Pricing strategy	Lower margins because price is a prime customer driver	Higher margins because price is not a prime customer driver
Manufacturing Strategy	Lower costs through high utilization	Maintain capacity flexibility to buffer against demand/ supply uncertainty
Inventory strategy	Minimize inventory to lower cost	Maintain buffer inventory to deal with demand/ supply uncertainty
Lead time strategy	Reduce but not at the expense of costs	Aggressively reduce even if the costs are significant
Supplier strategy	Select based on cost and quality	Select based on speed , flexibility, reliability and quality.

Source

Marshall L. Fisher "What is the Right Supply Chain for your Product?", Harvard Business Review (March – April 1997), 83-93.

To understand how a company can improve supply chain performance in terms of responsiveness and efficiency, one has to examine the four drivers of supply chain performance: facilities(warehouses), inventory, transportation, and information. These drivers not only determine the supply chains performance in term of responsiveness and efficiency, they also determine whether strategic fit is achieved across the supply chain.

For each of the individual drivers, supply chain managers must make a trade-off between efficiency and responsiveness. The combined impact of these drivers then determines the responsiveness and efficiency of the entire supply chain. Table 16-3 shows the logistics-mix for responsiveness and efficiency.

Table 16-3 Logistics-Mix of a firm for Different Responses

Elements	Responsiveness	Efficiency
Warehouses	More and distributed	Fewer and concentrated
Inventory	High level	Low level
Transportation	Faster mode, high cost.	Slow mode, low cost
Information	Information needs and costs are high	Information needs and costs are less.

Creating superior value

Superior value can be created by meeting service expectations of customers and reducing the costs of logistics.

(i) Meeting service expectations

Services expected by customers and the possible logistics design implications are given in Table 16-4.

Table 16-4 Logistics design and service expectations

S. No	Service Expectation	Design Implication
1.	Integrated supply or total solution (product variety and assortment)	Reseller assistance required to bundle the offer along with complementary products/ service of other suppliers
2.	Local customization – Postponement strategy	Reseller has to hire third-party service provider such as added resellers to make final modification in the product or supplier-owned regional assembly facilities
3.	Emergency delivery(less waiting time) Logistics speculation strategy	Reseller has to maintain a stock (Central warehouse) and either have a own delivery service (service website) or tie up with a delivery service providers
4.	Technical support	Reseller has to hire sales engineers and technical personnel
5.	Lot sizes-small Logistics speculation strategy	Frequent deliveries. Reseller has to maintain a stock or tie up with a delivery service providers
6.	Product standardization and low price - Speculation strategy	Central warehouse, service website, direct enquiries

(i) Postponement strategy

When the key element in a supplier firm's proposed value proposition is local customization, a postponement strategy is appropriate. Here, the supplier delays final changes to an offering's form until the last possible moment through the use of third-party service providers or supplier-owned regional assembly facilities. For example, if physical modifications to products are necessary, the supplier firm might partner with local assemblers, fabricators, or value-added resellers.

(ii) Speculation strategy

When low price and product standardization are the key elements of the value proposition, a speculation strategy is recommended. In term of physical products, a supplier firm speculates by manufacturing them in a large lots, storing them in inventory in a central location in anticipation of orders, and shipping them in bulk directly to customer firms or to reseller for sale to other customer firms in small lots. To speculate with technical support service, the supplier might provide customer firms with self-help manuals or software, operate an Internet-base technical service site, or direct customer inquires to a telephone support center.

Logistics speculation strategy. *When the key element of the value proposition is emergency delivery, managers turn to logistics speculation whereby a vendor produces standardized products and either stocks inventory in supplier-owned local distribution centers or relies on overnight delivery services, to ship them from a centralized warehouse.*

Information Systems Strategies

A management information system is complex and therefore needs an overall plan to guide its initial development and subsequent change. The plan will be referred to as an information systems plan, master development plan or information resources plan. The need for planning is obvious as companies that plan tend to achieve better results than companies that do not plan.

Contents of Information system plan

What does an MIS plan contain?

The master plan typically has two components-a long range plan for three to five years or longer, and a short range plan for one year. The long range plan provides general guidelines for direction and the short range portion provides a basis for specific accountability as to operational and financial performance.

The master development plan contains four major sections:

1. Information system goals, objectives and architecture.
2. Inventory of current capabilities
3. forecast of developments affecting the plan
4. The specific plan.

Goals

A very important fundamental concept of information system planning is that the corporate strategic plan should be the basis for the MIS strategic plan. Alignment of MIS strategy with organizational strategy is one of the central problems of MIS planning. That is why MIS plan is referred to as derivative of corporate plan.

The goals section as such might contain descriptions of the following:

1. Organizational goals, objectives and strategies
2. External environment (industry, government regulation, customers and suppliers)
3. Internal organizational constraints such as management philosophy
4. Assumptions about business risks and potential consequences
5. Overall goals, objectives and strategy for the information system
6. Architecture of the information system (categories of information or applications)

Current Capabilities

This is a summary of the current status of an information system. It includes the following.

1. Inventory of hardware, general purpose soft were, applications

systems, personnel

2. Analysis of expense, hardware utilization, software utilization, personnel utilization
3. Status of projects in process
4. Assessment of strengths and weaknesses.

Forecasts

Planning is affected by current and anticipated technology. Broad technological changes can be perceived several years before they become generally available. The impact of such developments as personal computers, local area net works, data base management systems and office automation should be reflected in the long range plan.

The specific plan

The plan should include:

1) Hard ware acquisition schedule
2) Purchased soft ware schedule
   - Systems
   - Applicationss
3) Application development schedule
4) Soft ware maintenance and conversion schedule
5) Personnel resources required and schedule of hiring and training
6) Financial resources required

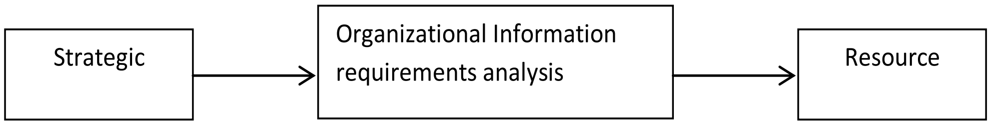
By object of expenditure (hardware, software, personnel)

By purpose of expenditure (operations, maintenance and development)

MIS Planning process

How is MIS planning made?

Bowman, Davis and Wetherbe developed a three-stage model of information system planning process. It is as given below:



1. Strategic Planning Stage

In this stage, objectives, goals and strategies of information system will be defined in such a way that they align with the organizations objectives, goals and strategies.

a. ***Derivation of information systems strategy from organizational planning.***

For example, if the organization's objective is to implement quality circles the objective of MIS is to provide data base on quality control and provide access to quality circles in the required form. Strategic grid is a useful tool in this regard.

The grid is a diagnostic tool to understand the role of MIS in an organization. The position in the grid explains the needed level of top management involvement and the relationship of the MIS plan and organizational plan (i) & (ii) Integration of corporate Planning &MIS planning(iii) Guidance from corporate plan for alignment; Detailed operational and capacity planning by MIS function.(iv) No guidance from corporate plan

Strategic impact of planned Application development portfolio

Strategic Impact of Existing Operating Applications	Low	High
	(iv) Support	(ii) Turnaround
High	(iii) Factory	(i) Strategic

Figure 16-1 Strategic grid

b) Strategic fit with organization culture

MIS should fit with culture of organization which reinforces values, norms and beliefs about the organization. If the culture is not clear to information system planners, clues can be obtained from the following sources

- Stories --- particular stories or incidents popular with organization
- Meetings --- Items in agenda considered important by managers
- Top management behavior --- the concern shown by top management shall be concern through out the organization
- Physical layout --- the location of activities and relative positions and size of facilities, offices etc
- Rituals --- Banquets, parties, orientations—reflect values
- Documents --- What is written by Whom and to whom can help understand ends and means of an organization.

These clues can be organized into "rules of the game" and classified into organizational tasks and relationships.

c) Strategy Set transformation

It is used to produce objectives, goals and strategy for MIS by the following steps

- Explicate the organizations strategy set
  - Identify the stake holders and their goals and identify organizational goals and strategies of organization for each group
  - Validate the organizational goals & strategies by asking management.
- Transform the organization strategy set into MIS objectives in the light of identified constraints and formulating MIS strategies.

2. Organizational Information Requirements

Information requirements are essential organization wide level for information system planning, identifying applications and planning Information architecture. There are four strategies for determining information requirements.

1. Asking

Closed questions; open questions, Brain storming guided brainstorming and group consensus.

2. Deriving from an existing information system

p in the organization

p in other organization

p in text books or studies

p Proprietary system or package

3. Study of utilizing system (object system analysis)

Several methods have been proposed as given below:

Method	Primary requirements orientations	
	Organisation	Application
a. Normative analysis	X	
b. Strategy set transformation	X	
c. Critical factors	X	
analysis	X	
d. Process analysis	X	
e. Ends-means analysis		X
f. Socio technical analysis		X
g. Input-process-output analysis		X

3. Resource allocation

The last stage is the resource allocation to determine which application shall be implemented and in what order. Since information system resource are limited not all projects can be done at once. Each project is to be analyzed in terms of the following factors.

i. Expected Profit improvements or cost savings -quantitative and qualitative.
ii. Need basis –need of the system to have the development proceed in an orderly fashion
iii. System management factors---priority projects.

Four approaches are generally used in resource allocation

1). Comparative cost or Benefit

a. ROI- A simple traditional approach to evaluating profitability of investment is return on investment method.
b. Zero based budgeting-It implied budgeting investment from scratch without consideration of previous evaluations.

2). Portfolio approach –Considering a set of investment proposals and evaluating them together to arrive at right combination.

3). Charge out- It is the method of charging the users. Based on utility the proposal is considered.

4). Steering committee ranking-Top level committee that is set up for evaluation and development ranks the proposals.

Summary

Physical distribution refers to the process of moving goods to customers from the factory gates of manufacturers. In includes warehouses, inventory, transportation, information and packing. The systems concept of distribution led to integrated logistics system and now to supply chain management. Logistics can contribute to savings in both time and cost and enhance promotional value of products. Logistics design involves service-cost trade off. Service elements of logistics include delivery time, delivery reliability, order accuracy, information access, damage, ease of doing business and value-added services. Supply chain management is the integration of business processes from end user through suppliers that provides products, services and information that add values for customers. Supply chain components include customers, retailers, whole sales, manufacturers and suppliers. Supply chain strategy represents a value chain and forms a subset of competitive strategy. Supply chains can be responsive or efficient by design. MIS development is a continuous process. MIS managers have to become

aware of the technological advances in system hard ware and software to make MIS more effective. Users should be enthusiastic to utilize the system. Top management support is essential for MIS to thrive

Self-Assessment Questions

1. Physical distribution and logistics
2. Supply chain and value chain
3. Integrated logistics system
4. Postponement strategy
5. Logistics speculation strategy.
6. Speculation strategy
7. Strategic Planning
8. 3-stage model of IS planning
9. Strategic grid
10. Strategy set transformation
11. Resource allocation

Activities

1. Visit Websites of five large organizations and prepare a report an 'IT strategies of large companies'.
2. Conduct a study on logistics system of local enterprises and make a class room presentation.

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UNIT -V

Lesson 17 - Planning And Resources Allocation

Lesson Outline

- Introduction
- Planning defined
- Nature of planning
- Types of plans
- Steps in planning
- Resource allocation
- Methods of resource allocation
- Resource allocation process
- Problems in resource allocation
- Summary
- Self assessment questions
- Activities
- References

Learning Objectives

After reading this lesson you should be able to

- Understand the concept of planning and examine its nature
- Illustrate and explain the steps in the process of planning
- Examine the elements of planning

Introduction

While planning is the first step in formulating strategies resource allocation in the creative process of allocating resources into competences that could be used to garner competitive advantages. C.K. Prahlad and Hamel see resource allocation in an organization as a portfolio of resources and competences. Strategic managers have to take adequate care in identifying the resource allocation needs and make right allocations.

Planning – defined

Planning is a way of organizational life. Planning is futuristic, decision oriented and goal driven. It is the first function of management and is the foundation for other functions like organizing and controlling. Here are some definitions on planning

> "Planning bridges the gap from where we are to where we want to go. It makes it possible for things to occur that would not otherwise happen".
>
> "Planning involves selecting missions and objectives and
>
> achieve them; it requires decision making."

BHEL used Delphi technique to explore future direction of power development. Firstly, it canvassed an open ended questionnaire to the engineers in several plants to give ideas for technological breakthrough for 30 to 40 years. In the second round these were summarized and asked to be prioritized. In the third round the estimated timings and rationale for forecast was asked. This helped BHEL not only to get 19 different forms of energy sources but also provided "refined guest mates". The results were helpful in corporate planning and for formulating R & D projects.

Nature of Planning

There are four major aspects here.

(i) Its contribution to purpose and objectives;

(ii) Its primacy among the manager's tasks;

(iii) Its pervasiveness, and

(iv) The efficiency of resulting plans

Contribution

Planning precedes all the other managerial functions. It involves setting up objectives necessary for all group efforts. Every executive should plan about recruitment, structure and controls. Figure 17.1 show the kind of contribution planning makes.

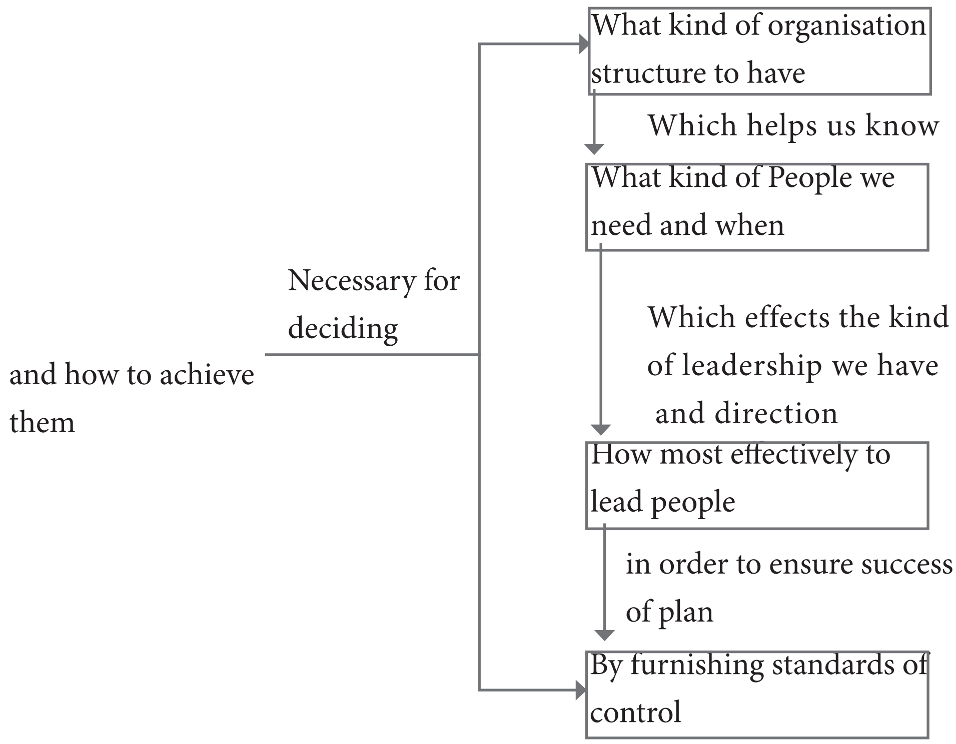

Figure 17.1. Key decisions in planning

Primacy

Planning is the first function leading to other functions in management. Figure 17-2 shows the linkages.

* Purposes or missions	* Objectives or goals
* Strategies	* Policies
* Procedures	* Rules
* Programmes	* Budgets

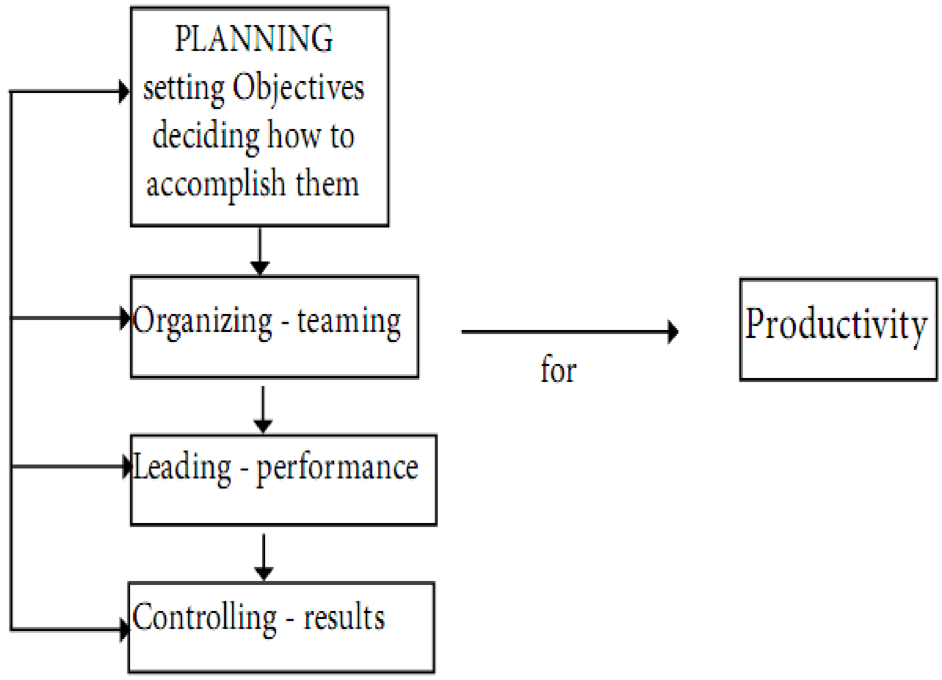

Figure 17.2: Planning in Management

Pervasiveness

Planning is the function of all managers; from the head of a gang to a factory crew. Managers at all levels and in all functions have to engage themselves in planning. Without planning they will be in dark not knowing where to go.

Efficiency of plans

Planning and Controlling are the Siamese twins of management. Plans are efficient if they achieve their purpose at a reasonable cost where cost is measured not only with cost or production but also in the level of individual and group satisfaction. There are occasions where programmes are good but failed due to poor morals.

Types of Plans

The failure of managers to recognize that there are several types of plans has often caused difficulty in making planning effective. Plans encompass any cause of future action and hence vary as under.

Purposes or missions

Identifies the basic task of a firm or agency. Ex. Purpose of business is the production and distribution of goods and services

Dupont	-	Better things through chemistry
Kleenex	-	Production and sale of paper & products
Hallmark	-	Social expression of business
J & J	-	First responsibility to doctors, nurses, patients and mothers
Dow chemical	-	Sharing world's obligation for the protection of the environment

Conglomerates express their mission as 'synergy' which is achieved through combination of a variety of companies.

Therefore mission is the organization's purpose and fundamental reason for existence. A mission statement is the broad declaration of the basic. Unique purpose and scope of operations distinguish the organization from others.

Objectives and goals

Planning aims at goal setting. Goals and objectives are ends towards the activity aimed. They represent the end toward organizing, staffing, leading and controlling. Each department may have its own goals, which contribute to objectives of organizations as illustrated below.

Production department	Producing 22 units per day
Marketing department	Selling 25 units per day
Personnel department	Training 200 managers in the first quarter.

Finance department	Invest Rs. 200 crores with 32% return on investment in the current year.

Goals serve many purposes like the following

* Increase performance
* Clarify expectations
* Facilitate the controlling function
* Increased motivation

Goals have levels that compare with hierarchy of organization as depicted in Table 17-1

Table 17-1 Plan types

Type of plans	Type of goals	Description	Time range	Management level	Focus o f plans
Strategic plans	Strategic goals	Broadly defined targets or future end results set up by top management	5 years	Top management	Organization level
Tactical plans	Tactical goals	Future end results set up by middle management for specific departments or units	1-5 years	Middle management	Department level

Operational plans	Operational goals	Set by lower management that address measurable outcomes required from the lower levels	One year	Lower management	Unit/group/level individual

Peter F. Drucker gives eight major areas for goal setting by organizations.

*Market standing *Innovation

*Human resources *Financial resources

*Physical resources *Productivity

*Social responsibility *Profit requirements

Strategies

Strategies are grand plans in the light of what it was believed an adversary might or might not do. Strategy may be defined as follows. "Strategy is the determination of basic long term objectives of an enterprise and the adoption of courses of action and allocation of resources necessary to achieve these goals".

A strategy might include such as marketing directly rather than through distributors or concentrating on proprietary products of having a full time of autos ex: General Motors.

Strategies are of two types

Generic strategies - involve organization expansion in some select areas. The generic strategies include –

- Overall cost leadership
- Differentiation
- Focus

Grand strategies - A master strategy that provides direction at the corporate level

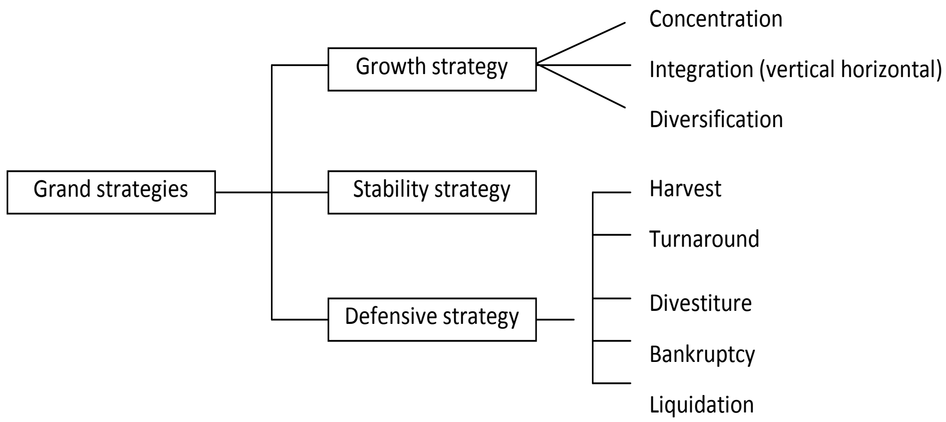

Figure 17.3.Major Grand Strategies

Policies

Policies are plans or general statements or understandings that guide or channel thinking in decision making. Policies define an area in which decision is to be made and ensure consistency to objectives. Policies help managers maintain control and delegate authority.

Policies exist at all levels in an organization. They may be major or minor. Policies include hiring trained engineers, encouraging employee suggestions, confirming to high standards, setting competitive prices, cost plus pricing etc. Companies can have policy manuals which may stipulate non-acceptance of gifts from suppliers, favours of entertainment or seek outside employment.

Making policies is difficult for

- They are seldom defined in writing
- Delegation of authority will create confusion
- Actual policy may be difficult to ascertain and intended policy may not be clear.

Policies are necessary at different hierarchical levels as shown in Figure 17-4

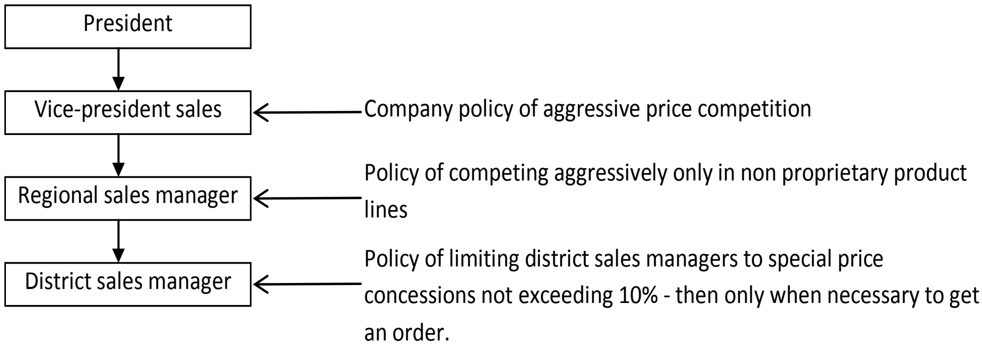

Figure 17.4 Policies at different levels

Procedures

Procedures are plans that establish a required method of handling future activities. They are guides to action, rather than thinking and they detail the exact manner in which certain activities must be accomplished. Procedure is thus a prescribed series of steps to be taken under certain recurring circumstances. Well-established ones are called 'Standard Operating Procedures'. Ex: In Banks SOPs govern how tellers handle deposits.

The following procedures are common and are across different departments.

Production Department	-	release of stock
Traffic Department	-	shipping means & route
Finance Department	-	customer credit approval, acknowledgement receipts
Marketing Department	-	for original order

Rules

"A statement that spells out specific actions to be taken or not taken in a given situation"

Unlike procedures, rules do not normally specify a series of steps. They dictate what must or must not be done.

Ex: 1. "No Smoking" is a rule unrelated to procedure.

2. Fraction of more than half ounce should be treated as one ounce.

Policies guide decision making, but rules allow no discretion in decision making.

Programmes

Programmes involve different departments or units of organization composed of several different projects which may take about one year to complete. Programme may be defined as follows.

> "A programme is a comprehensive plan that coordinates a complex set of activities related to a major non recurring goal".

> "Programmes are a complex of goals, policies procedures, rules, task assignments, steps to be taken, resources to be employed and other elements necessary to carry out a given course of action supported by budgets".

Examples of programmes are

1. A major airline acquiring $400 million fleet of jets
2. Five year programme to improve status and quality of supervisors.
3. A minor programme of a supervisor to improve morale of workers.

Making programmes include six steps:

i. Dividing the project into parts
ii. Determining relationships and pulling in a sequence
iii. Deciding responsibilities for mangers
iv. Determining how to complete and what resources are necessary
v. Estimating time requirements
vi. Developing a schedule of implementation

A primary programme may trigger off a series of small programmes.

Budgets

Budget is a numberized programme. It can be defined as follows.

"Budget is a statement of expected results expressed in numerical terms"

Budget can be expressed in financial terms, labour hours, units, machine hours etc. It may show expenses, capital outlays, cash flows etc.

A budget is a fundamental planning instrument. Budget forces precision in planning.

- Flexible/variable budgets - vary according to the level of output
- Programme budgets - an agency to identify goals, develop programmes to meet them and give cost estimates.
- Operating budget - A finance plan for each responsibility during budget period.
- Capital budget - Budget for Mergers & Acquisitions, divestiture of fixed assets.

Steps in Planning

Planning is a step by step process. It involves the following steps.

(i) Being aware of opportunities

Every planner should scan the external environment for opportunities and threats.

(ii) Establishing objectives

Planner has to identify the objectives for the enterprise or unit. They should be specific and measurable.

(iii) Developing premises

Planner has to go about understanding the current and future environment in which the goals can be accomplished. Forecasting based on published reports and research is necessary to know the future scenarios. Clear assumptions about the environment are outcome of this step.

(iv) Determining alternative courses

Planner has to develop a large number of alternative courses of action for examination.

(v) Evaluating alternative courses

Evaluation can be done only when a planner has clear guidelines for determining and comparing worth of each alternative course of action. Criteria like return on investment, risk, time horizon and limiting factor may be employed to evaluate the alternatives.

(vi) Selecting a course

On evaluation the planner will use his or her judgment to decide upon one course of action, which is appropriate or right for the company.

(vii) Formulating derivative plans

To support basic plan it will be necessary to develop a series of minor plans. .

(viii) Numbering plans by budgeting

For each department budget allocations will be necessary to facilitate the implementation of the plans. Planner has to make the resource allocation as such properly.

Resource Allocation

The resources may be existing with a company or many be acquired through capital allocation. Resources include physical, financial and human resources essential for implementing plans.

Resources are broadly of four categories.

1. Money
2. Facilities and equipments
3. Materials, supplies and services
4. Personnel

Decisions involved in allocation of resources have vital significance in strategy implementation. In single product firms it may involve assessment of the resource needs of different functional departments. In the multi divisional organization it implies assessing the resource needs of different SBUs (discussed in lesson 4 of Unit I) or product divisions

Redeployment or reallocation of resources becomes necessary when changes take place. The redeployment of resources is quite critical when there are major changes and shifts in strategic posture of company.

Redeployment of resources may arise due to strategies of a company to grow in certain areas and withdraw from the other.

Methods of Resource Allocation

Based on Percentages

Usually, companies have been following system of allocation of resources by percentages.

The following arguments reject this method.

It may not serve much purpose these days. They may be of help only in making some comparisons.

The allocation of resources should not be based on their availability or scarcity as it may prove to be counter productive.

The resource allocation should be made with regard to strategies of a company for its future competitive position and growth. The decisions of resource allocation are also closely connected with the objectives of a company.

Based on Modern Methods

Other methods include *-Portfolio models, product life-cycle charts, balance sheets, profit and loss statements income statements.* When retrenchment or turnaround strategies are implemented zero-based budgeting is used. During mergers, acquisitions and expansion, capital budgeting techniques are suggested.

Resource allocation is not purely a rational technique but is based on several behavioral and political considerations. The other analytical conceptual models used for strategic choice are growth share matrix, 'stop light', and Directional Policy Matrix used in multi divisional firms.

A more comprehensive approach to management decisions on resource allocation is provided by the budgeting system carefully geared to the chosen strategy.

Resource Allocation Process

A framework for the strategic budgeting process is shown in the following chart.

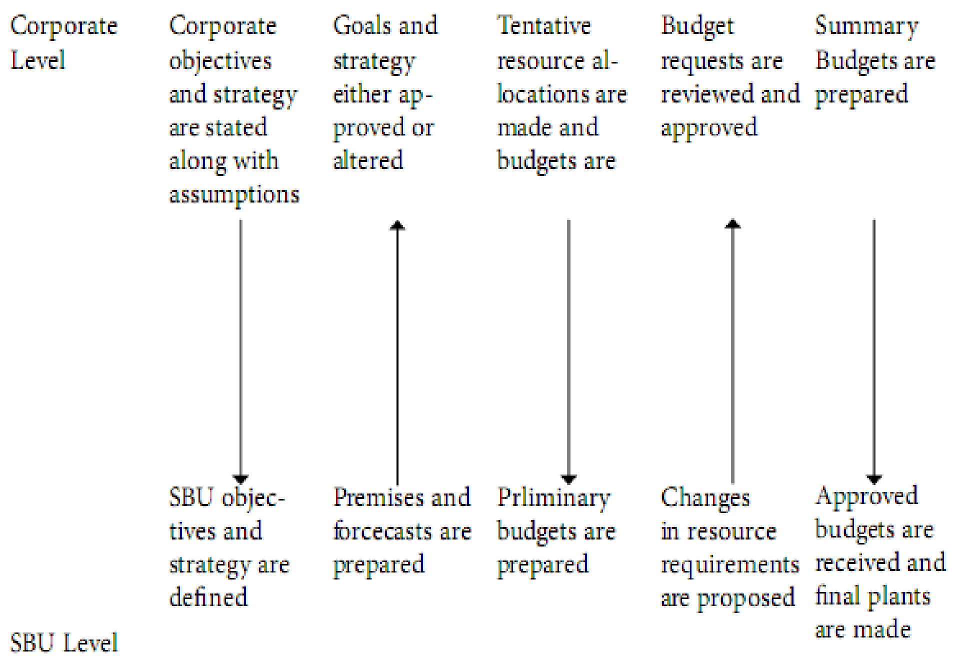

Figure. 17.5.The resource allocation process

Source

William F. Glueck & Lawrence R. Jauch, Strategic Management . p. 316)

Top management initiates the process. In large organizations the budget department at the headquarters provides all information to the SBUs and advises them in connection with preparation of budget proposals.

Strategy communication

As the first step in the process, the corporate objectives and strategy are stated along with the environmental and competitive conditions to be communicated to the SBUs (organizational units).

SBU initiative

They in turn draw up preliminary budgets after defining the unit-wise objectives and strategies.

Negotiation

The process involves a series of negotiations among managers at the SBU and corporate levels. For instance, unit manages having defined the objectives and strategy of the unit prepare the premises and forecasts which are sent for approval by the top management.

Preliminary budget

Tentative allocation of resources takes place at the corporate level and budget proposals are called for on that basis. The preliminary budgets indicate changes in the resource requirements as compared with the previous period.

Proposals sent

Based on the preliminary budget units draw up their plans and programmes. And make proposals. The proposals are sent for consideration of the top management by the SBUs.

Approval

Only on approval of the proposals the

Problems in Resource Allocation

There are several difficulties in resource allocation. The following are some of the identified problems.

i) Scarcity of resources

Financial, physical, and human resources are hard to find. Firms will usually face difficulties in procuring finance. Even if fiancé is available, the cost of capital is a constraint. Those firms that enjoy investor confidence and high credit worthiness possess a competitive advantage as it increases their resource-generation capability. Physical resources would consist of assets, such as, lard machinery, and equipment. In a developing country like India, many capital goods have to be imported. The government may no longer impose many conditions but it does place a burden on the firm's finances and this places a restriction on firms wishing to procure physical resources. Human resources are seemingly in abundance in India but the problem arises due to the non-availability of skills that are specially required. Information technology and computer professionals, advertising personnel, and telecom, power and insurance experts are scarce in India. This places severe restrictions on firms wishing to attract and retain personnel. In sum, the availability resources is a very real problem.

ii) Restrictions on generating resources

In the usual budgeting process these are several restrictions for generating resources due to the SBU concept especially for new divisions and departments.

iii) Overstatement of needs

Over statement of needs is another frequent problem in a bottom-up approach to resource allocation. The budgeting and corporate planning departments may have to face the ire of those executives who do not get resources according to their expectations. Such negative reactions may hamper the process of strategic planning itself.

Summary

Planning is the first and very important step in strategic management Planning involves forecasting and decision making to design future operations. Planning involves deciding purposes or missions, objectives or goals, strategies, policies, procedures, rules, programmes and budgets. Planning involves lower(operational), middle(tactical), and top(strategic) management levels and covers both long and short range time periods. The next step to planning is resource allocation that is budgeting. There are several methods which include portfolio models, product - life cycle analysis, zero based budgeting and capital budgeting techniques. Resource allocation involves some problems. Scarcity of resources, restrictions on SBUs and over statement of needs are problems. Redeployment of resources is essential when changes take place in the strategies of the firm.

Self -Assessment Questions

1. Define planning and illustrate it as an important function of management
2. Outline the steps in planning process.
3. What are the elements of planning? Explain them with examples.
4. Examine the significance of planning function.
5. What is resource allocation? Explain why it is studied with planning.
6. What are the different methods of resource allocation? How is it done at different strategic levels?
7. What are the steps in developing resource plan of organizations?
8. Examine the problems in resource allocation and how companies overcome the problems.

Activities

1. Visit the website of a public sector unit and examine how corporate planning is done in that organization. Note the details.

2. Go to an educational institution (a college or a university) in your place. Discuss with strategists Viz.,Vice–Chancellors, Principals, Registrars, Deans or Secretary and Correspondents and discuss how they allocate resources to the departments. Record the findings.

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Lesson 18 - Organization Structure And Culture

Lesson Outline

- Introduction
- Concepts
- Key elements of organization structure and design
- Organization design decisions
  - Boundary less organization
  - Learning organization
- Organization culture -Concept
- Influence of culture on strategy
- Cultural web
- Cultural audit
- Summary
- Self Assessment Questions
- Activities
- References

Learning Objectives

After reading this lesson you should be able to

- Define organization structure and design
- Describe the key elements of Structure and differentiate them.

Introduction

No other topic in strategic management has undergone as much change in the past few years as that of organization structure and culture. In the lesson 4 of Unit I a detailed discussion on structures is given with illustration while discussing the SBU structure. The creation of right structure and the right kind of norms, customs, habits and beliefs are important for enduring employer –employee relationships. In this competitive era, trust and ideal cooperation alone leads to survival and success of organizations.

Concepts

Just what is an organization's structure? An organizational structure is the formal framework by which job tasks are divided, grouped, and coordinated. When managers develop or change an organization's structure, they are engaged in organizational design, a process that involves decisions about six key elements: work specialization, departmentalization, chain of command, span of control, centralization and decentralization, and formalization.

What is organizational culture? It's a system of shared meaning and beliefs held by organizational members that determines, in large degree, how they act. It represents a common perception held by the organization's members. Just as tribal cultures have rules and taboos that dictate how members will act toward each other and outsiders, organizations have cultures that govern how its members should behave. In every organization, there are systems or patterns of values, symbols, rituals, myths, and practices that have evolved over time. These shared values determine to a large degree what employees see and how they respond to their world. When confronted with problems or work issues, the organizational culture-the "way we do things around here"-influences what employees can do and how they conceptualize, define, analyze, and resolve issues.

Key Elements of Organizational Structure and Design

The key elements in organization structure and design are:

- Departmentation
- Chain of command
- Span of control
- Centralization and decentralization
- Formalization

We will now examine each one of them and see how they affect the design questions

What type of arrangement is suitable for the effective functioning of the organization?

Should the chain of command be long or short? Should it allow lateral relationships?

How many employees should a supervisor manage?

Should the decision authority be concentrated at the top or diffused?

Should there be informal work relationships?

Departmentation

qOnce activities are divided based on work specialization common tasks are to be grouped together. This is called departmentalization. There are five bases for departmentation.

1. Functions
2. Geographical areas
3. Product
4. Process
5. Customers

Figure 18.1 to 18.5 illustrate the arrangements along with advantages and disadvantages

Functional Departmentalization

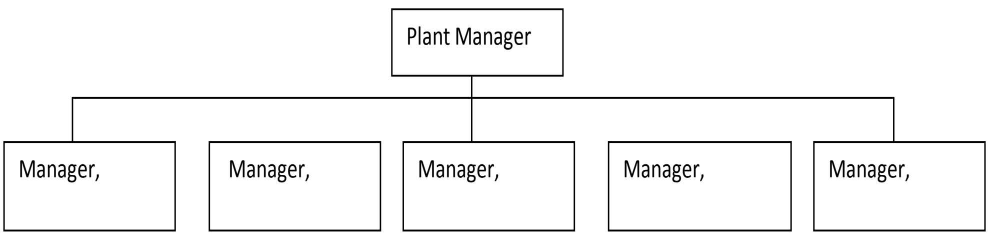


Figure 18.1 Five Common Forms of Departmentalization

+ Efficiencies from putting together similar specialties and people with common skills, knowledge, and orientations.

+ Coordination with functional area

+ In-depth specialization

- Poor communication across functional areas

- Limited view of organizational goals

Geographical Departmentalization

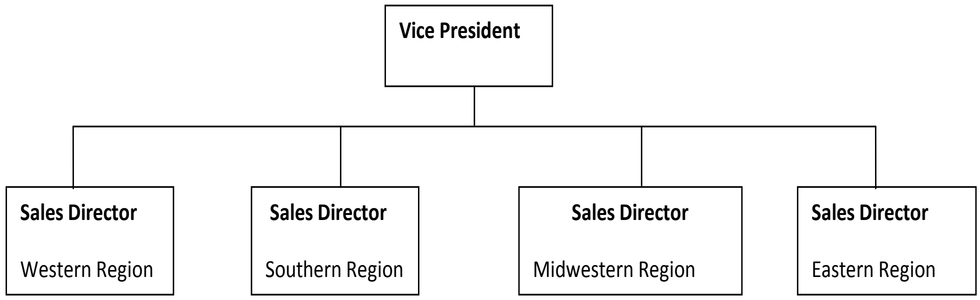


Figure.18.2 Geographic departmentalization

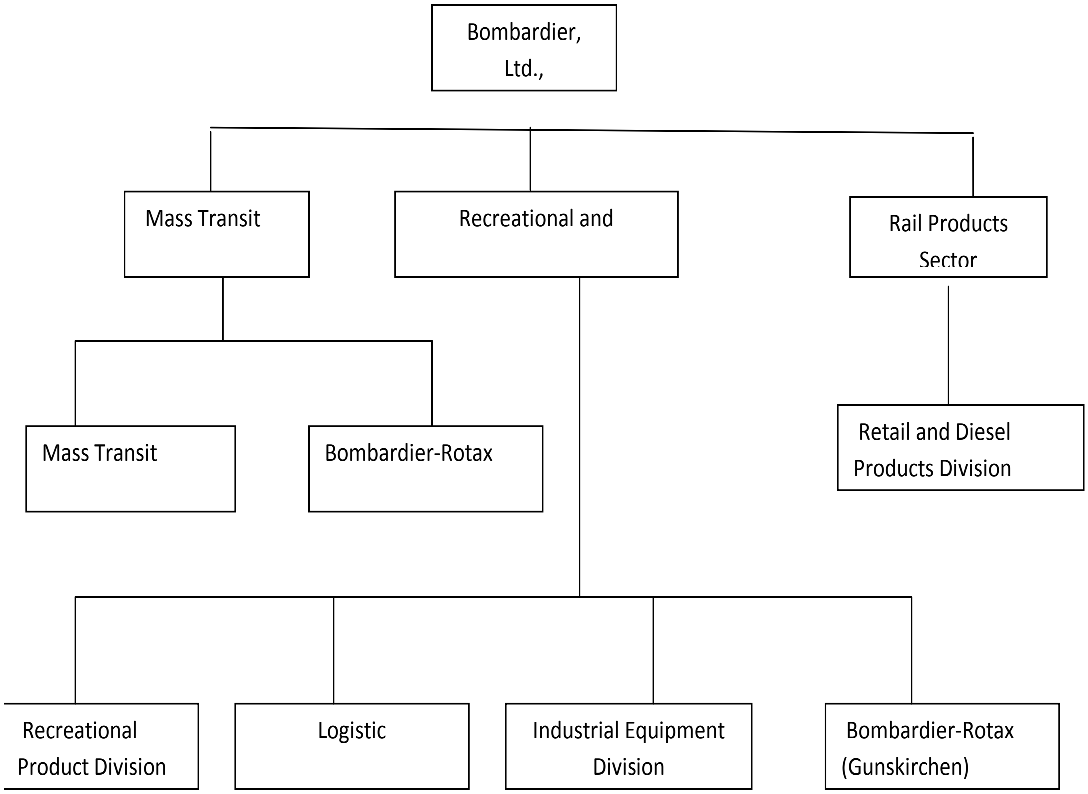
+ More effective and efficient handling of specific regional issues that arise

+ Serve needs of unique geographic markets better

- Duplication of functions

- Can feel isolated from other organizational areas

Product Departmentalization

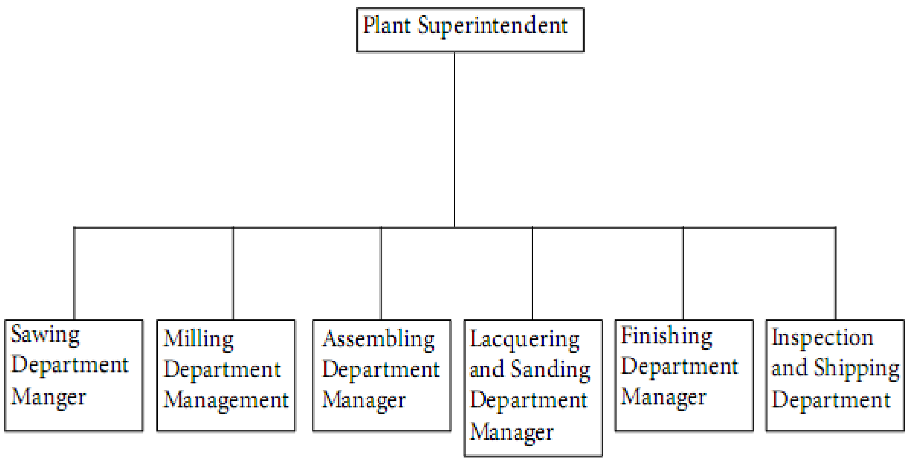


Source

Bombardier Company's Annual Report

+ Allows specialization in particular products and services
+ Managers can become experts in their industry
+ Closer to customers
- Duplication of functions
- Limited view of organizational goals

Process Departmentalization **Figure.18.4 Process departmentalization**



+ More efficient flow of work activities

- Can only be used with certain types of products

Customer Departmentalization

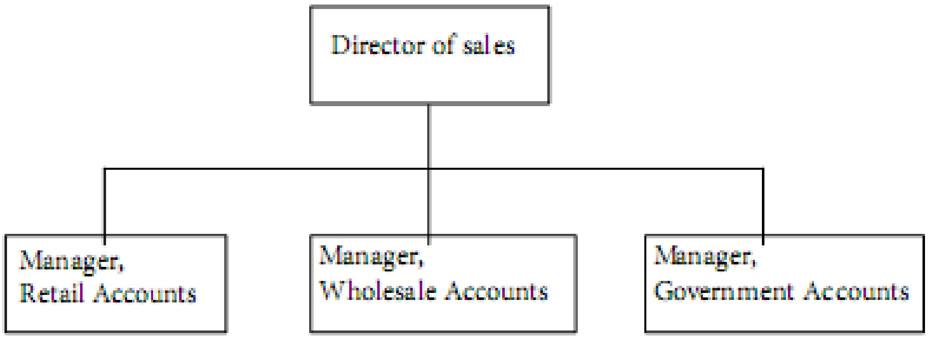


Figure.18.5 Geographic departmentalization

+ Specialists can meet Customers' needs and problems

- Duplication of functions
- Limited view of organizational goals

Chain of Command is the continuous line of authority that extends from upper organizational levels to the lowest levels and clarifies who reports to whom. It helps employees answer questions such as "who do I go to if I have a problem?" or "To whom am I responsible?"

You can't discuss the chain of command without discussing the other concepts: authority, responsibility and unity of command. Authority refers to the rights inherent in a managerial position to tell people what to do and to expect them to do it. This obligation or expectation to perform is known as responsibility. Finally, the unity of command principle (one of Fayol's 14 principles of management) helps preserve the concept of a continuous line of authority. It states that a person should report to only one manager.

Span of Control

Span of control (or supervision or management) refers to the number of employees a supervisor can effectively manage. Organizational levels exist since there is a limit to the number of people one can supervise effectively. This limit varies upon situations. Figure 18-6 shows span types and Table 18-1 discusses their advantages and disadvantages. . A wide span is associated with few levels in the organization and a narrow span, many levels. The number of subordinates a manager can effectively supervisor ranges from three to eight. The number of people who directly report to a manager represent the manager 'span of control'.

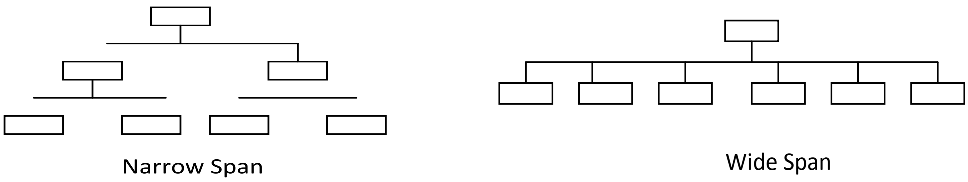


Figure 18-6 Span types

Ex: Sears, Roebuck & Co, etc, reported good results with spans of control of over six. There were 36 managers reporting to one boss and five reporting to one and both worked. Wider spans are preferred today for less administrative expense and more self-management.

Table 18-1 Advantages and disadvantages of different spans.

Narrow Span		Wide Span	
Advantages	Disadvantages	Advantages	Disadvantages
1. Close supervision	1. Superior interferes too much	1.Superiors are forced to delegate	1. Decision bottlenecks due to overloaded
2. Close control	2. Many levels	2.Clean policies	2. danger of loss of control

3. Fast communication	3.High costs	3.Carefully selected subordinates	3. Requires exceptional quality managers
	4. Excessive vertical distance		

Centralization and decentralization

In some organizations, top managers make all the decisions and lower-level mangers and employees simply carry out their directives. At the other extreme are organizations in with decision making is pushed down to the managers who are close to the scene of action. The former organizations are highly centralized, and the latter are decentralized. Centralization describes the degree to which decision-making is concentrated at a single point in the organization. In contrast, the more that lower-level employees provide input or actually make decisions, the decentralization is more. Table 18-2 lists some of the features and factors that have been identified as influencing the amount of centralization or decentralization an organization.

Table 18-2 Factors influencing centralization

When more Centralization	When more Decentralization
Environment is stable	Environment is complex, uncertain
Lower-level managers are not as capable or experienced at making decisions as upper-level mangers	Lower-level mangers are capable and experienced at making decisions
Decisions are relatively minor	Lower-level manages do not want to have a say in decisions
Decisions are significant	Corporate culture is open to allowing managers to have a say in what happens

Organization is facing a crisis or the risk of company failure	Company is geographically dispersed
Company is large	Effective implementation of company strategies depends on manages having involvement and flexibility to make decisions
Effective implementation of company strategies depends on mangers retaining say over what happens	

Formalization refers to the degree to which jobs within the organization are standardized and the extent to which employee behavior is guided by rules and procedures. If a job is highly formalized, then the person doing that job has a minimum amount of discretion over what is to be done, when it's to be done, and how he or she could do it.

Organization Design Decisions

Structuring organization is an engineering job. The way the structures are used determine the effectiveness of an organization structure. It implies that the philosophy of management counts. There are two generic of organizational design followed by the philosophical factors.

- Mechanistic
- Organic

Table 18-3 describes the two organizational forms. The mechanistic organization is a rigid and tightly controlled structure. It's characterized by high specialization, rigid departmentalization, narrow spans of control, high formalization, a limited information network (mostly downward communication) and little participation in decision-making by lower-level employees.

Table 18-3 Mechanistic vs organic structures

Mechanistic	Organic
High specialization	Cross-Functional Teams
Rigid Departmentalization	Cross-Hierarchical Teams
Clear Chain of Command	Free Flowof information
Narrow Spans of Control	Wide Spans of Control
Centralization	Decentralization
High Formalization	Low Formalization

Mechanistic types of organizational structures tend to be efficiency machines, well oiled by rules, regulations standardized tasks, and similar controls. This organizational design tries to minimize the impact of differencing personalities, judgments and ambiguity because these human traits are seen as inefficient and inconsistent. Although no pure form of a mechanistic organization exists in reality, almost all large corporations and governmental agencies have at least some of these mechanistic characteristics.

In direct contrast to the mechanistic form of organization is the organic organization, which is as highly adaptive and flexible, a structure as the mechanistic organization is rigid and stable. Rather than having standardized jobs and regulation, the organic organizations is flexible, which allows is to change rapidly as needs require, Organic organizations have division of labour, but the jobs people do are not standardized. Employees are highly trained and empowered to handle diverse job activities and problems, and these organizations frequently use employee teams

The choice of mechanistic or organic structures depends upon several factors as shown in Table 18-4

Table 18-4 Choosing mechanistic or organic structure

Factor	Mechanistic	Organic
Size	Large size organizations become more formal. Emphasis is on more specialization, centralization and rules and regulations.	Small organizations tend to be more team based, decentralized, goal driven and result oriented.
Strategy	Productivity and Cost minimization	Focus on innovation and sustainable competitive advantage
Technology	Mass production	Unit production and process production.
Environment	Simple ,stable and certain	Complex, unstable and uncertain

British scholar Woodward categorized organizations based on three distinct technologies The first category, **unit production**, described the production of times in units or small batches. The second category, **mass production** described large-batch manufacturing. Finally, the third and most technically complex group, process production, included continuous-process production. In general, the more routine the technology, the more standardized and mechanistic the structure can be. Organizations with more non-routine technology are more likely to have organics structures.

Table 18.5 Production types and organization structures

Unit Production	Mass Production	Process Production
Low vertical differentiation	Moderate vertical differentiation	High Vertical differentiation
Low horizontal differentiation	High horizontal differentiation	Low horizontal Differentiation
Low Formalization	High formalization	Low formalization
Organic	Mechanistic	Organic

Boundary less organization

The term was coined by jack Welch, former chairman of General Electric, who wanted to eliminate vertical and horizontal boundaries within GE and break down external barriers between the company and its customers and suppliers. This idea may sound odd, yet many of today's most successful organizations are finding that they can most effectively operate in today's environment by remaining flexible, not having a rigid, predefined structure. The boundary less organization seeks to eliminate the chain of command, to have appropriate spans of control, and to replace departments with empowered teams.

By removing vertical boundaries through such structural approaches as cross-hierarchical teams and participative decision making, the hierarchy is flattened. Managers can remove horizontal boundaries by using cross-functional teams and organizing work activities around work processes instead of round functional departments. And external boundaries can be minimized or eliminated by using strategic alliances with suppliers, or value chain management.

Learning organization

It's an organization that has developed the capacity to continuously adapt and change because all members take an active role in identifying and resolving work-related issues. In a learning organization, employees are practicing knowledge management by continuously acquiring and sharing new knowledge and are willing to apply that knowledge in making decisions or performing their work. Some organizational design theories even go so far as to say that an organization's ability to do this-that is, to learn and to apply that learning as they perform the organization's work-may be the only sustainable source of competitive advantage.

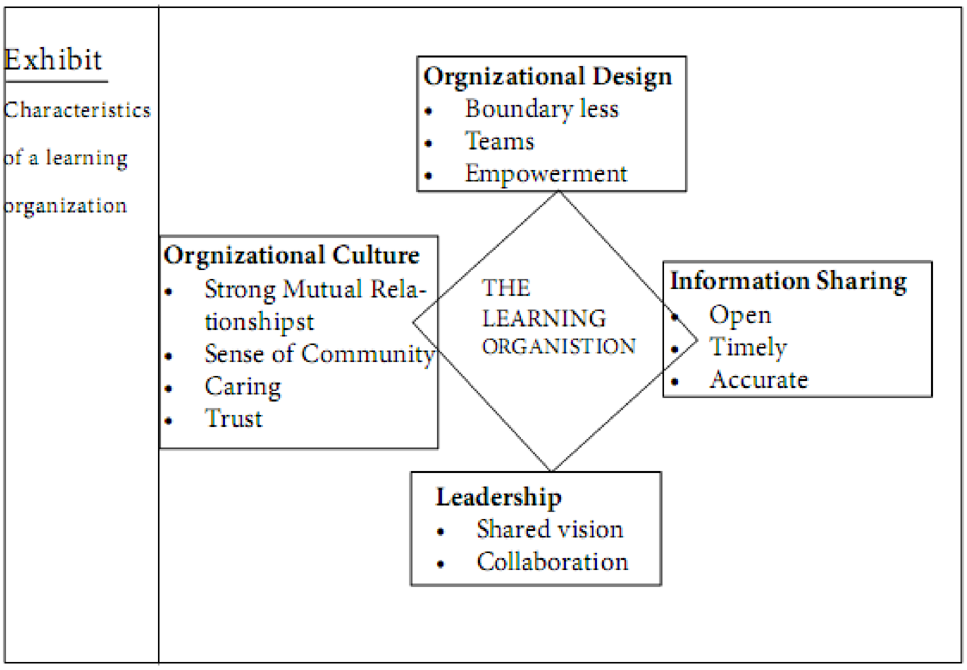


Figure 18.7 Learning organisation

Organization Culture-Concept

The culture of an organization has been considered to consist of three layers: Values about the organization's mission, objectives or strategies; Beliefs which people in the organization talk about; Taken –for-granted assumptions or the organizational paradigm. The public statements of the organization's values, beliefs and purposes are not descriptions of the organizational paradigm. This 'real' culture is evidenced by the way the organization actually operates. Matching strategic positioning and organizational culture is a critical feature of successful organizations.

Influence of Culture on Strategy

Henry Mintzberg said that one of the basic building blocks of organizational design is the ideology or culture of the organization. There are many frames of reference which exist at the organizational level and can be especially important as an influence on the development of organizational strategy. The social and cultural influences that impact the organization can be based on many different influences. These can be segregated into two groups, external and internal. The combination of these two has its impact on the individual. The external influences are the national or regional, professional/ institutional, and industry influences; and the internal influences are those of the organization and the functional/ divisional influences. The frames of reference are shown in Figure 18-8. Different group categories have been shaded differently in the figure.

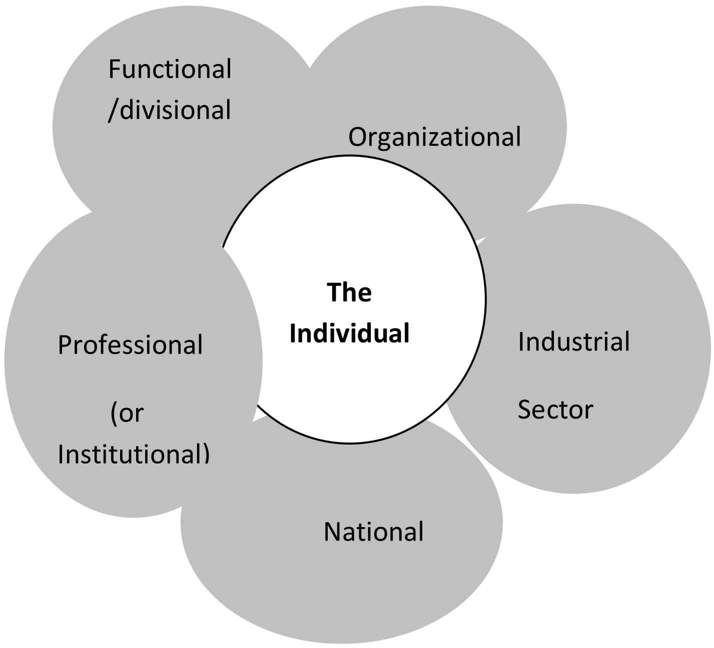


Figure 18.9 The Cultural web

Cultural Web

The cultural web is a useful way of considering forces for and against change. The cultural web provides an understanding on how an organization's culture will affect its ability to change and adapt to new policies or environments. The organization's cultural web is a set of assumptions about the organization that have been internalized. It represents the collective experience built up over years and all organizations develop a degree of coherence in their culture to be able to function effectively. Because organizational cultures are not easy to change, they have an important impact on strategy.

Figure 18.8 is a schematic representation of the cultural web. The different elements of the cultural web are described in greater detail below:

Stories:

Stories are told about the organization by its members to each other and to new recruits. They distil the organization's past and legitimize behaviour, in the tradition of tribal love, complete with myths, legends, heroes and taboos.

Routines and rituals 'Routine':

Routines and rituals 'Routine is the way members behave towards each other and towards those outside the organization. 'Rituals' are the special events through which the organization emphasizes what is important and how things are done in the organization.

Symbol:

These are the trappings of status and privilege in the organization. Symbols such as logos, offices, cars and titles become a representation of the nature of the organization.

Organizational structure:

This reflects the power structure and sets down important relationships within the organization.

Control Systems:

These are the measurement and reward systems that represent what are important areas of focus of the organization.

Power Structures:

The powerful managerial groupings are likely to be associated with the set of core assumptions and beliefs of the organization.

The Cultural Web

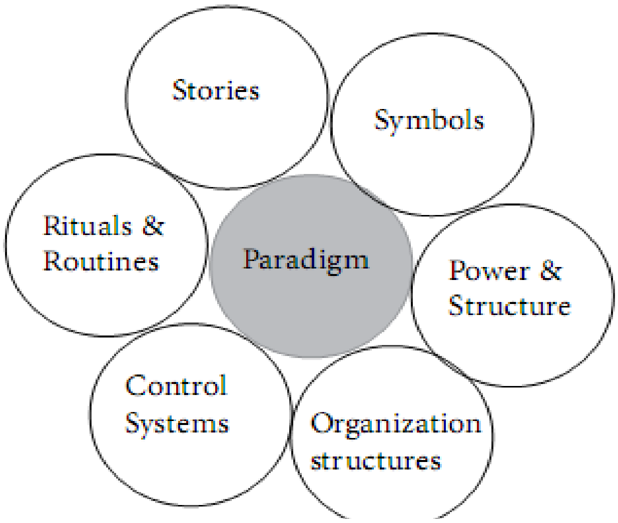


Figure 18.9 The cultural Web

Cultural Audit

In order to understand how the culture contributes to the problem, and work out how it needs to change in order for the organization to deliver the strategy effectively, a cultural audit can be carried out. The cultural audit analyzes different aspects of the organization's cultural web. A cultural audit is conducted through:

- Listening to people talk about their organization
- Observing the organization's day to day operations
- Asking mangers to audit themselves using a checklist.

An audit of the cultural web should bring up a number of questions that have been shown in Table. This is representative of the different influences that play on the organization.

Table 18.6 Analysis of the Cultural Web

Element	Components
Stories	• What core beliefs do stories reflect? • How pervasive are these beliefs? • Do stories relate to strengths or weaknesses, success or failures, conformity or mavericks • Who are the heroes and villains? • What norms do the mavericks deviate from?
Routines and Rituals	• Which routines are emphasized? • Which would look odd if changed? • What behavior do routines encourage? • What are the key rituals? • What core beliefs do they reflect? • What do training programs emphasize? • How easy are rituals/routines to change?
Symbols	• What language and jargon is used ? • How internal or accessible is it? • What aspects of strategy are highlighted in publicity? • What status symbols are there? • Are there particular symbols which denote the organization?

Organisational structure	• How mechanistic/organic are the structures? • How flat/hierarchical are the structures? • How format/informal are the structures? • Do structures encourage collaboration or competition? • What type of power structures which denote the organization?
Control Systems	• What is most closely monitored/controlled? • Is the emphasis on reward or punishment? • Are controls related to history or current strategies? • Are there many/few controls?
Power Structures	• What are the core beliefs of the leadership? • How strongly held are these beliefs? • How is power distributed in the organization? • Where are the main blockages to chage?

Summary

The strategy implementation phase includes planning, resource allocation, analysis of organization structure and establishing a culture for the organization. The structure of the organization determines three key components pertaining to organizing the activities of the people in the organization. The organization chart is the visual representation of underlying activities and processes being undertaken by the organization. The principle underlying the organization chart is that vertical linkages primarily show control, while horizontal linkages indicate coordination and collaboration. There are different organizational.

The culture of an organization has been considered to consist of three layers: Values about the organization's mission, objectives or strategies; Beliefs which people in the organization talk about; Taken –for-granted assumptions or the organizational paradigm. The public statements of the organization's values, beliefs and purposes are not descriptions of the organizational paradigm. This 'real' culture is evidenced by the way the organization actually operates. Matching strategic positioning and organizational culture is a critical feature of successful organizations. The cultural web is a means of assessing the dominant culture of the organization.

Self -Assessment Questions

1. How do you define organization structure and culture?
2. What are the key elements in designing structures?
3. Examine the different types of structures and analyze their merits and demerits
4. What size of span is ideal – wide or narrow? Justify your answer
5. When do you prefer mechanistic design?
6. Outline the significance of a boundary less organization and learning organization
7. How does culture influence strategy?
8. Illustrate and explain the 'cultural web'.
9. Describe cultural audit and examine its significance
10. Will structure follow strategy or strategy follow structure? Explain in detail.

Activities

1. Draw the structure of the organization in which you are studying or working. Examine how you can make it a learning organization and a boundary less organization. Illustrate and explain them.
2. Write a short report on a chosen Chief Executive of an organization you are familiar with. Describe how/she has been instrumental in establishing the culture in the organization.

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Lesson 19 - Managing Change

Lesson Outline

- Introduction
- Change defined
- Levels of change
- Systems model of change
- Reasons for change
- Approach to manage change
- Lewin's three step model
- Action research
- Organizational development
- Sensitivity training
- Survey feed back
- Process consultation
- Team building
- Inter group development
- Appreciative enquiry
- Methods of dealing with change
- Summary
- Self Assessment questions
- References

Learning Objectives

After reading this lesson you should be able to

- Describe concept and the levels of change
- Outline the systems model of change
- Discuss the reasons for change
- Describe approaches to manage change
- Examine the methods of dealing with change.

Introduction

Change is law of life. Change is an inevitable and unavoidable process in organizations. It is only difficult in small firms but in large organizations it requires monumental effort and persistence. Uncertain consequences, organizational policies, various forms of resistance from employees and suppliers buffet change process. Managers as such have to appreciate the needs for change, understand the complexities of change process and handle the change process effectively.

Change – Defined

According to Stephen P. Robbins change is concerned with making things different. Change occurs when an organizational system is disturbed by some internal or external force, occurs.Change, as a process, is simply modification of the structure or process of a system. It may be good or bad, the concept is descriptive only."

In the context of change we come across certain terms like change agent, change intervention and change targets.

- Change agent is the person or persons who acts as a catalyst, and assumes the responsibility for managing the change process.
- Change intervention, is a planned section to make things different.
- Change targets are individuals and groups who are subject to change.

Levels of Change

Change occurs at three levels

1. Individual level
2. Group level and
3. Organization level

At the individual level change is reflected in such developments as changes in a job assignment, physical move to a different location, or the change in maturity of a person which occurs overtime. It is said that changes at the individual level will seldom have significant implications for the total organization.

Most organizational changes have their major effects at the group level. This is because most activities in organizations are organized on a group basis. The groups could be departments, or informal work groups. Changes at the group level can affect work flows, job design, social organization, influence and status systems, and communications patterns.

Changes at the organization level involve major programmes that affect both individuals and groups. Decisions regarding these changes are generally made by senior management and are seldom implemented by only a single manager. Frequently, they occur over long periods of time and require considerable planning for implementation. Example of these changes would be reorganization of the organizational structure and responsibilities, revamping of employee remuneration system, or major shifts in an organization's objectives.

Systems Model of Change

While planning a change, care is necessary to have organizational coverage.

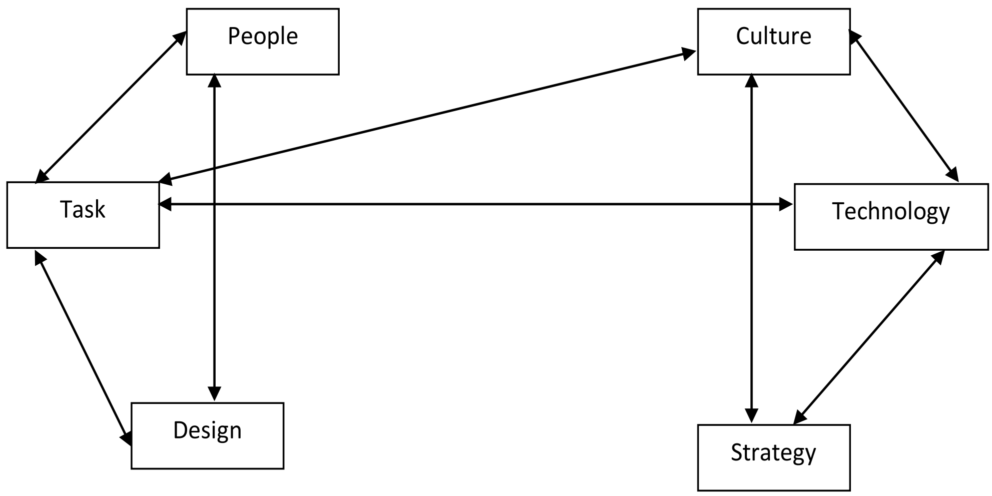
According to the systems model of change, the organization can be described as six interacting variables which could serve the focus of planned change-– people, culture task, technology, design and strategy. Figure 19-1 depicts them as system variables – interrelated components.

- The people variable is applicable to individuals working for the organization; it is inclusive of their individual differences like their personality, attitudes, perceptions, attributions, needs and motives.
- The culture variable is a reflection of their shared beliefs, values, expectations and norms of organizational members
- The task variable refers to the nature of the work itself i.e., whether the job is simple or complex, novel or repetitive, standardized or unique.
- The technology variable involves the problem solving methods and techniques used and the application of knowledge to the

various organizational processes (ie., the task and technology in job design.)

- The design variable refers to the organizational design in terms of the formal organizational structure, its systems of communication, control, authority and responsibility.
- The strategy variable refers to the organization's planning and decision making process with specific reference to the activities undertaken to identify organizational goals and prepare specific plans to acquire, and sue resources in order to accomplish those goals.

Figure: 19.1 A systems model of change



Reasons for Change

More and more organizations today face a dynamic changing environment. This, in turn, requires them to adapt. "Change or chaos", is the rallying cry among mangers today world wide. Table 19-1 summarizes the six specific forces that are acting as stimulants for change.

Table 19-1 Forces for Change

Force	Specific change variables
Nature of the workforce	• More cultural diversity • Increase in professionals • Many new entrants with inadequate skills
Technology	• Faster and cheaper computers • New mobile communication devices • Decline of the human genetic code
Competition	• Global competitors • Mergers and consolidations • Growth of e-commerce
Social trends	• Internet chat rooms • Retirement of Baby Boomers • Increased interest in urban living
World politics	• Escalation of hostilities in the Middle East • Opening of markets in China • The war on terrorism following 9/11/01

Workforce Diversify

For instance, almost every organization has to adjust to a multicultural environment. Human resource policies and practices have to change in order to attract and keep this more diverse workforce. And many companies have to spend large amounts of money on training to upgrade reading, match, computer, and other skills of employees.

Technology

For instance, computers are now common place in almost every organization; and cell phones and hand-held PDAs are being increasingly perceived as necessities by a large segment of the population.

Competition

The global economy means that competitors are as likely to come from across the ocean as from across town. Heightened competition also makes it necessary for established organizations to defend themselves against both traditional competitors who develop new products and services and small, entrepreneurial firms with innovative offerings. Successful organizations will be the ones that can change in response to the competition.

Social trends Society doesn't remain static

For instance, in contrast to just ten years ago, people are meeting and sharing information in Internet chat rooms; The youth has become more aggressive. The old aged people are increasing in number. Rural areas are developing and rual market is becoming attractive.

World politics

No one could have imagined how world politics would change in recent years. We've seen the breakup of the Soviet Union; the opening up of South Africa and China; almost daily suicide bombings in the Middle East; and, of course, the rise of Muslim fundamentalism. The attacks on New York and Washington on September 11, and the subsequent war on terrorism, has led to changes in business practices related to the creation of backup systems, employee security, employee stereotyping and profiling, and post-terrorist-attack anxiety.

Approaches to Managing Change

The three most popular approaches to manage change are

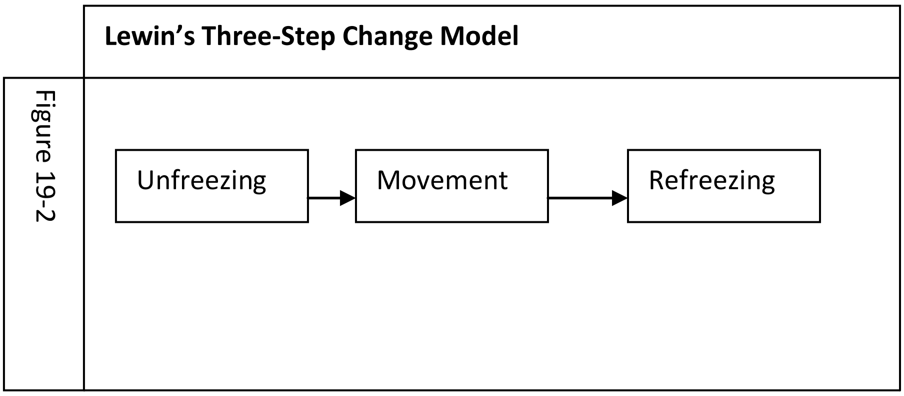
i. Lewin's three step model

ii. Action research and

iii. Organizational development

I) Lewin's Three Step Model

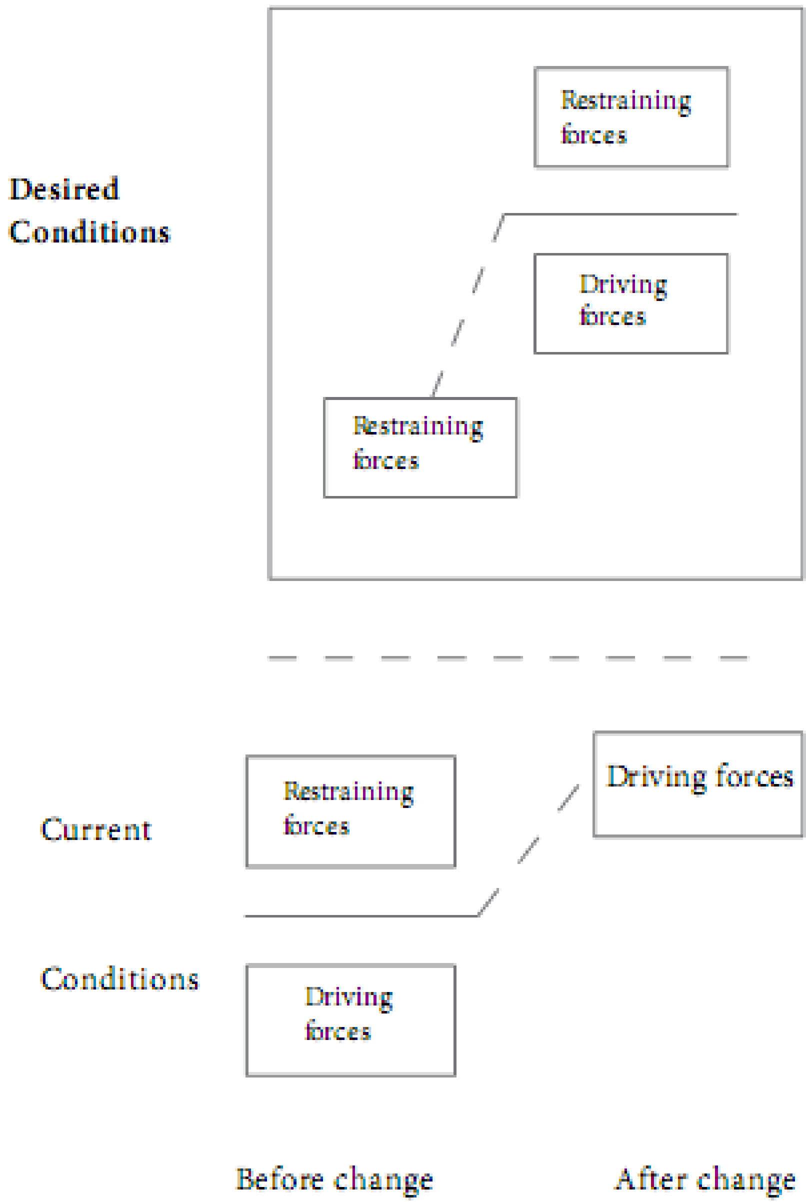
Kurt Lewin argued that successful change in organizations should follow three steps as shown in Figure 19-2. Unfreezing is the release of forces dormant in the status quo. Movement is transforming form old to new situation or to a new state. Refreezing is consolidation in the new situation to make change permanent.



Every change situation Kurt Lewin presents as a force field as depicted in Figure 19-3. The status quo can be considered to be an equilibrium state. To move from this equilibrium-to overcome the pressures of both individual resistance and group conformity –unfreezing is necessary. It can be achieved in one of three ways.

The ***driving forces,*** which lead to change, can be strengthened. The restraining forces, which hinder movement from the existing equilibrium, can be decreased. A third alternative is to combine the first two approaches.

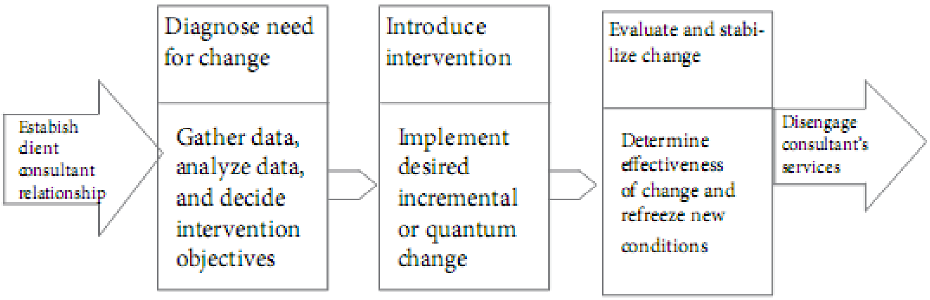
Figure 19.3 Lewin's force field analysis model



II) Action Research

Action research is a data-based, problem-oriented process that diagnose the need for change, introduce the intervention and then evaluates and stabilizer the deserved changes. The Action research process is given in Figure 19-4

Figure 19.4 The Action Research Process



- ***Establish client-consultant relationship*** – Action research usually assumes that the change agent originates outside the system (such as a consultant), so the process begins by forming the client-consultant relationship. **Process consultation** is a method of helping people within the system solve their own problems by making them aware of organizational processes, the consequences of those processes, and the means by which they can be changed.

- ***Diagnose the need for change*** – Action research is a problem-oriented activity that carefully diagnoses the problem through systematic analysis of the situation

- ***Introduce intervention*** – This stage in the action research model applies one or more actions to correct the problem. It may include any of the prescriptions mentioned in this textbook, such as building more effective teams, managing conflict, building a better organizational structure, or changing the corporate culture. Some experts recommend incremental change in which the organization fine-tunes the system and takes small steps toward a desired state. Others claim that quantum change is often required in which the system is overhauled decisively and quickly.

- ***Evaluate and stabilize change*** – Action research recommends evaluating the effectiveness of the intervention against the standards established in the diagnostic stage.

The action research approach has dominated organizational change thinking eve since it was introduced in the 1940s.

III) Organizational Development (OD)

Organizational development (***OD*** encompasses a collection of planned-change interventions built on humanistic-democratic values that seek to improve organizational effectiveness and employee well-being. The following briefly identifies the underlying values in most OD efforts.

1. *Respect for people* Individuals are perceived as being responsible, conscientious, and caring. They should be treated with dignity and respect.

2. *Trust and support* The effective and healthy organization is characterized by trust, authenticity, openness, and a supportive climate.

3. *Power equalization* Effective, organizations deemphasize hierarchical authority and control

4. *Conformation* Problems shouldn't be swept under the rug. They should be openly confronted.

5. *Participation* The more that people who will be affected by a change are involved in the decisions surrounding that change, the more they will be committed to implementing those decisions.

There are broadly six OD interventions discussed by experts of organizational behavior

- *Sensitivity training* – This is done in training groups that seek to change behavior through unstructured group interaction. It can go by a variety of names – sensitivity training, laboratory training, encounter groups, or T-groups (training groups. Members are brought together in a free and open environment in which participants discuss themselves and their interactive processes, loosely directed by a professional behavioral scientist. The group is process-oriented, which means that individuals learn through observing and participating rather than being told.

- *Survey feed back* – Uses questionnaire to identify discrepancies among member perceptions; discussion follows and remedies are suggested.

- *Process consultation* – A consultant assist a client to understand process events with which he or she must deal and identify processes that need improvement. These might include work flow, informal relationships among unit members, and formal communication channels. Process Consultation is more tasks-directed than is sensitivity training.

- *Team building* – uses high-interaction group activities to increase trust and openness among team members. Team building can be applied within groups or at the inter group level, at which activities are interdependent.

- *Inter group development* – These include efforts to change the attitudes, stereotypes and perceptions that groups have of each other. This approach used problem solving techniques.

- *Appreciative enquiry* - Seeks to identify the unique qualities and special strengths of an organization, which can then be built on to improve performance.

Methods for Dealing With Change

Kotler and Schlesinger have suggested six methods of introducing changes .tabl e19- The change agent must understand that there is no one universal approach to overcome resistance. Depending on each situation a different approach needs to be adopted. Change is a situational problem and a realization of this fact is essential for bringing about a change.

Table 19-2 Methods for dealing with resistance to change

Approach	Commonly used situations	Advantages	Drawbacks
Education + Communication	Where there is a lack of information or inaccurate information and analysis	Once persuaded people will often help with the implementation of the change	Can be very time consuming if lots of people are involved

Participation + Involvement	Where the initiators do not have all the information they need to design the change and where others have considerable power to resist.	People who participate will be committed to implementing change and any relevant information they have will be integrated into the change plan.	Can be very time consuming if participators design an inappropriate change.
Facilitation + support	Where people are resisting because of adjustment problems	No other approach works as well with adjustment problems.	Can be time consuming expensive, and still fail
Negotiaton + agreement	Where someone or some group will clearly lose out in a change and where that group has considerable power to resist.	Sometimes it is a relatively easy way to avoid major resistance	Can be too expensive in many cases if it alters others to negotiate for compliance
Manipulation + co-option	Where other tactics will not work or too expensive	It can be a relatively quick and inexpensive solution to resistance problems.	Can lead to future problems if people feel manipulated.
Explicit +implicit coercion	Where speed is essential and the change initiators possess considerable power.	It is speedy and can overcome any kind of resistance	Can be risky if it leaves people angry at the initiators.

the focus of planned change – people, culture ask, technology, design and strategy. Organizational diagnosis (or planned) change includes ascertaining cause (s) of problems before going for managing change, changing people behavior, changing technology, changing organizational design and changing organization culture. As per Kurt Lewin's phases of change process, there are three phases – unfreezing, changing and refreezing.. Resistance to change can occur at individual level (which may be due to perception, personality, habit, fear or losing power of the unknown and/or economic considerations) and at organizational level (organization, design, organizational culture, limited resources or/ and fixed investment liability). Resistance to change can be over come by using a force field analysis, adopting Lewin's three step approach, empathy and support, communication and participation and involvement of employees.

Self -Assessment Questions

1. Define change. Identify and illustrate the levels of change
2. Briefly explain the systems model of change
3. Outline the forces that drive change.
4. What are the approaches to manage change?
5. What is the contribution of Kurt Lewin to managing change?
6. What is Action research? Explain its significance as a OD techniques.
7. Describe how sensitivity training can be used in managing change.
8. What are the popular methods of managing resistance to change in organizations from the human relations point of view.
9. Describe the terms
   - Negotiation
   - Cooptation and manipulation
10. What do you understand by implicit and implicit coercion

Activities

1. Question yourself: 'how well do I respond to turbulent change?' List and explain how you overcame resistance to changes that have taken place in you work environment.
2. Visit the website of Indian Tourism Development Corporation (ITDC). Identify the change process in the context of globalization and privatization. Examine the impact of change and note down the same.

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Lesson 20 - Power, Politics And Leadership

Lesson Outline

- Introduction
- Concept and sources of power
- Leadership and Use of power
- Politics
- Summary
- Self Assessment questions
- Activities
- References

Learning Objectives

After reading this lesson you should be able to

- Explain the concept and dynamics of organization power
- Describe organizational politics diagnose the factors that contribute to politics

Introduction

An organization is a social system and it contains dynamic elements like power and politics that influence behavior of people. Both the terms are often emotional and sometimes felt negative. Since they are part of social life they should be managed properly to get positive outcomes. Leadership balances power and politics. Managers as leaders have to examine the source of power and its effective use. At the same time they should also explore the political behavior in organizations. They have to then balance power and politics, to effectively steer an organization towards its goals.

Concept and Sources of Power

The term power may be applied to individuals, groups, teams, departments, organizations, and countries. Power influences may affect resource allocations, space assignments, goals, hiring decisions, and many other outcomes and behaviors in an organization. It is defined as follows.

Power is the capacity to influence the behavior of others.

There are different sources of power. They are broadly divided into

(i) interpersonal sources and (ii) structural sources. They are further classified as shown in Figure 20-1.

(a) Interpersonal sources of power

Reward power is individual's ability to influence others' behaviors by rewarding their desirable behaviors. Compliance with requests and directives depends on rewards and the value of rewards to the recipients. Therefore, a superior can get desirable behaviors only when the rewards he has offered are valuable to the subordinates.

Coercive power is an individual's ability to influence others' behaviors by punishing their undesirable behaviors. For example, subordinates may comply because they expect to be punished for failure to respond favorably to managerial directives. Punishment may take the form of reprimands, undesirable work assignments, closer supervision, tighter enforcement of work rules, suspension without pay, and the like. The organization's ultimate punishment is to fire the employee.

Legitimate Power most often refers to a manager's ability to influence subordinates' behaviors because of the manager's formal position in the organization. Subordinates may respond to such influence because they acknowledge the manger's legitimate right to prescribe certain behaviors.

Expert power is an individual's ability to influence others' behaviors because of recognized competencies, talents, or specialized knowledge. To the extent that mangers can demonstrate competence in implementing, analyzing, evaluating, and controlling the tasks of subordinates, they will acquire expert power.

Referent Power is an individual's ability to influence others' behaviors as a result of being respected, admired, or liked. For example, subordinates' identification with a manager often forms the basis for referent power. This identification may include the desire of subordinates to emulate the manager. A young manager may copy the leadership style of an older, admired, and more experienced manager. The older manager thus has some ability-some referent power-to influence the behavior of the younger manager.

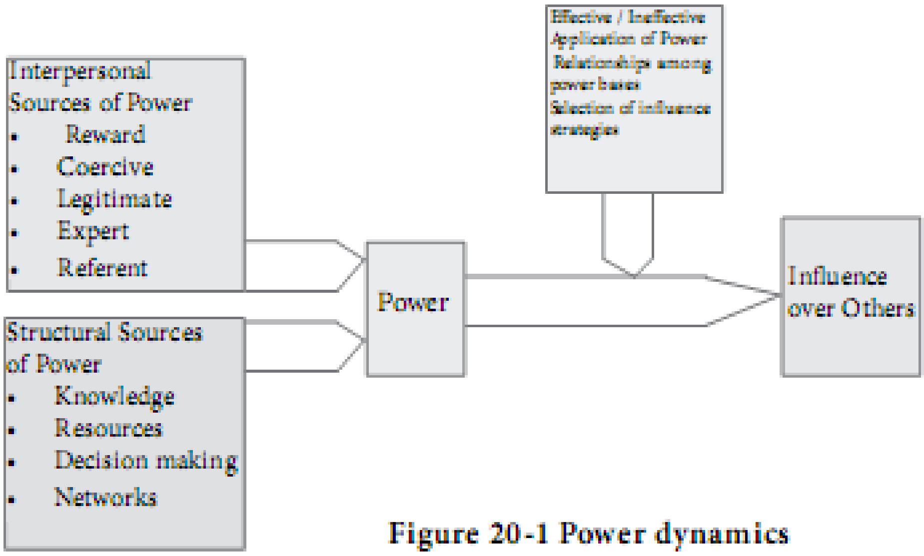


Figure 20-1 Power dynamics

(b) Structural sources of power

Structural sources of power are related to the division of labor and position in different teams and departments work assignments, locations and roles. The positions in hierarchy naturally result in a variety of situations in which there is unequal access to information, resources, and decision making.. Any of the situational factors could be a source of power in an organization, which include knowledge, resources, decision-making and networks.

Knowledge power – This power is from knowledge-information and know-how that exists in an organization. Those in a position to control information about current operations, develop information

about alternatives, or acquire knowledge about future events and plans have enormous power to influence the behaviors of others.
Personal computers and computerized workstations are having a dramatic impact on the access to and use of information-and thus on power relationships-in many organizations.

Resources power – Organizations need a variety of resources, including human resources, money, equipment, materials, supplies, and customers, to survive. The importance of specific resources to a firm's success and the difficulty of obtaining them vary. The old saying that "he who has the gold makes the rules" sums up the idea that resources are power. Those having resources exercise power.
Today companies are adopting retention strategies to retain competent employees. Skilled people have power advantage over the less skilled people.

Decision-making power – Decisions in organizations often are made sequentially, with individuals, groups, or teams participating. The decision-making process creates additional power differences. Those who are in the critical positions of decision-making process might influence power. They influence the goals being developed, premises being used in evaluating an issue, alternatives being considered, outcomes being projected, and so on.

Consider, purchase process of a firm. If the plant superintendent is the one who has to approve the quotation submitted by the suppliers, the purchase manager has to wait for the decision of Plant superintendent.

Network power – Managers and departments that have connecting links with other individuals and departments in the organization will be more powerful than those who don't. The concept of networks as power implies that various affiliations, channels of information, and coalitions, both inside and outside the organization, represent sources of power. These networks can be information links, supply links and support links.

Lower level employee power – In organizations lower level employees also may wield considerable power. One of the sources can be expert power, which may allow subordinates to influence their managers.

For example, an office assistant who can use windows 98 spread sheet can influence his manager if he is not familiar with the same.

Leadership and Use of Power

Power can be used by a variety of people in a variety of ways. A useful perspective for studying the uses of power is illustrated in Table 20-1

(i) Use of interpersonal power

Table 20-1 shows the various uses of power and their outcomes.

Table 20-1The Uses and Outcomes of Power

Source of Leader Influence	**Types of Outcome**		
	Commitment	**Compliance**	**Resistance**
Referent Power	Likely: If request is believed to be important to the leader.	Possible: If request is perceived to be important to the leader.	Possible: If request is Something that is unimportant to the leader.
Expert Power	Likely: If request is persuasive and subordinates share leader's task goals	Possible: If request is persuasive.	Possible: If leader is arrogant and insulting or subordinates are apathetic about task and goals.

Legiti-mate Power	Possible: If request is polite and very appropriate	Likely: If request or order is seen as legitimate.	Possible: If arrogant demands are made or request does not appear proper in the interests of the organisation or individual.
Reward	Possible: When reward is used in a subtle, very personal way	Likely: If used in a mechanical, impersonal way	Possible: If used in a manipulative, arrogant way
Coercive Power	Very unlikely	Possible: If used in a helpful way.	Likely: If used in a hostile, nonpunitive way or manipulative way.

(ii) Use of structural power

These sources don't operate independently. A study conducted in two paper mills provides an example of how power sources are related.

One of the mills dropped an incentive pay plan based on performance in favor of a pay plan based strictly on seniority. Compared to the second plant, which retained the performance system, subordinates perceptions of the use of various sources of power by supervisors in the first plant changed noticeably. Discontinuing the incentive plan lowered the perceived reward power of supervisors' use of punishment increased (attribute perhaps to less control over rewards). The perceived use of referent and legitimate power decreased, but expert power appeared to be unaffected. These findings suggest that the interpersonal sources of power that influence behavior are complex and interrelated.

Table 20-2 The Uses and Outcomes of Structural Power

Source of Leader Influence	Types of Outcome		
	Commitment	**Compliance**	**Resistance**
Knowledge	Likely: If request is persuasive and subordinates share leader' s task and goals	Possible: If request is logical and appropriate.	Possible: If leader is arrogant and insulting or subordinates are apathetic about task and goals.
Resources	Likely: If request is believed to be important to the leader.	Possible: If request is perceived to be important to the leader.	Possible: If request is Something that is unimportant to the leader.
Decision making	Possible: If request is polite and very appropriate.	Likely: If request or order is seen as legitimate	Possible: If arrogant demands are made or request does not appear proper in the interests of the organization or individual.

Networks	Possible: When power is used in a subtle way.	Likely: If used in a Way beneficial to organizational interests.	Possible: If used in a manipulative, arrogant way

(iii) Power tactics of leaders

Power is used with influence tactics in organizations. There are some standardized ways by which power holders attempt to get what they want. A research study of 165 managers and 750 employees revealed how managerial employees influence others. The findings identified seven tactical dimensions or strategies .How they vary in popularity is shown in Figure 20-2.

Tactics	**Description**
Reason	Use of facts and data to make a logical or rational presentation of ideas
Friendliness	Use of flattery, creation of goodwill, acting humble, and being friendly prior to making a request
Coalition	Getting the support of other people in the organization to back up the request
Bargaining	Use of negotiation though the exchange of benefits or favors

Assertiveness	Use of a direct and forceful approach such as demanding compliance with requests, repeating reminders, ordering individuals to do what is asked, and point out that rules require compliance
Higher authority	Gaining the support of higher levels in the organization to back up requests
Sanctions	Use of organizationally derived rewards and punishments such as preventing or promising a salary increase, threatening to give an unsatisfactory performance evaluation, or withholding a promotion.

FIGURE 20.2

Use of Power Tactics: From most to Least Popular

	When Managers Influenced Superiors*	When Managers Influenced Subordinates
Most Popular	Reason	Reason
	Coalition	Assertiveness
	Friendliness	Friendliness
	Bargaining	Coalition
	Assertiveness	Bargaining
	Higher authority	Higher authority
		Sanctions
Least Popular		

*The dimension of sanctions is omitted in the scale that measures upward influence *(iv) Power Coalitions*

The natural way to gain influence is to gain power. Therefore, those who want power will attempt to build a personal power base by forming a coalition. By joining together, managers can combine their resources to increase rewards for themselves. Successful coalitions have been found to contain fluid membership and are able to form swiftly, achieve their target issue, and quickly disappear.

Many employees hold power by joining trade unions. If a trade union is unable to get success, almost all the trade unions of the organization join together to fight against management for achieving their demands fulfilled.

Participative management is visible in coalitions. The coalition continues till all the members are co-operative and tolerant. If their interests clash, they disintegrate and the benefits of coalitions are not achieved. Dictatorial system does not like coalition. Coalition provides interdependence. It is needed where resources are huge and require to be managed effectively.

Politics

Politics is the art of acquiring and enhancing power. Employees have a certain role to play. Therefore, their exercise of power is limited to a large extent by the role obligations. Political behavior is of two types.

Legitimate - It includes normal every day's politics. It includes:

- Complaining to one's superiors,
- By passing the chain of command,
- Forming coalitions,
- Obstructing organizational policies through excessive adherence to rules and
- Developing contacts outside through professional activities.

Illegitimate – It includes influences that are extreme and violate the implied "rules of the game." Such activities include

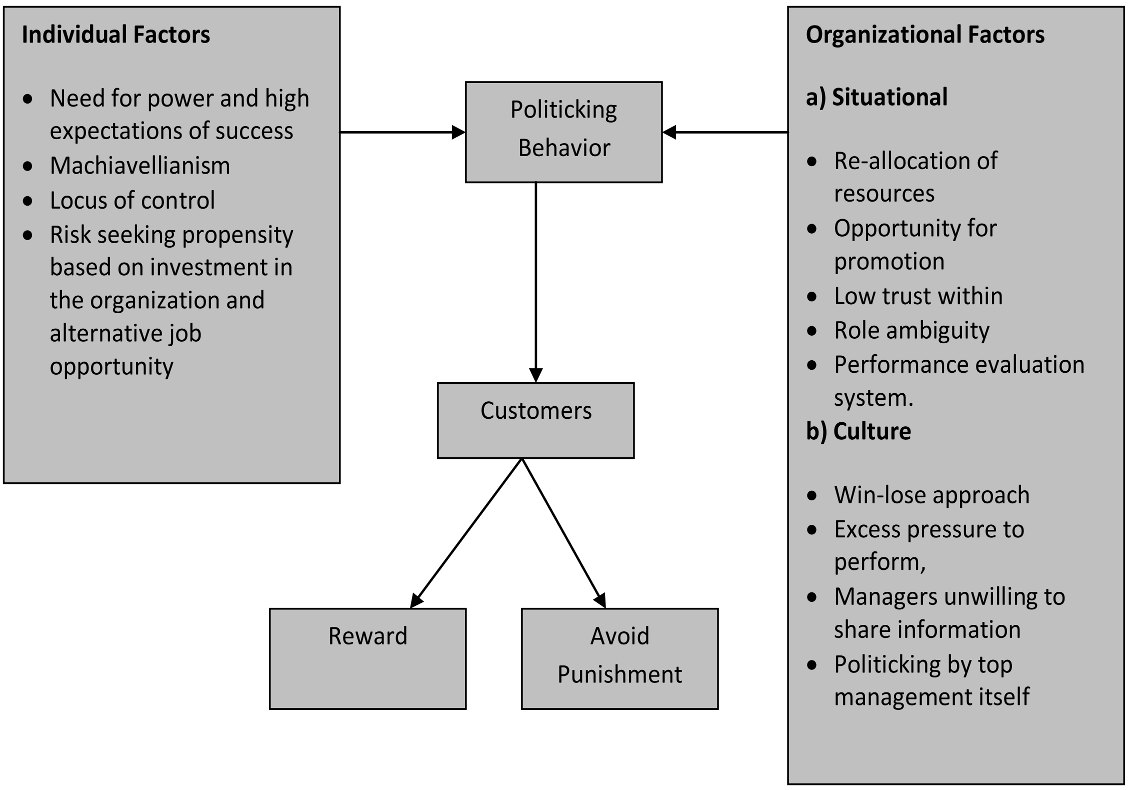
- Sabotage,
- Whistle blowing,
- Symbolic protest such as wearing unorthodox dress and
- Groups of employees cumulatively calling in sick.

It may be stated that the vast majority of political actions are of the legitimate variety. The reasons are pragmatic – the extreme and illegitimate forms of political behavior pose a very real risk of loss of organizational membership, or extreme sanctions against those who use them and then fall short in having enough power to insure that they work.

Factors Causing Political Behavior

Research has indicated a number of factors, which can contribute to political behavior. Some of these factors are individual and derived from the unique qualities of the employees in the organization and others are derived from the organization's internal culture or environment.

Figure 20-3 Factors causing political behavior



A) Individual Factors

A few prominent individual factors are examined here.

i) Need for power and high expectations of success

Some managers who are status and ego driven often resort to politics to gain access to power corridors. They use the power for their personal growth and pleasures. Some managers who are in-charge of teams or units, may also engage in politics to safeguard their positions and have more benefits for their units. For effective management to take place, managers must be cautioned against the use of 'Need for Power' for personal means – to dominate others, seek loyalty for own self rather than the organization. It will always be preferable to adopt a 'Need for power for institutional purpose'. This will help in creating a good work climate or culture for effective work and also help to develop subordinate's understanding and loyalty to the organization.

ii) Machiavellianism

Machiavellians are people who use deceit and opportunism in interpersonal relations and manipulate others for their own purpose. Such Machiavellists also have a cynical view of the nature of other people and do not care for conventional morality. Obviously, politics of this kind is undesirable in organizations.

iii) Locus of control

Locus of control is the extent to which people believe that they can control events which affect them. Individuals can either have a high internal locus of control or a high external locus of control. Those individuals with a high internal locus of control hold a belief that events result primarily from their own behavior and are likely to engage in a political behavior in an attempt in influence other people. Those who have external locus of control believe in external forces from other individual managers, other groups or fate, which affect their success.

iv) Risk seeking propensity

Managers differ in risk taking. Some are risk seekers. Some are risk moderators. There are marked individual differences in their willingness to take risks or in their risk seeking prosperity. Some individuals can be descried as risk seekers. Negative outcomes like low performance ratings, demotions etc., can be the risks associated with persons who engage in political behavior in organizations. Knowing this and yet engaging oneself in political activities can be called risk seekers. While risk avoiders are those who avoid such due to the possible negative outcomes.

(B) Organizational Factors

Organizational factors also influence the politicking in organizations. These are as follows.

- ***Reallocation of resources*** – when organizations downsize the changes many stimulate conflict and politicking to have advantage in allocation.
- ***Advancement or promotion*** – people resort to politics for quickly getting advancement or promotion in their careers
- ***Low trust*** – A low trust within the organization can increase political behavior, which can become illegitimate also.
- ***Role ambiguity*** – When there is confusion in the scope and functions, employees resort to politicking to have a favorable situation.

Summary

Organizational behaviors include power and political dimensions. When strategy implementation is undertaken, managers have to be leaders in the process and exercise influences. Influencing behavior requires power, Power sources are mainly categorized into inter personal and organizational. Interpersonal sources are: coercive, expert, legitimate, referent, and reward. Organizational power sources are: knowledge, resources, decision- making and networks. Power tactics employed by managers include: reason, coalition, friendliness, bargaining and assertiveness. Politics is the art of acquiring and enhancing power. Employees have a certain role to play. Therefore, their exercise of power is limited to a large extent by the role obligations. Political behavior is of two types-legitimate and illegitimate. Research has indicated a number of factors, which can contribute to political behavior. Individual factors include: Need for power and high expectations of success, machaivellinism locus of control and risk taking propensity. Organizational factors include: reallocation of resources, promotion or advancement, low trust and role ambiguity.

Self-Assessment Questions

1. Explain what do you understand by power and politics.
2. What are the interpersonal sources of power?
3. What are the organizational sources of power?
4. How do you exercise interpersonal power as a leader?
5. How do you exercise organizational power as a leader?
6. Why do mangers resort to politics? Are there risks?
7. What factors of individual are responsible for politics?
8. What factors of organization can be responsible for politics?
9. Draw a model of power dynamics in organizations.
10. Draws a model of political behavior in organizations.

Activities

1. Think about behaviors in your organization. Are there politics and power influences? Make a report.
2. Recall the way you have used power to influence behaviors of family members and friends. Make an inventory of power influences identifying the sources.
3. Prepare a short questionnaire to find out political behavior in organizations. Find out the political issues, outcomes and strategies adopted for reducing undesirable behaviors.
4. Visit a local bank. Inquire the role played by politics and power during computerization. Also find out how they were used for advantage by management of bank.

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Lesson 21 - Strategy Implementation

Lesson Outline

- Introduction
- Implementation-Defined
- Significance of Implementation
- Process of implementation
- Strategic evaluation and control
- Summary
- Self assessment questions
- Assignments
- References

Learning Objectives

After reading this lesson you should be able to

- Understand the concept of strategy implementation
- Identify the different types of control
- Examine the process of strategy implementation

Introduction

Planning is said to be effective only when it produces desired results. It is hence said that planning and controlling are Siamese twins of management. Once a strategy is chosen, it has to be put into action, in such a way that the expected outcomes are realized. This process is called 'implementation'. It covers a wide range of strategic issues, decisions and actions, which are often critical for the success of a strategy.

Implementation-Defined

Implementation involves putting into action the conceptualized strategy, by formulating various programs, budgets, procedures and policies. Miller defined strategy implementation in the following words.

"Strategy implementation is the process by which strategies and policies are put into action through the development of programs, budgets and procedures."

Significance of Implementation

The significance of implementation of strategy can be understood from the following points of view.

(i) It is part of strategy making

Strategy making process involves several steps (shaded boxes)as shown in Figure 21-1.it involves steps like resource allocation, designing organization culture, leadership that balances power and politics, and evaluation of performance at every step through standards and audit systems. If these steps are not properly taken care of faire in strategy is inevitable. PepsiCo example illustrates how culture can be a cause of failure.

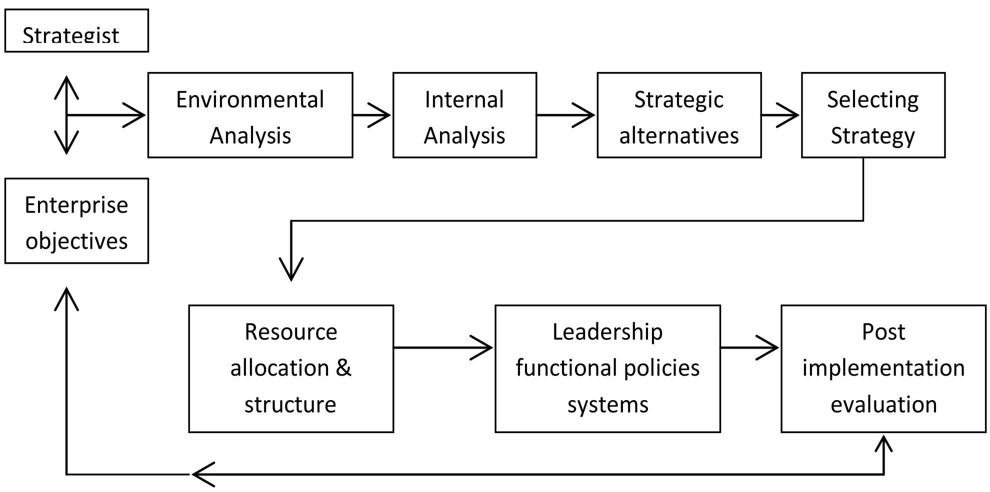

Figure 21-1 Strategy evaluation and control in strategic formulation framework.

Pepsi Co, selected a relatively inexperienced manager to implement strategy at Brazil. Mr Charles Beach from Coca-Cola was selected as franchisee for North Carolina, Pueto Rica and later for the entire South America. This fast 'changing culture' and 'ready fire aim culture' of Pepsi

Co, became a problem. While Coca-Cola adds territories slowly, Pepsi Co, is very fast, this led its Brazilian operations into Chaos.

Process of Implementation

Implementation includes the following steps. Many of the steps are discussed in the earlier lessons. We will now briefly discuss them.

i) Resource allocation
ii) Organisation structure design
iii) Planning framework
iv) Leading and staffing
v) Change and communication.
vi) Evaluation

Resource allocation

This has vital significance in strategy implementation. In a single product firm, it may involve assessment of the resource needs of different functional departments. In a multi divisional organisation, it implies assessing the resource needs of different SBUs or product divisions. Methods of resource allocation include use of:

- Percentage of sales or profits
- BCG matrix
- Budgeting system

Organization structure design

Appropriate organization structure is to be designed to make strategy implementable. The relation between strategy and structure is established based on organizational life cycle, corporate development stages and international businesses. Organization design involves changes like:

- Job design- Making the jobs more challenging by job analysis and role redefinition.

- Reengineering- Reengineering is a radical redesign of business process to achieve major gains in cost, service and time. It is an effective way of implementing turn around strategy. It breaks away old rules and procedures

Planning frame work

The managers involved in implementation should plan and develop programmes, budgets and procedures. They should also work for achieving synergy among the divisions and functional areas in order to maintain distinctive competence.

Programme

Programmes make strategy action oriented. Ex: Reliance vertical (forward) integration strategy for growth.

Budgets

This begins after programmes. It is a check on the feasibility of selected strategy. Budget is expression of programmes in quantitative terms. Without budgets implementation becomes impractical

Procedures

After programmes and budgets, studied operating procedures (SOPS) must be developed. They detail the various activities that must be carried out to complete a corporation's programme. The change during the change process, Ex: Mc Donald's developed very detailed procedure to ensure that policies are carried out in its fast food retail outlets.

Leadership and staffing

Implementation involves leading people to utilize their abilities and skill efficiently and effectively to meet organisational goals. Leaders are the key organic elements, who help the organization cope with changes. Failure of leadership may result in goal incongruence, communication break down, ambiguity etc,. Leaders help in transformation in three phases

- Recognising need for revitalization
- Creating a new vision
- Institutionalizing change

A leader may follow any of the following leadership styles

- Entrepreneurial-risk taking, dynamic , change oriented.
- New scientific – Questioning the existing practices and discovering and experimenting new approaches.
- Quasi-scientific- Balancing the tradition and innovation to maintain stability.
- Muddling through – Pushing through different situations with reactive planning
- Conservative –Making approaches of implementation carefully as per procedures.
- Democratic-Participative in style involving people indecision making.
- Middle of the road- Using an approach that is in between the democratic and task oriented.

Staffing issues involve hiring new people with new skills, firing unskilled or inappropriately skilled people, or training employed to acquire new skills. Staffing requirements are likely to follow a change in human resource strategy relating to number and quality of people.

GE's aircraft engine group used training to maintain its market shone even though work force was cut from 42,000 to 33,000 between, 1991 to 1993.

'Downsizing' has become one of the practices of late in modernization strategy of banks. It involves planned elimination of positions or jobs during strategy implementation. It involves.

- Elimination of unnecessary work
- Contract out those works that can be done cheaper
- Plan long run efficiencies
- Communicate the resources for downsizing

- Invest in remaining employees
- Develop value added jobs.

Change and communication

Change is inevitable during implementation. Rationale for strategic changes should be communicated to workers through news letters and speeches and even in training programmes. Companies in which major cultural changes took place have the following.

- The CEO with strategic vision, who communicated their vision to employees at all levels and constantly compared themselves with competitors for updating.
- Vision , that is translated into key elements for implementation. They are widely communicated through contests, recognition, rewards etc,

Evaluation

The importance of strategic evaluation lies in its ability to coordinate the tasks performed by individual managers, and also groups, division or SBUs, through the control of performance. In the absence of coordinating and controlling mechanisms, individual managers may pursue goals, which are inconsistent with the overall objectives of the department, division, SBU or the whole organization. We will now discuss evaluation and control in detailed way.

Strategic Evaluation and Control

The process of evaluation basically deals with four steps:

1. Setting standards of performance-Standards refer to performance expectations. Table 21-1 illustrates standards
2. Measurement of performance-Measurement of actual performance or results requires appraisal based on standards.
3. Analyzing variances- The comparison between standards and results gives variances. Table 21-2 shows how variances can be found.

4. Taking corrective action-The identifications of undesirable variances prompt managers to think about ways of corrective them.

Table 21.1 Illustrative Performance Indicators in Functional Areas Across Different Grand Strategies

	Stability	Expansion	Retrenchment
Focus of Evaluation	Efficiency- oriented	Growth-oriented	Cost reduction oriented
Financial area	Profitability and activity ratios; divided and earnings per share	Leverage ratios; credit ratings; break-even point	Liquidity and activity ratios
Marketing area	Sales revenues and quotas; sales force productivity; accounts eceivable divided by sales; number of customer complaints	Sales growth (current sales to base year's sale); new accounts opened per year; new products sales divided by total sales	Marketing costs divided by sales; marketing costs divided by orders; sales expenses divided by total number of sales calls

Performance indicator	**Standard**	**Actual**	**Variance**
Profit over sales (%)	12	10	-2
Sales revenue (Rs.crores)	26	22	-4
Capacity utilization (%)	85	90	+5
Training costs per employee (Rs)	20	22	+2
Maintenance costs as % of IT investments	15	20	-5

Importance

Strategic evaluation is important due to several factors.

Need for feedback

Within an organization, there is a need to receive feedback on current performance, so that good performance is rewarded and poor performance is corrected.

Validates strategic choice

Strategic evaluation helps to keep a check on the validity of a strategic choice. An ongoing process of evaluation would, in fact, provide feedback on the continued relevance of the strategic choice made during the formulation phase.

Congruence between decisions and intended strategy

During the course of strategy implementation managers are required to take scores of decisions. Strategic evaluation can help to assess whether the decisions match the intended strategy requirements.

New Strategy planning

Lastly, the process of strategic evaluation provides a considerable amount of information and experience to strategists that can be useful in new strategic planning.

Participants in Strategic Evaluation

The various participants in strategic evaluation and control and their respective roles are

Shareholders, lenders and the public They have ownership claim on the assets of the enterprise and are therefore responsible to the strategic performance and evaluation.

Board of Directors enacts the formal role of reviewing and screening executive decisions in the light of the environment and business organizational implications.

Chief executives are ultimately responsible for all the administrative aspects of strategic evaluation and control.

SBU or profit-centre heads may be involved in performance evaluation at their levels and may facilitate evaluation by corporate-level executives.

Financial controllers, company secretaries, and external and internal auditors form the group of persons who are primarily responsible for operational control based on financial analysis, budgeting, and reporting. Audit and executive committees, set up by the Board or the chief executive, may be charged with the responsibility of continuous screening of performance.

Corporate planning staff or department may also be involved in strategic evaluation.

Middle-level managers may participate in strategic evaluation and control as providers of information and feedback, and as the recipients of directions from above, to take corrective actions.

Types of strategic controls

Controls can be broadly classified into two categories. : Strategic and operational control. Strategic control is aimed at monitoring the course of progress in the predetermined direction, and operational control with the allocation of organizational resources and evaluation of the performance of organizational units, such as, divisions, SBUs, and so on, to assess their contribution to the achievement of organizational objectives. Table 21-3 shows the differences.

Table 21-3 Differences between strategic Control and Operational Control

Attribute	Strategic control	Operational control
Basic question	"Are we moving in the right direction"?	How are we performing"?
Aim	Proactive, continuous questioning of the basic direction of strategy	Allocation and use of organizational resources
Main concern	Steering' the organization's future direction	Action control
Focus	External environment	Internal organization
Time horizon	Long-term	Short-term
Exercise of control	Exclusively by top management, may be through lower-level support	Mainly by executive or middle level management on the direction of the top management
Main techniques	Premise control, Implementation control Strategic surveillance, Strategic momentum control (Responsibility control centers, Critical success factors, and Generic strategies) Special alert control, and strategic leap control (Strategic issue management, strategic field analysis, systems modeling, and scenarios).	Internal analysis (Value chain analysis, operational standards) Comparative analysis, (Historical standards, Industry norms and benchmarking) and Comprehensive analysis (Balanced score card, Key factor rating and MBO)

Source

Based on J A Pearce-III and R B Robinson, Jr. Strategic Management: Strategy Formulation and Implementation, 3rd edn, Richard D Irwin, Homewood, Ill, 1988,pp 404-19.

Strategic controls

The different types of strategic controls are discussed in brief here.

Premise control

A company may base its strategy on important assumptions related to environmental factors (e.g., government policies), industrial factors (e.g. nature of competition), and organizational factors (e.g. breakthrough in R&D). Premise control continually verifies whether such assumptions are right or wrong. If they are not valid corrective action is initiated and strategy is made right. The responsibility for premise control can be assigned to the corporate planning staff who can identify for assumptions and keep a regular check on their validity.

Implementation control

Implementation control can be done using milestone review. This is similar to the identification-albeit on a smaller scale-of events and activities in PERT/CPM networks. After the identification of milestones, a comprehensive review of implementation is made to reassess its continued relevance to the achievement of objectives.

Strategic Surveillance

This is aimed at a more generalized and overarching control. Strategic surveillance can be done through a broad-based, general monitoring on the basis of selected information sources to uncover events that are likely to affect the strategy of an organization.

Special Alert Control

This is based on a trigger mechanism for rapid response and immediate reassessment of strategy in the light of sudden and unexpected events. Special alert control can be exercised through the formulation of contingency strategies and assigning the responsibility of handling unforeseen events to crisis management teams. Examples of such events can be the sudden fall of a government at the central or state level, instant change in a competitor's posture, an unfortunate industrial disaster, or a natural catastrophe.

Strategic momentum control

These types of evaluation techniques are aimed at finding out what needs to be done in order to allow the organization to maintain its existing strategic momentum. There are three techniques , which could be used to achieve these aims:

- Responsibility control centers,
- Critical success factors, and
- Generic strategies.

Responsibility controls form the core of management control systems and are of four types: revenue, expense, profit, and investment centers.

CSFs form the bases for strategists to continually evaluate the strategies to assess whether or not these are helping the organization to achieve the objectives.

The generic strategies approach to strategic control is based on the assumption that the strategies adopted by a firm similar to another firm are comparable. Based on such a comparison, a firm can study why and how other firms are implementing strategies and assess whether or not its own strategy is following a similar path. In this context, the concept of strategic group is also relevant, A strategic group is a group of firms that adopts similar strategies with similar resources. Firms within a strategic group, often within the same industry and sometimes in other industries too, tend to adopt similar strategies.

Strategic leap control

Where the environment is relatively unstable, organizations are required to make strategic leaps in order to make significant changes. Strategic leap control can assist such organizations by helping to define the new strategic requirements and to cope with emerging environmental realities. There are four techniques of evaluation used to exercise strategic leap control:

strategic issue management, strategic field analysis, systems modeling, and scenarios.

1. Strategic issue management is aimed at identifying one or more strategic issues and assessing their impact on the organization. A strategic issue is "a forthcoming development, either inside or outside of the organization, which is likely to have an important impact. On the basis of strategic issues, the strategists can avoid surprises and shocks, and design contingency plans to shift strategies whenever required.

2. Strategic field analysis is a way of examining the nature and extent of synergies that exist or are lacking between the components of an organization. Whenever synergies exist the strategists can assess the ability of the firm to take advantage of those. Alternatively, the strategists can evaluate the firm's ability to generate synergies where they do not exist.

3. Systems modeling is based on computer-based models that simulate the essential features of the organization and its environment. Through systems modeling, organizations may exercise pre-action control by assessing the impact of the environment on organization because of the adoption of a particular strategy.

4. Scenarios are perceptions about the likely environment a firm would face in the future. They enable organizations to focus strategies on the basis of forth-coming developments in the environment.

Several of the above techniques for strategic control-with the possible exception of responsibility centers-are of a relatively recent origin. The development of these techniques is an evidence of the expanding body of

knowledge in business policy and strategic management.
In the next part of this section, we look at techniques for operational control.

Operational control

Operational control is aimed at the allocation and use of organizational resources. Evaluation techniques for operational control, therefore, are based on organizational appraisal rater than environmental monitoring, as is the case with strategic control. Evaluation techniques can be classified into three parts.

- Internal analysis,
- Comparative analysis, and
- Comprehensive analysis.

Internal analysis

Internal analysis deals with the identification of the strengths and weakness of a firm in absolute terms.
Value chain analysis focuses on a set of inter-related activities performed in a sequence for producing and marketing a product or service. The utility of value-chain analysis for the purpose of operational evaluation lies in its ability to segregate the total tasks of a firm into identifiable activities, which can then be evaluated for effectiveness.

An operational standard takes up the financial parameters and the non-financial quantitative parameters, such as, physical units or time, in order to assess Performance. The obvious benefit of using quantitative factors (either financial or physical parameters) is the ease of evaluation and the verifiability of the assessment done. These are probably the most-used methods for evaluation for operational control. Among the scores of financial techniques are traditional techniques, such as, ratio analysis, or newer techniques, such as, economic value-aided (EVA) and its variations, and activity-based costing (ABC). These are proven methods so far as their efficacy for evaluating operational effectiveness is concerned. Apart from the financial quantitative techniques, there are several non-financial control, such as; computation of absenteeism, market ranking, rate of advertising recall, total cycle time of production, service call rate, or number of patents registered per period

Qualitative analysis supplements the quantitative analysis by including those aspects which it is not feasible to measure on the basis of figures and numbers. The methods that could be used for qualitative analysis are based on intuition, judgement, and informed opinion. Techniques like surveys and experimentation can be used for the evaluation of performance for exercising operational control.

Comparative analysis

It compares the performance of a firm with its own past standards, or standards of other firms.

1. *Historical analysis* compares the present performance of a firm with performance over a given period of time. This method help analyse the trend or pattern.
2. *Industry norms* Performance of a company I is compared with the performance of its peers in the same industry. Evaluation on the basis of industry norms enables a firm to bring its performance at least up to the level of other firms and then attempt to surpass it.
3. *Bench marking* is a comparative method where a firm finds the best practices in an area and then attempts to bring its own performance in that area in line with the best practice. In order to excel, a firm shall have to exceed the benchmarks. In this manner, benchmarking offers firms a tangible method to evaluate performance.

Comprehensive analysis

This analysis adopts a total approach rather than focusing on one area of activity, or a function or department.

1. *Balanced scorecard* method is based on the identification of four key performance measures of customer perspective, internal business perspective, innovation and learning perspective, and the financial perspective. This method is a balanced approach to performance measurement as a range of parameters are taken into account for evaluation.

2. *Key factor rating* is a method that takes into account the key factors in several areas and then sets out to evaluate performance on the basis of these. This is quite a comprehensive method as it takes a holistic view of the performance areas in an organization.
3. *Management by Objectives* (MBO) is a system, proposed by Drucker, which is based on a regular evaluation of performance against objectives, which are decided upon, mutually by the superior and the subordinate. By the process of consultation, objective setting leads to the establishment of a control system that operates on the basis of commitment and self-control.
4. *Memorandum of understanding* (MoU) is "an agreement between a public enterprise and the Government, represented by the administrative ministry in which both parties clearly specify their commitments and responsibilities". Having done that, the enterprises are evaluated on the basis of the MoU.

Summary

The success of a strategy depends upon the efficacy of implementation. It involves adjustments in structure; systems, skills, culture, resources etc needed and demands matching them all. These organizational adjustments are a must to manage change. Implementation includes -Resource allocation, Organization structure design, Planning framework, Leading and staffing , Change and communication and Evaluation.

The importance of strategic evaluation lies in its ability to coordinate the tasks performed by individual managers, and also groups, division or SBUs, through the control of performance. Controls can be broadly classified into two categories. : Strategic and operational control. Strategic control is aimed at monitoring the course of progress in the predetermined direction, and operational control with the allocation of organizational resources and evaluation of the performance of organizational units, such as, divisions, SBUs, and so on, to assess their contribution to the achievement of organizational objectives. Strategic controls include: Premise control, Implementation control

Strategic surveillance, Strategic momentum control (Responsibility control centers, Critical success factors, and Generic strategies)

Special alert control, and strategic leap control (Strategic issue management, strategic field analysis, systems modeling, and scenarios). Operational controls include: Internal analysis (Value chain analysis, operational standards) Comparative analysis, (Historical standards, Industry norms and benchmarking) and Comprehensive analysis (Balanced score card, Key factor rating and MBO).

Self -Assessment Questions

1. What is strategy implementation? Explain its significance.
2. Explain the process of strategy implementation.
3. What is strategy evaluation and control?
4. How do you classify strategy controls? Distinguish them.
5. What are the strategy control techniques? Explain any three of them.
6. What are the operational control techniques? Explain any three of them.
7. Describe (i) Benchmarking (ii) Balanced score card (iii) MBO
8. Explain how performance indicators can beset for different functional areas
9. What are the benefits of strategy control measures?
10. Identify the use of qualitative standards in strategy evaluation.

Assignments

1. Visit websites of two companies one in consumer goods and another in industrial goods sector, and find out the performance indicators used by them.
2. Visit a company of your choice and discuss the control measures relating to strategy implementation in the company in

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Case Method

It goes without saying that case method is one of the popular techniques of teaching. It requires students to do most of their studying before class. You must be prepared before hand to understand the arguments and presentations of your fellow students, not to mention to give good presentations of your own. You must place yourself in the role of responsible manager in the case and make decision and plan the action called for by the facts as you interpret them.

What is case?

Case consists of a number of pages of prose description of a real life situation. It may include quantitative as well as qualitative data.

Steps in Study

The following steps will be helpful in case study.

1. Quick Reading

Read the case once, very quickly to make you familiar with the case characters, the general nature and quality of evidence, and idea of problems to be solved.

Jot down key words (indicating name of the company, names of persons and designations, and key issues). They help in developing a

view about the case situation.
Look at the type of questions you have to answer.

2. Thorough Reading

Read the case slowly at a thoughtful rate-taking note of important points, studying exhibits, tables, graphs and examining validity of options, feelings and views of case characters.

NOTE

Write the name of the company, location, and year of establishment. List the name of persons with designations.

In chronological order make a note of events.

Identify the facts, assumptions and estimations given in the case.
Check for statement of problem; if it is not given or look for symptoms

3. Check Reading

Check the various important facts identified to make sure that your view of the situation is consistent with all the facts.

VALIDATE

Validate all the above. Now you have the right picture of the situation in your mind.

Case Type -I

At the end of the case, questions are not given. The problem is within the case. The reader has to identify it and provide solution.
For arriving at an appropriate solution, the following steps are essential.

Step 1:

Analyze the present situation

The present situation as the manager sees it comprising the environment representing constraints and opportunities is to be identified for instance, in the following:

1.	Economic conditions	2.	Competition
3.	Laws & regulations	4.	Supplies availability
5.	Markets etc		

The specific status of firm is to be then made known.

1.	Recent history	2.	Products and processes
3.	Resources	4.	Money
5.	Manpower	6.	Management
7.	Assets (land, building, etc)		

The analysis and putting facts together show draw attention to cause and effect relationships.

Step 2:

Forecasting the future situations

If the case is dealing with short time range present situation is valid. Then step is not necessary. But if it deals with long range future, a forecast of future situation based on the present one is to be developed.

Step 3:

Define objectives

An objective is a desired future state of the firm described in terms of those effects which the manager can influence. It is often said that objectives should be stated in such terms that you could measure results. They should also be given in terms of days for completion. Ex: If the production, rate has fallen from 4000 units per day, the objective may be to return to the standard rate of production within five days.

In more complex problems and those involving long range planning objectives often involve changes in scale of operations, in selling prices, in man power and other variables under the control of manager.

Step 4:

Define problem

Problem statements how can be expressed in terms of the differences between the present situation and the desired future situation of the firm (objectives). If surface facts are taken without identifying causes and without a reference to objectives, the approach becomes hasty. If often results in treating the symptoms of the problems rather than the problem itself.

Step 5:

List possible alternative courses of action

Some cases may present potential alternatives and their outcomes whereas some others may be silent about them. Where alternatives are not given devise alternatives predict their outcomes.

Step 6:

Evaluating the alternatives

Often you come up with five or six alternative courses of action. However you may need to dismiss, some of these alternatives as unfeasible because they do not meet the objectives. The remaining alternatives are to be evaluated in detail very carefully.

Step 7:

Decision

You should now select the action alternative that provides the best means to problem solving and attainment of objectives. If so doing compare and contrast the advantages and disadvantages of the alternatives and make your selection. You articulate the main reasons why you have selected one alternative over the others. For each rejected alternative, state why your chosen alternative is better.

Step 8 :

Implementation

Your decision is not complete until you prepare operational plans for its implementation. Draw up a statement of

- What must be done to carry out your decision ;
- Who must be assigned to do it;
- When it should be carried out;
- Where it should be performed and
- How must should be expended on it, etc.

In most cases, you cannot give highly detailed or precise answers to the questions however gross estimates are infinitely better than no estimates at all.

Report Writing

Prepare the report with the following subheads

Brief	Give a brief of the situation in 10 lines. Highlight the name of the company , the principal roles, the events and the problem or symptoms apparent in the situation

Situation analysis	State important facts about the present situation Make forecast of changes in the situation. State the premises on which your future outlook is based. *Use graphics and models if possible.*
Objectives and constraints	What are your future and current objectives? Or what do you want to achieve? What constraints do you see n your way? *Use force filed diagram like techniques for effective presentation.*
Problem/opportunity	What is the focus for your decision or action?
Alternative courses of action	State several alternatives. Jot down your thoughts. From them develop few alternatives for discussion.

Evaluate alternatives	State criteria for evaluation- risk, return. time horizon, satisfaction, payback, liquidity, control, harmony- like that there are certain things of value to you in a problem or opportunity situation . Which one you do consider appropriate in the present situation. Highlight them and use them for evaluation. *Draw comparisons or use for and against arguments.*
Selection of an appropriate action	State the alternative you have chosen. Say why you have chosen it and why you have not chosen the other ones. *Make a diagrammatic presentation of how the problem can be solved by this alternative*
Follow up action plan	Outline how do you go about in implementing it. Just give hints in terms of resources required, measures to be taken to remove constraints if any etc. Make a table of focus points, problem or constraints and action suggested.

Case Type –2

Questions are given at the end **Case type II**

At the end of the case, questions are given . For instance, questions can be as follows.

Question	Answer contents
What is the problem of XYZ company /Mr DD?	Situation analysis Problem statement
What actions do you recommend? Or How would you go about in this situation ?	State objectives State alternative courses of action State the criteria you would employ to evaluate Evaluate the alternatives and select the right one State your choice supporting your decision and give action plan
Is Mr GG right in his decision, if yes, why? If no, why?	State how a decision is to be taken. Then based on the process or procedure you gave, check Mr GG's decision. Now say how you differ from Mr GG.
Why the implementation failed?	State the standard approach of implementation and compare it with the actual implementation in the case. Check for deviations. If you find some, say what failures are there.

Watch your presentation: - Be brief and objective, avoid lengthy sentences and paragraphs. Be realistic; do not include every conceivable alternative to make analysis look more complete. It looks ridiculous if you describe in 50 words alternative and demolish it in 10 words. Avoid setting up of straw men.

Be clear; include those figures and charts without which report will be incomplete and difficult to understand however supportive. Charts, figures and tables may be planned in appendix if they are not important as immediate reference. Give a final summary only when your report is more than ten page long.

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CASE-1

Lubricating Lube Business

Difficult times have their own merits. This is as much true for an individual as it is for an organization. These are the times when the entire organization gets an opportunity to display its resilience through its innovative skills and creative abilities. Naveen K Kshatriya, Chief Executive and Managing Director of Castrol India Limited (CIL), echoed similar thoughts while reflecting on his company in October 2002.

Lube Industry

The lubricant industry in general has three broad segments, namely, automobile, industrial, and marine. As per the global trends, the automobile segment dominates the industry, and, within the automobile industry, the diesel industry, the diesel engine lubricants from the major part of the market.

Market Size

The total market size and production of the lubricant industry in India in the year 2000-01 were Rs.101.034 billion and 13,898 thousand litres (Table –1) respectively. The lubricant industry witnessed a cumulative annual growth rate of 15 per cent during the period 1995-96 to 2000--01.

Table 1: Company-wise Trend in Production: 1995-96 to 2000-01

Name of the company	Unit	1995-96	1996-97	1997-98	1998-99	1990-00	2000-01
Indian Oil Corporation	000 tonne	114	122	110	112	121	112
Castrol India	000 litre	156,270	173,002	192,019	208,690	216,541	218,972
Hindustan Petroleum corporation	000 tonne	437	443	494.4	465.6	537.2	494.4
Bharat Petroleum Corporation	000 tonne	86	84	86.9	102.7	100.4	96.6
Gulf Oil	000 litre	-	27,540	48,630	51,383	60,273	57,266
Bharat Shell	000 litre	-	-	-	39.3	41.9	41.4
Savita Chemicals	000 litre	34,370	37,760	40,220	39,290	50,287	59,508
IBP Co.	000 litre	-	-	21,272	21,423	15,764	11,266
Tide Water Oil Corporation	000 litre	41,110	42,020	41,820	42,409.7	38,760.2	29457
Apar industries	000 litre	-	-	62,100	69671	78,304	41,911

respectively. CIL enjoyed a market share of 12.03 per cent and 17.48 per cent during these two years.

Source

Centre for Monitoring Indian Economy, August ,2002

Market Shares

Indian Oil Corporation is market leader with 18.53 per cent (Table 2) and 24.49 per cent share in the years 2000-01 and 2001-02

Table-2 Market shares

Company name	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Indian Oil Corpn	33.04	32.46	29.44	28.75	26.21	18.63
Castrol India	13.82	15.89	15.9	15.92	15.96	12.03
Hindusthan Petroleum Corpn	16.27	15.94	14.83	12.69	10.58	9.23
Bharat Petroleum Corpn	7.36	7.59	7.00	7.06	6.83	5.56
Gulf Oil	-	2.76	4.15	3.92	3.78	2.54
Burma Shell	-	-	-	2.92	2.70	2.21
Savita Chemicals	1.95	2.24	2.12	1,64	2.04	1.83
IBP Co	-	1.96	1.93	2.17	2.20	1.69
Tide Water Oil Corpn	3.32	2.98	3.05	3.06	2.81	2.40
Apar Industries	-	-	1.91	1.90	1.76	1.34
Total	75.75	81.81	80.33	79.96	74.46	56.47

The lubes of the public sector oil companies are sold through their own well-established petrol pumps network. These petrol pumps are not allowed to market the lubes of the MNC s which are marketed through autorepair shops, garages, and service stations. CIL has clearing and forwarding agents, distributors, and dealers in their distribution chain in case of retail lubricant market popularly known as 'bazaar trade' and clearing and forwarding agents only for institutional sales. CIL dominates the retail lubricant market and has access to over 70,000 retail outlets. It has grown by 12 percent on a cumulative annual basis. However, the last two years have been difficult not just for CIL but for the lubricant industry as a whole.

Marketing at CIL

CIL is essentially a marketing company and its sales were made through two channels namely 'bazaar trade' (retail segment) and 'institutional sales'. The institutional sales accounted for 40 per cent of the lubricant market. The players in the retail channel were clearing and forwarding (C&F) agents, distributors, and dealers and only C&F agents in the case of institutional sales.

The company prepared a purchase plan for each distributor SKU-wise and monitored the inventory norms for the distributors. It captured secondary sales data (distributor sales) by having Turview software at the distributors' end. Its focus was on actual sales loss rather than sales loss in the pipeline. It also captured the distributors' penetration level data. The data flow to CIL took place on a monthly basis. The company had plans to integrate Turview and JD Edward's software in the year 2003.

Vision of CIL

CIL has maintained growth in the strategically important and growing segments, namely, engine oil for cars, two wheelers, and new trucks. The overall sales volume continued to decline due to shortfall in commercial vehicles segment, which account for a significant part of their portfolio. The market volumes of commercial vehicles segment have declined because of increase in the less old technology trucks extending oil exchange periods because of cost pressures; and lower tractor utilization because of difficult conditions in agriculture sector. The market trend will continue until there is a revival in freight market and agricultural activity. CIL has been able to maintain its strong financial performance by unit price improvement, lower material costs, and efficiency in supply chain and cost reduction initiatives.

The vision of CIL is to be undisputed leader in the premium automotive lubricant market. The company plans to focus on customer, channel-partner and OEM relationships using brands as the primary driver of their business with technology –based innovations; with novel customer communications and interactions; and innovations in 'route to market' and customer management 'world class supply chain and business processes.

The challenge before Kshatriya is to effectively leverage the power of their two brands –Castrol and BP- and to facilitate the implementation of the company's strategic initiatives.

Strategy outlook

The responses of senior management of Hindustan petroleum Corporation Ltd., Gulf Oil Corporation Ltd., Indian Oil Corporation Ltd., and Bharat Petroleum Corporation Ltd., to the survey questionnaire exploring the reasons for difference in performance in the Indian lubricants industry and for developing a framework in the choice of competitive strategy are given in Annexure 1.

Annexure –1

Responses of Senior Managers on Different Strategic Dimensions

Strategic dimensions	**Elements**	**HPCL**	**Gulf Oil**	**IOCL**	**BPCL**
The degree to which you focus your efforts in terms of	Width of product line	Medium to high	High	High	Medium to high
	Target customer segments	Medium to high	High	High	Medium to high
	Geo-graphical spread of market served	High	Medium to high	High	Medium to high
The degree to which you seek brand identification rather than competition based on	Price	Medium to high	Low	Medium to high	Medium to high
	Other variables	Medium	Medium to high	Medium	Low to medium

The degree to which you seek to develop brand identification with the ultimate consumer	Directly on your own	Medium to high	Medium to high	High	Medium
	Support of distribution channels	Medium	Low	High	High
The choice of distribution channel ranging from	Company owned channels	Medium	Medium	Medium	Medium to high
	Petrol pumps	Medium to high	Low	High	High
	Broad line outlets	Low	Medium to high	High	Medium
The level of product quality in terms of	Raw materials (base oil, additives)	Low	High	High	High
	Adherence to tolerance	Medium	High	High	High
	Features	Medium to high	High	Medium to high	High

The degree to which you seek technological leadership as an innovator	-	Medium	High		Medium
The degree to which you provide ancillary services with your product line such as engineering, assistance, training.	-	Medium	Medium to high	High	Medium
The extent of vertical integration adopted in the process of	Forward vertical	Medium	Medium to high	Medium	Medium
	Backward vertical	Low	Medium	High	Low to Medium
The extent to which you seek low-cost position through investment in cost –minimizing facilities and equipment in	Manufacturing				
	Medium to high	Medium	Medium	Medium	
	Distribution	Medium to high	Medium to high	Medium	Medium to high

The price position of your product in the market relative to	Cost position	Medium to high	Medium to high	Medium	Medium
	Product quality	Low	Medium to high	High	Medium to high
The relationship of the MNC to have access to resources/regulations with:	Home government	Medium to high	Medium to high	NA	NA
	Government of India	Low	Medium to high	NA	NA
The size of fixed costs which have been committed in the manufacturing facilities	-	Medium	Low	Medium	Medium to high
The requirements on firm behavior based on the relationship between the firm and the parent company	-	Medium	Medium to high	NA	Medium to high

Questions

1. Analyze the competitive environment of CASTROL
2. Develop strategy outline based on the analysis.

CASE -2

Planned Strategic Change

Dales Pickles (Dales) is a longstanding manufacturer of luxury foodstuffs. It has over 2000 employees split evenly between three food processing factories and a head office, all located in the north-east of England. Within its market Dales enjoyed a leading but not dominant position with around 20 per cent market share. Between 2002 and 2005, however, aggressive competition based around innovative niche marketing and cost efficiency had reduced its market share to 15 per cent leading the Board of Directors to conduct a major strategic review at the end of this period.

Strategic Review

The Board was forced to recognize that it had become complacent over the years relying too much on historical brand loyalty. The strategic review resulted in two major decisions.

- First, the Board determined to restore the company's market share then, longer-term, to move beyond that to establish a dominant market position.
- Second, designation as a 'world class manufacture' would be pursued to support these marketing imperatives.

Progress up to 2005 would be evaluated internally using three performance goals:

- To become the lowest-cost producer in the UK
- To develop a quality assurance culture that would permeate the whole organization; and
- To become the market leader for new product innovation and development.

These goals were to be pursued through transforming the company's Tayloristic production line systems to a high-involvement, autonomous work group operation labeled 'work cells'.

Structure

Of the 2000 employees approximately half were engaged on direct production activities organized through 36 manufacturing departments split between the three factories. Each department produced a specific suite of products and employed 25 to 35 operatives when it was running at peak capacity of which approximately 25 per cent would be peripheral workers on casual or short-term contracts. This reflected the need for flexible staffing arrangements to accommodate seasonal production peaks prior to Christmas and Easter.

Departments were managed by a supervisor and clusters of six departments reported to a production superintendent who in turn reported to the production Manager for each site who reported to the Manufacturing Director, based at Head Office. Parallel to this structure were a series of production service departments covering material control, purchasing, production control, quality control and plant design and maintenance. These departments were again organized on a site basis through an identical structure reporting ultimately to the production services Director.

Review of Production Function

The introduction of 'work cells' was preceded by a through review of current production processes against the goals of cost, quality and innovation referred to earlier. It was concluded that:

- A rigid and expensive bureaucratic hierarchy operated against effective communication and collaborative problem solving.
- The structure had fuelled a culture of 'management prerogative' that stifled innovation and co-operation. From an employee perspective expressions such as 'we've always done it that way', 'if it ain't broke don't fix it' and 'we know best' represented the language of management.

- Employees adopted a minimalist approach sticking rigidly to their job description, meaning among other things, that quality issues often went unreported. Production operatives enjoyed seeing management 'dropped in it'.
- Operator training reflected Tayloristic principles of job design. It was strictly geared to meeting immediate job requirements and mainly comprised 'sitting next to Nellie'. Any operating problems were reported to supervisors and after flowing through the communication hierarchy an appropriate production service specialist would arrive to rectify it. The downtime that resulted was excessive.

Change Directions

(I) Work Cells

The manufacturing departments were to remain the basis for production but would be transformed into 'cells' using both horizontal and vertical restructuring and team building principles.

(II) Job Changes

This would involve employees undertaking additional roles of similar and higher levels of skill and responsibility (job enlargement and job enrichment respectively) thereby enabling each department to act as a mini-business taking initial responsibility for quality, production scheduling, inventory control, maintenance of equipment and safety.

(III) Employee Empowerment

The vital ingredient was to be the creation of self-directed teams that would be able to identity and rectify problems, communicate effectively within the team and across the organization, operate in the spirit of continuous improvement, and adopt innovatory and risk-taking behaviours. Through employee empowerment this initiative was intended to make a significant contribution to the 'world class' strategy not least because of its potential to enrich work experience of employees.

(IV) Organization Structure Changes

Consistent with work restructuring initiatives generally and the performance goals specifically the introduction of 'work cells' would take place alongside major changes to the organizational structure. Direct production and production services functions were to be combined under a production operations director and two tiers of management removed-supervisors and production Managers/production services Managers-with superintendents absorbing the responsibilities of the latter and reporting to the Director. Further downsizing would occur in the production services departments as some of their functions were absorbed into the manufacturing cells. Where possible displaced staff would be redeployed into the manufacturing cells or consultant roles which were created to underpin the transformation.

Resistance to Change

Initial and continuing staff development strategies were identified as the key to the successful implementation of the work and organizational restructuring initiatives. However, during the strategy formulation stage a number of potential human resource impediments that could frustrate management's plans were identified. A number of employees were resistant to the changes because they had doubts about their own motivation or competency. Several production services staff had intimated that they would try to sabotage the change strategies through uncooperative behaviour irrespective of whether they were to be redeployed into the manufacturing cells or consultant roles. Many managers had voiced extreme skepticism over the principles of employee involvement embedded in the work restructuring plans and throughout two of the factories there existed a strongly held view that 'all this business re-engineering stuff was just another management fad'

HRD Initiatives

Shortly before developing training and development strategies it was decided to create a 'Consultant' role which it was anticipated would help address these issues particularly through a direct contribution to HRD. Ten consultants were to be recruited, each servicing three or four manufacturing cells against the following role brief:

- Assist managers and cells to identify training needs.
- Contribute actively to the development and implementation of training strategies.
- Accelerate the development of team working skills.
- Improve lateral and vertical communications across the organization.
- Support the creation of a continuous improvement environment.
- Challenge bureaucracy and inertia.
- Generally act as change agents.

At this stage it was anticipated that training would need to be targeted at three different groups: production operatives, line managers and consultants.

Questions

1. What will be the short to medium term training needs resulting from the 'work cells' initiative for the three groups identified?
2. How would you seek to address these training needs?
3. What other organizational changes are occurring at Dales besides work restructuring and how might HRD facilitate their introduction?
4. To what extent do your HRD proposals take the organization in this direction and how do you think further progress could be made?

Case With Analysis

Downsizing at Energyco

Energyco emerged as a private sector company from a large public sector provider of power in the early 1990s. This larger organization was technologically advanced but highly staffed. The assets of the public sector provider had been divided between the new firms that superseded it with the result that Energyco had acquired dispersed facilities and a larger than required workforce.

Benchmarking

The company set about evaluating its requirements for both people and physical assets. It commenced this process using a benchmarking exercise that looked at the staffing requirements for power stations- the core of its business. This suggested that, in comparison to power companies in a number of countries, it had a staffing level that could be reduced by about 50 per cent or more in its power stations. In addition, a number of relatively smaller and older power stations were identified for closure. This early planning work suggested that the organization would need to downsize by approximately 30 per cent in terms of total numbers employed in Energyco.

Downsizing approach

The approach of Energyco can be described as under.

Voluntary

As a public corporation, it had become highly unionized. As the organization in its privatized form was now embarking on a major downsizing programme, it made sense to follow a voluntary strategy given the continued existence of strong trade union representation. In addition, the age profile, with a significant proportion of employees over 50, meant that many older workers were happy to take the severance terms being offered.

Focus on performers

The organization was also not particularly sensitive about which employees volunteered given the highly qualified and experienced profile of the workforce, providing it with an abundance of skills in relation to the target size for the new organization. However, the organization did not have an effective performance management system which made it difficult to identify effective performers. This meant that it would have been more difficult for the organization to target those to be made redundant if it had not been fortunate in terms of its age profile and the sheer surplus of skills that it possessed amongst its workforce. The combination of these factors therefore meant that it was possible to allow most volunteers to leave even though some were identified as necessary to retain, at least for a given period.

Phased

Once initial downsizing had occurred in the operational areas the focus shifted to the support areas. It was decided to reduce the aggregate proportion of those engaged in 'overhead' activities to 20 per cent, from 30 per cent of the total workforce. The organization again used a benchmarking approach to identify where savings could be made and an evaluation of activities undertaken. For example, in relation to human resources, those who were the 'customers' of this function were asked what type of support they required with the result that this provision was restructured with the loss of over 200 jobs (over 50 per cent).

Communication

Each part of the organization is supplied with information about the company's plans. This direct communication to employees also provided them with details about the severance terms on offer if they volunteered. The scale of the downsizing and its fairly open nature, combined with the age profile of the workforce, the terms on offer and the recognition that those who stay would have to adapt to organizational culture, meant that the strategy adopted was successful in attracting volunteers.

Tactics

However, there was a conscious effort on the part of those managing the downsizing process to control the acceptance of the terms on offer in those parts of the organization where there was no future demand for employees. A number of tactics were used to achieve this acceptance in practice. The terms on offer included

- An additional payment for early leavers.
- Additional benefits were also offered to those in areas where they were not considered to be core to the future of the organization.
- Line managers were given discretion to discuss each employee's future

status and to offer certain inducements such as additional training or outplacement.

Outcome

So successful was this strategy that the organization had downsized itself by approximately 60 per cent after about four years of privatization. Further workforce reductions have since occurred.

Role of Line Mangers and Communication

It was recognized that this change had damaged morale, even though employees remained committed to the purpose of the business. It was thus part of the line managers' role to demonstrate appropriate change management skills to provide a sense of direction and a face-to-face means of communication to address concerns about the future of the business.

Communication, involving the line managers as well as other means, was seen to be an important link between the establishment, or re-establishment, of the link between morale and efficiency.

All of the organization's line managers, numbering several hundred in total, and including its directors, attended a two day training program which focused on communication and counseling skills to prepare them for their role managing the downsizing process.

In this way, the use of communication and the skills of the line managers were two of the ways in which the culture was changed around the incidence of the downsizing and restructuring programs, which occurred in the organization. The use of communication and the skills of the line managers were also intended to be focused on creating a positive impression amongst a number of key stakeholders involved in, or around, the advent of downsizing. The organization was consciously attempting to retain the goodwill of those who left the organization-the creation of 'happy leavers'. It also wished to avoid negative publicity or any industrial action, which might have adverse effects on its share price or its industrial relations. It was also concerned about the perceptions of those who stayed in the downsized organization- the survivors of these changes.

Energyco introduced a performance management system, which was linked to a career development plan for each employee. This was a powerful means to indicate the concurrent attempt to bring about a change in the culture of the organization. The previous public sector ethos of a job for life was intended to be replaced by an attempt to make tangible the concept of 'employability', linked to a performance culture associated with performance related pay.

Questions

1. Is Energyco's approach right to achieving downsizing?
2. How might you explain the assertion that although 'it was recognized that this change had damaged morale, employees remained committed to the purpose of the business'?

Model case analysis

Brief

Energyco emerged as a private sector company from a large public sector provider of power in the early 1990s. This larger organization was technologically advanced but highly staffed. It undertook a downsizing exercise. In this process it has taken care to see that though morale was affected commitment was not.

Question –1: Is Energyco's approach right to achieving downsizing?

Energyco's approach to downsizing can be considered systematic and humanistic. Systematic because it followed sequentially the steps required in a change process and humanistic because it showed concern for people.

A comparison between the theoretical model of change with the actual process in

Energyco would help in assessing how systematic the company is in this.

Standard model	Energyco model
Identify the need for change	Energyco had acquired dispersed facilities and a larger than required workforce. The company set about evaluating its requirements for both people and physical assets. It commenced this process using a benchmarking exercise that looked at the staffing requirements for power stations-the core of its business. This suggested that, in comparison to power companies in a number of countries, it had a staffing level that could be reduced by about 50 per cent or more in its power stations. In addition, a number of relatively smaller and older power stations were identified for closure. This early planning work suggested that the organization would need to downsize by approximately 30 per cent in terms of total numbers employed in Energyco

Communicate the need for change and planned change to employees concerned	Communication, involving the line managers as well as other means, was seen to be an important link between the establishment, or re-establishment, of the link between morale and efficiency. Each part of the organization is supplied with information about the company's plans. This direct communication to employees also provided them with details about the severance terms on offer if they volunteered. The terms on offer and the recognition that those who stay would have to adapt to organizational culture, was communicated.
Make a detailed plan of change	Downsizing had occurred in the operational areas first and then the focus shifted to the support areas. It was decided to reduce the aggregate proportion of those engaged in 'overhead' activities to 20 per cent, from 30 per cent of the total workforce. The organization again used a benchmarking approach to identify where savings could be made and an evaluation of activities undertaken. For example, in relation to human resources, those who were the 'customers' of this function were asked what type of support they required with the result that this provision was restructured with the loss of over 200 jobs (over 50 per cent).

	A number of tactics were used to achieve this acceptance in practice. The terms on offer included • an additional payment for early leavers. • Additional benefits were also offered to those in areas where they were not considered to be core to the future of the organization.
Organize for change process	All of the organization's line managers, numbering several hundred in total, and including its directors, attended a two day training program which focused on communication and counseling skills to prepare them for their role of managing the downsizing process
Have change agents and define their role s	Line managers were given discretion to discuss each employee's future status and to offer certain inducements such as additional training or outplacement.

Effect the change process and continually evaluate	The organization was not particularly sensitive about which employees volunteered given the highly qualified and experienced profile of the workforce, providing it with an abundance of skills in relation to the target size for the new organization. However, the organization did not have an effective performance management system which made it difficult to identify effective performers. This meant that it was possible to allow most volunteers to leave even though some were identified as necessary to retain, at least for a given period. It was recognized that this change had damaged morale, even though employees remained committed to the purpose of the business.

Take right steps to resolve conflicts	Line managers' role was to demonstrate appropriate change management skills to provide a sense of direction and a face-to-face means of communication to address concerns about the future of the business. The organization was consciously attempting to retain the goodwill of those who left the organization-the creation of 'happy leavers'. It also wished to avoid negative publicity or any industrial action, which might have adverse effects on its share price or its industrial relations. It was also concerned about the perceptions of those who stayed in the downsized organization- the survivors of these changes.
Stabilize the post-change situation	Energyco introduced a performance management system, which was linked to a career development plan for each employee. This was a powerful means to indicate the concurrent attempt to bring about a change in the culture of the organization. The previous public sector ethos of a job for life was intended to be replaced by an attempt to make tangible the concept of 'employability', linked to a performance culture associated with performance related pay.

2. How might you explain the assertion that although 'it was recognized that this change had damaged morale, employees remained committed to the purpose of the business'?

It was recognized that this change had damaged morale, even though employees remained committed to the purpose of the business. It is true because of the effort of the company in the positive direction.

- It was made part of the line managers' role to demonstrate appropriate change management skills to provide a sense of direction and a face-to-face means of communication to address concerns about the future of the business.
- Communication, involving the line managers as well as other means, was seen to be an important link between the establishment, or re-establishment, of the link between morale and efficiency.
- The use of communication and the skills of the line managers were also intended to be focused on creating a positive impression amongst a number of key stakeholders involved in, or around, the advent of downsizing.
- The organization was consciously attempting to retain the goodwill of those who left the organization-the creation of 'happy leavers'.
- It also wished to avoid negative publicity or any industrial action, which might have adverse effects on its share price or its industrial relations.
- It was also concerned about the perceptions of those who stayed in the downsized organization- the survivors of these changes.

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