Unit 1: Introduction to Business Environment

The word 'Business Environment' has been defined by various authors is as follows:
"Business Environment encompasses the -climate' or set of conditions, economic, social, political or institutional in which business operations are Conducted."— **Arthur M. Weimer**
"Environment contains the external factors that create opportunities and threats to the business. This includes socio-economic conditions, technology and political conditions." – **William Gluck and Jauch**
''Business environment is the aggregate of all conditions, events and influences that surround and affect it."—**Keith Davis**
"The environment of business consists of all those external things to which it is exposed and by which it may be influenced directly or indirectly". —**Reinecke and Schoell.**
"The total of all things external to firms and industries that affect the function of the organization is called business environment."—**Wheeler**
"Civilizations require challenges to survive. Thus environment also contains hostilities and dangers that may be overcome by individuals and organizations."— **Arnold J. Toynbee**
On the basis of the above definitions, it is very clear that the business environment is a mixture of complex, dynamic and uncontrollable external factors within which a business is to be operated.
Apart from this, Business Environment can also be defined as a set of conditions – Social, Legal, Economical, Political or Institutional that are uncontrollable in nature and affects the functioning of organization.

Features of Business Environment:
Following are the features of business environment:

i. Dynamic: Business environment is dynamic in nature that means, it keeps on changing as the time pass by.
ii. Unpredictable: The change in business environment is unpredictable. It is a very difficult to predict the exact nature of future happening and the changes in economic and social environment.
iii. Differ from place to place: Business environment differs from place to place, region to region and country to country. Political, economical, etc conditions in Nepal differ from China and other nations.
iv. Interrelatedness: The different factors of business environment are co-related. For example: Change in government may lead to change in economic policies.

v. Complex: Business environment comprises of many factors. All these factors are related to each other. Therefore, their individual effect on the business cannot be recognized. This is perhaps the reason which makes it difficult for the business to face them.

Significance/Importance of Business Environment:

Business Environment refers to the "Sum total of conditions which surround man at a given point in space and time. In the past, the environment of man consisted of only the physical aspects of the planet Earth (air, water and land) and the biotic communities. But in due course of time and advancement of society, man extended his environment through his social, economic and political function."

In a globalised economy, the business environment plays an important role in almost all business enterprises. The significance of business environment is explained with the help of the following points:

i. **Help to understand internal Environment:** It is very much important for business enterprise to understand its internal environment, such as business policy, organization structure etc. In such case an effective management information system will help to predict the business environmental changes.

ii. **Help to Understand Market Conditions:** It is necessary for an enterprise to have the knowledge of market structure and changes taking place in it. The knowledge about increase and decrease in demand, supply, monopolistic practices, government participation in business etc., is necessary for an enterprise.

iii. **Determining Opportunities and Threats:** The interaction between the business and its environment would identify opportunities and threats to the business. It helps the business enterprises for meeting the challenges successfully.

iv. **Giving direction for growth:** The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.

v. **Continuous learning:** Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.

vi. **Image building:** Environmental understanding helps the business organization in improving their image by showing their sensitivity to the environment with which they are working.

vii. **Meeting competition:** It helps the firms to analyze the competitors' strategies and formulate their own strategies accordingly.

viii. **Identifying firm's strength and weakness:** Business environment helps to identify the individual strengths and weakness in view of technological and global developments.

Components of Business Environment

The components of business environment are classified into two broad categories.

1. Internal Environment
2. External Environment

1. Internal Environment: It is defined as all the controllable forces and conditions within an organization that influence organizational behavior. An organization's internal environment has following sub components:
    a. Employees: They are the main components and important assets of organizations. They are responsible to work as per the direction, goals, rules and regulation of the company .For their better performance, organizations have to motivate and satisfied them with fair and equitable rewards policies. The organizations' productivity can be enhanced only by the dedication, loyalty, and cooperation of employees.
    b. Shareholder and Board of Directors: Shareholders being the owners of business, have a direct interest in the performance of the organization. The board of directors is elected by them (shareholders) who represents shareholders' interest in the board. The board is responsible to manage company and formulate appropriate plans. They evaluate overall organizational performance and provide direction to the top level management for the growth of an organization.
    c. Organizational culture: Every organization has its own culture. Culture refers to set of values, beliefs, norms of an organization under which it operates. It helps to bind all the employees and comply with organizational rules and regulations. Culture has a powerful influence on the process of organizational change and decision making.
    d. Labour Union: Labour union represents the employees or labor working in an organization. It takes problems and feeling of the labors to the management for constructive solutions. The good relation between labor union and management avoids unnecessary disturbances in organizations.
    e. Organizational Structure: Structure is a framework of an organization. It clarifies the authority and responsibility roles and relations, hierarchy of management and coordination activities for business.

2. External Environment: External environment is the condition and forces outside the organization that are relevant to its operation and influence the organizational activities. There are two categories of external environment. They are:
   a. General Environment
   b. Task/Operation Environment

a. General Environment: General environmental factors have indirect impact on the activities and outcomes of the firms. Following are the components of general environment:

   i. Political Environment: It refers to the influence from government institutions, strategies of political parties, policies of state and local government and relationship between government and business. Mangers must know about political environment because:
   - It imposes certain legal constraint on the business.
   - It establishes a market atmosphere that maybe pro-business or anti-business.
   - It has the potential to provide stability needed for long-term planning.

   ii. Economic Environment: Economic conditions are critical to the success of the organizations. It is defined as the nature and direction of the economic system of a country and their impact on the individual organization. The economic factors such as: national income, saving ,investment, monetary policies, economic growth, interest rate, consumption pattern etc, have great impact on functioning of an organization. Therefore, managers should devote much of their time and resources to forecast the economy and possible changes.

   iii. Socio-Cultural Environment: The socio-cultural environment affects the behavior of people and their organizations. It includes values, belief, lifestyle, family system, opinions and assumptions widely held by the citizen of the particular country. These elements of society impact the business organizations.

   iv. Technological Environment: Technology is the practical application of scientific knowledge. Radical development has occurred over the past several years in communication, information and automation including robotics. This development brings both opportunity and threats for the organizations. Thus, organizations should utilize their strength to gain from opportunity and neutralize the threats.

b. Task Environment: Task environment has direct impact on the operation of the firms. Following are the components of task environment.

i. Customers: Customers exchange resources, usually in the form of money for an organization's product and services. A customer maybe an individual, family, a business house or an institution. Customer not only buys the product or services they also give valuable ideas, opinions and reaction related to it. Thus, manager should maintain close relationship with them.

ii. Suppliers: Suppliers are the organizations which provide resources like materials, men, machines etc to other firms. As the quality and price of the raw material received from the suppliers determine the quality of the output, the business firm tries to obtain lower prices, better quality and fast deliveries. This strengthens the competitive position of organizations.

iii. Government: The role of the government is to regulate business system and to protect the interest of customers and general public. It formulates rules and regulation, business policies etc under which every firms need to operate. Therefore, government has great influence on corporate policies, procedures and business practices of modern organizations.

iv. Competitors: It refers to organizations that compete for resources with other organizations and provides the similar or substitute product and services to the same group of people. The organization must analyze the competition and established clearly defined marketing strategies in order to provide superior customer satisfaction and to increase market share.

v. Media: The media keeps eye on the vital decision or actions of the business firms having general public interest. Therefore managers need to have good communication with both media and external audiences and deal with them effectively and promptly.

vi. Financial institutions: Organizations depends on a variety of financial institutions such as: banks, insurance companies, capital markets, etc to supply fund for maintaining and expanding their business activities. The terms and conditions of loans and advances and quality of promptness of their services have an impact on the performance of business firms.

vii. Special Interest Group: It refers to environmentalist, unions, consumer advocates, civic society and other professional organization. These organizations pressurized the company to advance their position on the issues like quality services, reasonable price, waste management, environmental protection etc.

Environmental Scanning

Environmental scanning is X-ray of the environment. It is defined as the process of understanding the dynamism and trends of environment. In other words, it is the process that seeks information about events and relationships in a firm's environment, the knowledge of which help top management chart the firm's future.

Furthermore, Environmental scanning is a process that systematically surveys and interprets relevant data to identify external opportunities and threats. An organization gathers information about the external world, its competitors and itself. The company should then respond to the information gathered by changing its strategies and plans when the need arises.

Environmental scanning entails partitioning the external environment into sectors, namely, cultural, economic, political, technological, and so on. This helps establish a firm's information needs within those sectors. Data are usually collected by monitoring and forecasting changes in important variables identified in each sector. That data are then transformed into consolidated information, which is integrated into the firm's strategic planning process (Georgantzas and Acar 1995).

Environmental scanning is used to gather information from the environment. This information is used to craft a strategic plan that will help an organization achieve and maintain a competitive advantage. In order to be successful, the organization must align its strategies and plans with the information gathered from the environmental scanning.

Types of environmental Scanning:

i. **Concentric scanning:** If only one factor of the environment is being analyzed to identify its cause and effect along with its cost and benefit, then it is called concentric scanning. For example: examining only economic environment to know the possible future profit prospects.

ii. **Comprehensive scanning:** If all the factors of the environment are being analyzed to identify their cause and effect along with their cost and benefit, then it is called comprehensive scanning.

Process of Environmental Scanning

Following process is adopted in environmental scanning:

1. Study of forces and nature of environment: This is the first step of environmental scanning in which organization studies the nature of environmental forces and their trends.
2. Determine the sources of information: A company can obtain information from different sources, but it should be ensured that the information is correct. The correct source should be tapped for specific information for more accuracy. Information received form secondary sources may sometimes even misguide strategy managers. Hence, it is important that information should be verified for correctness before it is processed and decisions are taken based on it. Different sources used to collect the information are:
   - Secondary sources: Newspaper, research articles, publications etc.
   - Mass media: Radio, TV ,internet etc
   - Internal sources: Management information system, financial reports, etc.
   - External agencies: consumer, suppliers, distributors etc.
   - Formal research by organization and research agencies etc.
3. Determine the Approaches to Environmental Scanning: The experts have suggested three approaches, which could be adopted for, sort out information for environmental scanning.
   - Systematic Approach: Under this approach, information for environmental scanning is collected systematically. Information related to markets and customers, changes in legislation and regulations that have a direct impact on an organization's activities, government policy statements pertaining the organization's business and industry, etc, could be collected continuous updating such information is necessary not only for strategic management but also for operational activities.
   - Ad hoc Approach: Using this approach, an organization may conduct special surveys and studies to deal with specific environmental issues from time to time. Such studies may be conducted, for instance, when organization has to undertake special projects, evaluate existing strategy or devise new strategies. Changes and unforeseen developments may be investigated with regard to their impact on the organization.
   - Processed-form Approach: For adopting this approach, the organization uses information in a processed form available from different sources both inside and outside the organization. When an organization uses information supplied by government agencies or private institutions, it

uses secondary sources of data and the information is available in processed form.

4. Scan and Assess the trend: Finally organization specifies relevant environmental trends and their behaviors. And assess them in terms of opportunities and challenges.

Techniques/Methods of Environmental Scanning

Following are the methods of environmental scanning:

a. Executive opinion method: Under this environment is forecasted on the basis of opinion and views of top executives.
b. Delphi Techniques: Outsides experts are used in scanning the environmental factors and their impacts.
c. Extrapolating method: Under this method past information is used to predict the future. Trend analysis, regression analysis etc is being used to identify the trends.
d. Scenario building: Under this method, different scenario that may reflect the future are built. These scenarios address the contingencies and help in better understanding the changes and impacts of the environmental factors.

Environmental Analysis

It is a process of identifying the relevant factors that have direct or indirect impact on effective and efficient functioning of business.

In other words, Environmental analysis is a strategic tool. It is a process to identify all the external and internal elements, which can affect the organization's performance. The analysis entails assessing the level of threat or opportunity the factors might present. These evaluations are later translated into the decision-making process. The analysis helps align strategies with the firm's environment.

Process of environmental analysis:

Environment analysis is managerial decision-making based on the assessment of opportunities and threats in the environment. The steps in environmental analysis are:

1. Scanning: It involves information gathering for assessing the nature of the environment in terms of uncertainly, complexity and dynamics. It includes:
   a. Identifies early signs of future environmental changes. They are indicated by trends and events.
   b. Detects changes already underway. They are happening.

2. Monitoring: It involves tracking environmental trends and events. It is auditing of environment. The likely impact of environmental influences on business performance is identified.
3. Forecasting: This step forecast what is likely to happen. It lay out of path for anticipate changes. This step provides:
   a. Key forces at work in the environment. They can be political-legal, economic, social, cultural, and technological.
   b. Understanding of the nature of key influences and drivers of change.
   c. Projection of future alternatives paths available.
4. Assessment: This step identifies key opportunities and threats. The competitive position of business analyzed in terms of how the organization stands in relation to other organizations competing for some resource of customers.
   a. Opportunities are a favorable condition which creates risks and weakens the competitive position.
   b. Threat is an unfavorable condition which strengths, organization' s competitive position of the organization.

Environment-Business Relations:

Business is the product of the technological, political-legal, economic, social – cultural, global and natural factors amidst which it functions. Three features are common to this web of relationship between business and its environment.

i. There is symbolic relationship between business and its environment and among the environmental factors. In other words, business is influenced by its environment and in turn, to certain degree, it will influence the external forces. Similarly, political-legal environment influences economic environment and vice versa. The same relationship between other environment factors too.
ii. These environmental forces are dynamic. They keep on changing as years roll by, so does business.
iii. The third feature is that a particular business firm, by itself, may not be in a position to change its environment. But along with other firms, business will be in a position to mould the environment in its favor.

Unit 2 Political Environment

It refers to the influence from government institutions, strategies of political parties, policies of state and local government and relationship between government and business. Mangers must know about political environment because:

- It imposes certain legal constraint on the business.
- It establishes a market atmosphere that maybe pro-business or anti-business.
- It has the potential to provide stability needed for long-term planning.

For systematic study of political system, a business firm should, first of all, analyze the national constitution, major political parties, form or structure of government, the mechanisms designed to guide a transition of power from one leader to the next, key power blocks, and the extent of popular support.

Components of Political Environments:

1. Political Ideologies: They refer to the set of ideas , principles and philosophy which are concerned with allocation of power and offer political and cultural outlook. The major political ideologies are democratic and totalitarian.
   i. Democratic: The political ideology under which the nation is governed by the people representatives. The power lies in the hand of people. There is always the freedom to speak, political rights, civil liberties. Besides there is the existence of multiparty and private sector has greater role in national economy.
   ii. Totalitarian: Totalitarian is an ideology under which total power is vested in a single person, or a group or a government. Totalitarianism aims at regulating all aspects of public and private life. Freedom, political rights and civil liberties are restricted. Only one party system exists.

Democratic V/S Totalitarian

Summary	**Totalitarian**	**Democracy**
Definition	A government type that permits no individual freedom	Government for the people, by the people and of the people
History	A government type with	A type of government of

	oppressive rule originated in 4th century B.C	5th century BC
Place of origin	Asia	Athens, Greece
Famous leaders	Adolf Hitler, Joseph Stalin	Aristotle, Franklin Roosevelt, Mahatma Gandhi
Advantages	Faster process for the system, Law making process, simpler ,less room for corruption	Freedom, majority rule, People's right, power of voting.
Rule	Single rule	Majority rule
Succession	Neither Heritance nor Elective	Elective
Parliament	Absent	Present
Constitution	Absent	Present

2.

Constitution: It is a fundamental guideline or law under with nation functions. It affects the development of business in the country directly. Nepal is being ruled by the new constitution 2072 after promulgated on 3rd of Aswin 2072 (20th September 2015).

The major directive principles stated by new constitution are:

i. The political objective of the state is to establish federal democratic republican system to ensure the use of democratic rights by keeping sovereignty, independence and integrity at the highest level.

ii. The socio-culture objective of the state is to end all forms of discrimination , exploitation and injustice based on religion, culture, custom, tradition and usage by respecting cultural diversity.

iii. The economic objective so the state is to develop sustainably through equitable distribution of resources and promote participation of the public cooperative and private sectors.
iv. The international relations of the state are directed towards enhancing the dignity of the nation in the international arena.

The major features of the new constitution are:

i. 7 states in Nepal (Name to be given later with the help of special committee)
ii. Discussion to continue on contentious issues and amend of some provision until the final one.
iii. Vote of dissents are not a part of the draft but put there for further discussion
iv. Citizenship by Father Name or mother name.
v. Citizenship to NRN (Non-resident Nepalese).
vi. 60 percent FPTP and 40 PR in state assemblies as well.
vii. Secularism to continue with freedom of any religion.
viii. Bicameral legislation (275 Parliament and 45 National assembly members)
ix. New Prime Minister, President and Parliament head election to be held within a month after promulgation of new constitution.
x. Five unchangeable provisions.
(Note: Changes on constitution is underway so students are advised to updated the changes)

3. Political Parties: Political parties are the building blocks of democratic system. They act as representatives of people and address their problems. Through legislation, they attempt to form government and rule the nation according to their ideology and policies.
There are more than 100 political parties in Nepal. Out of them 25 parties have representation in the legislative assembly. The major political parties of Nepal are:
    i. Nepal Congress
    ii. Communist Parity of Nepal (Unified Marxist-Leninist)
    iii. Unified Communist party of Nepal (Maoist)
    iv. Rastriya Prajatantra Party Nepal
    v. Mesdhesi Jana Adhikar Forum Nepal (Loktantrik)
    vi. Rastriya Prajatantra Party
    vii. Mesdhesi Jana Adhikar Forum Nepal

viii. Tarai-Madhesh Loktantrik Party.

4. Government and Its Branches:
   a. Legislative: Legislative is formed by the representative of people. It is also called parliament. Its main responsibility is formulation and enactment of law.
      According to new constitution ,the legislature of Nepal is divided into three levels:
      i. Federal Legislature: It is the legislature at the central level. It consists of the houses, namely the House of Representatives and the National Assembly. The House of Representative consists of 275 members. National assembly consists of 45 members and is a permanent house. One third of members retire in every two years.
      ii. State Legislature: Each state has legislation called state assembly. Unlike federal legislation, it has a single house.
      iii. Local Legislature: The legislative rights at local levels are entrusted to village council (*Gaon Palika*) and municipal council. They can make laws according to state laws.
   b. Executive: It refers to the organ of the state that is responsible for the overall administration of the nation. It is composed of the government and its organs as bureaucracy, army, police etc.
      According to new constitution ,the executive of Nepal consists of the following:
      i. Federal Government: It is the central government. The form of governance will be multiparty competitive federal democratic republican parliamentary system based on pluralism. The Council of Ministers led by the Prime Minister has the executive power of Nepal. It is responsible for issuing general directives ,controlling and regulating the administration.
      ii. State government: The executive power of the state shall be inherent in the council of ministers of the state led by the chief minister.
      iii. Local government: Village council and municipality and district assembly will remain under the local government.
   c. Judiciary: It refers to court of law. It is responsible for settling disputes and interpreting the rules and laws if required. It serves as the watchdog of law and constitution.

According to new constitution, the judiciary of Nepal is divided into four levels:

i. Supreme Court: Supreme Court is an apex court in judicial hierarchy. It may inspect, supervise and give directives to its subordinates courts and other judicial institutions.
ii. High Court: There shall be one High court in each state.
iii. District Court: There shall be one district court in each district. It has jurisdiction over local level cases.
iv. Specialized courts: They are established for the purpose of hearing special types of cases. They may be judicial bodies or tribunals.

Other constitutional bodies in Nepal according to new constitution 2072 are:

i. The commission for the Investigation of Abuse of Authority.
ii. Office of the Auditor General
iii. Federal Public Service Commission.
iv. Election Commission.
v. National Human Rights commission
vi. National Natural Resources and Fiscal Commission.
vii. National Women Commission.
viii. National Dalit Commission.
ix. National Inclusive Commission.

Business Government Relationship

Government and business institutions in a country in many ways are interrelated and interdependent on each other. In today's global economy, its businessmen and entrepreneurs are the driving forces of the economy. In planned economy or even in market economy government holds control of shaping the business activities of a country.

For maintaining a steady and upward economic growth The Government must try to make the environment for business organizations suitable. And the organizations must follow the laws of governments' to run the businesses smoothly and making sure there is a level playing field.

The main goal of businesses is to make profit and governments' goal is to ensure economic stability and growth. Both of them are different but very co-dependent. For this the government and organizations or businesses always tries to influence and persuade each other in many ways for various matters. A balanced relationship between the government and businesses is required for the welfare of the economy and the nation.

Furthermore, the relation between government and business can be explained by the following points.

1. **Role of government towards business sectors/Government relation with business :** The role of the government towards business can be viewed in three categories:
   a. As a business **promoter**
   b. As a business **regulator**
   c. As a business **caretaker**

a. Promoter : Government promotes business in following ways:
   i. Infrastructure and manpower development: Government provides the facilities like transportation, information technology, communication, water supplies, waste disposal, civic amenities facilities, etc. Besides, the government also conducts different educational and training program for the development of technical and professional manpower in nation. These activities facilitate business development.
   ii. Public enterprise: Government establishes different trading and manufacturing organization to deal in essential goods and services. They play and entrepreneurial role in setting up industries.
   iii. Source of information: Since, the government is the largest organization in a country, it has abundant information which can be used in business. Thus, government acts as a source for information and provides to the business.
   iv. Financial Assistance: Government provides low cost finance through its financial institutions like Nepal Rasta Bank, Provident fund, Citizen Investment fund, Agriculture development bank etc. for industries.
   v. Incentives and subsidies: Government facilitates business by providing subsidies to the growing and sick industries. It also provides incentives to the business producing essential goods and services to maintain low cost to the people.

b. Regulator: As a regulator government formulates different rules and regulation to operate the business smoothly. Businesses much comply with such regulation. The different business related regulations in Nepal are: Private Firm

Registration Act, Trade union Act, Company Act, Labour Act, Food Act, Foreign Exchange Regulation etc. Besides ,there are different policies such as Monetary Policies, Fiscal Policy, Trade Policy, Industrial Policy, etc government enacted for the development of business.

c. Caretaker: As a caretaker government provides protection from the political risk factors such as: extortion, band, unrest etc. Apart from that, it formulates and implements strict rules and regulation to protect intellectual property rights.

2. **Role of business towards the government/ Business relation with government:** Business plays vital role to support the government. They are as follow:
    a. Payment of taxes: Taxes are the major revenue to the government. Business organizations pay various taxes to national and local government. Besides, businesses also assist government in collection of taxes by deduction tax at source on salary and other payment.
    b. Rendering of advice: Business organizations work side by side with the government to help in formulation of different effective business plans and policies to develop sound economic condition of the nation.
    c. Source of information: Business organization provides valuable information regarding the current business trend and problems, which is helpful in better decision making by the government
    d. Execution of contracts: Businesses help government to execute its different developmental projects and programs. It also renders supplies and materials for the better functioning of the government.

Nepalese Political Environment: Issues and Problems

Business and politics are interrelated with each other. Any changes in political dynamics can hit the business hardly. The recent blockade and *Tarai* strike has created colossal damage to the business sector in Nepal. So we must assess the political change and its impact in business effectively to ensure the future success.

The issues of political environment in Nepal can be explained as follows:

a. Political Instability: Political instability is the frequent change of government. The change in government creates change in policy which adversely affects the development of business sectors. In Nepal there are altogether 22 government in 2 5 years. This leads to weak government control and ineffective implementation of law.

Forced donation, kidnapping ,threatening are common because of instable government.

b. Lack of broader vision on political parties: The main stream political parties suffer from the lack of broader vision, policy and programs which are essential for good governance, political stability and economic development. This creates low confidence level to the private sectors.

c. Poor understanding among the political parties: Lack of trust and egos between political parties causes poor understanding between them. They are unable to build consensus even in national issues. This adversely impacts the long-term growth of business sector in Nepal.

d. Lack of democratic thoughts: Most of the main stream parties found very weak in developing democratic norms, values, belief within sthem. This limits the concept of sovereignty to people only in papers. Such behaviors negatively affect the business industry functions.

e. Lack of good governance: Good governance is being accountable, transparent, responsive, inclusive in making and implementing decision. However, according to Amnesty international in 2014 Nepal rank 126th out of 174 countries in the world in governance. This data show how weak our government is in policy formulation and its implementation.

f. Labour force as political force: Most of the labour unions are politically oriented, multiplicity and outside leadership. The psychological distance between the management ,labour and government is very wide. The government has not been able to play regulatory , adjudicatory and developmental roles as effectively as expected.

g. Employers' Association: The employers' associations in Nepal are found to be influenced by politics. They are unable to create good relation between labors and government. They are focused only on short-run profit and pressurize the government to formulate the laws which benefits them a lot in their standing.

Unit 4

Economic Environment

Economic Dimension of Nepalese Economy:

It includes gross national product, per capita income, personal consumption and expenditure, personal ownership of goods, inflation rates, private investment, unit labor cost and level of employment. As per the Economic Survey 2014/15 the economic dimension of Nepal is as follows:

1. The GDP growth is 3% (contracted by 2.1% at basic price) on 2014/15 as compared to last year which was 5.1% in 2013/14. The contraction is due to low growth rate of agriculture and impact of April 25 earthquake and subsequent aftershocks.
2. The average inflation rate stood to7.2 % in 2014/15,which is reduced by %as compared to last year. The fall in inflation rate is due to fall in price of petroleum products in international markets.
3. The overall BoP was in a surplus of Rs 127.20 billion in 2014/15. This is due to increase in remittance by 11.2 % to USD 5.55 billion in this period.
4. In the review period, total trade deficit expanded by 8.7 percent to Rs. 612.87 billion. Such deficit had increased by 28.6 percent during the same period of the previous year.
5. The gross foreign exchange reserves increased by 21.7 percent to Rs. 809.48 billion in mid-June 2015 from Rs. 665.41 billion in mid-July 2014. Based on the trend of imports during the eleven months of the review year, the existing level of reserves is sufficient for financing merchandise imports of 13.1 months, and merchandise and services imports of 11.3 months.
6. Despite the decline in the number of Banks and financial institutions (BFIs) due to merger and acquisition, financial access has been widened due to branch expansion as well as an expansion of some products such as mobile banking and branchless banking.
7. In this year, production of paddy (rice), which contributes 21 percent to agriculture GDP, has declined by 5.1 percent owing to adverse climate. Likewise, production of maize (corn) among the major crops is estimated to have declined by 6.0 percent as well. In FY 2014/15.
8. The fishery sector is estimated to grow by 6.3 percent in the current fiscal year 2014/15 as compared to 4.9 percent growth in the previous fiscal year.

9. Performance of manufacturing sector has not been satisfactory during the last decade. Manufacturing sector has been adversely affected for long due to lack of improvement in the investment environment; persistent energy crisis; uneasy labor relations; ever extending political transition.

Issues and Challenges

a. Macroeconomic stability is influenced by both internal and external factors. Along globalization, economic growth, inflation, and trade like macroeconomic variables get influenced by external happenings and incidences. In the context of globalization, external sector has been posing numerous challenges against maintaining macroeconomic stability.
b. Agriculture sector has occupied one third share in GDP. Fluctuations in agriculture GDP has been affecting overall economic growth rate. In the context of Nepal's vulnerability of agricultural production on favorable/unfavorable climatic conditions, achieving higher growth rate through sustainable development of this sector has been a 17 persistent challenge. Likewise, non-agriculture sector has also been affected as a result of failure to expand domestic and foreign investments to desirable extent owing to factors like political instability, labor problem, energy crisis, weak infrastructure and failure to achieve desired progress in investment environment. Hence, it has been a daunting task to improve investment environment and achieve higher economic growth rate by bringing ever extending political crisis to an end.
c. High and sustainable economic growth is a must criterion for Nepal to graduate from a least developed country to developing country by 2022. It is difficult for the country to graduate to the status of developing country unless it achieves a consistent annual economic growth rate of 7-8 percent. Amidst country's average economic growth rate of just 4.1 percent in last five years, achieving the target with the attainment of higher economic growth by boosting investment remains a challenge.

Concept of Monetary Policy

"Monetary policy is the management of the expansion and contraction of the volume of money in circulation for the explicit purpose of attaining a specific objective such as full employment". (Kent)

The objectives of monetary policy are as follows:

a. To stabilize the price level since fluctuations in prices being uncertainty and instability to the economy.
b. To increase investment for full employment.
c. To have the rapid economic growth with stability.
d. To maintain equilibrium in the balance of payment.

Current Monetary policy of Nepal (2014/15):

The monetary policy 2014/15 introduce several measures such as checking inflation, increasing Cash Reserve Ratio (CRR), increase in paid up capital for banks and finance companies, increase loan loss provision etc. to strengthen and ensure the economic development of Nepal.

Following are the objectives of Monetary Policy 2014/15:

a. Maintaining price stability by managing excess liquidity.
b. Expand credit to the productive sectors.
c. Maintain financial sector stability.

Privatization: It is the process of transferring of ownership property or business from the government to the private sector. Privatization is considered to bring more efficiency and objectivity to the company, something that a government company is not concerned about. In Nepal, privatization efforts were initiated in early 1990s from sixth plan.

Objectives of privatization:

a. Effective mobilization and utilization of resources.
b. Increase competitiveness of organizations.
c. Government budget improvement.

Methods of Privatization: Following are the methods of privatization:

a. Assets Sales: Under this method, the production and service units and other assets of enterprises are transferred to the private sector in return for a price. Assets are sold through public auctions.
b. Business sales: Under this method, the total ownership of public enterprises is transferred to the private sector.

c. Share sales: It involves the transfer of share to the general public, employees and private organization.
d. Management contract: It involves transferred of management right to the private sector for a temporary period of time. The main objective of such process is to improve the productivity of the public enterprises.
e. Lease assets: Under this method, government provides right to the private sector to use the property. It is temporary in nature and private sector should pay the lease amount for its usage.

Liberalization: It is the removal of government control to encourage private participation and economic development.

“Economic liberalization means freeing of prices, trade and entry to markets from state control while stabilizing the economy. (World Bank)

In Nepal liberalization policies were implemented from 1990 with higher emphasis on privatization and open market policies. Different policies like Industrial Policy, Foreign investment Policy, Labor Act etc. promulgated and implemented to support liberalization in Nepal.

Requirements of Liberalization:

Following are the requirements for liberalization:

a. Role of the government as the facilitator
b. Increased role of private sector
c. Abolishing license requirements
d. Freedom in business decision (establish and liquidate business)
e. Removal of restriction (movement of goods within and between countries.)
f. Reduction of tax rate (corporate tax, tariffs etc)
g. Simplification of foreign trade.
h. Facilitate FDI and technology transfer
i. Current account and capital account reform (current a/c reform: making foreign exchange convertible, capital a/c reform: maintaining account in convertible currencies)

Internal and External Liberalization

1. Internal liberalization: It means reducing the restriction in business operation. It can be done in various forms:
   a. Financial sector reform: The main objective behind financial sector reform is to create financial stability and economic development. It includes:
      i. Deregulation of investment rate ,which can allow banks to determine the interest rate under certain range given by central bank.
      ii. Restructuring of government owned banks like Nepal bank limited and Rastriya Banijya Bank.
      iii. Enactment of different Nepal Rastra Bank Act.
      iv. Banking sector is opened for foreign investment. Etc.
   b. Fiscal reforms: These reforms include, reform in tax, convertibility of Nepalese currency etc.
      i. Introduction of VAT
      ii. Private sector is allowed to borrow money from foreign source etc.
   c. Monetary policies: It includes deregulation in interest rates, foreign exchange rate etc.
   d. One window policy: Providing every business service from a single place for prompt services.
   e. Removal of subsidies
   f. Insurance sector reform
   g. Capital market reform etc.
2. External Liberalization: It includes liberalization on trade and foreign exchange sectors.
   a. Reforms in trade sector
   b. Reforms in foreign exchange
      i. Current account reform
      ii. Capital account reform

Effects of liberalization on Nepalese Business:

a. Growth of private sectors
b. Rise of financial institutions

c. Increase in FDI
d. Rise of MNCs
e. Rising trade deficit
f. Development of capital market and insurance
g. Changing role of government
h. Changing market scenario.

An overview of Nepalese Industrial Sector

1. General Overview:

- Government target to uplift from least developed country to developing country by 2022.
- Industrialization begins in Nepal from 1936 by the establishment of Biratnagar Jute mills, Morang Cotton Mill (1941), Morang Sugar Factory (1946), Raghupati Jute Mill (1946) Juddha Match Factory (1946).
- After the establishment of democracy in 1950 (2007 BS), the pace of industrialization is found to be accelerated.
- After restoration of Democracy in 1990 (2046/2047 BS) and adoption of modern liberalization policy the pace of industrialization is found to be accelerated significantly.
- As per the data 2013/14 the total number of industries in Nepal reached to 5,931 with employment to 4,94,407 person.

2. Structure of Nepalese Industrial Sector:

a. Classification on the basis of nature of output

- Agro and forest based industries
- Manufacturing industries
- Export oriented industries
- Energy based industries
- Mineral industries
- Tourism industries
- Construction industries

- Information and communication industries
- Service industries

b. Classification on the basis of size and investment:

- Micro-enterprises (fixed assets from 0.2 million to 2 millions)
- Cottage industries
- Small industries : fixed assets upto 50 millions
- Medium industries : fixed assets more than 50 millions upto 150 millions
- Large industries: more than 150 millions

3. Performance:

a. Capital investment: The amount of capital investment is one indicator of the performance of industries:
   - Energy sector: 60.2%
   - Production oriented sector :17.9%
   - Service sector :8.6% (2013/14 data)

b. Employment Generation:
   - Production oriented sector (278,062 person)
   - Services sector: 102,305
   - Tourism sector : 47,206

   The total employment generated in 2013/14 is 14,501.Out of which tourism sector contribute highest 29.79%, production oriented 23.62% and service sector 22.40%.

c. Foreign Investment
   - Total foreign investment reached 17,888.65 million in 2013/14.
   - 3172 industries generating 201720 employments.
   - services 32.28%
   - Production oriented 28.50%
   - Tourism 27. 55% (2013/14)
   - 305 industries obtain license in 2013/14 which is less by 3.78 % preceding year.

d. Capacity Utilization:
   - Average capacity utilization by industries is 51.3%. (2013/14)
   - Tea industries 93.4% (highest)

- Rice 13.4 % (lowest) (due to floods)
- Issuance so industrial loan increased by 12.4%

e. Contribution to GDP:
   - Contribution is decreasing
   - 16.08 % in 2006/007
   - 14.46% in 2013/14 (lack of investment climate ,political condition and energy crisis)

f. Growth rate:
   - Average growth rate from 2005/06 to 2013/14 is 3.29%.
   - Growth rate of 2013/14 is 6.19%

4. Problems of Industrial Sector in Nepal

a. Political instability
b. Government policy and regulation
c. Lack of energy
d. Lack of security
e. Quality of product
f. Weak technology
g. Low capacity utilization
h. Lack of physical infrastructure
i. Labour regulation and labour unions

Natural Environment in Nepal

- Nepal is rich in natural resources.
- It is a source of food supply, energy, medicine and input of industries.

Components of Natural resources:

a. Forest
b. Water
c. Minerals

a. Forest: Total land occupied by forest in Nepal:

- 37.7% in 1990
- 27.2% in 2000
- 25.4% in 2010
- Continuous decrease in forest seriously threatened the Natural Environment.
- Source of paper, timber, furniture, medicinal herbs.

- Habitat of many kind of wild birds and animals.
- Support agriculture as it causes rainfall.
- Around 19% of forest in Nepal is covered by **National parks, Wild life Reserves, Conservation Area, Hunting area, and Buffer Zones.**

b. Water:

- Nepal is one of the richest country in the water resources.
- The total length of approx. 600 rivers in Nepal is estimated to be 45000 km.
- High prospects of Hydroelectricity.
- Theoretically 83000MW,Practically 40000MW
- Total electricity generation 782.45MW at the ending periods of eight months of 2014/2015.

c. Minerals:

- Iron,copper,mica,limestone,lead,coal,magnisite, natural gas found in Nepal
- 1% contribution to GDP

Area where minerals were found:

- Iron ore: Fulchoki, Labdikhola, Jirwant,Those
- Copper: Bhotekhola, Gyaji, Arkhaule
- Mica: Bajhang, Chainpur,Doti, Bhojpur, Nuwakot
- Lime stone: Chovar, Jogimara, Bhaise, Rasuwa
- Lead: Durlang, Baglung, Rasuwa
- Coal: Dang, Salyan, Kathmandu, Chitwan
- Gold: Narayani river

Energy Situation in Nepal

- Energy is required for economic and social development. Development of trade and industry largely depends upon the energy.
- Despite high potential for generating energy through abundant water resource, energy crisis has continued to grow.
- 72.60% of total energy generated in Nepal is by firewood source. 14% increased in 2013/14 alone. This possesses threat to forest of Nepal.
- 2.59 % of total energy consumption is generated by renewable energy sources. The use of renewable energy is drastically increased by 75.3% in 2013/14.

a. **Electricity:**
   - Out of total capacity, Less than 2% of electricity is produced.
   - Number of customer increased 4.4%
   - Number of line distribution increased 1.7%
   - Demand of electricity increased by 9.8% in 2013/14.

b. **Petroleum Products:** (petrol, diesel, kerosene, Aviation turbine fuel, LP gas, Furnace Oil)
   - 11.25 % of the total energy consumption is provided by petroleum products.
   - 6.9% increased than previous year.
   - Full depend on India.
   - Now agreement with China for petroleum products.
   - Total consumption in first eight month of 2014/15: 1,305,601 KL

Emerging Business Environment in Nepal

a. Increased Private investment
b. Growing Urban Population: 13.4% in 2000, reached to 18.2% in 2010 and increasing.
c. Rising informed and educated customers
d. Changing role of government
e. Rising economic agendas
f. Use of modern technologies
g. Integration to the world economy
h. Shifting social cultures
i. Shift towards service industry
j. Work force diversity

Unit 5

Social-Cultural Environment

What?

Social Cultural Environment is defined as a set of beliefs, customs, practices, and behavior that exists within a population or society. (Business Dictionary)

In other words it refers, to the immediate physical and social setting in which people live or in which something happens or develops. It includes the culture that the individual was educated or lives in, and people and institution with whom they interact. (Wikipedia)

****Society:** It is the set of relation among people, including their social status and roles.

****Culture:** It is the sum total of mankind's knowledge, beliefs, art, morals, laws, and customs and any other capabilities and habits acquired by human beings as member of society. (P.R Panta, 2011)

Why to study socio-cultural environment?

1. Business Organization is a social system.
2. Business Organization is established in a society to fulfill the demand of the society.
3. Business cannot run in isolation, there need people as owner, as a consumer, as a employees, as a regulator etc.
4. The strategy formulated by the organizations on each levels of hierarchy need to address the stakeholder's expectations.
5. Sometimes, even the business can act as the change agent by promoting convenient products to people to improve their life styles. E.g. use of cooking gas, soap, mobile, computer etc.

Components:

1. Attitude: (evaluative statement)

- The opinion, feeling, judgment that anyone expresses on something.
- Attitude includes things such as individual freedom, democracy, truth and honesty, justice, love and marriage etc.
- Attitude towards work is important as it determines motivation, morale, job satisfaction, productivity etc.

Nepalese perspective:

- Attitude towards blue collar jobs is negative, which create great distinction between white and blue collar workers and office employees. This leads to overabundance of liberal arts and business graduates and lack of toolmakers, carpenters and welders, even when the employment opportunities are better for the latter.

- Achievement –orientation is lacking in the Nepalese society. Lack of opportunities and capabilities had been largely responsible for such attitude.
- Mostly people are driven by material culture. Thus, knowledge building culture is shadowed by money making culture.
- Young generation is showing willingness to take risk in new venture rather than being employed in other's organization.

2. Religion and Religious Groups

- Religious beliefs, convictions, customs, rituals and festivals differ from one group to another.
- Religion often imposes constraints on the role of individual in society.
- Business firms can suffer heavy losses by ignoring religious sentiments of customers, employees and others.
- Religious groups exert considerable influence on activities of the business groups.
- Thus, business must recognize and respect religious sentiments.

Nepalese Perspectives:

- A Hindu society is divided into four *Varnas-Brahmins, Kshatriyas, Vaishyas and Sudras* and consider higher to lower respectively.
- There is still existence of discrimination based on caste system.
- Some Islamic societies limit job opportunities for women. Similarly, as a religious requirement, the Muslims go for fasting from morning to evening, during the month of Ramadan.
- Negative demand for beef product in Nepal.
- In the Interim Constitution, Nepal is considered as a secular state.

3. Language

- Language is the means through which people communicate, exchange ideas, view, opinion to each others.
- Language is considered as a mirror of a culture.
- It provides access to local society.
- Marketing plans become costlier and more complex due to huge diversity in language.

Nepalese Perspectives

- Nepali language is considered as a national language and 48.61 percent of total population speaks this language (CBS, 2011).
- There are 38 registered languages which are spoken in whole nation.

4. Education:

- Education in its broadest, general sense is the means through which the aims and habits of a group of people sustain from one generation to the next. In other words, education is the formal process by which society deliberately transmits its accumulated knowledge, skills, customs and values from one generation to another.(Wikipedia)
- The education environment in any country influences virtually every aspects of managerial and industrial life.
- Countries rich in educational facilities vastly attract high wage industries.
- By investing in education, a country can attract "Brain-Power" industries.
- The level of literacy determines the nature of advertising packaging, quality of marketing research and distribution system.
- The market potential of a country depends on education.

Nepalese Perspectives:

- The literacy rate of Nepal has reached to 69 percent in 2010.Similarly, the literacy rate among the 6-14 years group reach to 87 percent.
- In 2011, the number of school was 7559 with an enrollment student of about 0.81 millions.
- Lack of qualified manpower and infrastructure development hinder the quality of the educational institution in Nepal.
- Twelve universities (T.U., K.U., Nepal Sanskrit University, Pokhara University, Purbanchal University etc.) are currently in operation in Nepal.
- Government spending on education is 6.7% of the GDP in 2014/15.

5. Social Institution

- A social institution may be defined as an organizational system which functions to satisfy basic social needs by providing an ordered framework linking the individual to the larger culture. E.g. family, marriage, government, religion etc.
- **Family System:** Joint family system is prevalent in Nepal. However due to globalization, migration, and change in attitude of living, joint family is being split into smaller units of nuclear family.
- This change in family structure increases the demand of flats, vehicles, catering services (packed lunches), baby sitters etc .In addition; it also increases the demand of old-age homes, child care center, etc.
- **Marriage:** Marriage is one of the basic elements of culture and people's attitude towards marriage influences culture a lot. It is a social event that concerns the whole society.
- Since, marriage is a family affair in Nepal. The marriage season is a big opportunity for business. E.g. demand for jewellery, kitchen ware, Honey–moon package, household furniture, vehicles etc is huge during marriage seasons.

6. Class Structure:

- Social class structure is a set of concepts in the social sciences in which people are grouped into a set of hierarchical social categories. E.g. upper class, middle class, lower class.
- The upper class is the social class composed of those who are wealthy, well born, or both. The middle class are the broad group of people in contemporary society who fall socio- economically between lower class and upper class. The lower class (Occasionally described as working class) is those employed in low-paying wage jobs with very little economic security.
- In Nepal However, there are four class structure, upper class, middle class, lower middle class and poor.

7. **Business Culture (etiquette):** It is a code of behavior that clearly defines the expectations for social behavior according to contemporary conventional norms within the society, social class or group.(way of doing business)

- Business etiquette can vary significantly in different countries, which is invariably related to their culture. For example: A notable difference between Chinese and Western business etiquette is conflict handling. Chinese businesses prefer to look upon relationship management to avoid conflicts stemmed from a culture that heavily relies on Guanxi. While the west leaves resolution of conflict to the interpretations of law through contracts and lawyers.
- In Nepal, Majority of private sector business firms are owned by family owners. The interest of these owners is on profit and family. They look for the family interests to make business decisions rather professionalism of their management practices. Their interests are more on capital accumulation rather than expansion of business and professional activities

a. **Explain the impact of social cultural environment in business organization.**
b. **Explain the components of social cultural environment.**

Unit 6

Technological Environment

Concept: **Technology** is the making, modification, usage, and knowledge of tools, machines, techniques, crafts, systems, methods of organization, in order to solve a problem, improve a pre-existing solution to a problem, achieve a goal or perform a specific function. It can also refer to the collection of such tools, machinery, modifications, arrangements and procedures.

"Technological Environment means the development in the field of technology which affects business by new inventions of productions and other improvements in techniques to perform the business work. "

Those technological factors which impact the business operation is called technological environment.

Types of Technology:

Technology can be classified in several ways. For example, blueprints, machinery, equipment and other capital goods are sometimes referred to as **hard technology** while **soft technology** includes management know-how, finance, marketing and administrative techniques. When a relatively primitive (traditional) technology is used in the production process, the technology is usually referred to as labour-intensive. A highly advanced technology, on the other hand, is generally termed capital-intensive.

Components of Technological Environment:

a. **Level of Technology**: a. Labour based Technology b. Capital based technology
b. **Pace of Technological Changes**: Technological changes influences organization in the following ways.
    - It can make existing industries obsolete.
    - It can rejuvenate (revitalize) the existing industries through product improvement or cost reduction.
    - It can create entirely new industries.
    - It can increase government regulation.
c. **Technological Transfer:** Technology transfer implies technology imported from technologically advanced foreign countries. Technology transfer can be through:

- Globalization (MNCs)
- Projects (Turnkey Projects:- ready for immediate use or operation)
- Trade(sale of equipment by the manufacturer)
- Training assistance (Bilateral and multilateral donors provide technical assistance)

d. **Research and Development (R & D):** R & D is the essence of innovation.

- Customer except new products of superior quality which are safe, comfortable and environment friendly.

Relationship between business and technology

Technology is the backbone of running any successful business in the modern society. The kind of business setup we have today requires an entrepreneur to take note of the ever evolving technology and keep pace. Many business men would be sincerely surprised at the degree of impact modern technology can make in their business.

Impact of technology in business:

a. **Positive Effects:**

- Productivity
- Competitive advantage
- Innovation
- Increase in profit
- Customer value

b. **Negative Effects:**

- Capital Burden : Huge investment
- Threat of quick replacement
- Increase in cost: regular maintenance
- Need of skilled manpower.

Human Factor and Technology

Human Factors (Ergonomics): Human factors are the study of how humans behave physically and psychologically in relation to particular environments, products, or services. In other words, Human Factor is the scientific application of knowledge with the aim of making products, system, services and environments safe, efficient and easy to use.

Ergonomics is the science of the design of equipment, especially so as to reduce operator fatigue (tiredness), discomfort and injury.

Effective implementation of technology is totally depending on the human factor. Their knowledge, skills, and abilities determine the technology effectiveness and efficiency. Technology must address natural (physical and mental) abilities and ensures success and safety. It should add the value in human operation. There must be a close match between technology and human factors for enhancing effectiveness.

Science and Technology Policy 2005

Science and Technology policy was adopted by Nepal in 1989 for the overall development of scientific creativity. The amended S & T policy 2005 gave priority on;

- To use science and technology as a powerful means to increase production and productivity of the country.
- To create an environment for the maximum utilization of knowledge and skill of science and technology available in regional and international arena by promoting mutual cooperation with the bilateral, multilateral, regional and international organizations.
- To promote participation of private sector in the development of science and technology.

- To develop and mobilize skilled human resources.
- To extend the development of technology to the rural levels.
- To create a conducive environment to maintain high morale of the scientist and technologists and minimize the brain drain.
- To integrate university level teaching with research in science and technology.
- Embrace the concept of sustainable development, natural resource management and environmental protection in formulation and implementation of science and technology projects.
- Provide quality education in science and technology from primary education level.

Strategies formulated to address technology policy are as follows:

- Ensuring maximum utilization of available resources.
- Developing and adopting appropriate technology through the mobilization of private sector.
- Developing of a mechanism to conduct research and development activities.
- Contributing in the social-economic development of people through the development of knowledge and skills in the science and technology sector.
- Encouraging universities, concerned institutions and individuals in scientific researches.

Information Technology Policy -2009

Information Technology (IT) policy aims to build a knowledge based society and industries.

Major policies under IT policy 2009 are:

- To declare information technology sectors a prioritized sector.
- To follow a single-door system for the development of information technology.
- To create conducive (favorable) environment that will attract investment in the private sector, keeping in view the private sector's role in the development of information technology.
- To provide internet facilities to all Village Development committees of the country in phases.
- To render assistance to educational institutions and encourage native and foreign training as a necessity of fulfilling the requirement of qualified manpower in various fields pertaining to information technology.
- To prioritize research and development of information technology.
- To computerize the records of each governmental office and build websites for them for the flow of information.
- To increase the use of computers in the private sector.

- To develop physical and virtual information technology park in various places with the private sector's participation for the development of information technology.
- To use information technology to promote e-commerce, e-education, e-health, among others, and to transfer technology in rural areas.
- To establish National Information Technology Centre.
- To establish a national level fund by mobilizing the resources obtained from Nepal Government, donor agencies, and private sectors so as to contribute to research and development of information technology and other activities pertaining to it.
- To establish venture capital funds with the joint participation of public and private sectors.
- To include computer education in the curriculum from the school level and broaden its scope.
- To establish Nepal in the global market through the use of information technology.
- To draft necessary laws that provides legal sanctions to the use of information technology.

Electronic Transaction Act-2007

The Electronic Transaction Act-2007 (ETA) was enacted to create a predictable legal environment for E-commerce.This act makes legal provisions for authentication and regulation for the recognition, true-ship, integrity and reliability of creation, production, processing, storage, and communication and dissemination system of electronic records by making reliable and secured to the transactions carried out by means of electronic data interchange and other means of electronic communication. The act makes provisions for controlling of unauthorized use or illegally changes in any electronic record.

In this Act:

- **Electronic** means created, recorded, transmitted or stored in digital or other intangible form by electronic, magnetic or optical means or by any other means.

- **Electronic Agent** means a computer program or other electronic means used to initiate activity.
- **Electronic Signature** means electronic form of signature by a person in electronic records.

ETA-2007 addresses the following issues:

- It clearly defines the rights and obligations of the transacting parties and addresses the legal aspects of electronic contracts including digital signature for authentication and non-rejection.
- It has a provision of electronic signature for all government departments and legal bodies and can publish documents in electronic form as well as accept the document from other parties in electronic form without changing their respective acts. In addition, it also allows public bodies to issue permits and licenses electronically.
- ETA specifies that network service provider will not be subject to criminal or civil liability for third party material, in relation to which they are merely the host. However legally restricted content may subject to crime.
- Under ETA, there is a provision of appointment of Controller and certifying authority for enabling and regulating the process of licensing, recognition of foreign certification authorities (CA) etc. Besides, The Controller may, as per the necessity, appoint an Auditor in each year on contract to audit the performance of the Certifying Authority.

Present Level of Technology adopted by Nepalese Business

The level of Technology in Nepalese business can be examined from the view point of traditional and modern technology:

1. **Level of Traditional Technology**: Nepal is rich in many traditional technologies. We have good technical know-how in following areas:
   - Metallurgy: The sound knowledge of metallurgy of Nepalese craftsmen is reflected in images and status of bronze, copper, gold and silver found in many temples and stupas.
   - Pottery: The knowledge about manipulation and combination of different clays is still used to shape objects through traditional potter's wheel.

- Architecture and construction: The architecture and civil engineering technology blended with art and culture is manifested in temples, pagodas, stupas and palaces.
- Textile manufacturing: Nepal has own technology especially in processing raw materials, spinning and weaving. Handmade Nepalese carpets are world famous.
- Paper manufacture: Nepali papers are well known for its durability and softness. Printed Nepali paper products are the important item for export from Nepal.
- Food Technology: The traditional food technology of brewing homemade beverages, preserving meats, fruits and vegetables, preparation of dry-food is still prevalent.
- Agriculture and irrigation: Several mechanical devices for agriculture and irrigation are still being used in Nepal. Kol, Pannighatta, Dhiki, Jaatoo are the marvels of traditional technology.

2. **Level of Modern Technology:** After liberalization of the Nepalese economy, the use of modern technology in business is rising. The current state of modern technology in business is indicated by following scenario:

Industrial application:

- Telecommunication and internet providers are using satellite –based technologies.
-
- Sophisticated technology is increasing in hydro-power industry and health related services.
- Solar power is increasingly being used as new technology.
- In agro-based industries, biotechnology and tissue culture technology is used.
- Computer technology is used for teaching purpose.
- Automated and assembly line technology are being used in private manufacturing industries.

3. **Education and Training:**
   - There are more than 3 dozens colleges under Tribhuvan University, Purbanchan University and Pokhara University is providing higher technical

education. Besides, Center for Technical Education and Vocational Training (CTEVT) is also providing short-term and long- term skill based education.

4. **Research and Development:**
   - Research is dominated by universities and government research agencies.
   - Less relation with industrial sector.
   - Mostly organizations are depended on imported technology.
   - Little awareness on importance of RD.
   - However, agriculture sector, such as Fishery, Cultivation, Irrigation etc are using new and improved technology in accessible areas.
   - Government is also promoting new technology development on agriculture, other industries by providing the facilities of tax credit on imported technology, training and development programs, credit availability etc.
5. **Transfer of Technology:**
   - FDI, joint ventures, turnkey projects, licensing, contract manufacturing and franchising are the means of technology transfer. The scale of operation, the nature of production process, the relative cost of labor and the cost of adopting the technology determines the technology transfer rate.
   - In recent years, FDI of multinational companies from China, India, USA, South Korea etc. have transferred modern technology in Nepal. E.g. Unilever, Ncell, Tuborg, Foreign Joint-venture banks, KFC etc. are using

and facilitating transfer of technology in Nepal,

   - Among the countries that have established foreign investment industries in Nepal, China ranks first (695) while India is at the second place (588), United States of America third, (250), South Korea fourth (216), and Japan at fifth place (194).
   - Gradual increase in the number of foreign investment industries licensed for operation, and employment generated from these industries have given positive indication of their role in the overall industrial development. (Data source Economic survey 2014/15).

Unit 7

Asian and Global Environment

Globalization Concept:

- The process of becoming a part of global village is globalization.
- Globalization is the process of integrating nations and peoples—politically, economically, and culturally—into a larger community.
- Globalization most often refers to the increasing degree of connection between various countries and their economies.
- Globalization refers to the increasing unification of the world's economic order through reduction of such barriers to international trade as tariffs, export fees, and import quotas. The goal is to increase material wealth, goods, and services through an international division of labor by efficiencies catalyzed by international relations, specialization and competition. (Wikipedia)

Forms of Globalization:

a. **Economic Globalization:** Economic globalization can be defined as the process of increasing economic integration between two countries, leading to the emergence of a global marketplace or a single world market.
   - Increasing deregulation, privatization, ease in transportation, and improved communication lead to economic globalization.
   - Economic globalization is promoted by WTO, SAFTA, BIMSTEC, ASEAN etc. in Nepal.

b. **Cultural Globalization:** Cultural globalization refers to the transmission of ideas, meanings and values around the world in such a way as to extend and intensify social relations.
   - This process is marked by the common consumption of cultures that have been diffused by the Internet, popular culture media, and international travel.
   - Western Hip-hop, pop music, foods, movies are being a part of Nepalese Youth.

c. **Political Globalization:** It refers to the integration of the world in terms of political ideology.
   - Political globalization is when governmental action takes place on a global level, where responsibilities, such as the welfare of citizens and economic growth, are acted upon by an international political body.

- Uniting politically for addressing the common needs of nations.

d. **Environmental /Ecological Globalization:** It refers to the integration of the world in terms of environmental issues such as; global pollution, ozone layer depletion, loss of bio –diversity, acid rain etc.
   - It further deals with global environmental law and policies.

Drivers of Globalization:

- Political
- Technological
- Market
- Cost

Competition **Regional Economic grouping of Nations**

Regional integration can be defined as the association of nations in a specific area or region of the world.

The major objectives of regional integrations are:

- To promote economic activities within the region for mutual betterment.
- To promote free flow of goods between nations.
-
- To remove the trade and other barriers gradually among nations.
- To build trust and cooperation between nations

Regional Trade Agreement in South Asia

South Asian Association for Regional Cooperation (SAARC) was established in 8th December 1985 with 7 member states, Nepal, Indian, Bhutan, Bangladesh, Maldives, Pakistan, and Sri Lanka. In 2007 Afghanistan became an 8th member state in SAARC.

SAARC Preferential Trading Agreement (SAPTA):

SAPTA was an attempt of the SAARC countries to promote economic cooperation in them. In December 1991, the Sixth Summit held in Colombo approved the establishment of an Inter-Governmental Group (IGG) to formulate an agreement to establish a SAARC Preferential Trading Arrangement (SAPTA) by 1997. Given the consensus within SAARC, the Agreement on SAPTA was signed on 11 April 1993 and entered into force on 7 December 1995 well in advance of the date stipulated by the Colombo Summit. The Agreement reflected the desire of the Member States to promote and sustain mutual trade and economic cooperation within the SAARC region through the exchange of concessions.

The basic principles underlying SAPTA are:

- ***overall reciprocity and mutuality of advantages*** so as to benefit equitably all Contracting States, taking into account their respective level of economic and industrial development, the pattern of their external trade, and trade and tariff policies and systems;
- negotiation of ***tariff reform*** step by step, improved and extended in successive stages through periodic reviews;
- recognition of the special needs of the Least Developed Contracting States and agreement on ***concrete preferential measures*** in their favor; and
- Inclusion of all products, manufactures and commodities in their raw, semi-processed and processed forms.

Four rounds of trade negotiations have been concluded under SAPTA covering over 5000 commodities. Each Round contributed to an incremental trend in the product coverage and the deepening of tariff concessions over previous Rounds.

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South Asian Free Trade Area (SAFTA)

The Agreement on the South Asian Free Trade Area is an agreement reached at the 12th SAARC summit at Islamabad, capital of Pakistan on 6 January 2004. It creates a framework for the creation of a free trade area covering 1.4 billion people in India, Pakistan, Nepal, Sri Lanka, Bangladesh, Bhutan and the Maldives. **The seven foreign ministers of the region signed a framework agreement on SAFTA with zero customs duty on the trade of practically all products in the region by end 2016.** The new agreement i.e. SAFTA, came into being on 1 January 2006 and will be operational following the ratification of the agreement by the seven governments.

SAFTA requires the developing countries in South Asia that is, India, Pakistan and Sri Lanka, to bring their duties down to 20 percent in the first phase of the two year period ending in 2007. In the final five year phase ending 2012, the 20 percent duty will be reduced to zero in a series of annual cuts. The least developed nations in South Asia consisting of Nepal, Bhutan, Bangladesh and Maldives have an additional three years to reduce tariffs to zero. India and Pakistan ratified the treaty in 2009, whereas Afghanistan as the 8th member state of the SAARC ratified the SAFTA protocol on the 4th of May 2011.

- The objective of the agreement is to promote good competition in the free trade area and to provide equitable benefits to all the countries involved in the contracts.
- It aimed to benefit the people of the country by bringing transparency and integrity among the nations.
- SAFTA was also formed in order to increase the level of trade and economic cooperation among the SAARC nations by reducing the tariff and barriers and also to provide special preference to the Least Developed Countries (LDCs) among the SAARC nations.

The impacts of SAFTA on Nepal's Economy:

Positive Effects

a. The tariff and non-tariff concessions negotiated and exchanged amongst member states shall be incorporated in the national schedules of concessions.

b. Member countries can focus on development, production and trading of products that provide them sustainable comparative advantages. For example, Nepal and Bhutan can focus in tourism and hydropower, Bangladesh can focus on natural gas and fisheries.

c. SAFTA will help SARRC members to present strong voice regarding their common problems in multilateral agreements.

d. Free trade will increase people's movement between countries.

e. Being a LDC, Nepal further receive following privilege;

   - Duty –free access, exclusive tariff preference or deeper tariff preference for export product.
   - Special consideration of export from LDC member states in the application of safe guard measures.

Negative Effect or limitation

a. The region is not cohesive in the same sense that it has diversity in socio-political and economic conditions. Similarly, there is also vast difference among countries in their size, location and infrastructure.

b. SAARC countries import products from non-member countries though the product is sufficiently produced in the region. This indicates weaker trade links among SAARC countries.

c. There are political consideration and geographical disadvantages for some countries ,which are responsible for affecting intra-regional trading.(The case of India and Pakistan)

d. Informal trade in the boarders of the countries has been increasing. This has adversely affected the formal flow of trade between the countries. There is a greater flow of primary commodities within the region. The capital and technology that are required to process these commodities are lacking in the region .Hence, the intra-regional flow of capital and technology is very limited.

e. Transit is another issue for increasing trade with SAARC. There are several transit problems for Nepal and Bhutan. Free trade within the region cannot flourish unless these transit problems are removed. Nepal suffers from high transport costs as it is at a disadvantaged geographical position.

f. Intra-regional movement of people is also equally important for promoting trade and investment. There are many formalities and entry problems at the borders, which make the free intra-regional movement of people difficult.

Bay of Bengal Initiative for Multi- Sectoral and Technical Economic Cooperation (BIMSTEC)

- **On 6 June 1997**, a new sub-regional grouping was formed in Bangkok and given the name BIST-EC (Bangladesh, India, Sri Lanka, and Thailand Economic Cooperation).
- After membership granted to Myanmar in **22nd December 1997** the name was changed to BIMST-EC.

- Nepal was granted observer status by the second Ministerial Meeting in Dhaka in December 1998. Subsequently, full membership has been granted to Nepal and Bhutan in **2004.**
- In the first Summit on 31 July 2004, leaders of the group agreed that the name of the grouping should be known as BIMSTEC or the **Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation.**

BIMSTEC Priority sectors:

BIMSTEC has thirteen priority sectors cover all areas of cooperation.

- Trade and Investment, led by Bangladesh
- Transport and Communication, led by India
- Energy, led by Myanmar
- Tourism, led by India
- Technology, led by Sri Lanka
- Fisheries, led by Thailand

(upto 19th November 1998)

- Agriculture, led by Myanmar
- Public Health, led by Thailand
-
- Poverty Alleviation, led by Nepal
- Counter-Terrorism and Transnational Crime, led by India
- Environment and Natural Disaster Management, led by India
- Culture, led by Bhutan
- People to People contact, led by Thailand

(from 19th December 2005)

Major Objectives of BIMSTEC:

- To create an enabling environment for rapid economic development, accelerate social progress in the sub-region.

- To promote active collaboration and mutual assistance on matters of common interest.
- To provide assistance to each other in the form of training and research facilities.
- To cooperate more effectively in joint efforts that are supportive of and complementary to national development plans of member states.
- To maintain close and beneficial cooperation with existing international and regional organizations.
- To cooperate in projects that can be dealt with most productively on a sub regional basis and which make best use of available synergies.

Difference between SAFTA and BIMSTEC

SAFTA	BIMSTEC
1.SAFTA includes only trade in goods	1. BIMSTEC covers both trade in goods and services.
2. SAFTA's aim is to bring down the tariff to a 0-5 percent level.	2. BIMSTEC aims for total elimination of tariffs.

***Pakistan and Maldives are not the members of BIMSTEC and Thailand and Myanmar are not the part of SAFTA. This composition of memberships would create conflicting obligation.**

World Trade Organization (WTO)

The WTO's predecessor, the **General Agreement on Tariffs and Trade (GATT),** was established after World War II in the wake of other new multilateral institutions dedicated to international economic cooperation - notably the Bretton Woods institutions known as the World Bank and the International Monetary Fund.

Well before GATT's 40th anniversary, its members concluded that the GATT system was straining to adapt to a new globalizing world economy. In response to the problems identified in the 1982 Ministerial Declaration the eighth GATT round — known as the Uruguay Round — was launched in **September 1986**, in Punta del Este, Uruguay. It was the biggest negotiating mandate on trade ever agreed: the talks were going to extend the trading system into several new areas, notably trade in services and intellectual property, and to reform trade in the sensitive sectors of agriculture and textiles; all the original GATT articles were up for review.

The Final Act concluding the Uruguay Round and officially establishing the WTO regime was signed during the April 1994 ministerial meeting at Marrakesh, Morocco, and hence is known as the Marrakesh Agreement. From 1st January 1995 GATT officially succeeded to WTO.

Structure of WTO

- Ministerial Conference: It is a apex body of WTO. It meets at least once in every two years.
- General Council: It consists of ambassador level members. It oversees the day-to-day operation and management of WTO.
- Trade policy review body: It periodically reviews the trade policies and practices of all member states.
- Dispute settlement body: It looks after the implementation and effectiveness of the dispute resolution process for all WTO agreements.
- Other councils: Goods and Service councils, Trade development and environment committees, Intellectual property right council.

Functions of WTO

- It oversees the implementation, administration and operation of the covered agreements.
- It provides a forum for negotiations and for settling disputes.
- It is the WTO's duty to review and propagate the national trade policies, and to ensure the coherence and transparency of trade policies through surveillance in global economic policy-making.
- The assistance of developing, least-developed and low-income countries in transition to adjust to WTO rules and disciplines through technical cooperation and training.
- Regular assessments of the global trade picture in its annual publications and research reports on specific topics are produced by the organization.
- Finally, the WTO cooperates closely with the two other components of the Bretton Woods system, the IMF and the World Bank.

Nepal's Membership: Opportunities and Threats for the Nepalese Business

Opportunities:

a. **Market access:** Market access opportunities provided by the WTO system can lead to further investment addressing the constraint of limited domestic market for economic scale of productive operation, which will also help to raise investment, economic production of goods and services and industrialization process.

b. **Special and differential treatments:** The WTO offers special and differential treatments for LDCs like Nepal. These include longer transition periods for the implementation of the agreements, technical support, due restraint on disputes involving LDCs, and special treatment while liberalizing the services sector.

c. **Transit right:** One of the reasons why Nepal had sought membership of the General Agreement on Tariffs and Trade (GATT) was the transit problem it had encountered during the Indo-Nepal transit stalemate in 1989. It was expected that under the GATT/WTO, Nepal would be granted access to the sea as a right as per Article V of the GATT. In theory, as a WTO Member, Nepal should benefit from access to international markets without discrimination.

d. **Policy stability:** The WTO regime provides opportunity for policy stability internally which is of utmost urgency in the context of the existing political instability in order to provide an environment of predictability for investment and industrialization.

e. **Attract foreign direct investment: Policy** stability due to WTO membership provides credibility to the nation in terms of economic activities with predictable environment. Such environment is essential to attract foreign direct investment (FDI) and technology to expedite industrialization process in Nepal. Additionally, the mandatory provision of WTO in protecting intellectual property rights creates a better situation for attracting investment

f. **Gearing up domestic institutional capability:** Joining WTO reflects national commitment in gearing up domestic institutional capability in delivering services related to trade and economic transactions. Similarly, the challenge to business community in enhancing their competitive capability certainly builds pressure to look at their own existing lapses and inefficiency, paving the way for the effective actions to correct them.

g. **Benefit from liberalization:** Nepal has and could benefit from liberalization through better allocation of natural resources towards industries with the strongest advantages, enhanced learning and newer technology from interacting with the rest of the world.

h. **Access to dispute settlement body:** WTO‟s best achievement is dispute settlement body. A WTO membership would accord Nepal the right to challenge in any measures taken by trading partners, which are against Nepal’s economic and trade interest.

i. **Mobilization of trade related technical assistance:** WTO provides and has initiated the programs of aid for trade and Enhanced Integrated Framework (EIF) to enhance the supply side capacity of the developing countries.

Challenges:

a. **Employment:** Employment opportunities may dry up by using sophisticated technology to boost the local organization to meet WTO standard competition.
b. **Negotiation for more benefits:** The task of negotiation for accession with the objective of gaining more and loosing less is challenging for Nepal primarily due to lack of knowledgeable and skillful human resources with the government as well as private sector.
c. **Strengthening Institution:** Given the financial constraint of the government and the lack of proper policy intervention to cope with the responsibility and obligations posed by the WTO membership, the task of strengthening institutions seems difficult to achieve.
d. **Specialization in some products and services:** This is a challenging task of Nepal, when there is lack of proper physical and institutional infrastructure, capital and resources for industrialization.
e. **Making industries cost effective:** The old industries of Nepal need urgent restructuring and modernization in order to make them capable of producing quality goods at a competitive price .It is not possible to make industries cost effective without investment.
f. **Income distribution and Poverty:** Because of the powerful impacts of MNCs and INGOs, which influence the both rule of laws (in creating monopoly market, less employment and conflict on local bodies) and government the country may force to remain in low equilibrium poverty trap.

Unit 8

Strategic Management

What is strategy?

The term strategy is derived from a Greek word 'Strategos' which means general ship – the actual direction of force, as distinct from the policy governing its deployment. Strategy is a broad game plan to achieve objectives. It provides direction and scope to the organization over the long term. Literally the word strategy means the art of the general. Strategy can be defined as the management action plan for achieving the chosen objectives. It commits the organization to specific products, market, resources and technology. It specifies how the organization will be operated, run & what entrepreneur, competitive & functional area approach & action will be taken to put the organization into the desired position. Strategy considers both means & ends. The goals & decisions making up an organization's strategy may be planned ahead of time or may just evolve as a pattern in the stream of significant decisions. It determines the basic long term goals & objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.

According to Chandler, Strategy in the area of business is defined as 'the determination of the basic, long-term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for those goals"
Thus, Strategy is a process of translating perceived opportunity into successful outcomes, by means of purposive action sustained over a significant period of time.

Characteristics of strategy:

a. Long term focus
b. Comprehensive action plan
c. Competitive advantage
d. Stakeholder expectation
e. Strategic fit
f. Based on strategic decisions: unique, consequential, contradictory action and directive

Levels of Strategy

All the organizations should carry out some forms of strategic management. As the organization becomes larger and more complex, there is greater need for involvement in the strategic process at all levels of organization. Therefore, more strategic activities will occur in a decentralized way, as each department or business unit attempts to carry out their own part of the strategy.

Organizational strategies include strategies at the corporate level, business level, and functional level. Managers at the top level of the organization typically are responsible for corporate level strategies. Managers at the middle level typically are responsible level strategies. And managers at the lower levels of the organization typically are responsible for the functional level strategies. Jonson and Schools have identified three levels of strategic activities.

1. **Corporate level strategy:** It is the overall strategy for the organization. It provides long term direction & scope to the organization as a whole. It seeks to determine what business the organization should be in. It involves strategic decisions. It allows from mission & objectives. It is mainly concerned with the overall purpose & scope of an organization & how value will be added to the different parts of the organization. It reflects the direction in which the organization is going and the roles that each business unit in the organization will play in pursuing that direction. Corporate strategy consists of strategic

planning at corporate level and do not limited to one particular area such as marketing, production financial etc. it is the sense of direction for the entire corporate group.

Corporate level strategy should include:

- Concentration: In single business for e.g. fast food.
- Geographic expansion: New segments to be served in new areas.
- Diversification: Of products, services, business units from current markets.
- Growth & Stability: Through merger, acquisition, reengineering, downsizing, rightsizing, strategic alliances.
- Resource allocation: Among various business units.

Major corporate strategies are:

i. Growth strategy: it is a corporate level strategy that seeks to increase the organization's business by expanding the number of products offered or markets served.
ii. Product development: Substantial modification of existing products in the existing market.
iii. Market development: Choice of product in new market segments.
iv. Innovation: Totally new product development with new life cycle for the existing market.
v. Stability strategy: it is a corporate level strategy characterized by an absence of significant change. Example of this strategy include continuing to serve the same clients by offering the same product or service, maintaining market share, and sustaining the organization's return-on-investment results.
vi. Renewal strategy: it is a corporate strategy designed to address organizational weaknesses that are leading to performance decline. In this stage, management cuts costs and restructures organizational operations.

Thus, we can say that corporate strategy is concerned with the scope of an organization's activities and the matching of these to the organization's environment, its resource capabilities and the value and expectations of its various stakeholders.

2. **Business Level Strategy**: It is an organizational strategy that seeks to determine how an organization should compete in each of its business. It allows from corporate level strategy. It is concerned with strategic business unit. Large organizations operate several businesses. It defines their business portfolio. It classifies their business into strategic business unit (SBU). Such classification is generally based on product category. BLS seeks the answer the question, how should we complete in each of our businesses? For a small organization or the large organization that has not diversified into different products or markets, the business level strategy overlaps with the organization's corporate strategy. In

multiple or diversified business organizations, each division will have its own strategy that defines the products or services it will offer, the customers it wants to reach, and the like. Therefore, this strategy usually occurs at the business unit or product level, and it emphasize improvement of the competitive position of a company's products or services in the industry or market segment served by that business unit.

Business level strategy should include:

- Positioning: It is the positioning among competitors in a given business to gain competitive advantages.
- Low cost leader: minimizing the cost than competitors by perfecting the value-chain activities
- Differentiation: reconfiguring the resources in some unique way to achieve differentiation.
- Speed based strategy: build around functional capabilities and activities that allow the company to meet customer needs directly or indirectly more rapidly than its main competitors.
- Market focus: market niche by minimizing cost or differentiation or both.

3. **Functional Level Strategy:** It follows from business level strategy. It is concerned with how the component parts of an organization deliver effectively the corporate & business level strategies in terms of resources, processes & people. It spells out specific tasks. It is concerned with strategy for each function, such as production, marketing, finance, human resource, resource
4. e & development. It deals with operations of the organization. It supports the business level strategy. It involves tactical decision to achieve strategic advantages. The functional level strategies also value to a product. Value can be added by lowering cost or differentiating products. They serve as the key to the success of business level & corporate level strategies. They aim to attain superior efficiency, quality, innovation & responsiveness to customer needs. It is concerned with developing and looking after competence to provide a company or business unit with a competitive advantage.

Functional level strategy should include:

- Objectives: For a specific function, such as marketing.
- Resource allocation: For sub-function of a function, such as product, price, place, promotion of marketing function.

Types of Functional level Strategy:

i. Production Strategies: They focus on improving efficiency & controlling costs. They deal with plant technology, plant capacity, plant layout & location, production system & processes, maintenance, inventory & quality.

ii. Marketing Strategies: They focus on customer need satisfaction. They deal with target, market mix, product positioning & management of product life cycle.
iii. Finance Strategies: They focus on increasing shareholder's wealth. They deal with financial planning, sources of finance, investment decisions, dividend decisions, & financial control. Profit potential of various strategic alternatives is assessed.
iv. Human Resource Strategies: They focus on quality, competence, productivity & welfare of employees. They deal with acquisition, development, utilization & maintenance of employees.
v. Research & development Strategies: They focus on the product development. They deal with product innovation, modifications & imitations

Characteristics of Strategic Management Decisions

The characteristics of strategic management decisions vary with the level of strategic activity considered. Corporate level decisions are often characterized by greater risk, cost, and profit potential, greater need for flexibility and longer time horizons. Such decisions include the choice of the business, dividend policies, sources of long-term financing and priorities for growth.

Whereas, Functional level decisions implement the overall strategy formulated at the corporate and business levels. They involve action –oriented operational issues and are relatively short range and low risk. Functional level decisions incur only modest costs, because they depend on available resources. They usually are adaptable to ongoing activities and therefore can be implemented with minimal cooperation.

And, Business-level decisions help bridge decisions at the corporate and functional levels. Such decisions are less costly, risky and potentially profitable than corporate level decision, but they are more costly, risky and potentially profitable than functional level decisions. Common business level decisions include decisions on plant location, marketing segmentation and geographic coverage, and distribution channels. *(John A Pearce II & Richard B. Robinson)*

Some important characteristics of Strategic decision are:-

i. Non- programmed: - strategic decisions are unique and rare. They deal with uncertain and non- routine problem situations as they are complex in nature.
ii. Future oriented: - Strategic decisions are future oriented. They are made on the basis of predictions and projections. They are concerned with long term direction and scope of the organization.
iii. Dynamic: - They are dynamic in nature. They take place within a changing environment. Changing political, economic, socio- cultural, legal and technological forces increase complexity in strategic decisions.

iv. Top management oriented: - Strategic management decisions are made by top management of the firm. The values, philosophy and expectations of top management greatly affect strategic decisions. So, the strategic decisions are top management oriented.

v. Competitive Advantage: - Strategic decisions help in gaining competitive advantages in the market through searching for unique resources and care competencies.

vi. Strategic fit: - Strategic decision match activities and resources of the organization with the opportunities in the environment.

vii. Commitment: - strategic decisions are long term objectives of the firm and involve long term commitment of large amount of resources.

viii. Choice: - Strategic decision is about making choice from among the strategic alternatives. It is a choice among course of action for the long term future.

Importance of Strategic Management

i. Enhance organizational performance.

ii. Effective utilization of resources.

iii. Reduce uncertainty.

iv. Change management.

v. Participative management.

vi. Meet competition.

Process of Strategic Management

The strategic management process is a six-step process that encompasses (covers) strategic planning, implementation and evaluation. Although the first four steps describe the planning that must take place, implementation and evaluation are just as important. Even the best strategies can fail if management doesn't implement or evaluate them properly. The following are the steps of strategic management process.

1. **Identifying organization's mission, objectives, and strategies:** it is the initial step of strategic management process. It is the reason for the existence of an organization. It states that who we are and what we would like to become. It is developed by top-level management. Mission defines the fundamental unique purpose that is different from the other organization of similar type. This mission of eBay is "to build an online marketplace that enables practically anyone to trade practically anything almost anywhere in

the world." This statement provides clue to what this organization sees as its reason for being in business. Strategy is a comprehensive master plan that explains how the organization will achieve its mission and goals. It adopts a course of action and allocation of resources necessary to achieve the goals.

2. **Analyzing external environment:** analyzing the environment is a critical step in the strategy process. External environment refers to the forces and institutions outside the organization that affect the organization's performance. The external environment consists of specific or tasks and general environment. In analyzing the external environment, managers should examine both the specific and general environments to see what trends and changes are occurring. The task environment consists of customers, suppliers, competitors, government, pressure groups etc and general environment consists of politics, economy, society, culture, technology etc. such external environmental forces must be carefully analyzed for strategic management process. After analyzing the external environment managers need to identify opportunities that can be capitalized; and threats that an organization may face. Opportunities are the positive trends and scope for organization to grow and threats are the negative trends and challenges to the organization.
3. **Analyzing internal environment:** internal environment consists of all forces and conditions within the organization that affect business operation. Managers need to analyze the internal environment to understand about the position of organizational resources such as financial capital technical experience, skilled employees, experienced managers and so forth and capabilities in performing the different functional activities such as marketing, manufacturing, information systems, human resource management and so forth. Analysis of internal environment helps in identifying strengths and weaknesses of an organization. Strength is a position of organization with unique resources and efficiency in activities. Weakness is the activities that the organization does not do well and organization is lacking with valuable resources. The management must identify the strength to capitalize and weakness to overcome the organization's limitations.
4. **Formulating strategies:** are developed on the basis identification of mission and environmental analysis. Environmental analysis is also called SWOT analysis. Once SWOT analysis is complete, managers need to develop and evaluate strategic alternatives and then select strategies that capitalize on the organization's strengths and exploit environmental opportunities or that correct the organization's weaknesses and safeguard

against threats. Strategies must focus to corporate and functional levels. Managers need to develop and evaluate strategic alternatives and then choose a strategy that gives the organization competitive advantages

5. **Implementing strategies:** After strategies are formulated, they must be implemented. No matter how effectively an organization has planned its strategies, it can't succeed if the strategies aren't implemented properly. Select strategies are put into action through plans, policies, tactics, programs and procedures. Translating strategy into action phase is the strategy implementation phase. Team building and managing effective teams is an important part of implementing strategy. Top management leadership is a necessary ingredient in a successful strategy. Moreover, motivated group of middle and lower level managers are needed to carry out the organization's specific strategies.
6. **Evaluating results:** The final step in the strategic management process is evaluating results. How effective have the strategies been? What adjustments, if any, are necessary? Such adjustments improve company's competitiveness. This step helps to assess the results of previous strategies and determines that changes are required. Thus evaluation and control is the process by which corporate activities and performance results are monitored so that actual performance can be compared with desired performance. Although the evaluation is the final step of strategic management process, it also can pinpoint weaknesses in previously implement strategic plans and thus stimulate the entire process to begin again.

Strategic Planning

Strategic plan: Strategic plan is a road map for the future direction of the organization. Strategic plan establishes mission, objectives & strategies for an organization. It makes strategic choice about future courses of action from among the strategic options.

Strategic planning is the process of identifying the best strategic fit, which determines better competitive position in the market. In other words, Strategic planning is the formalized, long range planning process used to define & achieve organizational goals.

Process of Strategic planning:

a. Defining vision and mission
b. Environmental analysis
c. Determination of long term goals and objectives.
d. Strategy formulation

Role of CEO in Strategic Management

The chief executive is the executive head of the organization. S/he represents the top management. His/her main duty is to define long term direction and scope of the organization. He has ultimate responsibility for its success. S/he leads the formulation and implementation of the strategy. S/he is guided by the board of directors. Since strategic management involves teamwork of multiple participants, the CEO plays the key roles in:

1. **Formulation of strategy:** Strategy Provides future direction and scope to the organization for gaining competitive advantage. The roles of CEO in strategy formulation are:
   i. **Key Strategist Role:** The CEO plays the role of chief architect in defining vision, mission and objective of the organization. He conceptualizes and crafts strategies to achieve objectives.
   ii. **Decision making role:** The CEO makes strategic decisions related to strategy formulation. CEO makes strategic choice from among strategic option for achieving objectives. This role involves risk-taking.
   iii. **Resource planning role:** This role of CEO involves coordinated allocation of significant resources to plans. Such plans can be organization-wide or related to strategic business unit for function. Resources can be people, money, technology, time and information.
   iv. **Negotiator role:** Strategy must fulfill the expectations of various stakeholders of the organization. The CEO balance conflicting interests of stakeholder by negotiating disputes. The stakeholders can be owners, customers, employees, suppliers, government, labour unions, and financial institutions. CEO ensures the acceptability to strategy by stakeholders.
2. **Implementation of Strategy**: Implementation is putting strategy into action. The chief executive ensures that strategies are operationalized in practice. His/her roles in strategy implementation are as Follows:
   i. **Information Role:** The CEO disseminates information about strategy to the implementers within the organization. S/he serves as a spokesperson for strategy implementation. Effective communication serves as the key to effective implementation of strategy.
   ii. **Leadership Role:** The CEO assumes overall leadership for the implementation of strategy. He/she inspire trust and self confidence among implementers of strategy. CEO ensures participation of those who involve in implementation. CEO motivates them for higher productivity and also provides direction for implementation.

iii. **Organizer Role:** The CEO is an organization builder. S/he determines the structure for strategy implementation. S/he establishes reporting relationship and span of control and assigns authority and responsibility for positions and people in the organization for key result areas.

iv. **Resource manager Role:** The CEO ensures efficient and effective mobilization, allocation and utilization of resources for implementation of strategies. Budgets are prepared for management of resources.

v. **Monitoring role:** The CEO monitors and evaluates the performance results of strategy implementation. S/he takes corrective action to resolve performance

Unit 9

Establishing Company

Direction Concept of Strategic Vision:

- **Vision statement:** A Vision statement outlines what the organization wants to be, or how it wants the world in which it operates to be. It concentrates on the future. It is a source of inspiration. It provides clear decision-making criteria.
- Definitions: "description of something (an organisation, corporate culture, a business, a technology, an activity) in the future". (Kotter)
- "mental perception of the kind of environment an individual, or an organisation, aspires to create within a broad time horizon and the underlying conditions for the actualisation of this perception". (EI Nakami)
- A **Vision** Statement defines what your **business** will do and why it will exist tomorrow and it has **defined** goals to be accomplished by a set date.

- A **Vision** Statement takes into account the current status of the organization, and serves to point the direction of where the organization wishes to go.

Examples of Vision:

- Amazon: Our vision is to be earth's most customer centric company; to build a place where people can come to find and discover anything they might want to buy online.
- Nike: To bring inspiration and innovation to every athlete* in the world.

(*If you have a body, you are an athlete.)

- Nepal Investment Bank: Our vision is to be the most preferred provider of Financial Services in Nepal.
- Chaudhary Group: We strive to be a global leader in customer value.
- BMW: To become most successful premium manufacturer in the car industry.

Benefits of Vision:

- Good visions are inspiring & Exhilarating (generate excitement)
- Good visions help in the creation of a common identity and shared sense of

purpose.

- Good visions foster risk-taking and experimentation.

Concept of Mission Statement

- "A mission statement reveals the long term vision of an organization in terms of what it wants to be and whom it wants to serve."(Fred David)
- "One-sentence statement describing the reason an organization or program exists and used to help guide decisions about priorities, actions, and responsibilities."
- A well conceived mission statement defines the fundamental and unique purpose that sets a company apart from other firms of its type and identifies the scope of the company's operations in terms of products offered and markets served.
- "Mission express/states the doing part of the vision."

Examples of mission statements:

- The Rotary Foundation: To enable Rotarians to advance world understanding, goodwill and peace through the improvement of health, the support of education, and the alleviation of poverty."
- Nepal Investment Bank: To be the leading Nepali bank, delivering world class service through the blending of state-of-art technology and visionary management in partnership with component and committed staff, to achieve sound financial health with sustainable value addition to all our stakeholders. We are committed to do this mission while ensuring the highest levels of ethical standards, professional integrity, corporate governance and regulatory compliance.

Benefits of Mission Statements:

- To ensure unanimity of purpose within the organization
- To provide a basis, or standard, for allocating organizational resources
- To establish a general tone or organizational climate
- To serve as a focal point for individuals to identify with the organization's purpose and direction, and to deter those who cannot from participating further in the organization's activities

- To facilitate the translation of objectives into a work structure involving the assignment of tasks to responsible elements within the organization
- To specify organizational purposes and then to translate these purposes into objectives in such a way that cost, time, and performance parameters can be assessed and controlled.

Components of mission statements:

i. Customers—who are the firm's customers?

ii. Products or services—what are the firm's major products or services?

iii. Markets—geographically, where does the firm compete?

iv. Technology—is the firm technologically current?

v. Concern for survival, growth, and profitability—Is the firm committed to growth and financial soundness?

vi. Philosophy—what are the basic beliefs, values, aspirations, and ethical priorities of the firm?

vii. Self-concept—what is the firm's distinctive competence or major competitive advantage?

viii. Concern for public image—is the firm responsive to social, community, and environmental concerns?

ix. Concern for employees—Are employees a valuable asset of the firm?

Difference between mission and vision statements

Mission	Vision
• It defines why the organization exits, what it does, who it does it for and how it does what it does. • The purpose is to inform what the organization does. • The mission statement talks about the present leading to its future. (10 years or more) • When development a mission	• It defines where the organization wants to be. • The purpose is to inspire and to be the emotional driver toward the organization. • The vision statement talks about the organization future. (20 years or more) • When development a vision

statement we should talk about actions. • Guides in formulation of business definition, goals and objectives.	statement we have to think about values. (values to people , world) • Guides in formulation of mission.

Setting performance Objectives

Objectives are what the organization wants to have or become at some point in the future. (Usually 3-5 Years)

- Because they are strategic in nature, they focus more on position to be attained than on specific accomplishments.
- They define success at a point in the future, allowing you to work backward and identify interim steps along the way.
- They take the company strategy one more step toward action level.
- They are visionary and broad in scope.
- Format: "to have (or become) (the result) by (year).

"Objectives are the end results of planned activity. They state what is to be accomplished by when and should be quantified if possible." (Wheelen and Hunger)

"Objectives are statements of specific outcomes that are to be achieved."(Johnson & Scholes)

Examples of performance objectives: **(Profitability, Survival, Growth, Efficiency, Leadership, Social Responsibility, Reputation, Employee relation and development etc.)**

Importance of objectives:

- Decision making.(organization's relationship with environment)
- Helps organization pursue its vision and mission.
- Provide the basis for strategic decision.

- Increase organizational efficiency.
- Performance Appraisals.

Strategic Objectives versus Financial Objectives

Strategic Objectives	Financial Objectives
• Objectives that are competition focused and aim to be a best player in its market or industry. (Bigger market share, new segments, Differentiation, Cost rationalization, improve supply chain, electronic commerce. • long term 5-10 years, • wide range coverage • gain competitive advantages • strengthen market position & resource utilization	• An objective set by a company in which the target state is measured in monetary terms, such as a certain amount of profits, or a certain percentage increase in profits over a period of time. • Short term 2-3 years, • limited scope • derived from corporate financial plan • focus on Growth in turn-over ,Better margins, Higher return on investment , cost reduction etc

SWOT is a widely used thinking framework for identifying Strengths, Weaknesses, Opportunities and Threats. It enables key factors to be visibly recorded as a high-level summary of a business. SWOT analysis is a summary that is simple but powerful.

- Strength: Capability of organization to compete and meeting the needs of customer it serves.
- Weakness: Limitation of resources which creates disadvantages in meeting the customer need and be competent.
- Opportunities: Favorable condition for a firm.
- Threats: Unfavorable condition for a firm.

The SWOT Matrix: The SWOT analysis is also called TWOS matrix. It is an important matching tool that helps manager develops 4 types of strategies. SO (strength-Opportunities) Strategies, WO (Weaknesses-Opportunities) strategies, ST (Strength-Threats) Strategies, and WT (Weakness-Threats) Strategies. Matching key external and internal factors is the most difficult part of developing a SWOT matrix and there is no one best of matches.

a. **SO Strategies** uses a firm's internal strengths to take advantage of external opportunities. All managers would like their organizational to begin a position in which internal strengths can be used to take advantages of external trends and events.
b. **WO Strategies** aim at improving internal weakness by taking advantage of external opportunities. Sometimes key external opportunities exist, but a firm has internal weakness that prevents it from exploiting those opportunities. For e.g. there may be high demand for electronic devices to control the amount and timing of fuel injection in automatic engines (opportunities), but a certain auto parts manufacturer may be lack the technology required for producing these devices (weakness). One possible WO strategy would be to acquire this technology by forming a joint venture with a firm having competency in this area. An alternative WO strategy would be to hire and train people with the required technical capabilities.
c. **ST Strategies** use a firm's strength to avoid reducing the impact of external threats. This doesn't mean that a strong organization should always meet threats in the external environment. However, when an excellent firm (strength) couldn't complete with the alliance firm. Rival firms that copy ideas innovations and patented products are a major threat in many industries. This is still a major problem for U.S. firms selling products in china.

d. **WT strategies** are defensive tactics directed at reducing internal weakness and avoiding external threats. An organization faced with numerous external threats and internal weakness may indeed be in precarious (insecure) position. In fact, such a firm has to fight for its survival, merge, retrench, declare bankruptcy or choose liquidation. There are eight steps involved in constructing a SWOT matrix.

Unit 10

Internal Analysis

Concept of internal analysis: It is the process of identifying the resource strength and its capabilities to determine organizational strength and competency to be in better position in market. In other word, internal analysis is examination of organizational value chain and its effectiveness on developing competitiveness in the market.

Area of Internal Analysis:

a. Production and operation
b. Marketing resources
c. Financial resources
d. Human resources
e. Research and development resources.

- Competencies to undertake activities.
- Balance of activities, resources and business units.

What makes resource valuables?

i. Is the resource or skill critical to fulfilling a customer's need better than that of the firm's competitors.

ii. Is the resource scarce? Is it in short supply or not easily substituted for or imitated?

1. **Value chain analysis:** Value chain is a set of inter-linked value creating activities performed by an organization. These activities begin with inputs, go through processing and continue up to outputs marketed to customers. "Value chain analysis refers to the process whereby a firm determines the costs associated with organizational activities from purchasing raw materials to manufacturing products to marketing those products."(F.R .DAVID)
   a. **Primary Activities:**
      i. Inbound logistic (Raw materials handling, stock control , materials transportation)
      ii. Operation (manufacturing, packaging, assembling, testing)
      iii. Outbound logistic (Collect, store and distribute products to customer)
      iv. Marketing and sales (Pricing, promotion, selling products to satisfy customer needs)

v. Service (Instillation, repairs, spares(additional) and training)

b. Support Activities:

i. Procurement (Activities related to purchasing inputs)
ii. Technology development (acquiring new technology and R&D for innovation)
iii. HRM (acquisition, development, utilization, maintenance of HR)
iv. Firm Infrastructure (related to general management; strategic planning, quality control, accounting, finance, information management, organizational design)

Value-chain analysis involves identifying those internal and external linkages that result in a firm achieving either a cost leadership or differentiation strategy. Managing organizational and operational cost drivers to create long-term cost reductions is a key element in the analysis. Value-chain analysis is a form of strategic cost management. It shares the same goal of creating a long-term competitive advantage by using cost information.

An industrial value chain is the linked set of value-creating activities from basic raw materials to end-use customers. Knowing an activity's relative position in the value chain is vital for strategic analysis. For example, knowing the relative economic position in the industrial chain may reveal a need to backward or forward integrate in the chain. A total quality control strategy also reveals the importance of external linkages. Suppliers, for example, create parts that are used in products downstream in the value chain. Producing defect-free parts depends strongly on the quality of parts provided by suppliers.

2. **Cost Efficiency Analysis:** Under this method, organization tries to identify the minimal cost requirement to compete successfully in the market. It identifies the possible alternatives that can be helpful in maintaining higher productivity in organization. Different methods to minimize the cost are:
   i. Economics of scale: producing large quantity.
   ii. Supply cost: searching for low cost suppliers.
   iii. Product process and design: focus on simplifying product design and operation.
   iv. Experience.
3. **Effectiveness Analysis:** Under this, different features of product and their contribution in customer satisfaction are analyzed and evaluated. The main objective is to enhance product effectiveness by matching customer requirements and product features.
4. **Comparative analysis:** It involves the comparison of capability of an organization with the competitors. It also involves the comparison of the present performance of an organization with its past performance. Different techniques for comparative analysis are:
   i. Historical analysis : comparing with past
   ii. Industry standard: comparing with industry standards
   iii. Benchmarking: comparing with the leader organization.

Unit 11 Evaluating Company Resources and Competitive Capabilities Concepts of resource:

Resources are an organization's assets and are thus the basic building blocks of the organization. They include tangible assets, such as its plant, equipment, finances, and location, human assets, in terms of the number of employees, their skills, and motivation, and intangible assets, such as its technology (patents and copyrights), culture, and reputation.

Threshold resources are the minimum resources required to withstand competition.

Organization's strategic capabilities are determined by three important internal factors:

- Available resources

iii. Appropriability: Whether the resource is supportive enough to generate gains?

iv. Durability: How rapidly will the resource depreciate?

Capabilities: Capabilities refer to a corporation's ability to exploit its resources.

- Competencies to undertake activities.
- Balance of activities, resources and business units.

What makes resource valuables?

iii. Is the resource or skill critical to fulfilling a customer's need better than that of the firm's competitors.

iv. Is the resource scarce? Is it in short supply or not easily substituted for or imitated?

They consist of business processes and routines that manage the interaction among resources to turn inputs into outputs. For example, a company's marketing capability can be based on the interaction among its marketing specialists, distribution channels, and sales people.

Competency: A **competency is a cross-functional integration and coordination of capabilities.** For example, a competency in new product development in one division of a corporation may be the consequence of integrating management of information systems (MIS) capabilities, marketing capabilities, R&D capabilities, and production capabilities within the division.

Core competency: A **core competency is a collection of competencies that crosses divisional boundaries,** is widespread within the corporation, and **is something that the corporation can do exceedingly well.** Thus, new product development is a core competency if it goes beyond one division. E.g. FedEx has a core competency in its application of information technology to all its operations.

When core competencies are superior to those of the competition, they are called **distinctive competencies.**

Strength and resource capability; Strengths is the basic capabilities of the organization in which it can be used to gain competitive advantages. It is a distinct competence of an organization which gives the competitive advantage. During the strategic alternative analysis, some of the factors related to the strengths of an organization need to be analyzed with respect to each alternative:

- Well developed strategy
- Strong financial condition
- Human resource competencies
- Strong brand name/image/reputation
- Strong advertising
- Broad market coverage

(b) Weaknesses and resource deficiency: It is the basic limitation or constraint of the organization which creates competitive disadvantages. It is the deficiency in resource, skills, capabilities and knowledge which negatively affect the performance of an organization.

Following are some of the examples of weaknesses.

- Weak marketing plan
- No clear strategic direction
- Weak financial position
- Inadequate human resources
- Obsolete technology
- Loss of brand name
- Raising manufacturing cost etc.

Strategic Advantage: It refers to being in better position in comparison to competitors. In other words, strategic advantage is the capability of an organization to outperform its key competitors over a long period of time. Organizations can have strategic advantage if , it can produce the products in low cost, creates variation in products or both. Organization should always focus on developing and creating those resources and competencies which can be helpful in maintain better strategic position in the market.

Unit 12

Strategic Options

Concepts of Strategic Options:

Strategic options are creative alternative action-oriented responses to the external situation that an organization (or group of organizations) faces. Strategic options take advantage of facts and actors, trends, opportunities and threat of the outside world.

Strategic options can be identified after an institutional assessment, keeping in mind the aspirations (basic question) of an organization. The tool 'Strategic options' helps to identify and make a preliminary screening of alternative strategic options or perspectives.

Corporate level strategy:

Strategic Alternative at Corporate Level (Grand Strategies): Corporate or Grand strategies are the decisions or choices of long term plans from available alternatives. Grand strategies also called as master or corporate strategy. It is based on analysis of internal and external environment. This directs the organization towards achievement of overall long term objectives (strategic intent).

Corporate level strategy is concerned with overall purpose and scope of an organization and how value will be added to the different parts (business units) of the organization. (Johnson and Scholes).

Corporate level strategy addresses the question as "what business are we in? It is related to the acquisition of new business, addition or divestments of business units, plants or product lines and joint ventures with other companies in new areas etc.

Strategic Alternatives at Corporate level: The different strategic options/alternatives at corporate level are as follows:

1. **Stability Strategy**: Keeping the organization where it is…….
2. **Growth Strategy**: Moving the organization ahead ………
3. **Retrenchment Strategy**: Reversing the organization's weaknesses or decline………

1. **Stability Strategy**: A strategy where the organization maintains its current size and current level of business operations. Stability strategy does not mean do nothing nor are that goals such as profit growth abandoned. It means, to increase profit through such methods as improving efficiency in current operations.

When stability strategy is suitable to adopt:

a. This strategy is pursued in relatively stable environment.
b. Organization is market leader.
c. The product is at the maturity stage in the product life cycle.
d. Its main strategic decision focus on incremental improvement of functional performance.
e. Industry is facing slow or no growth opportunities.
f. When product is in maturity stage.

Types of strategic alternatives/options under stability strategy:

i. Pause/Proceed with caution strategy: This strategy is taken as a rest before continuing a growth or retrenchment strategy. It is a deliberate attempt to make only incremental improvements until a particular environmental situation changes.
ii. No change Strategy: This strategy is adopted when environment is perceived as to be stable, with few threats to cause problems or few opportunities the firm wishes to take advantage.
iii. Profit Strategy: This is an attempt to artificially support profits when a company's sales are declining by reducing investment and short-term discretionary expenditures.

Advantages and disadvantages of

Stability Strategy: Advantages:

i. It is less risky.
ii. Implementation is relatively simple ,since it does not demand fundamental change.
iii. It aims to bring efficiency to maintain current profit and growth.

iv. Suitable if growth strategy is risky to pursue.

Disadvantages:

i. Organization may lose opportunities created by change in external environment.
ii. May not able to address the expectation of the shareholder.
iii. Market share may decline due to expansion of competitors.

2. **Growth Strategy:** It involves the attainment of specific growth objectives by increasing the level of a firm's operations. An organization can grow internally expanding its operations or it can grow externally through merger, acquisitions and strategic alliances.

   Purposes behind Growth Strategy:
   - Increase in sales revenues
   - Increase in earnings or profits
   - Other performance measures
   - Increasing clients served or patrons attracted
   - Broadening the geographic area
   - Increasing programs offered

   Types of Strategic options under growth Strategy:

   i. Concentration Strategy: A growth strategy where the firm concentrates on its primary line of business .It looks for ways to meet its growth objectives through increasing its level of operation in this primary business. It directs all its resources to the profitable growth of a single product, in a single market with a single dominant technology. Two basic concentration strategies are vertical integration and horizontal integration.
      - Vertical Integration: When a company expands its business into areas that are at different points on the same production path, such as when a manufacturer owns its supplier (Backward integration) and/or distributor (Forward Integration).
        Vertical integration can help companies reduce costs and improve efficiency by decreasing transportation expenses and reducing turnaround time, among other advantages. However, sometimes it is more effective for a company to rely on the expertise and economies of scale of other vendors rather than be vertically integrated.
      - Horizontal Integration: The acquisition of additional business activities that are at the same level of the value chain in similar or different industries. This can be achieved by internal or

external expansion. Because the different firms are involved in the same stage of production, horizontal integration allows them to share resources at that level.

Expanding the firm's operations through combining with competitors operating in the same industry & doing the same things.

ii. Diversification Strategy: A risk reduction strategy that involves adding product, services, location, customers and market to company's portfolio.

- Concentric (Related) Diversification: concentric diversification strategy allows a company to add similar products to an already successful line of business. For example, a computer manufacturer that produces personal computers begins to produce laptop computers. The technical knowledge necessary to accomplish the new task comes from its current field of skilled employees
- Conglomerate (unrelated) Diversification: It is related to Diversifying into completely different industry from the firm's current operations. When companies engage in conglomerate diversification strategies, they are often looking to enter a previously untapped market. Companies can do this by purchasing or merging with another company in the desired industry. Moving into a totally unrelated industry is often highly dangerous; as the company's current management is unfamiliar with the new industry.

Advantages and Disadvantages of Growth Strategy:

Advantages:

i. Market power of the organization increase due to growth of product and market.
ii. It ensures strategic advantage to the organization through high production and long experience.
iii. High degree of profit potential from the untapped market.
iv. Suitable for highly competitive and dynamic markets.

Disadvantages:

i. Focusing other product lines and market may deplete the current product lines productivity.

ii. In absence of knowledge of product market ,growth strategy may be high risky.
iii. May not fulfill growth requirement from current available resources and competencies.

3. **Retrenchment Strategy:** Retrenchment strategy is a strategy used by corporate in order to reduce the diversity or to cut the overall size of the operations of the company. This strategy is often used to cut down expenses with the goal of becoming more financially stable business. Typically the strategy involves withdrawing from certain markets or the discontinuation of selling certain products or services in order to make a beneficial turn around.

Types of Strategic options under retrenchment strategy:

i. Turnaround strategy: This strategy focuses on regrouping and restructuring the organizational functioning to reduce cost & asset to reverse declining sales.
ii. Divesture: The partial or full disposal of a business unit through sale, exchange, closure or bankruptcy. Divestiture may result from a management decision to no longer operate a business unit because it is not part of a core competency. It may also occur if a business unit is deemed redundant (unnecessary) after a merger or acquisition.
iii. Liquidation: A liquidation strategy involves selling a company, in its entirety or in parts, for the value of its assets. Many small business owners exit their businesses through liquidation. This strategy is mostly adopted by companies in distress. To make any money with such an exit strategy, the business should have valuable assets to sell, such as land or expensive equipment, and profits from selling assets have to go to pay creditors first. The selling under this strategy is not as a going concern but in salvage value to escape further hardship.

Advantages and Disadvantages of retrenchment strategy:

Advantages:

i. Suitable for highly uncertain business environment.
ii. It is helpful in securing the organization form deep crisis.
iii. Restructuring under retrenchment may revitalize the organization and may lead to achieving higher productivity.

Disadvantages:

i. Gives the organization a sense of failure.
ii. Ineffective to meet the customer demands.
iii. Employees and management may fear of losing jobs and may not show expected behaviors in the jobs.

iv. Depreciate public image

4. **Combination strategy:** Combination grand strategy is followed when an organization adopts a mixture of stability, expansion and retrenchment, either at the same time, in its different business or at the different time in the same business with the aim of improving it performances. The organization has several strategy business units (SBU). It simultaneously uses combinations of stability, expansion and retrenchment strategies to different parts of the organization. Old products, markets and functions are continued, dropped and expanded. Product lifecycles are in different stages. The aim is to improve performance. The combination can be simultaneous sequential or both.

Business Level Strategy: Business level strategy attempts to gain competitive advantage by exploiting core competences in specific product market. The main objectives of business strategies are:

- To fulfill customer needs and attract them.
- To reduce competitive pressure
- To enhance market position by increasing market share.

The different strategic alternatives available at business level may be studied in two ways.

1. Porter's Competitive Strategies
2. Strategic Clock Oriented Market based Generic Strategies.

1. **Porter's Generic/Competitive Strategies: Porter's Generic Strategies** is a frameworks used to outline the three major strategic options open to organizations that wish to achieve a sustainable competitive advantage. Each of the three options needs to be considered within the context of two aspects of the competitive environment. Firstly, the sources of **competitive advantage** which establish whether the products are differentiated in any way, or if they are the lowest cost producer in the industry. Secondly, the **competitive scope** of the market determines if the company targets a wide market or if it focuses on a very narrow niche market.

   a. <u>**Low Cost Strategy:**</u> In cost leadership, a firm sets out to become the low cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. A low cost producer must find and exploit all sources of cost advantage. if a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average.

Ways of Reducing Costs: There are two ways to reduce cost

i. **Controlling Cost Drivers**
- Economics of scale
- Experience
- Cost key resources (strong bargaining power)
- Resource sharing
- Outsourcing
- Capacity utilization
- Being first mover (introducing new product)
- Integration (forward and backward)

ii. **Revamping (improving) Value Chain:**
- Make greater use of Internet technology application.
- Use direct –to-end-user sales marketing methods.
- Simplify product design
- Offer basic, no frills (unnecessary) product /services
- Shift to a simpler, less capital-intensive or more flexible technological process
- Find the way to bypass use of high-cost raw materials
- Relocate facilities closer to suppliers or customers.
- Drop "something for everyone" approach and focus on a limited product /service.

Conditions for the best use of low cost strategies:

- High price competition
- Identical products and sufficient suppliers
- Price sensitive customers
- Low switching cost
- Most buyers use the product in the same way
- Bargaining power of buyer
- New entrants with low introductory price

b. **Differentiation Strategy:** In a differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions it-self to meet those needs. It is rewarded for its uniqueness with a premium price. *The downside to this* *strategy is that these unique features will eventually be copied by the competition or customers could change their tastes and options, so there is a constant pressure to innovate and continuously improve.*

Basis of Differentiation

- **Product parameters** :Size, shape, design, quality performance
- **Services back-up**: delivery, installation, repairs, training etc.
- **Personnel:** Better and experienced personnel to serve customers.
- **Promotion**: Differentiating claims in promotion appeals.
- **Image**: Projecting organization or brand

Conditions for the best use of differentiation strategies:

i. Diverse buyers' needs

ii. Different ways to differentiate

iii. Different approach followed by few rivals

iv. Fast technological change

v. Buyers' are less price sensitive

c. **Focus Strategy**: **The focus strategy applies to a narrow segment of a total market**. Usually companies using this strategy have a reduced size, focus all their resources and efforts on a narrow and well defined segment of market, and **have the advantage of a high degree of customer loyalty.** They can therefore pass higher costs on to their customers because close substitute products or services are less likely to exist. Beauty Parlors, local bakeries & retail boutique are the examples of enterprises that serve narrow or local customer segments.

The niche can be defined by:

- Demographic characteristics (particular group of customers based on age, occupation, income etc.
- Geographical Uniqueness. (Tarai, Himal etc. people)
- Specialized requirements.
- Special product attributes

The focus strategy has two variants.

- In cost focus a firm seeks a cost advantage in its target segment,
- Differentiation focus a firm seeks differentiation in its target segment. (*Cost focus exploits differences in cost behavior in some*

segments, while differentiation focus exploits the special needs of buyers in certain segments.)

Conditions for the best use of focused strategies:

- The customers are based in terms of unique tastes & preference and specialized requirements.
- The customers are willing to pay higher price or upscale (Higher class) buyers.
- Major competitors do not see the presence of niche as crucial to their own success.
- Target market for niche is big enough to be profitable.

Strategic Clock Oriented Market based Strategies

Bowman's Strategy Clock analyzes the competitive position of a company in comparison to the offerings of competitors. It was developed by Cliff Bowman and David Faulkner as an elaboration of the three Porter generic strategies.

It is important to understand how companies compete in the market place. It is a diagrammatic representation which shows the relationship between customer value and prices.

Position 1: Low Price/Low Value

Firms do not usually choose to compete in this category. This is the "bargain basement" bin and not a lot of companies want to be in this position. Rather it's a position they find themselves forced to compete in because their product lacks differentiated value. The only way to "make it" here is through cost effectively selling volume, and by continually attracting new customers. You won't be winning any customer loyalty contests, but you may be able to sustain yourself as long as you stay one step ahead of the consumer (we're not going to mention any names here!) Products are inferior but the prices are attractive enough to convince consumers to try them once.

Position 2: Low Price:

Companies competing in this category are the low cost leaders. These are the companies that drive prices down to bare minimums, and they balance very low margins with very high volume. If low cost leaders have large enough volume or strong strategic reasons for their position, they can sustain this approach and become a powerful force in the market. If they don't, they can trigger price wars that only benefit consumers, as the prices are unsustainable over anything but the shortest of terms. Wal-Mart is a key example of a low price competitor that persuades suppliers to enter the low price arena with the promise of extremely high volumes.

Position 3: Hybrid (moderate price/moderate differentiation)

Hybrids are interesting companies. They offer products at a low cost, but offer products with a higher perceived value than those of other low cost competitors. Volume is an issue here but these companies build a reputation of offering fair prices for reasonable goods. Good examples of companies that pursue this strategy are discount department stores. The quality and value is good and the consumer is assured of reasonable prices. This combination builds customer loyalty.

Position 4: Differentiation

Companies that differentiate offer their customers high perceived-value. To be able to afford to do this they either increase their price and sustain themselves through higher margins, or they keep their prices low and seek greater market share.

Branding is important with differentiation strategies as it allows a company to become synonymous with quality as well as a price point. Nike is known for high quality and premium prices; Reebok is also a strong brand but it provides high value with a lower premium.

Position 5: Focused Differentiation

These are your designer products: High perceived value and high prices. Consumers will buy in this category based on perceived value alone. The product does not necessarily have to have any more real value, but the perception of value is enough to charge very large premiums. Think Gucci, Armani, Rolls Royce .clothes either cover you or they don't, and a car either gets you around the block or it doesn't. If you believe pulling up in your Rolls Royce Silver Shadow is worth 25 times more than in an economy Ford then you will pay the premium. Highly targeted markets and high margins are the ways these companies survive.

Position 6: Increased Price/Standard Product

Sometimes companies take a gamble and simply increase their prices without any increase to the value side of the equation. When the price increase is accepted, they enjoy higher profitability. When it isn't, their share of the market plummets, until they make an adjustment to their price or value. This strategy may work in the short term, but it is not a long-term proposition as an unjustified price premium will soon be discovered in a competitive market.

Position 7: High Price/Low Value

This is classic monopoly pricing, in a market where only one company offers the goods or service. As a monopolist, you don't have to be concerned about adding value because, if customers need what you offer, they will pay the price you set, period. Fortunately for consumers in a market economy, monopolies do not last very long, if they ever get started, and companies are forced to compete on a more level playing field.

Position 8: Low Value/Standard Price

Any company that pursues this type of strategy will lose market share. If you have a low value product, the only way you will sell it is on price. You can't sell day-old bread at fresh prices. Mark it down a few cents, and suddenly you have a viable product. That is the nature of consumer behavior, and you will not get around it, no matter how hard you try.

Positions 6, 7, and 8 are not viable competitive strategies in truly competitive marketplaces. Whenever price is greater than perceived value you have an uphill battle on your hands. There will always be competitors offering better quality products at lower prices so you have to have your value and price aligned correctly.

Direction for Strategy Development

The BOD and planning division at the top provide direction for the development of corporate and other strategies. Top level management and other executives especially from the planning division are involved in developing strategic options. The bases for formulating long-term strategies are mainly dependent on the capability of a firm to build competencies, increase market share in new and existing markets with existing and new products etc.

1. **Protect and Build**: With this direction a firm has to compete in the market protecting or building on the current position. This is also known as stability or "no change" strategy through which a firm decides to make no deviation from the current level of activities and remain in the existing product and market. Different strategic options under this category are:
    i. **Consolidation:** It is concerned with protecting and strengthening the organization's position in existing market with existing product. Under consolidation company could decide to combine its operation as a result of corporate restructuring.
    ii. **Market Penetration:** This is another strategy to gain a competitive advantage in existing market with existing products. It is possible through aggressive marketing tactics like trade discount, advertising, price reduction and package improvement.
2. **Product Development:** Product development strategy attempts to offer modified or new products in the existing market. It requires core competencies and research and development efforts.
3. **Market Development:** With this strategy a firm enters into the new market segment, territories using its competence in its existing products. This is one of the less risky and least costly grand strategies. A firm select market development strategy with a view to achieving growth in sales, profit etc by expanding its activities in national , regional and international markets.
4. **Diversification:** It refers to the strategy which takes the organization away from its present markets and its present products at the same time. It attempts to extend its current range of product offering or area of activity.

Methods of Strategy Development

1. **Internal Development:** The strategies are developed by building up an organization own resources and competencies. It is also called organic development. It is a slow process. It consists of developing internal strategic factors for strategic success. It is a strategy other than mergers, acquisitions, joint development and alliances. All these are the external approach to expansion whereas internal development strategy is an approach of internal expansion. Internal development has a number of particular advantages over acquisition or joint development. This strategy is quite appropriate for small companies which may not have the resources available for major investment. There are so many problems that are faced by the companies which are entering into external developments. Such as inability to find suitable company for mergers and acquisitions, and other organizational cultural and tradition problems. The company will develop and retain the core competencies upon

which the growth is based. Some of the types of internal development strategy are:

- Stable, Growth, Combination and Retrenchment strategies under corporate strategy
- ·Overall cost leadership, differentiation and focus strategies of organization under business level strategy

Consideration of internal development usually commences with an estimate of the best growth rate that the company can achieve. Value creating activities can be brought and there is no need to buy another company.

2. **Merger and Acquisition:** Merger and acquisition involve permanent ownership ties. Merger and acquisitions take the form of amalgamation or absorption. The need to keep up with the changing environment necessitate merger and acquisitions.

i. **Merger**: It is own organization merging with another. It is combination of two or more than two organization into one. Negotiations are usually friendly because the merger is believed to be mutually beneficial. It can take the following forms:
   - Horizontal Merger: It is a combination of 2 or more similar firms engaged in similar types of production and marketing processes. (e.g. merger of 2 banks.)
   - Vertical merger: It is the combination of two or more firms which engaged to produce the complementary products (e.g. merger of sports shoe co. and leather shoe co.)
   - Concentric merger: It is the combination of two or more firms that are related to each other in terms of customer functions or customer groups (e.g. merger of noodles co. and biscuit co.)
   - Conglomerate merger: It is the combination of two or more firms that are unrelated to each other (e.g. merger of biscuit co. and textile co.)

ii. **Acquisition**: It is one organization taking over another through purchase of shares or ownerships. The acquired organization generally keeps its separate identity.

   The reason behind the development of merger and acquisitions can be explained as: it allows the company to enter into the new product or market areas, since the rapid change in this area cannot meet the internal development. When a company lacks the resources or competencies to develop a strategy internally, the merger or acquisition takes place.

3. **Joint Development and Strategic Alliances:** Joint development is where two or more organization share resources and activities to develop a strategy. This

is a cooperative approach to strategy development. It is time bound and of a temporary nature. It takes the form of strategic alliances.
Strategic alliance is a partnership tie up agreement between two or more organization to jointly achieve mutually beneficial strategic objectives. Resources capabilities and core competencies are combined to pursue mutual interests. It can be to develop/manufacture/distribute products. Strategic alliances have a limited life span.

Unit 13 Strategy Formulation and Strategic Choice

Strategy formulation is the process of choosing the best possible strategy out of several other strategic options.

"Strategy formulation is designed to guide executives in defining the business their company is in, the aims it seeks, and the means it will use to accomplish these aim….. Strategy formation combines a future-oriented perspective with concern for a firm's internal and external environment in developing its competitive plan of the action." (Pearce and Robinson)

Process of Strategy formulation

Following steps are involved in strategy formulation process:

a. **Evaluate current performance result:** In the process of strategy formulation it is essential to evaluate the concerned firm's current performance in terms of profit and loss situation and return on investment. It is also required to appraise the current mission, objectives, strategies and policies adopted by the firm.
b. **Review corporate governance:** This includes appraisal of performance of the BODs, CEOs and other top level managers. It is also essential to examine the organizational vision, mission, objectives culture and management practices as successful drives for governing the corporation.
c. **Scan and assesses the internal corporate environment:** It is also essential to assesses organizational competencies, skills, abilities and resources in order to cope with external changes. These are the determining factors to enhance organizational strength and minimize weaknesses and to fit a firm with the external challenges and opportunities.
d. **Scan and assesses the external environment:** This is related with the examination of external factors that are posing threats as well as opportunities. The firm's market shares and growth depend largely on external opportunities and threats.
e. **Analyze strategic factors:** Strategic factors are external and internal elements determining the future of a firm. At this stage of strategy formulation process, it is essential to pin point the problematic areas and issues relating to getting competitive advantages. Problems and issues are analyzed in the SWOT form. The SWOT variables are important for the effective implementation of the strategy.
f. **Generate, evaluate, and select the basic strategic options:** This is relative to the identification of the strategic options upon which a new strategy may

be build. At this stage, one or more of the strategic option is selected for implementation.

Evaluation of Strategic Alternatives

The criteria used for evaluation of strategic alternatives are:

1. **Suitability-**: It is concerned with environmental fit of the strategic alternative. It also provides the rationale to a strategy. It indicate whether the strategic alternative make sense in relation to environmental circumstances. It is also a basic of qualitative assessment concerned with testing out the rational of strategy and is useful for screening options. The assessment of suitability consists of two stages.
   - Establishing the rational: Various tools and techniques are used to establish the rational which describes the ideas whether they are good or not some of these tools are lifecycle portfolio matrix, positioning, value chain analysis and portfolio analysis.
   - Screening Options: Suitability of a specific strategic option is relative to other available options. The methods used for understanding suitability are ranking, decision tree and scenarios.
2. **Acceptability-:** It is concerned with the expected performance outcomes of a strategic alternative. It is strongly related to people expectations and therefore the issues of require careful analysis. The criteria for acceptability of strategic alternative are
   i. **Return-:** Expected return from specific strategic options is assessed. The various approaches to analyze return are
      - Profitability analysis: It assesses financial return to investment. The tools used for this analysis are return on capital employed, payback period, and discounted cash flow.
      - Cost benefit analysis: It assesses the overall economic impact of strategic options. This analysis attempts to put a money value of all the costs and benefits of strategic options.
      - Shareholder value analysis: It assesses the impact of strategic options in generating shareholders value. The shareholder value is the total shareholder return.

   ii. **Risks;** It involves probably estimate about robustness of strategic options. The level of risk is important for acceptability of strategic options. New product development carries high level of risks. The approaches for analyzing risks are.
      - Financial ratio projection,
      - Sensitivity analysis
      - Simulation modeling

- Decision matrices:

iii. **Stakeholder expectation:** It provides political dimensions to the organizations acceptability of a strategic alternative. The approaches of stakeholder are
- Stakeholder mapping
- Game theory.

3. **Feasibility:** It is concerned with availability of resources and competencies to deliver strategic alternatives. It determines an option implement ability and work ability in practice. It assesses the organizations capability to make the strategic alternatives succeed. The approaches for available to understand feasibility are

i. Funds flow analysis: It assesses financial feasibility. It forecasts the funds required and the likely resources of funds for strategic alternatives.

ii. Break even analysis: It studies costs volume profit relationships to assess financial feasibility. This analysis identifies BEP when revenue equal costs.

iii. Resource deployment analysis-2: It identifies need for resources and competencies for specific strategic alternatives. It is used to judge
- Sufficiency of current resources and competencies to pursue strategic options.
- Need for unique resources and competencies to sustain strategic advantages.

Portfolio Analysis

Portfolio is defined as the range of investment held by the organization.

Portfolio analysis is a systematic way to analyze the products and services that make up an organization's business portfolio.

In other words, portfolio analysis is a method of categorizing a firm's products according to their relative competitive position and business growth rate in order to lay the foundation for sound strategic planning.

Portfolio analysis method is a technique of strategy examination at the corporate level.

Following are the techniques for portfolio analysis:

1. Boston Consulting Group(BCG) Matrix
2. General Electric Matrix (GE nine cell matrix)

3. Hofer's Matrix (Product life cycle)

a. **Boston Consulting Group (BCG) Matrix:** It is developed by Boston Consulting Group. It uses relationship between market share and market growth to balance the portfolio.

Market growth rate: The projected rate of sales growth for the market being served by a particular business.

Relative competitive strength: The market share of a business divided by the market share of its largest competitors**.**

BCG matrix is divided into four cells which give the information of relative competitive position of business (SBUs) for comparing the relative strength of businesses in the firm's portfolio in terms of position in respective market.

- **Stars (High growth-High market share):** Stars are businesses in rapidly growing markets with large market shares. These businesses represent the best long-run opportunities (growth and profitability) in the firm's portfolio. They acquire substantial investment to maintain (and expand) their dominant position in a growing market.
- **Cash cows (Low growth-High market share):** They are businesses with a high market share in low growth markets or industries. Because of their strong competitive positions and their minimal reinvestment requirements, these businesses often generate cash in excess of their needs.
- **Dogs (Low growth-Low market share):** Low market share and low market growth businesses are the dogs in the firm's portfolio. Facing mature markets with intense competition and low profit margins, they are

managed for short-term cash flows (e.g. through ruthless cost cutting) to supplement corporate level resource need.

- **Question Marks:** They are businesses whose high growth rate gives them considerable appeal but whose low market share makes their profit potential uncertain. They are cash guzzlers (consume excessively) because their rapid growth results in high cash needs, while their small market share results in low cash generation.

Strategic option for making portfolio

- **Build**: Allocate more resources to Star and Question Marks to gain and sustain market share.
- **Hold**: Allocate present level resources to Cash Cows to defend market share
- **Harvest**: Allocate less resource to weak cash-cows. Eventually withdraw them from the market.
- **Divest**: Do not allocate resources to Dogs. Liquidate them.

Limitation of BCG Matrix:

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

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

b. **General Electric (GE) Nine Cell Matrix:** Developed by McKinsey &Company at General Electric, the GE matrix shows a 9-cell business screen useful to make a strategic choice on the basis of industry attractiveness and competitiveness.

subjective assessment based on the broadest possible range of external opportunities and threats beyond the strict control of management. The high/medium/low portfolio shows how attractive the industry is to invest or divest or in between that depends on the log-term attractiveness.

- **Competitive or business position:** It refers to the subjective assessment of how strong a competitive advantage created by a broad range of the firm's internal strengths and weakness is. Strong/Average/Weak determine the competitiveness or business position of a firm.
    - **i.** Business in high priority cells is suggested to **invest more.**
    - **ii.** Business in medium priority cells is suggested to **invest selectively.**
    - **iii.** Business in low priority cells is suggested to **divest and close down**.

Advantages of GE Nine Cell Matrix:

i. It used 9 cells instead of 4 cells of BCG

ii. It considers many variables and does not lead to simplistic conclusions

iii. High/medium/low and strong/average/low classification enables a finer distinction among business portfolio

iv. It uses multiple factors to assess industry attractiveness and business strength, which allow users to select criteria appropriate to their situation

Limitation of GE matrix:

i. It can get quite complicated and cumbersome with the increase in businesses

ii. Though industry attractiveness and business strength appear to be objective, they are in reality subjective judgments that may vary from one person to another

iii. It cannot effectively depict the position of new business units in developing industry

iv. It only provides broad strategic prescriptions rather than specifics of business policy.

c. **Hofer's Product-Market Evolution Matrix:** Developed by Hofer, a 15-cell
d. matrix is used to study interactions between the competitive position and stages of product/market evolution. The circle in the figure represents the size of the industry. The competitive positions are described in terms of strong, average and weak and stages of product/market evolution are explained in terms of development, growth, shake-out, maturity, saturation and decline.

- Strategic business unit”A” seems to be a potential”Star”. It holds a large market share; it is in the stage of life cycle development and has a strong competitive position on the market. As such, unit”A” represents a potential candidate in the competition for corporate resource competition.
- Unit”B” is very similar to unit”A”. Nevertheless, investments in unit”B” must take into account the fact that although it has a strong market position, its market share is quite small. Consequently, the cause for which market share has such a small value must be identified. Furthermore, a strategy that may contribute to the increase of market share must be developed, thus accounting for the future necessary investment.
- Unit”C” has a small market share, its salient feature resides in the fact that it holds a competitively weak position and it entered a small market whose development is underway. A strategy that may increase the market share and develop the competitive position must be elaborated so that the future investments are accounted for. For the unit”C” a strategy residing in the elimination from the market must be applied, so that the investment for the first two units may be favoursed.
- Unit”D” is characterized by a strong competitive position on the market and it holds a large market share. In this case, it is recommended that investments be made with a view to maintaining the current position on the market. On the long run, it will become a “Cash Cow”. Unit”E” together with unit”F” are included into the “Cash Cow” category and they should be capitalized on because of great cash flows that they generate.
- Unit”G” is included into the “Dogs” category and the management thereof is recommended, with a view to generating short-term cash flows in as much as it is possible. Nevertheless, on the long term the strategy of limitation or liquidation on the market must be selected.

Advantages of Hofer matrix:

i. Used to identify developing winners.

ii. Illustrates how businesses are distributed across the stages of industry evolution. This helps to predict how the portfolio will develop in the future.

iii. Market life-cycle represents one of the main factors that contribute to the adoption of strategic decisions at the level of the SBU.

Limitation of Hofer matrix:

- This model does not focus on all the relevant factors that influence the level of attractiveness on the market.
- Product life cycle is not same to all types of products.

Unit 14

Strategy Implementation

Concept:

Strategy implementation is the sum total of the activities and the choices required for the execution of a strategic plan. It is a process by which objectives, strategies and policies are put into action through the development of programs, budgets and procedures. (Wheelen and Hunger)

Process of Strategy Implementation:

i. Identifying short term objectives.
ii. Initiating specific functional tactics.
iii. Empowering people in the organizational by communicating policies.
iv. Matching the organization structure to strategy
v. Linking reward system with strategic goals.
vi. Measurement feedback and corrective mechanism.

Designing Structure for Strategy Implementation

Change in strategy often requires changes in the way an organization is structured for two major reasons: First, Structure largely dictates how objectives and policies will be established. Second, Structure dictates how resources will be allocated.

Role of sound organizational structure for effective implementation of Strategy:

Organizational structure largely dictates how objectives and policies will be established. If an organization's structure is based on customer groups, then resources will be allocated in that manner. Similarly, if an organization's structure is setup along functional business lines, then resources are allocated by functional areas. We need to be aware of situation that changes in strategy lead to changes in organizational structure. Structure should be designed to facilitate the strategic pursuit of a firm and, therefore, follows strategy. Structure does influence the strategy. Structure can also shape the choice of strategies. However, a more important concern is determining what types of structural changes are needed to implement new strategies and how these changes can best be accomplished. There are many types of organizational structure and each of them influences the strategic decisions and implementation. Organization structure for implementation of strategy is discussed below:

(a) Simple Structure: A simple structure is a form in which the owner manager makes all major decisions directly and monitors all activities. This structure involves little specialization of tasks, few rules and limited formalization. This structure is designed in a small business where there is a single product line with limited geographic market. The owner/ manager undertake almost all responsibilities of management along with assistants.

(b) Functional Structure: It is build around business functions. It is based on functions of an organization. This structure consists of CEO and a limited corporate staffs with functional line managers such as production, accounting, marketing, R and D, human resources etc. This structure facilitates career paths and professional development in specialized functional areas. However, it is generally adopted by smaller companies which have narrow product range.

(c) Multidivisional Structure/ SBU Structure: The multidivisional structure is composed of operating divisions, each representing a separate business or profit center. The top corporate officer delegates responsibilities for day-to-day operations. It is highly decentralized structure. Each strategic business units are divided on the base of products, services, geographical areas. When a firm diversifies its operations, a functional strategy becomes inadequate. Therefore, divisional structure is necessary to meet the coordination and decision making requirements resulting from increased diversity and size.

(d) Holding Company Structure: It is an investment company having shareholding in a variety of separate companies in which parent company exercises control. The ownership holds by parent company to subsidiary company may be fully or partially. The main advantage behind this holding company structure is that the parent company can offer the best ideas to the subsidiary company to prepare and operate the strategy to the best potential.

(e) Matrix Structure: It is a combination of structures. It super imposes project structure on functional structure. It integrates knowledge and skills. It temporarily assigns people from functional departments to projects. It provides skills and resources where and when they are must needed. It depends on both vertical and horizontal flows of authority and communication. In it the quality decision are possible. It fosters creativity. There is increased motivation, commitment and communication.

(f) Team based Structure: A team is a group whose individual efforts results in positive synergy through coordinated efforts. It combines both horizontal and vertical coordination. In this the team members work collectively to achieve their objectives. There is no rigid hierarchy. The performance evaluation is done by the member themselves. The productivity and satisfaction is high. Employee's talent and skills are better utilized in this structure.

Resource Planning

Whenever organization selects new strategy to implement, it immediately requires effective manpower to deploy, financial measures, new plant or equipments, R&D etc. Therefore, there should be the sound resource planning for effective implementation of strategy.

An effective resource plan helps answer the following questions:

Do organizations have resources enabling their strategies to be executed successfully?

(g)

- Are the strategies of the organization being shaped to capitalize on the expertise in the resource area?
- What are the processes for allocating resources at corporate and business level?

Process of Resource Planning

- Define the missions/goals
- Assess the current inventory of resources
- Assess and acquire the required resource
- Allocate the resources.

Management System for Strategy Implementation

Strategy implementation requires establishment of management system. Management gets the jobs done by working with & through people to implement strategy. It performs the functions of planning, organizing, staffing, leading & controlling. It manages change & conflicts. The essential of management system for strategy implementation consists of:

i. **Human Resource Management**: People are the heart of strategy implementation. The unique competencies of people are the key strategic factors enabling the success of strategies. The components of human resource management consists of (a) putting together a strong management team (b) acquiring competent employees (c) development of employees (d) utilization of employees & (e) Retention of employees.

ii. **Information Management**: Strategy implementation requires establishment & use of information, communication, & ecommerce systems. They enable people to carry out their roles successfully & effectively. Information management enables success of strategy. Information technology is advancing rapidly. The ability of organizations to access & process information is crucial to strategy implementation. E-commerce is a vital tool for strategy implementation.

iii. **Leadership**: Leadership is guiding & influencing people. It establishes direction, manages change & builds a team. It makes decisions. It is essential to drive strategy implementation forward. Effective leaders carry out the following tasks to strategy into actions. (a) Benchmarking (b) performance based records (c) supportive environment (d) open communication (e) environmental adaptation (f) team building (g) conflict management & (h) leading.

iv. **Shaping Organization Culture**: Management shapes supportive organization culture for strategy implementation. Organization culture refers to a set of beliefs, values, symbols & assumptions shared in common throughout the organizations. Strategy supportive culture is developed.

v. **Reward System**: Effective reward system encourage the employees to do better which helps sound implementation of strategy.

Unit 15

Strategic Control and Evaluation

Strategic control can be defined as process of monitoring as to whether, various strategies adopted by the organization are helping its internal environment to be matched with the external environment.

Strategic control processes allow managers to evaluate a company's program from a critical long-term perspective.

Types of control

1. **Premise Control**: Premises are assumptions anticipated environment. A strategy is expected to be implemented on the basis of these assumptions. Premises are forecasts of future expectations about political-legal, economic, socio-cultural & technological forces in the external environment. Any change in premises affects the strategy. Premise control is continuous process. It ensures relevance of a strategy. Premise control involves:
   - Identification of key premises made while formulating strategy.
   - Keeping track of changes in premises & assessing their impact on strategy implementation.
   - Re-examination of the validity of premises to make necessary changes at the right time.
2. **Implementation Control**: Implementation control evaluates whether the plans, program, projects & budgets are guiding the organization towards objectives achievements. Resources allocated to them are withdrawn or revised to ensure envisaged benefits to the organization. It involves strategic rethinking. Tools of strategic implementation control are:
   - Strategic thrusts: The strategic thrusts for implementation are identified & monitored. For e.g. strategic thrusts can be in terms of new products launch or diversification program.
   - Milestone Review: Critical milestones in strategy implementation are identified. They can be in terms of events, resources allocations or end time. They are reviewed to reassess the continued relevance of implementation to objectives achievements.
3. **Strategic Surveillance**: Strategic surveillance a broad range of events inside & outside the organization which threaten the course of the strategy. It can be:
   - Selective surveillance: Monitoring is based on selected information sources to uncover external events likely to affect the strategy.
   - Organizational surveillance: Information generated within the organization is captured for monitoring.

4. **Special alert control**: Organizations should hope for the best & prepare for the worst. Sudden & unexpected events create crisis. They threaten the course of strategy. Special alert control is triggered by detection of a crisis. It provides rapid response through immediate reassessment of strategy crisis situations. Contingency strategies are formulated to handle unforeseen events. The responsibility to handle crisis situations is given to crisis management teams.

Meaning of strategy evaluation

The best formulated and best implemented strategies become obsolete as a firm's external and internal environments change. It is essential, therefore, that strategists systematically review, evaluate, and control the execution of strategies.

Strategic evaluation is the process of reviewing and examining the strategies and their effectiveness in achieving the future goals.

Strategy evaluation includes three basic activities:

- examining the underlying bases of a firm's strategy,
- comparing expected results with actual results,
- And, taking corrective actions to ensure that performance conforms to plans.

Characteristics of strategy evaluation

i. Provide direction
ii. Continuous activity
iii. Top management activity
iv. Efficiency maintenance
v. Focus on key performance
vi. Future oriented

Criteria for evaluating strategies

i. Consistency: consistent with goal and policies.
ii. Consonance: responsive with environmental trends.

iii. Feasibility: practical to the organization, in- terms of resource and capabilities

iv. Advantage: helps to build competitive advantage in-terms of resource, skill or position.

Operating /performance Evaluation

Operating evaluation is the process of measuring the performance of operation functions. It deals with quality enhancement and sound operational flow in organization.

The steps includes in operation evaluation are:

- Setting performance standard
- Measurement of performance

iv. Balance scorecard method : (Financial perspective, customer perspective, business process perspective, learning and growth perspective)

Guideline for proper control and evaluation

Measuring performance is a crucial part of evaluation and control. Inappropriate

- Identify deviation
- Take corrective action

Measures of Corporate Performance

i. Traditional financial measures (Return on Investment, Earning per share, return on equity, operating cash flow.)

ii. Shareholder value

iii. Stakeholder measures

controls can result in managers manipulating the measures for personal advantage to the detrimental of company. In designing a control system, top management should remember that controls should follow strategy. Unless controls ensure the use of the proper strategy to achieve objectives, dysfunctional (unable to deal with) side effects are likely to completely undermine the implementation of the objectives. The following guidelines are recommended.

i. Control should involve only the minimum amount of information needed to give a reliable picture of events. Too many controls create confusion. Focus on the strategic factors by following the 80/20 rule: Monitor 20% of the factors that determine 80% of the results.

ii. Controls should monitor only meaningful activities and results.
iii. Control should be timely. Corrective action must be taken before it is too late.
iv. Controls should be long-term and short-term. If only short-term measures are emphasized a short term managerial orientation is appropriate.
v. Controls should pinpoint exceptions. Only those activities or results that fall outside a predetermined acceptance range should call for action.
vi. Controls should be used to reward meeting or exceeding standards rather than to punish failure to meet standards. Heavy punishment of failure typically results in goal displacement. Manages will falsify reports and lobby for lower standards.