and laws. The above mentioned characteristics are common to all business enterprises irrespective of their nature, size and form of ownership.

Strategic Management: Business policy as a field of study-

Business policy has been traditionally related with the course in business school. It is rooted in the practice of management and has been passed through different stages before taking into shape of current strategic management. In management studies, business policy as a field of study evolved in 1911 at Harvard Business School. It has been developed in management courses out of the experience of corporate enterprises and the history of success and failure of business over a period of time. It is the outcome of senior management decision bearing of the future of ongoing enterprises. Major objective of the management course was to enhance general management capability. Numerous expert studies on business education and the Business policy course were made obligatory for all Business Schools in USA. Since then, Business Policy was commenced as an vital course in the management degree/diploma programmes in many nations including India. However, there have been changes in focus of the Business Policy course since the 1980s. The modern approach is focussed on Strategic Management. The generic term business policy denotes to all of an organization's processes and procedures. This can range from human resources policies to the company's marketing schedule and its plans for expansion and development. Business policy is strongly associated with strategic management because the policies are basically the strategies put into action.

Business policy in Indian context: In India, formal education began in 1950s and received huge enhancement in 1960 with the establishment of Indian institute of management and Administrative staff college of India. IIM colleges structured their curriculum and teaching system on the basis of Harvard model. With the setting up numerous management Institutes all over the country, India has experienced unparalleled boom. Subsequently, All India council for technical education was established in 1990 to regulate the technical and management education India. All India council for technical education prescribed business policy and strategic management as a compulsory course in the curriculum of management studies.

Theoretical framework of business policy: In management literature, there are several definitions of business policies. Newman and Logan described business policy as the best thinking of company management as to how objectives may be achieved in the prevailing economic and social conditions. R E Thomas defined that business policy basically deals with decisions regarding the future of an on-going enterprises. Such policy decisions are taken at senior level after carefully evaluating the organizational strength and weaknesses in relation to its environment. However the most comprehensive definition is given by Christensen and others. According to them, business policy is the study of the function of responsibilities of senior management, the crucial problem that affect success in the total enterprises and the decisions that determine the direction of the organization and shape its future. The problem of the policy in business has to do
with choice of purpose, the molding of the organizational identity and character, the continuous definition of what needs to be done and the mobilization of resources to accomplish the goal in competitive environment.

**Nature of Business Policy**: In broad sense, Business Policy is described as decisions about the future of an on-going enterprise. These are decisions which only the senior management of an enterprise can take having investigated market opportunity, appraised the distinctive competence and total resource of the company, and having combined the present and potential resources with the opportunities. These are essential, strategic decisions in as much as they verify the relationship between the enterprise and its environment, actions of company in near future, and how it should position itself to get benefit of the future market prospects. Consequently, business policy is intended to establish long-term objectives which will guide the future of the enterprise, its size and position in the product-market, as well as deciding on the resources of human abilities, capital plant and equipment, materials and energy which will be required to accomplish the objectives. Briefly, business policy entails senior management decisions relating to the future direction of business and the critical problems that influence the triumph of the total enterprise. The requirement of guiding the future direction of business occurs at some stage in the case of every enterprise.

The vibrant nature of business environment, the current and probable opportunities and threats, the risks of undertaking new projects, entering new markets, and such other aspects of business policy are of vital importance in decision-making with long-term implications. Strategic decisions also vary from managerial decisions which are concerned with structuring the firm’s resources so as to generate a maximum performance potential. These are decisions associated with establishing authority-responsibility relationships, work-flows, communication, distribution channels, location of facilities, as well as acquisition and development of resources, developing source of raw materials supply, personnel training and development, financing and acquisition of plant and equipment.

Strategic management signifies an academic course which was originated by Peter Drucker in the mid-20th century. Strategic management symbolizes that organizations will be better equipped to meet their goals and objectives if the owners and managers implement a clear business beliefs. The study of strategic management and business policy is a capstone course designed to integrate all prior learning into one subject suited for application in modern business environment. The study of business policies is comparatively new and the discipline finds its root in early American business colleges. Business policies provide practice in decision making because it primarily covers the job of managers and analyses potential problems from the perspective of business as a whole. Business policies have been designed to create an awareness of and interest in strategic problem of a business and its relationship with society (Alkhafaji, 2013). Key objectives of business policy are that it integrates knowledge and methods learnt in functional courses such as production, finance, marketing, HR. It develops analytical skills and decision making capabilities of students through extensive case studies, research reports, industry specific studies and data. Business policy promotes positive attitude, ethical value and healthy way of thinking to take holistic view of the internal as well as external stakeholders of an organization.

**Attributes of business policy**: Common features of business policy are as follows (Appa Rao, 2009):

1. Top management function: business policy stress more on functions and responsibilities of senior management such as defining objectives, specifying action plan, providing direction to enterprise activity, ensuring control, balance the concerns of internal and external groups and ensuring the success of company in a changing climate.
2. Understanding the big picture: Instead of examining the issues from functional aspect, business policy tend to view all key issues from a broad perspective that is assessing the overall impact of decision on entire organization. This involves choosing the correct way, keeping organizational capabilities and environmental pressures in the background.
3. Integration of functional areas: Business policy is a capstone course demonstrating interdependence between separate functional areas.
4. Resource focus: Business policy is mainly concerned with the mobilization of various resources in order to accomplish the goal of enterprises in and effective way in competitive and adverse circumstances.
5. Externally tuned: Business policy tries to underscore the importance environmental impact on organization and the need for senior management to come out with appropriate responses. The most imperative factor in assessing organizational effectiveness is adaptability to functional change.
6. Wider application: Business policy can be applied in all types of organizations.
7. Enhancement of analytical skills: Study of business policy emphasizes active participation of students in the learning process through methodologies like case discussions, oral and written presentation reports. This improves the analytical and decision making skills of students.

**Importance of business policy course**: The course of Business policy is integrative in nature. It enable the learner to understand the importance of looking at the organization as a unified whole. It gives an opportunity to pull together the insights gained in introductory course as well as specialized functional course like production, finance, marketing, human resource and use such knowledge for analysis and decision making to resolve issues of organization. Business policy is critical for adding value to resources to bring cohesiveness and sustain competitive advantage in volatile and rapidly changing environment. Business policy assists managers to take a system view of business. A course in business policy helps in understanding business as a system consisting of numerous sub systems which have an impact on other sub systems and the system as a whole. Study in business policy also assists students to understand the linkage between various functional specialties and decide things objectively (Appa Rao, 2009).

It is established that business policy and strategic management are integrated disciplines which concern with the policy and strategic issues of organization. Business policy provides theoretical background for explaining the concepts strategic management.

<table>
<thead>
<tr>
<th>Focus of business policy</th>
<th>Focus of strategic management</th>
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<tr>
<td>1. Traditional name of strategic management</td>
<td>1. The current name of business policy</td>
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<tr>
<td>2. Focus is on integrating knowledge gained in various functional areas</td>
<td>2. Focus is on achieving a fit between organizational capabilities and environmental opportunities</td>
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<tr>
<td>4. Emphasis is on integrated approach to solve organization wide problems.</td>
<td>4. Emphasis is on management of strategy to achieve competitive advantage.</td>
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To summarize, Business policies are the directives developed by an organization to oversee its actions. They describe the restrictions within which decisions must be made. Business policy also deals with acquisition of resources with which organizational goals can be
accomplished. Business policy is the study of the roles and responsibilities of senior level management, the important issues affecting organizational triumph and the decisions affecting organization in long-run. Business policy is important course in management curriculum and as component of executive development program for middle level managers who are preparing to move up to senior level management. It presents a basic framework for understanding strategic decision making while person is at the middle level management. Study of business policy is also beneficial for personal development.

**Strategic Management Process**

The strategic management process means defining the organization's strategy. It is also defined as the process by which managers make a choice of a set of strategies for the organization that will enable it to achieve better performance. Strategic management is a continuous process that appraises the business and industries in which the organization is involved; appraises it's competitors; and fixes goals to meet all the present and future competitor's and then reassesses each strategy.

Strategic management process has following four steps:

1. **Environmental Scanning** - Environmental scanning refers to a process of collecting, scrutinizing and providing information for strategic purposes. It helps in analyzing the internal and external factors influencing an organization. After executing the environmental analysis process, management should evaluate it on a continuous basis and strive to improve it.

2. **Strategy Formulation** - Strategy formulation is the process of deciding best course of action for accomplishing organizational objectives and hence achieving organizational purpose. After conducting environment scanning, managers formulate corporate, business and functional strategies.

3. **Strategy Implementation** - Strategy implementation implies making the strategy work as intended or putting the organization's chosen strategy into action. Strategy implementation includes designing the organization's structure, distributing resources, developing decision making process, and managing human resources.

4. **Strategy Evaluation** - Strategy evaluation is the final step of strategy management process. The key strategy evaluation activities are: appraising internal and external factors that are the root of present strategies, measuring performance, and taking remedial / corrective actions. Evaluation makes sure that the organizational strategy as well as its implementation meets the organizational objectives.

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

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**1. Environmental Scanning - Internal & External Analysis of Environment**

Organizational environment consists of both external and internal factors. Environment must be scanned so as to determine development and forecasts of factors that will influence organizational success. Environmental scanning refers to possession and utilization of information about occasions, patterns, trends, and relationships within an organization's internal and external environment. It helps the managers to decide the future path of the organization. Scanning must identify the threats and opportunities existing in the environment. While strategy formulation, an organization must take advantage of the opportunities and minimize the threats. A threat for one organization may be an opportunity for another.

**Internal analysis of the environment** is the first step of environment scanning. Organizations should observe the internal organizational environment. This includes employee interaction with other employees, employee interaction with management, manager interaction with other managers, and management interaction with shareholders, access to natural resources, brand awareness, organizational structure, main staff, operational potential, etc. Also, discussions, interviews, and surveys can be used to assess the internal environment. Analysis of internal environment helps in identifying strengths and weaknesses of an organization.

As business becomes more competitive, and there are rapid changes in the external environment, information from external environment adds crucial elements to the effectiveness of long-term plans. As environment is dynamic, it becomes essential to identify competitors’ moves and actions. Organizations have also to update the core competencies and internal environment as per external environment. Environmental factors are infinite, hence, organization should be agile and vigilant to accept and adjust to the environmental changes. For instance - Monitoring might indicate that an original forecast of the prices of the raw materials that are involved in the product are no more credible, which could imply the requirement for more focused scanning, forecasting and analysis to create a more trustworthy prediction about the input costs. In a similar manner, there can be changes in factors such as competitor’s activities, technology, market tastes and preferences.

While in **external analysis**, three correlated environment should be studied and analyzed —

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

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

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

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

1. **Setting Organizations’ objectives** - The key component of any strategy statement is to set the long-term objectives of the organization. It is known that strategy is generally a medium for realization of organizational objectives. Objectives stress the state of being there whereas Strategy stresses upon the process of reaching there. Strategy includes both the fixation of objectives as well the medium to be used to realize those objectives. Thus, strategy is a wider term which believes in the manner of deployment of resources so as to achieve the objectives.

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

2. **Evaluating the Organizational Environment** - The next step is to evaluate the general economic and industrial environment in which the organization operates. This includes a review of the organizations competitive position. It is essential to conduct a qualitative and quantitative review of an organizations existing product line. The purpose of such a review is to make sure that the factors important for competitive success in the market can be discovered so that the management can identify their own strengths and weaknesses as well as their competitors’ strengths and weaknesses.

After identifying its strengths and weaknesses, an organization must keep a track of competitors’ moves and actions so as to discover probable opportunities of threats to its market or supply sources.

3. **Setting Quantitative Targets** - In this step, an organization must practically fix the quantitative target values for some of the organizational objectives. The idea behind this is to compare with long term customers, so as to evaluate the contribution that might be made by various product zones or operating departments.

4. **Aiming in context with the divisional plans** - In this step, the contributions made by each department or division or product category within the organization is identified and accordingly strategic planning is done for each sub-unit. This requires a careful analysis of macroeconomic trends.

5. **Performance Analysis** - Performance analysis includes discovering and analyzing the gap between the planned or desired performance. A critical evaluation of the organizations past performance, present condition and the desired future conditions must be done by the organization. This critical evaluation identifies the degree of gap that persists between the actual reality and the long-term aspirations of the organization. An attempt is made by the organization to estimate its probable future condition if the current trends persist.

6. **Choice of Strategy** - This is the ultimate step in Strategy Formulation. The best course of action is actually chosen after considering organizational goals, organizational strengths, potential and limitations as well as the external opportunities.

**Strategy Implementation - Meaning and Steps in Implementing a Strategy** - Strategy implementation is the translation of chosen strategy into organizational action so as to achieve strategic goals and objectives. Strategy implementation is also defined as the manner in which an organization should develop, utilize, and amalgamate organizational structure, control systems, and culture to follow strategies that lead to competitive advantage and a better performance. Organizational structure allocates special value developing tasks and roles to the employees and states how these tasks and roles can be correlated so as maximize efficiency, quality, and customer satisfaction - the pillars of competitive advantage. But, organizational structure is not sufficient in itself to motivate the employees.

An organizational control system is also required. This control system equips managers with motivational incentives for employees as well as feedback on employees and organizational performance. Organizational culture refers to the specialized collection of values, attitudes, norms and beliefs shared by organizational members and groups.

**3. Following are the main steps in implementing a strategy:**

- Developing an organization having potential of carrying out strategy successfully.
- Disbursement of abundant resources to strategy-essential activities.
- Creating strategy-encouraging policies.
- Employing best policies and programs for constant improvement.
- Linking reward structure to accomplishment of results.
- Making use of strategic leadership.

Excellently formulated strategies will fail if they are not properly implemented. Also, it is essential to note that strategy implementation is not possible unless there is stability between strategy and each organizational dimension such as organizational structure, reward structure, resource-allocation process, etc. Strategy implementation poses a threat to many managers and employees in an organization. New power relationships are predicted and achieved. New groups (formal as well as informal) are formed whose values, attitudes, beliefs and concerns may not be known. With the change in power and status roles, the managers and employees may employ confrontation behavior.

**Strategy Formulation vs Strategy Implementation**

<table>
<thead>
<tr>
<th>Strategy Formulation</th>
<th>Strategy Implementation</th>
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<tbody>
<tr>
<td>Strategy Formulation includes planning and decision-making involved in developing organization’s strategic goals and plans.</td>
<td>Strategy Implementation involves all those means related to executing the strategic plans.</td>
</tr>
<tr>
<td>In short, Strategy Formulation is placing the Forces before the action.</td>
<td>In short, Strategy Implementation is managing forces during the action.</td>
</tr>
<tr>
<td>Strategy Formulation is an Entrepreneurial Activity based on strategic decision-making.</td>
<td>Strategic Implementation is mainly an Administrative Task based on strategic and operational decisions.</td>
</tr>
<tr>
<td>Strategy Formulation is a rational process.</td>
<td>Strategy Implementation is basically an operational process.</td>
</tr>
<tr>
<td>Strategy Formulation requires co-ordination among few individuals.</td>
<td>Strategy Implementation requires co-ordination among many individuals.</td>
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</table>
Strategy Formulation requires a great amount of initiative and logical skills.

Strategic Formulation precedes Strategy Implementation.

Strategy Implementation requires specific motivational and leadership traits.

Strategy Implementation follows Strategy Formulation.


Strategy Evaluation is as significant as strategy formulation because it throws light on the efficiency and effectiveness of the comprehensive plans in achieving the desired results. The managers can also assess the appropriateness of the current strategy in today's dynamic world with socio-economic, political and technological innovations. Strategic Evaluation is the final phase of strategic management.

The significance of strategy evaluation lies in its capacity to co-ordinate the task performed by managers, groups, departments etc, through control of performance. Strategic Evaluation is significant because of various factors such as - developing inputs for new strategic planning, the urge for feedback, appraisal and reward, development of the strategic management process, judging the validity of strategic choice etc.

The process of Strategy Evaluation consists of following steps-

1. Fixing benchmark of performance - While fixing the benchmark, strategists encounter questions such as - what benchmarks to set, how to set them and how to express them. In order to determine the benchmark performance to be set, it is essential to discover the special requirements for performing the main task. The performance indicator that best identify and express the special requirements might then be determined to be used for evaluation. The organization can use both quantitative and qualitative criteria for comprehensive assessment of performance. Quantitative criteria includes determination of net profit, ROI, earning per share, cost of production, rate of employee turnover etc. Among the Qualitative factors are subjective evaluation of factors such as - skills and competencies, risk taking potential, flexibility etc.

2. Measurement of performance - The standard performance is a bench mark with which the actual performance is to be compared. The reporting and communication system help in measuring the performance. If appropriate means are available for measuring the performance and if the standards are set in the right manner, strategy evaluation becomes easier. But various factors such as managers contribution are difficult to measure. Similarly divisional performance is sometimes difficult to measure as compared to individual performance. Thus, variable objectives must be created against which measurement of performance can be done. The measurement must be done at right time else evaluation will not meet its purpose. For measuring the performance, financial statements like - balance sheet, profit and loss account must be prepared on an annual basis.

3. Analyzing Variance - While measuring the actual performance and comparing it with standard performance there may be variances which must be analyzed. The strategists must mention the degree of tolerance limits between which the variance between actual and standard performance may be accepted. The positive deviation indicates a better performance but it is quite unusual exceeding the target always. The negative deviation is an issue of concern because it indicates a shortfall in performance. Thus in this case the strategists must discover the causes of deviation and must take corrective action to overcome it.

4. Taking Corrective Action - Once the deviation in performance is identified, it is essential to plan for a corrective action. If the performance is consistently less than the desired performance, the strategists must carry a detailed analysis of the factors responsible for such performance. If the strategists discover that the organizational potential does not match with the performance requirements, then the standards must be lowered. Another rare and drastic corrective action is reformulating the strategy which requires going back to the process of strategic management, reframing of plans according to new resource allocation trend and consequent means going to the beginning point of strategic management process.

Strategic Decisions - Definition and Characteristics

Strategic decisions are the decisions that are concerned with whole environment in which the firm operates, the entire resources and the people who form the company and the interface between the two.

Characteristics/Features of Strategic Decisions

- Strategic decisions have major resource propositions for an organization. These decisions may be concerned with possessing new resources, organizing others or reallocating others.
- Strategic decisions deal with harmonizing organizational resource capabilities with the threats and opportunities.
- Strategic decisions deal with the range of organizational activities. It is all about what they want the organization to be like and to be about.
- Strategic decisions involve a change of major kind since an organization operates in ever-changing environment.
- Strategic decisions are complex in nature.
- Strategic decisions are at the top most level, are uncertain as they deal with the future, and involve a lot of risk.
- Strategic decisions are different from administrative and operational decisions. Administrative decisions are routine decisions which help or rather facilitate strategic decisions or operational decisions. Operational decisions are technical decisions which help execution of strategic decisions. To reduce cost is a strategic decision which is achieved through operational decision of reducing the number of employees and how we carry out these reductions will be administrative decision.

The differences between Strategic, Administrative and Operational decisions can be summarized as follows-

<table>
<thead>
<tr>
<th>Strategic Decisions</th>
<th>Administrative Decisions</th>
<th>Operational Decisions</th>
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<tbody>
<tr>
<td>Strategic decisions are long-term decisions.</td>
<td>Administrative decisions are taken daily.</td>
<td>Operational decisions are not frequently taken.</td>
</tr>
<tr>
<td>These are considered where the future planning is concerned.</td>
<td>These are short-term based Decisions.</td>
<td>These are medium-period based decisions.</td>
</tr>
<tr>
<td>Strategic decisions are taken in accordance with organizational mission and vision.</td>
<td>These are taken according to strategic and operational Decisions.</td>
<td>These are taken in accordance with strategic and administrative decision.</td>
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These are related to overall Counter planning of all Organization. These are related to working of employees in an Organization. These are related to production.

These deal with organizational Growth. These are in welfare of employees working in an organization. These are related to production and factory growth.

### Benefits of Strategic Management

There are many benefits of strategic management and they include identification, prioritization, and exploration of opportunities. For instance, newer products, newer markets, and newer forays into business lines are only possible if firms indulge in strategic planning. Next, strategic management allows firms to take an objective view of the activities being done by it and do a cost benefit analysis as to whether the firm is profitable. Just to differentiate, by this, we do not mean the financial benefits alone (which would be discussed below) but also the assessment of profitability that has to do with evaluating whether the business is strategically aligned to its goals and priorities. The key point to be noted here is that strategic management allows a firm to orient itself to its market and consumers and ensure that it is actualizing the right strategy.

### Financial Benefits

It has been shown in many studies that firms that engage in strategic management are more profitable and successful than those that do not have the benefit of strategic planning and strategic management. When firms engage in forward looking planning and careful evaluation of their priorities, they have control over the future, which is necessary in the fast changing business landscape of the 21st century.

It has been estimated that more than 100,000 businesses fail in the US every year and most of these failures are to do with a lack of strategic focus and strategic direction. Further, high performing firms tend to make more informed decisions because they have considered both the short term and long-term consequences and hence, have oriented their strategies accordingly. In contrast, firms that do not engage themselves in meaningful strategic planning are often bogged down by internal problems and lack of focus that leads to failure.

### Non-Financial Benefits

The section above discussed some of the tangible benefits of strategic management. Apart from these benefits, firms that engage in strategic management are more aware of the external threats, an improved understanding of competitor strengths and weaknesses and increased employee productivity. They also have lesser resistance to change and a clear understanding of the link between performance and rewards.

The key aspect of strategic management is that the problem solving and problem preventing capabilities of the firms are enhanced through strategic management. Strategic management is essential as it helps firms to rationalize change and actualize change and communicate the need to change better to its employees. Finally, strategic management helps in bringing order and discipline to the activities of the firm in its both internal processes and external activities.

### Closing Thoughts

In recent years, virtually all firms have realized the importance of strategic management. However, the key difference between those who succeed and those who fail is that the way in which strategic management is done and strategic planning is carried out makes the difference between success and failure. Of course, there are still firms that do not engage in strategic planning or where the planners do not receive the support from management. These firms ought to realize the benefits of strategic management and ensure their longer-term viability and success in the marketplace.

Strategy: a plan, method, or series of actions designed to achieve a specific goal or effect. – *Wordsmyth Dictionary*

- The determination of the long-run goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals. – Alfred Chandler, *Strategy and Structure*.

- Strategy is the pattern of objectives, purposes, or goals and the major policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be.

– Kenneth Andrews, *The Concept of Corporate Strategy* (Homewood, IL: Irwin, 1965 and 1979). Ushering in a new era of macroeconomic instability, combined with increased international competition from resurgent Japanese, European and Southeast Asian firms. Faced with a more turbulent business environment, firms could no longer plan their investments, new product introductions and personnel requirements three to five years ahead, simply because they couldn’t forecast that far. The result was a shift in emphasis from planning to strategy making, where the focus was less on the detailed management of companies’ growth paths than on positioning the company in markets and in relation to competitors in order to maximize the potential for profit. This transition from corporate planning to what became termed *strategic management* was associated with increasing focus on competition as the central characteristic of the business environment and competitive advantage as the primary goal of strategy. The emphasis on strategic management also directed attention to business performance. During the late 1970s and into the 1980s, attention focused on sources of profit within the industry environment. Michael Porter of Harvard Business School pioneered the application of industrial organization economics to analysing industry profitability. Other studies focused on how profits were distributed between the different firms in an industry – in particular the impact of market share and experience upon costs and profits. During the 1990s, the focus of strategy analysis shifted from the sources of profit in the external environment to the sources of profit within the firm. Increasingly, the resources and capabilities of the firm became regarded as
the main source of competitive advantage and the primary basis for formulating strategy. This emphasis on what has been called the resource-based view of the firm (a theoretical perspective that highlights the role of resources and capabilities as the principal basis for a firm’s strategy) represented a substantial shift in thinking. Rather than firms pursuing similar strategies, as in seeking attractive markets and favourable competitive positions, emphasis on internal resources and capabilities encouraged firms to identify how they were different from their competitors and to design strategies that exploited these differences. Michael Porter’s answer to the question ‘What is strategy?’ emphasized that: ‘Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value. During the 21st century, new challenges have continued to shape the principles and practice of strategy. Digital technologies have had a massive impact on the competitive dynamics of many industries, creating winner-takes-all markets and standards wars. Disruptive technologies and accelerating rates of change have meant that strategy has become less and less about plans and more about creating options for the future, fostering strategic innovation and seeking ‘blue oceans’ of uncontested market space. The complexity of these challenges has meant being self-sufficient is no longer viable for most firms – they increasingly depend on other firms through outsourcing and strategic alliances. The continuing challenges of the 21st century, including the recession of 2008/9, are encouraging new thinking about the purpose of business. Disillusion with ‘shareholder value capitalism’ has been accompanied by renewed interest in corporate social responsibility, ethics, sustainability of the natural environment and the role of social legitimacy in long-term corporate success.

Evolution of strategic management: Dominant themes.

Corporate versus business strategy.

What is strategy?
In its broadest sense, strategy is the means by which individuals or organizations achieve their objectives. Figure 1.3 presents a number of definitions of the term strategy. Common to definitions of business strategy is the notion that strategy is focused on achieving certain goals; that the critical actions which make up a strategy involve allocation of resources; and that strategy implies consistency, integration or cohesiveness. Yet, as we have seen, the conception of firm strategy has changed greatly over the past half century. As the business environment has become more unstable and unpredictable, so strategy has become less concerned with detailed plans and more about the quest for success. This is consistent with our starting point to the chapter. If we think back to Jeff Bezos and Lady Gaga, neither wrote detailed strategic plans but both possessed clear ideas of what they wanted to achieve and how they would achieve it. This shift in emphasis from strategy as plan to strategy as direction does not imply any downgrading of the role of strategy. Certainly, in a turbulent environment, strategy must embrace flexibility and responsiveness. It is precisely in these conditions that strategy becomes more rather than less important. In an environment of uncertainty and change, a clear sense of direction is essential to the pursuit of objectives. When the firm is buffeted by unforeseen threats and when new opportunities are constantly appearing, strategy becomes a vital tool to navigate the firm through stormy seas.

When discussing strategy a distinction is commonly made between corporate strategy and business strategy.

• Corporate strategy defines the scope of the firm in terms of the industries and markets in which it competes. Corporate strategy decisions include investment in diversification, vertical integration, acquisitions and new ventures; the allocation of resources between the different businesses of the firm; and divestments.

• Business strategy is concerned with how the firm competes within a particular industry or market. If the firm is to prosper within an industry, it must establish a competitive advantage over its rivals. Hence, this area of strategy is also referred to as competitive strategy. This distinction may be expressed in even simpler terms. The basic question facing the firm is: ‘How do we make money?’ The answer to this question corresponds to the two basic strategic choices we identified above: ‘Where to compete?’ and ‘How to compete?’ The distinction between corporate strategy and business strategy corresponds to the organizational structure of most large companies. Corporate strategy is typically the responsibility of the top management team and the corporate strategy staff. Business strategy is primarily the responsibility of divisional management.

What does strategy perform?
The transition from corporate planning to strategic management has involved strategy moving from planning departments to the centre of corporate leadership. As such, strategy occupies multiple roles within organizations.

STRATEGY AS DECISION SUPPORT
We have described strategy as a pattern or theme that gives coherence to the decisions of an individual or organization. But why can’t individuals or organizations make optimal decisions in the absence of such a unifying theme? Consider the 1997 ‘man versus computer’ chess epic in which Garry Kasparov was defeated by IBM’s Deep Blue.
Computer. Deep Blue did not need strategy. Its phenomenal memory and computing power allowed it to identify its optimal moves based on a huge decision tree.26 Kasparov, although the world’s greatest chess player, was subject to bounded rationality: his decision analysis was subject to the cognitive limitations that constrain all human beings.27 For chess players, a strategy offers guidelines and decision criteria that assist positioning and help create opportunities. Strategy improves decision making in several ways. First, strategy simplifies decision making by constraining the range of decision alternatives considered and by acting as a heuristic (a rule of thumb) that reduces the search required to find an acceptable solution to a decision problem. Second, a strategy-making process permits the knowledge of different individuals to be pooled and integrated. Third, a strategy-making process facilitates the use of analytic tools: the frameworks and techniques that we will encounter in the ensuing chapters of this book.

STRATEGY AS A COORDINATING DEVICE The greatest challenge of managing an organization is coordinating the actions of different organizational members. Strategy can promote coordination in several ways. First, it is a communication device. Statements of strategy are a powerful means through which the CEO can communicate the identity, goals and positioning of the company to all organizational members. However, communication alone is not enough. For coordination to be effective, buy-in is essential from the different groups that make up the organization. The strategic planning process can provide a forum in which views are exchanged and consensus developed. Once formulated, the implementation of strategy through goals, commitments and performance targets that are monitored over the strategic planning period also provides a mechanism to ensure that the organization moves forward in a consistent direction.

STRATEGY AS TARGET Strategy is forward looking. It is concerned not only with how the firm will compete now but also with what the firm will become in the future. A key purpose of a forward-looking strategy is not only to establish a direction of the firm’s development but also to set aspirations that can motivate and inspire the members of the organization. Gary Hamel and C. K. Prahalad use the term strategic intent to describe the articulation of a desired leadership position. They argue that: ‘strategic intent creates an extreme misfit between resources and ambitions. Top management then challenges the organization to close the gap by building new competitive advantages.’28 The implication they draw is that strategy should be less about fit and resource allocation and more about stretch and resource leverage.29 The evidence from Toyota, Virgin and Southwest Airlines is that resource scarcity may engender ambition, innovation and a ‘success against the odds’ culture. Jim Collins and Jerry Porras make a similar point: US companies that have been sector leaders for 50 years or more – Merck, Walt Disney, 3M, IBM and Ford – have all generated commitment and drive through setting ‘Big, Hairy, Ambitious Goals’.

STRATEGY AS ANIMATION AND ORIENTATION Karl Weick popularized the story of a group of soldiers on reconnaissance in the Alps who, after a snowstorm, lose their way. They are feeling cold and despondent until one of the party discovers a tattered map in a little-used pocket. Finding the map animates the group and gets group members walking until they are back on a familiar bearing. On reaching shelter they find that the map was of another mountain range, the Pyrenees. The moral of the story is that the map is like strategy. Often the most important role of strategy is to animate and orientate individuals within organizations so that they are mobilized, encouraged and work in concert to achieve focus and direction even if the plan isn’t correct. It helps, of course, to work with a map or a plan that is as accurate as possible.

Why Corporate Strategy?
Strategic management is basically needed for every organization and it offers several benefits.
1. Universal-Strategy refers to a complex web of thoughts, ideas, insights, experiences, goals, expertise, memories, perceptions, and expectations that provides general guidance for specific actions in pursuit of particular ends. Nations have, in the management of their national policies, found it necessary to evolve strategies that adjust and correlate political, economic, technological, and psychological factors, along with military elements. Be it management of national policies, international relations, or even of a game on the playfield, it provides us with the preferred path that we should take for the journey that we actually make.

2. Keeping pace with changing environment - The present day environment is so dynamic and fast changing thus making it very difficult for any modern business enterprise to operate. Because of uncertainties, threats and constraints, the business corporation are under great pressure and are trying to find out the ways and means for their healthy survival. Under such circumstances, the only last resort is to make the best use of strategic management which can help the corporate management to explore the possible opportunities and at the same time to achieve an optimum level of efficiency by minimizing the expected threats.

3. Minimizes competitive disadvantage- It minimizes competitive disadvantage and adds up to competitive advantage. For example, a company like Hindustan Lever Ltd., realized that merely by merging with companies like Lakme, Milk food, Ponds, Brooke bond, Lipton etc which make fast moving consumer goods alone will not make it market leader but venturing into retailing will help it reap heavy profits. Then emerged its retail giant "Margin Free" which is the market leader in states like Kerala. Similarly, the R.P. Goenka Group and the Murugappa group realized that mere takeovers do not help and there is a need to reposition their products and reengineer their brands. The strategy worked.

4. Clear sense of strategic vision and sharper focus on goals and objectives- Every firm competing in an industry has a strategy, because strategy refers to how a given objective will be achieved. ‘Strategy’ defines what it is we want to achieve and charts our course in the market place; it is the basis for the establishment of a business firm; and it is a basic requirement for a firm to survive and to sustain itself in today’s changing environment by providing vision and encouraging to define mission.

5. Motivating employees-One should note that the labor efficiency and loyalty towards management can be expected only in an organization that operates under strategic management. Every guidance as to what to do, when and how to do and by whom etc, is given to every employee. This makes them more confident and free to perform their tasks without any
hesitation. Labor efficiency and their loyalty which results into industrial peace and good returns are the results of broad-based policies adopted by the strategic management.

6. Strengthening Decision-Making - Under strategic management, the first step to be taken is to identify the objectives of the business concern. Hence a corporation organized under the basic principles of strategic management will find a smooth sailing due to effective decision-making. This points out the need for strategic management.

7. Efficient and effective way of implementing actions for results - Strategy provides a clear understanding of purpose, objectives and standards of performance to employees at all levels and in all functional areas. Thereby it makes implementation very smooth allowing for maximum harmony and synchrony. As a result, the expected results are obtained more efficiently and economically.

8. Improved understanding of internal and external environments of business - Strategy formulation requires continuous observation and understanding of environmental variables and classifying them as opportunities and threats. It also involves knowing whether the threats are serious or casual and opportunities are worthy or marginal. As such strategy provides for a better understanding of environment.

Levels of strategy - A typical business firm should consider three types of strategies

Corporate strategy - Which describes a company's overall direction towards growth by managing business and product lines? These include stability, growth and retrenchment. For example, Coca-Cola, Inc., has followed the growth strategy by acquisition. It has acquired local bottling units to emerge as the market leader.

Business strategy - Usually occurs at business unit or product level emphasizing the improvement of competitive position of a firm's products or services in an industry or market segment served by that business unit. Business strategy falls in the realm of corporate strategy. For example, Apple Computers uses a differentiation competitive strategy that emphasizes innovative product with creative design. In contrast, ANZ Grindlays merged with Standard Chartered Bank to emerge competitively.

Functional strategy - It is the approach taken by a functional area to achieve corporate and business unit objectives and strategies by maximizing resource productivity. It is concerned with developing and nurturing a distinctive competitive advantage. For example, Procter & Gamble spends huge amounts on advertising to create customer demand.

Operating strategy - These are concerned with how the component parts of an organization deliver effectively the corporate, business and functional level strategies in terms of resources, processes and people. They are at departmental level and set periodic short-term targets for accomplishment.

**SWOT Analysis - Definition, Advantages and Limitations**

SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. By definition, Strengths (S) and Weaknesses (W) are considered to be internal factors over which you have some measure of control. Also, by definition, Opportunities (O) and Threats (T) are considered to be external factors over which you have essentially no control.

SWOT Analysis is the most renowned tool for audit and analysis of the overall strategic position of the business and its environment. Its key purpose is to identify the strategies that will create a firm specific business model that will best align an organization's resources and capabilities to the requirements of the environment in which the firm operates.

In other words, it is the foundation for evaluating the internal potential and limitations and the probable/likely opportunities and threats from the external environment. It views all positive and negative factors inside and outside the firm that affect the success. A consistent study of the environment in which the firm operates helps in forecasting/predicting the changing trends and also helps in including them in the decision-making process of the organization.

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

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

   Strengths can be either tangible or intangible. These are what you are well-versed in or what you have expertise in, the traits and qualities your employees possess (individually and as a team) and the distinct features that give your organization its consistency. Strengths are the beneficial aspects of an organization or the capabilities of an organization which includes human competencies, process capabilities, financial resources, products and services, customer goodwill and brand loyalty. Examples of organizational strengths are huge financial resources, broad product line, no debt, committed employees, etc.

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

   Weaknesses in an organization may be depreciating machinery, insufficient research and development facilities, narrow product range, poor decision-making, etc. Weaknesses are controllable. They must be minimized and eliminated. For instance - to overcome obsolete machinery, new machinery can be purchased. Other examples of organizational weaknesses are huge debts, high employee turnover, complex decision-making process, narrow product range, large wastage of raw materials, etc.

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

   Organization should be careful and recognize the opportunities and grasp them whenever they arise. Selecting the targets that will best serve the clients while getting desired results is a difficult task. Opportunities may arise from market, competition, industry/government and technology. Increasing demand for telecommunications accompanied by deregulation is a great opportunity for new firms to enter the telecom sector and compete with existing firms for revenue.
4. Threats - Threats arise when conditions in external environment jeopardize the reliability and profitability of the organization's business. They compound the vulnerability when they relate to the weaknesses. Threats are uncontrollable. When a threat comes, the stability and survival can be at stake. Examples of threats are - unrest among employees; ever changing technology; increasing competition leading to excess capacity, price wars and reducing industry profits; etc.

Advantages of SWOT Analysis

SWOT Analysis is instrumental in strategy formulation and selection. It is a strong tool, but it involves a great subjective element. It is best when used as a guide, and not as a prescription. Successful businesses build on their strengths, correct their weakness and protect against internal weaknesses and external threats. They also keep a watch on their overall business environment and recognize and exploit new opportunities faster than its competitors.

SWOT Analysis helps in strategic planning in following manner:

a. It is a source of information for strategic planning.
b. Builds organization's strengths.
c. Reverse its weaknesses.
d. Maximize its response to opportunities.
h. It helps in knowing past, present and future so that by using past and current data, future plans can be chalked out.

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

SWOT ANALYSIS FRAMEWORK

**Environmental Scanning**

![Environmental Scanning Diagram](image)

**Internal Analysis**

- Strengths
- Weaknesses

**External Analysis**

- Opportunities
- Threats

Limitations of SWOT Analysis

SWOT Analysis is not free from its limitations. It may cause organizations to view circumstances as very simple because of which the organizations might overlook certain key strategic contact which may occur. Moreover, categorizing aspects as strengths, weaknesses, opportunities and threats might be very subjective as there is great degree of uncertainty in market. SWOT Analysis does stress upon the significance of these four aspects, but it does not tell how an organization can identify these aspects for itself.

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

a. Price increase;
b. Inputs/raw materials;
c. Government legislation;
d. Economic environment;
e. Searching a new market for the product which is not having overseas market due to import restrictions; etc.

Internal limitations may include-

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

BCG Matrix

**Boston Consulting Group (BCG) Matrix** is a four celled matrix (a 2 * 2 matrix) developed by BCG, USA. It is the most renowned corporate portfolio analysis tool. It provides a graphic representation for an organization to examine different businesses in it’s portfolio on the basis of their related market share and industry growth rates. It is a two dimensional analysis on management of SBU’s (Strategic Business Units). In other words, it is a comparative analysis of business potential and the evaluation of environment.

According to this matrix, business could be classified as high or low according to their industry growth rate and relative market share.

**Relative Market Share = SBU Sales this year leading competitors sales this year.**

**Market Growth Rate = Industry sales this year - Industry Sales last year.** The analysis requires that both measures be calculated for each SBU. The dimension of business strength, relative market share, will measure comparative advantage indicated by market dominance.

The key theory underlying this is existence of an experience curve and that market share is achieved due to overall cost leadership.

BCG matrix has four cells, with the horizontal axis representing relative market share and the vertical axis denoting market growth rate. The mid-point of relative market share is set at 1.0. If all the SBU’s are in same industry, the average growth rate of the industry is used. While, if all the SBU’s are located in different industries, then the mid-point is set at the growth rate for the economy. Resources are allocated to the business units according to their situation on the grid. The four cells of this matrix have been called as stars, cash cows, question marks and dogs. Each of these cells represents a particular type of business.

**Figure: BCG Matrix**

1. **Stars**- Stars represent business units having large market share in a fast growing industry. They may generate cash but because of fast growing market, stars require huge investments to maintain their lead. Net cash flow is usually modest. SBU’s located in this cell are attractive as they are located in a robust industry and these business units are highly competitive in the industry. If successful, a star will become a cash cow when the industry matures.

2. **Cash Cows**- Cash Cows represents business units having a large market share in a mature, slow growing industry. Cash cows require little investment and generate cash that can be utilized for investment in other business units. These SBU’s are the corporation’s key source of cash, and are specifically the core business. They are the base of an organization.

These businesses usually follow stability strategies. When cash cows loose their appeal and move towards deterioration, then a retrenchment policy may be pursued.

3. **Question Marks**- Question marks represent business units having low relative market share and located in a high growth industry. They require huge amount of cash to maintain or gain market share. They require attention to determine if the venture can be viable. Question marks are generally new goods and services which have a good commercial prospective. There is no specific strategy which can be adopted. If the firm thinks it has dominant market share, then it can adopt expansion strategy, else retrenchment strategy can
be adopted. Most businesses start as question marks as the company tries to enter a high growth market in which there is already a market-share. If ignored, then question marks may become dogs, while if huge investment is made, then they have potential of becoming stars.

4. Dogs: Dogs represent businesses having weak market shares in low-growth markets. They neither generate cash nor require huge amount of cash. Due to low market share, these business units face cost disadvantages. Generally, retrenchment strategies are adopted because these firms can gain market share only at the expense of competitor’s/rival firms. These businesses have weak market share because of high costs, poor quality, ineffective marketing, etc. Unless a dog has some other strategic aim, it should be liquidated if there is fewer prospects for it to gain market share. Number of dogs should be avoided and minimized in an organization.

Limitations of BCG Matrix

The BCG Matrix produces a framework for allocating resources among different business units and makes it possible to compare many business units at a glance. But BCG Matrix is not free from limitations, such as-

1. BCG matrix classifies businesses as low and high, but generally businesses can be medium also. Thus, the true nature of business may not be reflected.
2. Market is not clearly defined in this model.
3. High market share does not always lead to high profits. There are high costs also involved with high market share.
4. Growth rate and relative market share are not the only indicators of profitability. This model ignores and overlooks other indicators of profitability.
5. At times, dogs may help other businesses in gaining competitive advantage. They can earn even more than cash cows sometimes.
6. This four-celled approach is considered as to be too simplistic.

Tools and techniques for strategic analysis: GEC Mode

The General Electric Matrix is extensively used to appraise competitive scenarios. GE Matrix is a viable tool that assists managers to develop organizational strategy that is based mainly on market attractiveness and business strengths. In consulting engagements with General Electric in the 1970s, McKinsey and Company developed a nine-cell portfolio matrix as a tool to screen GE's large portfolio of strategic business units (SBU). Fundamentally, GE-McKinsey nine-box matrix is a strategy device that offers a systematic approach for the multi-business corporation to prioritize its investments among its business units. It is a structure that assesses business portfolio, delivers further strategic implications and helps to prioritize the investment needed for each business unit (McKinsey & Company, 2008). This matrix was intended to overcome the underperformances that companies were encountering with the BCG matrix and to fill the requirement to compare numerous and diverse businesses.

Development of the G.E Matrix-The G.E matrix is constructed in a 3x3 grid with Market Attractiveness plotted on the Y-axis and Business Strength on the X-axis, both being measured on a high, medium, or low score. Five steps must be considered in order to formulate the matrix;

- The range of products produced by the SBU must be listed
- Factors which make the particular market attractive must be identified
- Evaluating where the SBU stands in this market
- Processes through which calculations about business strength and market attractiveness can be made
- Determining which category an SBU lies in; high, medium, or low

Market Attractiveness

The attractiveness of a market is established by how advantageous it is for a company to enter and compete within this market. It is based on numerous factors such as the size of the market and the rate at which it is growing, the possibility of profit, the number of competitors within the industry and their weaknesses. There are numerous factors which can help govern attractiveness such as Industry size, Industry growth, Market profitability, Pricing trend, Competition intensity, Overall risk and returns in the industry, Opportunity to differentiate products and services and Distribution structure.

Business and Competitive Strength

This factor assists to select whether a company is capable enough to compete in the given markets. It can be determined by factors within the company itself such as its assets and holdings, the share it company holds in the market and the development of this share, the position in the market of its brand and the loyalty of customers to this brand, its creativity in coming up with new and improved products and in dealing with the fluctuating situations of the market, as well as considering environmental/government concerns such as energy consumption, waste disposal. Factors that Affect Business Strength include Strength of assets and competencies, Relative brand strength, Market share and Customer loyalty.

Measuring Market Attractiveness and Business Strength

After identifying above factors, each factor is then given a certain magnitude and a calculation is made as follows; factor 1 rating x factor 1 magnitude + factor 2 rating x factor 2 magnitude + ...... + factor n rating x factor n magnitude.

Plotting

SBU's in the matrix can be signified as a circle; the radius shows the size of the market, the SBU's holdings in the market are equated through a pie chart within the circle and an arrow outside the circle shows the standing of the SBU expected in the future. In the image attached for example, an SBU holds 45% of the market's shares. The arrow is outwards thus showing that the SBU is expected to grow and gain strength and then its tip indicates the future position of the.

GE Matrix Model

This portfolio model enables the business/product to be analysed in terms of dimensions of value to the organisation (Industry attractiveness) and dimensions of value to the customer (Relative Business Strength). The GE McKinsey or Attractiveness Strength matrix is significant primarily to assign priorities for investment in the various businesses of the firm.

Figure: GE Matrix: Market attractiveness competitive position- portfolio classification and strategies (Source: Kotler, 2000)

GE McKinsey matrix has quite resemblance with portfolio assessment framework to BCG matrix. Both matrices are used to analyse company's product or business unit portfolio and facilitate the investment decisions. Major dissimilarity in both models are that GE McKinsey is a nine cell matrix whereas BCG is only a four cell matrix. The GE McKinsey framework was developed by experts because BCG
portfolio tool was not sophisticated enough for the peoples from General Electric. In BCG matrix, competitive power of a business unit is equal to relative market share, which undertakes that the larger the market share a business has the better it is positioned to compete in the market. The matrix can be designated as a multifactor portfolio model and it has a greater flexibility in comparison to the BCG, in terms of the elements that can be included. The matrix allows a company to assess the fit between the organisational competencies and the business/product offerings. It also presents the predicted positioning of businesses/products on the matrix facilitating the strategic planning process. 

Advantages:

1. It used 9 cells where as BCG used 4 cells.  
2. It considers many variables and does not lead to one-dimensional conclusions.  
3. It is more sophisticated business portfolio framework than the BCG matrix.  
4. There are many types of classifications such as high/medium/low and strong/average/low classification allows a better distinction among business portfolio.  
5. This matrix utilizes multiple factors to evaluate industry attractiveness and business strength, which allow users to select criteria appropriate to their situation.<

Disadvantages:

1. GE Matrix Involves a consultant or experts to determine industry’s attractiveness and business unit strength as accurately as possible.  
2. It is costly to conduct.  
3. A major postulation for the GE-McKinsey matrix is that it can operate when the economies of scale are realizable in production and distribution. Unless the same holds true, the concept of leveraging the competencies of the firm and the SBU falls flat.  
4. The core capabilities of the firm or the corporation are not signified in this analysis. The core competencies may be leveraged across SBUs and can be a deciding factor while judging the competitive strength of the SBUs.  
5. It can get quite complicated and cumbersome with the increase in businesses.  
6. It cannot successfully portray the position of new business units in emerging business.

Value chain

A value chain is a set of activities that a firm operating in a specific industry performs in order to deliver a valuable product or service for the market. The concept comes through business management and was first described by Michael Porter in his 1985 best-seller, Competitive Advantage: Creating and Sustaining Superior Performance. The idea of the value chain is based on the process view of organizations, the idea of seeing a manufacturing (or service) organization as a system, made up of subsystems each with inputs, transformation processes and outputs. Inputs, transformation processes, and outputs involve the acquisition and consumption of resources – money, labor, materials, equipment, buildings, land, administration and management. How value chain activities are carried out determines costs and affects profits. The concept of value chains as decision support tools, was added onto the competitive strategies paradigm developed by Porter as early as 1979. In Porter’s value chains, Inbound Logistics, Operations, Outbound Logistics, Marketing and Sales, and Service are categorized as primary activities. Secondary activities include Procurement, Human Resource management, Technological Development and Infrastructure. According to the OECD Secretary-General the emergence of global value chains (GVCs) in the late 1990s provided a catalyst for accelerated change in the landscape of international investment and trade, with major, far-reaching consequences on governments as well as enterprises.

Firm-level

The appropriate level for constructing a value chain is the business unit, not division or corporate level. Products pass through a chain of activities in order, and at each activity the product gains some value. The chain of activities gives the products more added value than the sum of added values of all activities. The activity of a diamond cutter can illustrate the difference between cost and the value chain. The cutting activity may have a low cost, but the activity adds much of the value to the end product, since a rough diamond is significantly less valuable than a cut diamond. Typically, the described value chain and the documentation of processes, assessment
A firm's value chain forms a part of a larger stream of activities, which Porter calls a *value system*. A value system, or an industry value chain, includes the suppliers that provide the inputs necessary to the firm along with their value chains. After the firm creates products, these products pass through the value chains of distributors (which also have their own value chains), all the way to the customers. All parts of these chains are included in the value system. To achieve and sustain a competitive advantage, and to support that advantage with information technologies, a firm must understand every component of this value system.

**Primary activities**
- Inbound Logistics: arranging the inbound movement of materials, parts, and/or finished inventory from suppliers to manufacturing or assembly plants, warehouses, or retail stores
- Operations: concerned with managing the process that converts inputs (in the forms of raw materials, labor, and energy) into outputs (in the form of goods and/or services).
- Outbound Logistics: is the process related to the storage and movement of the final product and the related information flows from the end of the production line to the end user
- Marketing and Sales: selling a product or service and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.
- Service: includes all the activities required to keep the product/service working effectively for the buyer after it is sold and delivered.

**Support activities**
- Infrastructure: consists of activities such as accounting, legal, finance, control, public relations, quality assurance and general (strategic) management.
- Technological Development: pertains to the equipment, hardware, software, procedures and technical knowledge brought to bear in the firm's transformation of inputs into outputs.
- Human Resources Management: consists of all activities involved in recruiting, hiring, training, developing, compensating and (if necessary) dismissing or laying off personnel.
- Procurement: the acquisition of goods, services or works from an outside external source.

**Physical, virtual and combined value chain**

Competitive advantage cannot be understood by looking at a firm as a whole. It stems from the many discrete activities a firm performs in designing, producing, marketing, delivering and supporting its product. Each of these activities can contribute to a firm's relative cost position and create a basis for differentiation.

The value chain categorizes the generic value-adding activities of an organization. The activities considered under this product/service enhancement process can be broadly categorized under two major activity-sets.

1. **Physical/traditional value chain**: a physical-world activity performed in order to enhance a product or a service. Such activities evolved over time by the experience people gained from their business conduct. As the will to earn higher profit drives any business professionals (trained/untrained) practice these to achieve their goal.
2. **Virtual value chain**: The advent of computer-based business-aided systems in the modern world has led to a completely new horizon of *market space* in modern business-jargon – the cyber-market space. Like any other field of computer application, here also we have tried to implement our physical world's practices to improve this digital world. All activities of persistent physical world's physical-value chain enhancement process, which we implement in the cyber-market, are in general terms referred to as a virtual value chain.

In practice as of 2013, no progressive organization can afford to remain stuck to any one of these value chains. In order to cover both market spaces (physical world and cyber world), organizations need to deploy their very best practices in both of these spaces to churn out the most informative data, which can further be used to improve the ongoing products/services or to develop some new product/service. Hence organizations today try to employ the combined value chain.

**Combined Value Chain** = Physical Value shown in sample below.

<table>
<thead>
<tr>
<th>Inbound Logistics</th>
<th>Production Process</th>
<th>Out-Bound Logistics</th>
<th>Marketing</th>
<th>Sales</th>
<th>Activities</th>
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<td>ORGANIZE</td>
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<td>SYNTHESIZE</td>
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<td>DISTRIBUTE</td>
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</table>

This value-chain matrix suggests that there are a number of opportunities for improvement in any business process.

**Industry-level**: An industry value-chain is a physical representation of the various processes involved in producing goods (and services), starting with raw materials and ending with the delivered product (also known as the supply chain) it is based on the notion of value-added at the link (read: stage of production) level. The sum total of link-level value-added yields total value. The French Physiocrats’ *Tableau economies* are one of the earliest examples of a value chain. Wasilly Leontief's Input-Output tables, published in the 1950s, provide estimates of the relative importance of each individual link in industry-level value-chains for the U.S. economy.

**Global value chains**

**Cross border / cross region value chains**: Often multinational enterprises (MNEs) developed global value chains, investing abroad and establishing affiliates that provided critical support to remaining activities at home. To enhance efficiency and to optimize profits, multinational enterprises locate “research, development, design, assembly, production of parts, marketing and branding” activities in different countries around the globe. MNEs offshore labor-intensive activities to China and Mexico, for example, where the cost of labor is the lowest. ([Gurría 2012](#)) the emergence of global value chains (GVCs) in the late 1990s provided a catalyst for accelerated change in the landscape of international investment and trade, with major, far-reaching consequences on governments as well as enterprises.

**Global value chains (GVCs)** in development

Through global value chains, there has been growth in interconnectedness as MNEs play an increasingly larger role in the internationalization of business. In response, governments have cut Corporate income tax (CIT) rates or introduced new incentives for research and development to compete in this changing geopolitical landscape.

In an (industrial) development context, the concepts of Global Value Chain analysis were first introduced in the 1990s ([Giraffe et al.](#)) and have gradually been integrated into development policy by the World Bank, Unctad, the OECD and others.
Value chain analysis has also been employed in the development sector as a means of identifying poverty reduction strategies by upgrading along the value chain. Although commonly associated with export-oriented trade, development practitioners have begun to highlight the importance of developing national and intra-regional chains in addition to international ones. For example, the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT) has investigated strengthening the value chain for sweet sorghum as a biofuel crop in India. Its aim in doing so was to provide a sustainable means of making ethanol that would increase the incomes of the rural poor, without sacrificing food and fodder security, while protecting the environment.

**Significance**

The value chain framework quickly made its way to the forefront of management thought as a powerful analysis tool for strategic planning. The simpler concept of value streams, a cross-functional process which was developed over the next decade had some success in the early 1990s.

The value-chain concept has been extended beyond individual firms. It can apply to whole supply chains and distribution networks. The delivery of a mix of products and services to the end customer will mobilize different economic factors, each managing its own value chain. The industry wide synchronized interactions of those local value chains create an extended value chain, sometimes global in extent. Porter terms this larger interconnected system of value chains the "value system". A value system includes the value chains of a firm’s supplier (and their suppliers all the way back), the firm itself, the firm distribution channels, and the firm’s buyers (and presumably extended to the buyers of their products, and so on).

Capturing the value generated along the chain is the new approach taken by many management strategists. For example, a manufacturer might require its parts suppliers to be located nearby its assembly plant to minimize the cost of transportation. By exploiting the upstream and downstream information flow along the value chain, the firms may try to bypass the intermediaries creating new ‘business models’, or in other ways create improvements in its value system. Value chain analysis has also been successfully used in large petrochemical plant maintenance organizations to show how work selection, work planning, work scheduling and finally work execution can (when considered as elements of chains) help drive lean approaches to maintenance. The Maintenance Value Chain approach is particularly successful when used as a tool for helping change management as it is seen as more user-friendly than other business process tools. A value chain approach could also offer a meaningful alternative to evaluate private or public companies when there is a lack of publicly known data from direct competition, where the subject company is compared with, for example, a known downstream industry to have a good feel of its value by building useful correlations with its downstream companies.

**Porter's Value Chain – the seminal ‘business school definition’**

“The idea of the value chain is based on the process view of organizations, the idea of seeing a manufacturing (or service) organization as a system, made up of subsystems each with inputs, transformation processes and outputs. Inputs, transformation processes, and outputs involve the acquisition and consumption of resources - money, labor, materials, equipment, buildings, land, administration and management. How value chain activities are carried out determines costs and affects profits. Most organizations engage in hundreds, even thousands, of activities in the process of converting inputs to outputs. [According to Porter (1985) these] activities can be classified generally as either primary or support activities that all businesses must undertake in some form.”

**What is the value chain?**

Some influential business thinkers, most notably Michael Porter at Harvard Business School, have introduced the concepts of value chains that we discuss here. When a company enters and competes in any industry it performs a number of discrete but interconnected value-creating activities.

**‘Value chain’ versus ‘supply chain’**

A ‘supply chain’ refers to the system and resources required to move a product or service from supplier to customer. The ‘value chain’ concept builds on this to also consider the manner in which value is added along the chain, both to the product / service and the actors involved. From a sustainability perspective, ‘value chain’ has more appeal, since it explicitly references internal and external stakeholders in the value-creation process.

**Primary Business Activities**

**Purchasing** includes activities, costs, and assets related to buying the inputs and supplies, and inbound logistics like receiving, storing, and distributing.

**Operations** include activities, costs, and assets associated with converting inputs into final product form, such as production, assembly, packaging, equipment maintenance, and quality assurance.

**Outbound logistics** include activities, costs, and assets dealing with physically distributing the product to buyers like warehousing, order processing, order picking, packing, shipping, and delivery vehicle operations.

**Marketing and sales** are related to sales force efforts, advertising and promotion, market research and planning, and dealer/distributor support.
Service is associated with providing assistance to buyers, such as installation, spare parts delivery, maintenance and repair, technical assistance, buyer inquiries, and handling complaints.

Support Activities
Research, technology, and systems development includes all activities, costs, and assets related to product R&D, process R&D, equipment design, data-basing, and computerized support systems.

Human resource management includes all activities, costs, and assets associated with the recruitment, hiring, training, development, and compensation of all types of personnel and development of knowledge-based skills.

General administration relates to general management, accounting and finance, legal and regulatory affairs, safety and security, management information systems, and all other overhead functions.

The McKinsey 7-S Framework

While some models of organizational effectiveness go in and out of fashion, one that has persisted is the McKinsey 7-S framework. Developed in the early 1980s by Tom Peters and Robert Waterman, two consultants working at the McKinsey & Company consulting firm, the basic premise of the model is that there are seven internal aspects of an organization that need to be aligned if it is to be successful. The 7-S model can be used in a wide variety of situations where an alignment perspective is useful, for example, to help you:

- Improve the performance of a company.
- Examine the likely effects of future changes within a company.
- Align departments and processes during a merger or acquisition.
- Determine how best to implement a proposed strategy.

"Hard" elements are easier to define or identify and management can directly influence them: These are strategy statements; organization charts and reporting lines; and formal processes and IT systems.

"Soft" elements, on the other hand, can be more difficult to describe, and are less tangible and more influenced by culture. However, these soft elements are as important as the hard elements if the organization is going to be successful.

The way the model is presented in Figure 1 below depicts the interdependency of the elements and indicates how a change in one affects all the others.

Let's look at each of the elements specifically:

- **Strategy:** the plan devised to maintain and build competitive advantage over the competition.
- **Structure:** the way the organization is structured and who reports to whom.
- **Systems:** the daily activities and procedures that staff members engage in to get the job done.
- **Shared Values:** called "superordinate goals" when the model was first developed, these are the core values of the company that are evidenced in the corporate culture and the general work ethic.
- **Style:** the style of leadership adopted.
- **Staff:** the employees and their general capabilities.
- **Skills:** the actual skills and competencies of the employees working for the company.

**How to Use the Model**

Now you know what the model covers, how can you use it?

The model is based on the theory that, for an organization to perform well, these seven elements need to be aligned and mutually reinforcing. So, the model can be used to help identify what needs to be realigned to improve performance, or to maintain alignment (and performance) during other types of change. Whatever the type of change – restructuring, new processes, organizational merger, new systems, change of leadership, and so on – the model can be used to understand how the organizational elements are interrelated, and so ensure that the wider impact of changes made in one area is taken into consideration.

You can use the 7-S model to help analyze the current situation (Point A), a proposed future situation (Point B) and to identify gaps and inconsistencies between them. It's then a question of adjusting and tuning the elements of the 7-S model to ensure that your organization works effectively and well once you reach the desired endpoint.

Sounds simple? Well, of course not: Changing your organization probably will not be simple at all! Whole books and methodologies are dedicated to analyzing organizational strategy, improving performance and managing change. The 7-S model is a good framework to help you ask the right questions – but it won't give you all the answers. For that you'll need to bring together the right knowledge, skills and experience.

When it comes to asking the right questions, we've developed a Mind Tools checklist and a matrix to keep track of how the seven elements align with each other. Supplement these with your own questions, based on your organization's specific circumstances and accumulated wisdom.

**7-S Checklist Questions**

Here are some of the questions that you'll need to explore to help you understand your situation in terms of the 7-S framework. Use them to analyze your current (Point A) situation first, and then repeat the exercise for your proposed situation (Point B).

**Strategy:**
- What is our strategy?
- How do we intend to achieve our objectives?
- How do we deal with competitive pressure?

**Structure:**
- How is the company/team divided?

**Support Activities**

**Human resource management**

**General administration**

**Research, technology, and systems development**

<table>
<thead>
<tr>
<th>Hard Elements</th>
<th>Soft Elements</th>
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</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>Shared Values</td>
</tr>
<tr>
<td>Structure</td>
<td>Skills</td>
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<td>Systems</td>
<td>Style</td>
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<td>Staff</td>
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The way the model is presented in Figure 1 below depicts the interdependency of the elements and indicates how a change in one affects all the others.
Knowledge management is the process of capturing, distributing, and effectively using knowledge.

Knowledge management (KM) is the process of creating, sharing, using and managing the knowledge and information of an organization. It refers to a multidisciplinary approach to achieving organizational objectives by making the best use of knowledge.

An established discipline since 1991, KM includes courses taught in the fields of business administration, information systems, management, library, and information sciences. Knowledge management, like other fields, may contribute to KM research, including in computer science, public health and public policy.

Several universities offer dedicated master's degrees in knowledge management, library, and information sciences. Other fields may contribute to KM research, including in computer science, public health and public policy.

Many large companies, public institutions and non-profit organizations have resources dedicated to internal KM efforts, often as a part of their business strategy, IT, or human resource management departments. Several consulting companies provide advice regarding KM to these organizations.

Knowledge management efforts typically focus on organisational objectives such as improved performance, competitive advantage, innovation, the sharing of lessons learned, integration and continuous improvement of the organisation. These efforts overlap with...
organisational learning and may be distinguished from that by a greater focus on the management of knowledge as a strategic asset and on encouraging the sharing of knowledge. KM is an enabler of organisational learning.

Dimensions

Different frameworks for distinguishing between different 'types of' knowledge exist. One proposed framework for categorizing the dimensions of knowledge distinguishes tacit knowledge and explicit knowledge. Tacit knowledge represents internalized knowledge that an individual may not be consciously aware of, such as to accomplish particular tasks. At the opposite end of the spectrum, explicit knowledge represents knowledge that the individual holds consciously in mental focus, in a form that can easily be communicated to others.

Knowledge management is essentially about getting the right knowledge to the right person at the right time. This in itself may not seem complex, but it implies a strong tie to corporate strategy, understanding of where and in what forms knowledge exists, creating processes that span organizational functions, and ensuring that initiatives are accepted and supported by organizational members.

Knowledge management may also include new knowledge creation, or it may solely focus on knowledge sharing, storage, and refinement. For a more comprehensive discussion and definition, see my knowledge management definition. It is important to remember that knowledge management is not about managing knowledge for knowledge's sake. The overall objective is to create value and leverage and refine the firm's knowledge assets to meet organizational goals.

Implementing knowledge management thus has several dimensions including:

Strategy: Knowledge management strategy must be dependent on corporate strategy. The objective is to manage, share, and create relevant knowledge assets that will help meet tactical and strategic requirements.

Organizational Culture: The organizational culture influences the way people interact, the context within which knowledge is created, the resistance they will have towards certain changes, and ultimately the way they share (or the way they do not share) knowledge.

Organizational Processes: The right processes, environments, and systems that enable KM to be implemented in the organization.

Management & Leadership: KM requires competent and experienced leadership at all levels. There are a wide variety of KM-related roles that an organization may or may not need to implement, including a CIO, knowledge managers, knowledge brokers and so on. More on this in the section on KM positions and roles.

Technology: The systems, tools, and technologies that fit the organization's requirements - properly designed and implemented.

Politics: The long-term support to implement and sustain initiatives that involve virtually all organizational functions, which may be costly to implement (both from the perspective of time and money), and which often do not have a directly visible return on investment.

Knowledge management (KM) technology can be categorized:

Groupware—Technologies that facilitate collaboration and sharing of organizational information. One of the earliest successful products in this category was Lotus Notes: it provided tools for threaded discussions, sharing of documents, organization wide uniform email, etc.

Workflow—Workflow tools allow the representation of processes associated with the creation, use and maintenance of organizational knowledge. For example, the process to create and utilize forms and documents.

Content/Document Management—Systems that automate the process of creating web content and/or documents. Roles such as editors, graph designers, writers and producers can be explicitly modelled along with the tasks in the process and validation criteria. Commercial vendors started either to support documents (e.g. Documented) or to support web content (e.g. interwoven) but as the Internet grew these functions merged and vendors now perform both functions.

Enterprise portals—Web sites that aggregate information across the entire organization or for groups such as project teams.

E-Learning—Enables organizations to create customized training and education software. This can include lesson plans, monitoring progress and online classes.

Scheduling and Planning—Automate schedule creation and maintenance, e.g., Microsoft Outlook. The planning aspect can integrate with project management tools such as Microsoft Project.

Telepresence—Enables individuals to have virtual "face-to-face" meetings without assembling at one location. Videoconferencing is the most obvious example.

Workflow for example is a significant aspect of a content or document management systems, most of which have tools for developing enterprise portals.

The adoption of Internet standards led KM technology products such as Lotus Notes defined proprietary formats for email, documents, forms, etc. The Internet drove most vendors to adopt Internet formats. Open-source and freeware tools for the creation of blogs and wikis now enable capabilities that used to require expensive commercial tools.

KM is driving the adoption of tools that enable organizations to work at the semantic level,[49] as part of the Semantic Web.[50] For example, the Stanford Protégé Ontology Editor

Explicit, Implicit and Tacit Knowledge

In the KM literature, knowledge is most commonly categorized as either explicit or tacit (that which is in people's heads). This characterization is however rather too simple, but a more important point, and a criticism, is that it is misleading. A much more nuanced and useful characterization is to describe knowledge as explicit, implicit, and tacit.

Explicit: information or knowledge that is set out in tangible form.

Implicit: information or knowledge that is not set out in tangible form but could be made explicit.

Tacit: information or knowledge that one would have extreme difficulty operationally setting out in tangible form.

The classic example in the KM literature of true "tacit" knowledge is Nonaka and Takeuchi's example of the kinaesthetic knowledge that was necessary to design and engineer a home bread maker, knowledge that could only be gained or transferred by having engineers work alongside bread makers and learn the motions and the "feel" necessary to knead bread dough (Nonaka & Takeuchi, 1995).

The danger of the explicit-tacit dichotomy is that by describing knowledge with only two categories, i.e., explicit, that which is set out in tangible form, and tacit, that which is within people, is that it then becomes easy to think overly simplistically in terms of explicit knowledge, which calls for "collecting" KM methodologies, and tacit knowledge, which calls for "connecting" KM methodologies, and to overlook the fact that, in many cases, what may be needed is to convert implicit tacit knowledge to explicit knowledge, for example the after action reports and debriefings described below.
Looking at KM historically through the stages of its development tells us not only about the history of KM, but it also reveals a great deal about what constitutes KM.

First Stage of KM: Information Technology

The initial stage of KM was driven primarily by IT, information technology. That first stage has been described using an equestrian metaphor as "by the internet out of intellectual capital". The concept of intellectual capital provided the justification and the framework, the seed, and the availability of the internet provided the tool. As described above, the consulting community jumped at the new capabilities provided by the Internet, using it first for themselves, realizing that if they shared knowledge across their organization more effectively, then they could avoid reinventing the wheel, underbid their competitors, and make more profit. The first use of the term Knowledge Management in the new context appears to have been at McKinsey. They realized quickly that they had a compelling new product. Ernst and Young organized the first conference on KM in 1992 in Boston (Prusak, 1999). The salient point is that the first stage of KM was about how to deploy that new technology to accomplish more effective use of information and knowledge. The first stage might be described as the "If only Texas Instruments knew what Texas Instruments knew" stage, to revisit a much quoted aphorism. The hallmark phrase of Stage 1 was first "best practices," to be replaced by the more politic "lessons learned."

Second Stage of KM: HR and Corporate Culture

The second stage of KM emerged when it became apparent that simply deploying new technology was not sufficient to effectively enable information and knowledge sharing. Human and cultural dimensions needed to be addressed. The second stage might be described as the "If you build it they will come" stage—the recognition that "If you build it they will come" is a recipe that can easily lead to quick and embarrassing failure if human factors are not sufficiently taken into account. It became clear that KM implementation would involve changes in the corporate culture, in many cases rather significant changes. Consider the case above of the new pediatric medicine and the discovery of the efficacy of adding orange juice to the recipe. Pharmaceutical sales reps are compensated primarily not by salary, but by bonuses based on sales results. What is in it for that sales rep to share her new discovery when the most likely result is that next year her bonus would be substantially reduced? The changes in corporate culture needed to facilitate and encourage information and knowledge sharing can be major and profound. KM therefore extends far beyond just structuring information and knowledge and making it more accessible.

As this recognition unfolded, two major themes from the business literature were brought into the KM fold. The first was Senge’s work on the learning organization (Senge, Peter M., 1990 The Fifth Discipline: The Art and Practice of the Learning Organization.) The second was Nonaka’s work on “tacit” knowledge and how to discover and cultivate it (Nonaka, Ikujiro & Takeuchi, Hirota, 1995 The Knowledge-Creating Company: How Japanese Companies Create the Dynamics of Innovation.) Both were not only about the human factors of KM implementation and use; they were also about knowledge creation as well as knowledge sharing and communication. The hallmark phrase of Stage 2 was “communities of practice.” A good marker of the shift from the first to the second stage of KM is that for the 1998 Conference Board conference on KM, there was for the first time a noticeable contingent of attendees from HR, human resources, departments, and by the next year, 1999, HR was the largest single group, displacing IT attendees from first place.

Third Stage of KM: Taxonomy and Content Management

The third stage developed from the awareness of the importance of content, and in particular the awareness of the importance of the retrievability of content, and therefore of the importance of the arrangement, description, and structure of that content. Since a good alternative description for the second stage of KM is the “it’s no good if they don’t use it” stage, then in that vein, perhaps the best description for the new third stage is the “it’s no good if they try to use it but can’t find it” stage. Another bellwether is that TFPL’s report of their October 2001 CKO (Chief Knowledge Officer) Summit reported that for the first time taxonomies emerged as a topic, and it emerged full blown as a major topic (TFPL, 2001 Knowledge Strategies – Corporate Strategies.) The hallmark phrases emerging for the third stage are content management (or enterprise content management) and taxonomies. At KMWorld 2000 a track on Content Management appeared for the first time, and by the 2001 KMWorld Conference, Content Management had become the dominant track. In 2006, KMWorld added a two-day workshop entitled Taxonomy Boot Camp, which still exists today. The hallmark terms for the third stage of KM are taxonomy and content.

Corporate Philosophy and Corporate Governance

1. Introduction- Corporate Governance refers to the relationship that exists between the different stakeholders for an organization, and defining the direction and performance of an organization or a corporate firm. The relevance of understanding the issues and concerns and to have good corporate governance in letter and spirit has always been there for a sustained, sustainable growth for any organization. This issue has gained more importance, when we see many corporate scandals coming out in India as well as other parts of the world in recent past. As those organizations did not apply good principles of corporate governance. The following bodies are the main actors in Corporate Governance.

1) The Chief Executive Officer, i.e. the top person in the organization & the top management of the organization
2) The board of directors
3) The shareholders

The other actors who influence governance in corporations or firms are the employees, suppliers, customers, creditors and the community i.e. all the stakeholders for the organization. A corporation can be defined as an instrument or a body by means of which capital is acquired, used for investing in assets producing goods and services, and their distribution. In simple words the essence of corporate governance is set of mechanisms used to manage the relationship among stakeholders and to determine and control the strategic direction and performance of organizations. At its core, corporate governance is concerned with identifying ways to ensure that strategic decisions are made effectively [Hitt et al., 2012]]. Fernando (2012) gives the concept of what is Good Corporate Governance? He emphasizes that terms “Governance” and “Good Governance” are being increasingly used in development literature. Bad governance is being recognized now as one of the root causes of corrupt practices in our societies. He also emphasizes the company including its officers, including the board of directors and officials, especially the senior management, should strictly follow a code of conduct, which should have the obligation to society at large including the National interest, Political non-alignment, Legal compliances, Rule of law, Honest and Ethical Conduct, Corporate Citizenship, Social Concerns, Corporate Social Responsibility, Environment – Friendliness, Healthy and Safe working environment, Healthy Competition, Trusteeship, Accountability, Effectiveness and efficiency, Timely responsiveness, and Corporations should uphold the fair name of the country. This direction and subsequent performance will determine the success/failure of the organization. Hence the need to understand the issue of Corporate Governance is examined in the next section.
Corporate governance

Corporate governance is about maximizing shareholder value legally, ethically and on a sustainable basis. At Infosys, the goal of corporate governance is to ensure fairness for every stakeholder – our customers, investors, vendor-partners, the community, and the governments of the countries in which we operate. We believe that sound corporate governance is critical in enhancing and retaining investor trust. It is a reflection of our culture, our policies, our relationship with stakeholders and our commitment to values. Accordingly, we always seek to ensure that our performance is driven by integrity.

WHY THE ISSUE OF CORPORATE GOVERNANCE IS IMPORTANT?
The Corporate Governance reflects the company’s values. Corporate governance has been emphasized in recent years because it has been shown in many companies worldwide, the governance mechanisms occasionally have failed to adequately monitor and control top-level managers’ decisions. Misangyi & Acharya (2014) findings suggest that high profits result when CEO incentive alignment and monitoring mechanisms work together as complements rather than as substitutes. Furthermore, they show that high profits are obtained when both internal and external monitoring mechanisms are present. Their findings clearly suggest that the effectiveness of board independence and CEO non-duality—governance mechanisms widely believed to singularly resolve the agency problem—depends on how each combine together with the other mechanisms in the governance bundle. This situation has resulted in changes in governance mechanisms in corporations throughout the world, especially with respect to efforts intended to improve the performance of boards of directors. Robert Monks (2005), in his paper “Corporate Governance—USA Fall 2004 Reform—The Wrong Way and the Right Way”, concludes that almost there is a universal agreement that the Corporate Governance in America is failing. Andrea George Scherer and Guilio Palazzo (2011) in their paper “The New Political Role of Business in Globalized World: A Review of New Perspective on CSR and its implications for the Firm, Government and Democracy”, conclude that under the conditions of globalization, the strict division of labor between private business and nation-state governance does not hold any more. Many businesses firms have started assuming social and political responsibilities that go beyond legal requirements and fill the regulatory vacuum in the global presence. A second and more positive reason for this interest is evidence suggests that a well-functioning corporate governance and control system can create a competitive advantage for an individual firm. This is true for organizations worldwide including India.

Corporate governance philosophy

Our corporate governance philosophy is based on the following principles:

1. Satisfying the spirit of the law and not just the letter of the law
2. Going beyond the law in upholding corporate governance standards
3. Maintaining transparency and a high degree of disclosure levels
4. Making a clear distinction between personal convenience and corporate resources
5. Embracing a trusteeship model in which the management is the trustee of the shareholders’ capital and not the owner

OBJECTIVES OF CORPORATE GOVERNANCE

To enhance the shareholders’ value and protect the interest of other stakeholders by enhancing the corporate performance and accountability.

THE STAKEHOLDERS – AS HUMAN BEING IN BUSINESS

The stakeholders are the principal players in inception, sustainability, development and growth of any organization. They are shareholders, all employees of the company or organization, suppliers, customers, investors, banks, regulating agencies, government and community at large. All the means of production in an organization are utilized to create wealth for the community in general and stakeholders in particular. Everybody from supplier to customer, from investors to lenders, and from shareholders to stakeholders to the government is important in an organization. Manpower, Machinery and Money may travel from person to person, from place to place but the core of all the activities remains “People”.

Stakeholders and Performance Expectation

1. Investor
   Expects high dividend and capital appreciation in the organization.
2. Lender
   Expects timely repayment of loan and interest
3. Supplier
   Expects fair terms and timely payments
4. Employee
   Expects good working environment, fair remuneration and security
5. Customer
   Expects Quality product & services at fair price (value for money)
6. Government
   Expects the company to partner in nation building by paying taxes or directly spending on social projects
7. Society
   Expects the company to use resources judiciously so as to maintain ecological balance and sustainable development and also partner in nation building.

NEED FOR GOOD CORPORATE GOVERNANCE

Research has shown that good corporate governance can lead to improved share price performance. There is evidence that there is a great potential for good performance by companies, which have got good corporate governance mechanism and the greatest benefit is in developing companies. Studies have indicated that investors are keener to invest in a better...
governed company. Corporate Governance can be a very powerful tool for development especially in country like India.

The following issues are important for good Corporate Governance.

- The rights and obligation of shareholders.
- Equitable treatment of all stakeholders.
- The role of all stakeholders clearly defined and the linkage for corporate governance established.

2.1 MECHANISM AND CONTROL FOR CORPORATE GOVERNANCE

The mechanism and controls are designed to reduce the inefficiencies that arise from moral incongruities and adverse selection. Ethical diversion is a very important issue for Corporate Governance, while designing mechanism and control. The issues could be:

- Monitoring the Role/effectiveness of the Board of Directors.
- Remuneration of the Board Members and other employees in the company.
- Responsibilities and accountability for Audit Committees- financial reporting process, monitoring the choice of accounting policies and principles, monitoring internal control process and policy decisions for hiring and performance of the external auditors.
- Issues and concerns of Government Regulations
- Understand the strategic issues of the competition
- Management labour market and concerns of control mechanisms.

2.2 THE IMPACT OF CORPORATE GOVERNANCE ON PRODUCTIVITY AND THE CORPORATE SECTOR IN INDIA

In India, the idea of Corporate Governance is relatively new. Traditionally few researchers have written about it. Narayanaswamy, R. et al (2012) [10] provide a brief overview of corporate governance in India, including a description of Indian contextual differences (as compared to the U.S. and elsewhere) and a discussion of the major events contributing to the evolution of India’s corporate governance/accounting/auditing practices since economic deregulation in 1991. They also offer an agenda for future research on important Indian governance/accounting/auditing issues, and briefly address accounting practice implications.

The Corporate sector operated generally on a philosophy of cost of production plus in the protected economy. Since they were not exposed to any serious competition, Indian industries continued with existing technologies and remained insensitive about technological developments and happening, but this trend is changing in many corporate houses in due course of the time and the companies in India as a result are becoming very much competitive and are harnessing technological, product and product innovation to become global players in their field. All such companies in India have given lot of importance to the issue of corporate governance.

Bhattacharya, CB. et al in McKinsey Report (2011) [11] talks about how companies can use Corporate Responsibility towards stakeholders as a conduit for furthering its goals. Ultimately stakeholders prefer companies which produce tangible and psychological benefits – which favor good Corporate Governance. Better governance reforms reduce uncertainty & are engines of stability and continued progress has helped Asian Corporate transform themselves during the period of globalization, as per report by Asian Productivity Organization, Tokyo in 2004.

The private corporate like the Tata Group, Aditya Birla Group, Infosys Technologies, Wipro Technologies, Godrej Group, Mahindra & Mahindra Group and Larson & Toubro (L&T), of companies are giving a lot of importance to the issue of corporate governance. Some of them had understood this issue much better quite early, when they started their companies. Recently, Public sector companies in India, many of them, which have been, listed companies like Oil and Natural Gas Corporation (ONGC), Indian Oil Corporation Ltd., Bharat Heavy Electricals Limited (BHEL), National Thermal Power Corporation (NTPC), Gas Authorities of India Limited (GAIL), Engineers India Limited (EIL), Gujarat Alkalies & Chemicals Ltd., Bharat Electronics Limited (BEL), and other such companies are applying the codes of good corporate governance for their organizations.

The guidelines and codes have evolved over a period in India by Securities Exchange Board of India (SEBI) and various Committee setup by the Parliament to come up with the guidelines on corporate governance to Indian Companies. This part is looked in the next part of this paper.

RECENT DEVELOPMENT ON THE CODES FOR CORPORATE GOVERNANCE FOR INDIAN COMPANIES

- A committee headed by Shri Naresh Chandra was constituted August 2002 to examine corporate audit, role of auditors, relationship of company & auditor.
- The key recommendations of the Naresh Chandra Committee are given below:
  - Recommended a list of disqualifications for Audit Assignments like Direct Relationship with company, any Business relationship with the client, and personnel relationship with the directors of the board.
  - Audit firms not provide services such as accounting, internal audit assignments etc. to audit clients.
  - Audit to disclose contingent liabilities & highlight significant accounting Policies.
  - Audit Committee to be first point of reference for appointment of auditors.
  - Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of listed company to certify on fairness, corrections of annual audited accounts.
  - Redefinitions of independent Directors- Does not have any material relationship with the company.
  - Composition of Board of Directors
  - Statutory limit on the sitting fee to non-executive Directors to be reviewed.

These recommendations now have been formed part of companies (Amendment) Bill, 2003 by the Parliament of India.

- Securities Exchange Board of India (SEBI) constituted a committee headed by Shri N.R.Narayana Murthy to review existing code of corporate Governance. The major recommendations were:
  - Strengthening the responsibilities of Audit Committee
  - Improving the quality of Financial Disclosures
  - Utilizations of proceeds from IPO
  - Whistle Blower policy to be in place in a company providing Freedom to approach the Audit Committee
  - To assess and disclose Business risk

- Companies Act 2013 (CA 2013) [14], which has replaced the Companies Act 1956 (CA 1956), has brought in some significant changes in Corporate Governance standards, including:
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CA 2013 requires companies to have following classes of Directors as shown in Fig 3
5.1 THE DIRECTORIAL DASHBOARD

As given by Garratt in the year 2003, the Directorial Dashboard concept gives an integration of the Corporate Governance and its relevance and Strategy Formulation & Implementation for an organization is given in Fig.6, as an Organizational Ecosystem.

Business Ethics and Social Responsibility

Ethics - Ethics is a branch of social science. It deals with moral principles and social values. It helps us to classifyifying, what is good and what is bad? It tells us to do good things and avoid doing bad things.

So, ethics separate, good and bad, right and wrong, fair and unfair, moral and immoral and proper and improper human action. In short, ethics means a code of conduct. It is like the 10 commandments of Holy Bible. It tells a person how to behave with another person.

What does Business Ethics mean?

In short, business ethics means to conduct business with a human touch in order to give welfare to the society. So, the businessmen must give a regular supply of good quality goods and services at reasonable prices to their consumers. They must avoid indulging in unfair trade practices like adulteration, promoting misleading advertisements, cheating in weights and measures, black marketing, etc. They must give fair wages and provide good working conditions to their workers. They must not exploit the workers. They must encourage competition in the market. They must protect the interest of small businessmen. They must avoid unfair competition. They must avoid monopolies. They must pay all their taxes regularly to the government.

Definition of Business Ethics

Adam Smith said, "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." [2] Governments use laws and regulations to point business behaviour in what they perceive to be beneficial directions. Ethics implicitly regulates areas and details of behaviour that lie beyond
governmental control. The emergence of large corporations with limited relationships and sensitivity to the communities in which they operate accelerated the development of formal ethics regimes.

According to Andrew Crane, “Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed.”

According to Raymond C. Baumhart, "The ethics of business is the ethics of responsibility. The business man must promise that he will not harm knowingly."

According to Wikipedia, “Business ethics (also corporate ethics) is a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations.”

Nature of Business Ethics

The characteristics or features of business ethics are:-

- **Code of conduct**: Business ethics is a code of conduct. It tells what to do and what not to do for the welfare of the society. All businessmen must follow this code of conduct.
- **Based on moral and social values**: Business ethics is based on moral and social values. It contains moral and social principles (rules) for doing business. This includes self-control, consumer protection and welfare, service to society, fair treatment to social groups, not to exploit others, etc.
- **Gives protection to social groups**: Business ethics give protection to different social groups such as consumers, employees, small businessmen, government, shareholders, creditors, etc.
- **Provides basic framework**: Business ethics provide a basic framework for doing business. It gives the social cultural, economic, legal and other limits of business. Business must be conducted within these limits.
- **Voluntary**: Business ethics must be voluntary. The businessmen must accept business ethics on their own. Business ethics must be like self-discipline. It must not be enforced by law.
- **Requires education and guidance**: Businessmen must be given proper education and guidance before introducing business ethics. The businessmen must be motivated to use business ethics. They must be informed about the advantages of using business ethics. Trade Associations and Chambers of Commerce must also play an active role in this matter.
- **Relative Term**: Business ethics is a relative term. That is, it changes from one business to another. It also changes from one country to another. What is considered as good in one country may be taboo in another country.
- **New concept**: Business ethics is a newer concept. It is strictly followed only in developed countries. It is not followed properly in poor and developing countries.

Importance of Business Ethics

- **Long-term growth**: sustainability comes from an ethical long-term vision which takes into account all stakeholders. Smaller but sustainable profits long-term must be better than higher but riskier short-lived profits.
- **Cost and risk reduction**: companies which recognise the importance of business ethics will need to spend less protecting themselves from internal and external behavioural risks, especially when supported by sound governance systems and independent research.
- **Anti-capitalist sentiment**: the financial crisis marked another blow for the credibility of capitalism, with resentment towards bank bailouts at the cost of fundamental rights such as education and healthcare.
- **Limited resources**: the planet has finite resources but a growing population; without ethics, those resources are repleted for purely individual gain at huge cost both to current and future generations.

SCOPE OF BUSINESS ETHICS

Ethical problems and phenomena arise across all the functional areas of companies and at all levels within the company.

1. **Ethics in Compliance**

Compliance is about obeying and adhering to rules and authority. The motivation for being compliant could be to do the right thing out of the fear of being caught rather than a desire to be abiding by the law. An ethical climate in an organization ensures that compliance with law is fuelled by a desire to abide by the laws. Organizations that value high ethics comply with the laws not only in letter but go beyond what is stipulated or expected of them.

2. **Ethics in Finance**

The ethical issues in finance that companies and employees are confronted with include:

- In accounting – window dressing, misleading financial analysis.
- Related party transactions not at arm’s length Insider trading, securities fraud leading to manipulation of the financial markets.
- Executive compensation.
- Bribery, kickbacks, over billing of expenses, facilitation payments.
- Fake reimbursements

3. **Ethics in Human Resources**

Human resource management (HRM) plays a decisive role in introducing and implementing ethics. Ethics should be a pivotal issue for HR specialists. The ethics of human resource management (HRM) covers those ethical issues arising around the employer-employee relationship, such as the rights and duties owed between employer and employee.

The issues of ethics faced by HRM include:

- Discrimination issues i.e. discrimination on the bases of age, gender, race, religion, disabilities, weight etc.
- Sexual harassment.
- Affirmative Action.

Issues surrounding the representation of employees and the democratization of the workplace, trade ization. Issues affecting the privacy of the employee: workplace surveillance, drug testing.
issues affecting the privacy of the employer: whistle-blowing. Issues relating to the fairness of the employment contract and the balance of power between employer and employee. Occupational safety and health. Companies tend to shift economic risks onto the shoulders of their employees. The boom of performance-related pay systems and flexible employment contracts are indicators of these newly established forms of shifting risk.

4. Ethics in Marketing
Marketing ethics is the area of applied ethics which deals with the moral principles behind the operation and regulation of marketing. The ethical issues confronted in this area include:

- Pricing: price fixing, price discrimination, price skimming.
- Anti-competitive practices like manipulation of supply, exclusive dealing arrangements, tying arrangements etc.
- Misleading advertisements
- Content of advertisements.
- Children and marketing.
- Black markets, grey markets.

5. Ethics of Production
This area of business ethics deals with the duties of a company to ensure that products and production processes do not cause harm. Some of the more acute dilemmas in this area arise out of the fact that there is usually a degree of danger in any product or production process and it is difficult to define a degree of permissibility, or the degree of permissibility may depend on the changing state of preventative technologies or changing social perceptions of acceptable risk.

Defective, addictive and inherently dangerous products and Ethical relations between the company and the environment include pollution, environmental ethics, and carbon emissions trading. Ethical problems arising out of new technologies for eg. Genetically modified food Product testing ethics. The most systematic approach to fostering ethical behaviour is to build corporate cultures that link ethical standards and business practices.

ADVANTAGES OF BUSINESS ETHICS
More and more companies recognize the link between business ethics and financial performance. Companies displaying a “clear commitment to ethical conduct” consistently outperform companies that do not display ethical conduct.

1. Attracting and retaining talent
People aspire to join organizations that have high ethical values. Companies are able to attract the best talent and an ethical company that is dedicated to taking care of its employees will be rewarded with employees being equally dedicated in taking care of the organization. The ethical climate matter to the employees. Ethical Organizations create an environment that is trustworthy, making employees willing to rely, take decisions and act on the decisions and actions of the co-employees. In such a work environment, employees can expect to be treated with respect and consideration for their colleagues and superiors. It cultivates strong teamwork and Productivity and support employee growth.

Investor Loyalty- Investors are concerned about ethics, social responsibility and reputation of the company in which they invest. Investors are becoming more and more aware that an ethical climate provides a foundation for efficiency, productivity and profits. Relationship with any stakeholder, including investors, based on dependability, trust and commitment results in sustained loyalty.

Customer satisfaction- Customer satisfaction is a vital factor in successful business strategy. Repeat purchases/orders and enduring relationship of mutual respect is essential for the success of the company. The name of a company should evoke trust and respect among customers for enduring success. This is achieved by a company that adopts ethical practices. When a company because of its belief in high ethics is perceived as such, any crisis or mishaps along the way is tolerated by the customers as a minor aberration. Such companies are also guided by their ethics to survive a critical situation. Preferred values are identified ensuring that organizational behaviours are aligned with those values. An organization with a strong ethical environment places its customers’ interests as foremost. Ethical conduct towards customers builds a strong competitive position. It promotes a strong public image.

Regulators- Regulators eye companies functioning ethically as responsible citizens. The regulator need not always monitor the functioning of the ethically sound company. The company earns profits and reputational gains if it acts within the confines of business ethics. To summaries, companies that are responsive to employees’ needs have lower turnover in staff. Shareholders invest their money into a company and expect a certain level of return from that money in the form of dividends and/or capital growth. Customers pay for goods, give their loyalty and enhance a company’s reputation in return for goods or services that meet their needs. Employees provide their time, skills and energy in return for salary, bonus, career progression, and learning. Ten Companies With Best Ethical Corporate Policies Worldwide

It’s not often that companies are celebrated for good behavior. Here are corporations with policies we can support.

SOCIAL RESPONSIBILITY
Man is a social animal and cannot live in isolation. He is expected to behave in a manner that is socially and morally acceptable to others. The same applies to businesses. Though the primary objective of any business is to earn maximum profits for the owners and shareholders, it is also expected to conduct its operations in a manner that it fulfills its social obligations also. For example, though it is not binding on any private sector company to provide employment to the disabled or weaker sections of the society, it is considered to be a part of the social responsibility of the company to absorb people from such sections of the society. Similarly though there is not written law to compel a company to engage in acts to do something to reduce pollution or to do something for the betterment of environment, taking up projects to clean up environment are considered to be a part of the social responsibility of the company.

Corporate Social Responsibility
Corporate Social Responsibility (CSR) is a concept whereby organizations consider the interests of society by taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations. This obligation is seen to extend beyond the statutory obligation to comply with legislation and sees organizations voluntarily taking further steps to improve the quality of life for employees and their families as well as for the local community and society at large.
“Corporate social responsibility is related to, but not identical with, business ethics. While CSR encompasses the economic, legal, ethical, and discretionary responsibilities of organizations, business ethics usually focuses on the moral judgments and behavior of individuals and groups within organizations. Thus, the study of business ethics may be regarded as a component of the larger study of corporate social responsibility.

Under the Companies Act, 2013, any company having a net worth of rupees 500 crore or more or a turnover of rupees 1,000 crore or more or a net profit of rupees 5 crore or more should mandatorily spend 2% of their net profits per fiscal on CSR activities. The rules came into effect from 1 April 2014.

**Difference between Business Ethics and Social Responsibility**

Though business ethics and social responsibility seem to be overlapping, there has always been a contradiction between the two. Companies, though they are committed to being socially responsible for their behaviour have been found to be engaging in acts that cannot be called ethical. What is good for the society is sometimes not good for the business, and what is good for the business is almost always not good for the society.

If the society is conscious, it responds in such a way that businesses are forced to behave responsibly. The same applies to the administration and the judiciary of any country. Selling of liquor and tobacco in any society is not against business ethics though it may be against the principles of social responsibility. The same applies to lotteries and gambling. But it is certainly against business ethics as well as against social responsibility to entice minors to engage in smoking and drinking.

**Corporate Strategy**

**Business Strategy** - The decisions a company makes on its way to creating, maintaining, and using its competitive advantages are business-level strategies. After evaluating the company’s product line, target market and competition, a small business owner can better identify where her competitive advantage lies. A gourmet candy company, for example, might find that it cannot compete on price; larger corporations often enjoy economies of scale that keep costs low. Instead, the small business would choose a differentiation strategy, emphasizing freshness, quality ingredients or some other attribute consumers will value highly enough to pay extra. Business strategy will affect the small company’s functional decisions such as the selection of its promotions and distribution channels.

**Corporate Strategy** - When a business identifies opportunities outside its original industry, it might contemplate diversification. When additional businesses become part of the company, the small business owner must consider corporate-level strategy. To be effective, the umbrella company must contribute to the efficiency, profitability and competitive advantage to each business unit. The gourmet candy maker may decide to enter the dried-fruit business, for example. This corporate decision is sound only if the parent company can extend and develop a competitive advantage – say economy of scope, integrated management or procurement – over both businesses. For example, the owner may determine that her mail-order candy distribution system is perfectly suited for the dried-fruit business and that customer research indicates existing customers will purchase items from both companies. Or she may be able to negotiate volume discounts for raisins, dried cranberries and dried cherries she will use in both businesses.

**Strategic Management Processes and Activities**

Strategic management involves 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.[1] Strategy is defined as "the determination of the basic long-term goals of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals."[9] Strategies are established to set direction, focus effort, define or clarify the organization, and provide consistency or guidance in response to the environment.

Strategic management involves the related concepts of strategic planning and strategic thinking. Strategic planning is analytical in nature and refers to formalized procedures to produce the data and analyses used as inputs for strategic thinking, which synthesizes the data resulting in the strategy. Strategic planning may also refer to control mechanisms used to implement the strategy once it is determined. In other words, strategic planning happens around the strategic thinking or strategy making activity.

Strategic management is often described as involving two major processes: formulation and implementation of strategy. While described sequentially below, in practice the two processes are iterative and each provides input for the other.

**Formulation** - Formulation of strategy involves analyzing the environment in which the organization operates, then making a series of strategic decisions about how the organization will compete. Formulation ends with a series of goals or objectives and measures for the organization to pursue. Environmental analysis includes the:

- Remote external environment, including the political, economic, social, technological, legal and environmental landscape (PESTLE);
- Industry environment, such as the competitive behaviour of rival organizations, the bargaining power of buyers/customers and suppliers, threats from new entrants to the industry, and the ability of buyers to substitute products (Porter’s 5 forces); and
- Internal environment, regarding the strengths and weaknesses of the organization’s resources (i.e., its people, processes and IT systems).

Strategic decisions are based on insight from the environmental assessment and are responses to strategic questions about how the organization will compete, such as:

- What is the organization’s business?
- Who is the target customer for the organization’s products and services?
- Where are the customers and how do they buy? What is considered “value” to the customer?
- What businesses, products and services should be included or excluded from the portfolio of offerings?
- What is the geographic scope of the business?
- What differentiates the company from its competitors in the eyes of customers and other stakeholders?
- Which skills and capabilities should be developed within the firm?
- What are the important opportunities and risks for the organization?
- How can the firm grow, through both its base business and new business?
- How can the firm generate more value for investors?
The answers to these and many other strategic questions result in the organization's strategy and a series of specific short-term and long-term goals or objectives and related measures.

**Implementation**—The second major process of strategic management is implementation, which involves decisions regarding how the organization's resources (i.e., people, process and IT systems) will be aligned and mobilized towards the objectives. Implementation results in how the organization's resources are structured (such as by product or service or geography), leadership arrangements, communication, incentives, and monitoring mechanisms to track progress towards objectives, among others. Running the day-to-day operations of the business is often referred to as "operations management" or specific terms for key departments or functions, such as "logistics management" or "marketing management," which take over once strategic management decisions are implemented.

Bruce Henderson definition of strategy

In 1988, Henry Mintzberg described the many different definitions and perspectives on strategy reflected in both academic research and in practice. He examined the strategic process and concluded it was much more fluid and unpredictable than people had thought. Because of this, he could not point to one process that could be called strategic planning.

Instead Mintzberg concludes that there are five types of strategies:

- **Strategy as plan** — a directed course of action to achieve an intended set of goals; similar to the strategic planning concept;
- **Strategy as pattern** — a consistent pattern of past behaviour, with a strategy realized over time rather than planned or intended. Where the realized pattern was different from the intent, he referred to the strategy as emergent;
- **Strategy as position** — locating brands, products, or companies within the market, based on the conceptual framework of consumers or other stakeholders; a strategy determined primarily by factors outside the firm;
- **Strategy as ploy** — a specific manoeuvre intended to outwit a competitor; and
- **Strategy as perspective** — executing strategy based on a "theory of the business" or natural extension of the mind-set or ideological perspective of the organization.

In 1998, Mintzberg developed these five types of management strategy into 10 “schools of thought” and grouped them into three categories. The first group is normative. It consists of the schools of informal design and conception, the formal planning, and analytical positioning. The second group, consisting of six schools, is more concerned with how strategic management is actually done, rather than prescribing optimal plans or positions. The six schools are entrepreneurial, visionary, cognitive, learning/adaptive/emergent, corporate culture and business environment. The third and final group consists of one school, the configuration or transformation school, a hybrid of the other schools organized into stages, organizational life cycles, or “episodes”.[2]

**Origins**

The strategic management discipline originated in the 1950s and 1960s. Among the numerous early contributors, the most influential were Peter Drucker, Philip Selznick, Alfred Chandler, Igor An off, and Bruce Henderson. The discipline draws from earlier thinking and texts on 'strategy' dating back thousands of years. Prior to 1960, the term "strategy" was primarily used regarding war and politics, not business.[18] Many companies built strategic planning functions to develop and execute the formulation and implementation processes during the 1960s.

Peter Drucker was a prolific management theorist and author of dozens of management books, with a career spanning five decades. He addressed fundamental strategic questions in a 1954 book The Practice of Management writing: "... the first responsibility of top management is to ask the question 'what is our business?' and to make sure it is carefully studied and correctly answered." He wrote that the answer was determined by the customer. He recommended eight areas where objectives should be set, such as market standing, innovation, productivity, physical and financial resources, worker performance and attitude, profitability, manager performance and development, and public responsibility.

In 1957, Philip Selznick initially used the term "distinctive competence" in referring to how the Navy was attempting to differentiate itself from the other services.[2] He also formalized the idea of matching the organization's internal factors with external environmental circumstances.[21] This core idea was developed further by Kenneth R. Andrews in 1963 into what we now call SWOT analysis, in which the strengths and weaknesses of the firm are assessed in light of the opportunities and threats in the business environment.

Alfred Chandler recognized the importance of coordinating management activity under an all-encompassing strategy. Interactions between functions were typically handled by managers who relayed information back and forth between departments. Chandler stressed the importance of taking a long-term perspective when looking to the future. In his 1962 ground breaking work Strategy and Structure, Chandler showed that a long-term coordinated strategy was necessary to give a company structure, direction and focus. He says it concisely, "structure follows strategy." Chandler wrote that:

"Strategy is the determination of the basic long-term goals of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals."

Igor An off built on Chandler's work by adding concepts and inventing a vocabulary. He developed a grid that compared strategies for market penetration, product development, market development and horizontal and vertical integration and diversification. He felt that management could use the grid to systematically prepare for the future. In his 1965 classic Corporate Strategy, he developed gap analysis to clarify the gap between the current reality and the goals and to develop what he called "gap reducing actions". An off wrote that strategic management had three parts: strategic planning; the skill of a firm in converting its plans into reality; and the skill of a firm in managing its own internal resistance to change.

Bruce Henderson, founder of the Boston Consulting Group, wrote about the concept of the experience curve in 1968, following initial work begun in 1965. The experience curve refers to a hypothesis that unit production costs decline by 20–30% every time cumulative production doubles. This supported the argument for achieving higher market share and economies of scale. Porter wrote in 1980 that companies have to make choices about their scope and the type of competitive advantage they seek to achieve, whether lower cost or differentiation. The idea of strategy targeting particular industries and customers (i.e., competitive positions) with a differentially offered was a departure from the experience-curve influenced strategy paradigm, which was focused on
larger scale and lower cost. Porter revised the strategy paradigm again in 1985, writing that superior performance of the processes and activities performed by organizations as part of their value chain is the foundation of competitive advantage, thereby outlining a process view of strategy.

Three Models of Strategy,

Linear strategy: A planned determination of goals, initiatives, and allocation of resources, along the lines of the Chandler definition above. This is most consistent with strategic planning approaches and may have a long planning horizon. The strategist "deals with" the environment but it is not the central concern.

Adaptive strategy: In this model, the organization's goals and activities are primarily concerned with adaptation to the environment, analogous to a biological organism. The need for continuous adaptation reduces or eliminates the planning window. There is more focus on means (resource mobilization to address the environment) rather than ends (goals). Strategy is less centralized than in the linear model.

Interpretive strategy: A more recent and less developed model than the linear and adaptive models, interpretive strategy is concerned with "orienting metaphors constructed for the purpose of conceptualizing and guiding individual attitudes or organizational participants." The aim of interpretive strategy is legitimacy or credibility in the mind of stakeholders. It places emphasis on symbols and language to influence the minds of customers, rather than the physical product of the organization.

The three main types of corporate strategies are growth, stability, and renewal.

a. Growth - A growth strategy is when an organization expands the number of markets served or products offered, either through its current business or through new business. Because of its growth strategy, an organization may increase revenues, number of employees, or market share. Organizations grow by using concentration, vertical integration, horizontal integration, or diversification.

b. Stability - A stability strategy is a corporate strategy in which an organization continues to do what it is currently doing. Examples of this strategy include continuing to serve the same clients by offering the same product or service, maintaining market share, and sustaining the organization's current business operations. The organization does not grow, but does not fall behind, either.

c. Renewal - When an organization is in trouble, something needs to be done. Managers need to develop strategies, called renewal strategies, that address declining performance. The two main types of renewal strategies are retrenchment and turnaround strategies.

Five Types of Business-Level Strategies

Coordinate Unit Activities - A common business-level strategy is the coordination of all individual unit activities found in a business. Unit activities may be broken down by department, sections of the department and individual job positions. The coordination of these groups or individuals usually falls on a manager or supervisor. The manager is responsible for getting employees on the same page and focusing these individuals on accomplishing goals or objectives. Managers or supervisors may also be responsible for allocating resources among several different activities.

Utilize Human Resources - Companies must be able to utilize the available human resources in their company and the overall economy. Almost all companies need some form of human labor to accomplish business goals and objectives. Companies develop a business-level strategy to ensure the organization has enough employees to produce a specific output of goods or services. This business-level strategy is also responsible for ensuring the right type of human labor is acquired for business operations. This often includes an analysis to determine if skilled or unskilled labor is needed to complete business functions.

Develop Distinctive Advantages - Developing distinctive core competencies or competitive advantages is essential for creating a successful company. Core competencies and competitive advantages represent singular activities or abilities one company uses to produce products better than another company. Examples of this business-level strategy may include acquiring economic sources at lower costs than other companies, highly efficient and effective production resources, unique goods or services that are not duplicated by other companies and a cost-effective supply chain for getting products into consumers' hands quickly.

Identify Market Nitches - Identifying a market niche usually involves conducting an economic analysis and discovering a specific consumer demand is unmet or not enough supply is available to fill current customer demand. While these are common market niches found in a business-level strategy, other niches may include modifying an existing product, targeting a specific demographic group or other similar strategies. Filling a specific market niche may allow companies to charge higher consumer prices since substitute goods may not exist in the economic marketplace.

Monitor Product Strategies - Businesses must find ways to review the business-level strategies implemented in their operation. This process often results in its own strategy. Companies may review the acquisition process for economic resources, equipment used to produce goods or services, business facilities and other administrative costs to ensure that all capital spent on business operations is earning a strong rate of return. Reviewing business-level strategies may also give companies an opportunity to remain flexible in business and make changes for meeting new consumer demand.

Impact Effort Matrix

The impact effort matrix was designed specifically for the purpose of deciding which of many suggested solutions to implement. It provides answers to the question of which solutions seem easiest to achieve with the most effects.

The steps in constructing an impact effort matrix are:
1. Retrieve suggested solutions from previous discussions.
2. Construct an empty diagram with effort required to implement the solution on the horizontal axis and impact of the solution on the vertical axis, and divide it into four quadrants.
3. Assess effort and impact for each solution. Place the solutions in the diagram according to these assessments. Use a symbol, color, or label to identify each possible solution.
4. Solutions falling into the upper left-hand quadrant will yield the best return on investments and should be considered first.

Example

Mr. A. Smith was a comatose patient with respiratory dependency undergoing an inpatient admission for the treatment of infection at a long-term acute care hospital (LTACH). During his admission, the patient destabilized and suffered cardiac arrest requiring emergency transportation to the hospital system's acute care facility.
An ambulance service was dispatched to transport the patient stat. The nursing staff photocopied portions of the chart for transport with the patient.

Additional portions of the chart were faxed to the acute care facility after the patient had departed the LTACH.

Once at the emergency room, the patient was treated according to his presenting symptoms and the history included in the photocopied chart pages. It was only when the faxed chart materials were received that a nurse recognized that the transported chart copies were for Mr. B. Smith, another LTACH patient on the same unit, and not for Mr. A. Smith. This precipitated a change in treatment (a “near miss”) prior to giving the patient a medication to which he was highly allergic.

The event was investigated, and several proposed solutions surfaced:

- Create a policy for matching patient ID to chart ID at every point in transfer.
- Train every employee on patient identification policy.
- Bar code patient ID bands and charts and match before transport.
- Implant a radio frequency identification (RFID) tag under the skin of patients and attach to each medical chart for matching at each transfer point.

These were assessed for effort and impact and plotted on the matrix below. Clearly, using bar codes on patient ID bands and charts would be the obvious first option.

<table>
<thead>
<tr>
<th>Item #</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Create a policy for matching patient ID to chart ID at every point in transfer</td>
</tr>
<tr>
<td>2</td>
<td>Train every employee on patient identification policy</td>
</tr>
<tr>
<td>3</td>
<td>Bar code patient ID bands and charts; match before transport</td>
</tr>
<tr>
<td>4</td>
<td>Implant a radio frequency identification number (RFID) tag under the skin of patients and attach to each medical chart for matching at each transfer point</td>
</tr>
</tbody>
</table>

EFFORT/IMPACT MATRIX

The effort/impact matrix (also known as the impact/effort matrix) is used to help the team to decide which of the numerous solutions to implement appear to be the easiest (least effort) while having the most favorable impact.

The effort/impact matrix (also known as the impact/effort matrix) is used to help the team to decide which of the numerous solutions to implement appear to be the easiest (least effort) while having the most favorable impact.

Use: When this author was considering the feedback from the Villanova University six sigma students, the senior staff members were presented with an effort/impact matrix. The matrix illustrated the relative effort for redesigning the courses as compared to the relative impact that various solutions might provide. The senior staff liked the concept because it made it visual to see where they could get the biggest impact with the least amount of effort. Note that some of the larger impacting solutions with larger impacts were still entertained, but those solutions were put a longer-term implementation plan.

EXPERIENCE CURVE

"The experience curve is mostly used to assess declining production costs as a result of cumulative production (Bake et al., 2009)."

Experience curve refers to a diagrammatic representation of the inverse relationship between the total value-added costs of a product and the company experience in manufacturing and marketing it. The concept reviews the history of the term and explores the relationship between production cost and cumulative production quantity.

Experience Curve Definition

A diagrammatic representation of the inverse relationship between the total value-added costs of a product and company experience in manufacturing and marketing it (McDonald and Schrattenholzer, 2001). For many products and services, unit costs decrease with increasing experience. The idealised pattern describing this kind of technological progress in a regular fashion is referred to as a learning curve, progress curve, experience curve, or learning by doing (Dutton and Thomas, 1984; Argote, 1999).

The experience curve

The more experience a firm has in producing a particular product, the lower its costs

The experience curve is an idea developed by the Boston Consulting Group (BCG) in the mid-1960s. Working with a leading manufacturer of semiconductors, the consultants noticed that the company’s unit cost of manufacturing fell by about 25% for each doubling of the volume it produced. This relationship they called the experience curve: the more experience a firm has in producing a particular product, the lower are its costs. Bruce Henderson, the founder of BCG, put it as follows:

Costs characteristically decline by 20-30% in real terms each time accumulated experience doubles. This means that when inflation is factored out, costs should always decline. The decline is fast if growth is fast and slow if growth is slow.

There is no fundamental economic law that can predict the existence of the experience curve, even though it has been shown to apply to industries across the board. Its truth has been proven inductively, not deductively. And if it is true in service industries such as investment banking or legal advice, the lower costs are clearly not passed on to customers.

By itself, the curve is not particularly earth-shattering. Even when BCG first expounded the relationship, it had been known since the second world war that it applied to direct labour costs. Less labour was needed for a given output depending on the experience of that labour. In aircraft production, for instance, labour input decreased by some 10–15% for every doubling of that labour’s experience.