

Biyani's Think Tank

Concept based notes

Strategic Management

(BBA)

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Preface

I am glad to present this book, especially designed to serve the needs of the students. The book has been written keeping in mind the general weakness in understanding the fundamental concepts of the topics. The book is self-explanatory and adopts the “Teach Yourself” style. It is based on question-answer pattern. The language of book is quite easy and understandable based on scientific approach.

Any further improvement in the contents of the book by making corrections, omission and inclusion is keen to be achieved based on suggestions from the readers for which the author shall be obliged.

I acknowledge special thanks to Mr. Rajeev Biyani, *Chairman* & Dr. Sanjay Biyani, *Director (Acad.)* Biyani Group of Colleges, who are the backbones and main concept provider and also have been constant source of motivation throughout this Endeavour. They played an active role in coordinating the various stages of this Endeavour and spearheaded the publishing work.

I look forward to receiving valuable suggestions from professors of various educational institutions, other faculty members and students for improvement of the quality of the book. The reader may feel free to send in their comments and suggestions to the under mentioned address.

Author

Chapter-1

Strategic Management- An Introduction

Q.1 Define term 'Strategic Management'. What are the important features/Characteristics? Discuss its nature and scope.

Ans. In simple words- strategic management is a process of relating the organization with environment through strategy formulation and implementation. This emphasizes that there is continuous interaction between organization and its environment and have open systems approach.

The definitions of strategic management given by prominent authors are-

1. According to Pearce and Robinson- "Strategic Management is defined as the set of decisions and action in formulation and implementation of strategies designed to achieve the objectives of an organization".
2. According to Jauch and Glueck- "Strategic Management is a stream of decisions and action which lead to the development of an effective strategy or strategies to help achieve corporate objectives. The strategic management process is the way in which strategists determine objectives and make strategic decisions".
3. Lloyd L.Byasis has defined it as "Strategic Management is the process of managing the organization mission while managing the relationship of the organization to its environment".
4. According to Ansoff's- "Strategic Management is a systematic approach to a major and increasingly important responsibility of general management to position and relate the firm to its environment in a way which will assume it continued success and make it secure from surprise".

5. According to Sharplin- "Strategic Management is the formulation and implementation of plans and carrying out of activities relating to the matters which are of vital, pervasive or continuing importance to the total organization".
6. According to Steiner- "Strategic Management is primarily concerned with relating to the organization to its environment, formulating strategies to adapt to that environment and assuming that implementation of strategies takes place".
7. According to Stoner and Freeman- "Strategic Management is distinct management process that involves an organization engaging in strategic planning and then acting on those plans".

On the basis of above definition we may define strategic management as follows-

Strategic Management is a set of rules aimed at taking decisions for sustaining and growth of an organization in a given environment.

Basically strategic management can be broken down into two stages- Strategic planning and strategy implementation.

- I. Strategic Planning is concerned with making decision in following areas-
 - a. Organization mission determination
 - b. Policies formulation to guide the organization in establishing objectives, choosing a strategy and implementing the chosen strategy.
 - c. For achieving the organization's mission, setting and establishing of long term and short term objectives.
 - d. Strategy determination for achieving the organization objectives.
- II. **Strategy implementation-**
Concerned with making decision with regard to
 - a. Organizational structure developing to achieve the strategy.
 - b. Effectively performing the activities necessary to accomplish the strategy.

- c. Monitoring the effectiveness of the strategy in achieving the organization objectives.

Features/Characteristics of Strategic Management

1. It is pervasive, integrated and coordinated management process.
2. It is concerned with ends as well as means.
3. It is resources planning.
4. It takes into process the environment, market conditions and activities of competitors.
5. It is adopted only in specific situation or unfavourable situations.
6. It is basically a top management function.
7. It is an effective organizational response and initiative system.
8. It is based on corporate objectives.
9. It is based on long term mission of the organization.
10. The success of strategic management is depending to a large extent on its effective formulation and implementation.
11. It is concerned with strategic issues.
12. Its nature is: multifunctional and multi business.
13. It is a continuous process.
14. It is different from operative management and Administrative Management.
15. It is the highest level of managerial activity.
16. It provides overall direction to the enterprise.
17. It is closely related to the field of "Organization studies".
18. It involves both conceptual and analytical thought process.
19. It is complex.
20. It affects the enterprise organization.

Scope of Strategic Management

1. It includes Strategy, Concepts, Characteristics, functions.
2. It includes corporate strategy, business level strategy, functional level strategy and operating level strategy.

3. It includes strategic management nature, scope, characteristics, process, and components.
4. It includes various kinds of environment such as:- Micro, Macro, Internal, External, political, social, cultural, technological, legal, competitive environment.
5. It includes stability strategy, expansion strategy, retrenchment strategy, combination strategy.
6. Strategic Audit and managing technology.
7. Corporate culture
8. Leadership
9. Culture guiding
10. Evaluating strategy
11. Training strategy
12. Strategic change management
13. Integration.
14. Mergers
15. Acquisitions
16. Diversifications
17. Includes analysis such as-
 - Organizational analysis
 - Company profile analysis
 - Industry analysis
 - Strategic analysis
 - Choice making analysis
18. Strategic evaluation and control

Q.2 Explain the need for strategic management.

Ans. Strategic Management is needed due to following reasons/causes-

1. For full exploitation of opportunities.
2. Provides better guidance to the entire organization.
3. Helps in unifying the organization.

4. Creates a more proactive management posture.
5. It is the way to systematic the most important of business decisions.
6. It serves as a road map to the organization.
7. It helps in building competitive advantages.
8. Help in knowing true actual position of business.
9. Due to rapidly changing business environment.
10. It helps in systematizing an organizations strategic decisions and actions.
11. It facilitates Research and Development.
12. It promotes effective resource allocation among the business units.
13. Lot of competition in business market now a day.
14. New invention, discoveries and enhancement of technologies.
15. For high and sufficient profits.

Q.3 What are the benefits, advantages and merits of strategic management study?

Ans. Advantages/Merits/Benefits of Strategic management-

1. Strategic decisions are for the future.
2. Strategic decisions have multifunctional and multi business effects.
3. It helps in environment scanning.
4. Helps in carrying out corporate appraisal.
5. It provides relevant data essential for taking decisions.
6. It serves as a road map for an organization.
7. It insures that a firm chooses its products and markets in a wise manner.
8. It provides better guidance to the whole enterprise.
9. It prepares a firm to face the future and mould the future in its favour.
10. It helps a firm to innovate so that the firm may avail itself of the new opportunities.
11. It creates a frame work for internal communication among the staff.
12. It unifies the organization.

13. It helps in building strategic knowledge of the management.
14. Strategic planning ensures a rational allocation of resources.
15. Strategic planning improves coordination between various decisions of the organization.
16. Strategies provide the frame work for plans by operating decision and after predicting them.
17. It helps in clarity of direction of activities.
18. It helps in increase of organizational effectiveness.
19. It helps in providing satisfaction to the personnel of the organization.
20. It helps in evaluating results.

Q.4 What are the disadvantages or drawbacks of strategic management?

Or

What are the limitations of the Strategic Management?

Ans. Disadvantages/drawbacks of the strategic management-

1. It is complex process.
2. It is cumbersome and complicated exercise.
3. It requires a high level of imagination, analytical ability, courage, foresight
4. It is a costly exercise.
5. It involves a lot of time.
6. It is in effective to overcome current crisis.
7. Strategic plans are based on assumptions.
8. Lack of accuracy as it is based on forecasting of future events which are uncertain and lazy.
9. Strategic manager should be a effective leader as well.
10. Poor rewards do not encourage the use of strategic management.
11. Due to poor information system and lack of awareness, managers cannot judge the company's position correctly.
12. If a firm is already successful, the manager may think that the use of strategic management is unnecessary and a waste of time.

13. In today's fast changing environment, managers find it difficult to do any long range planning.
14. The goals and objectives of managers are usually not clear.
15. There are many reasons behind the success of a firm. Strategic management is just one of the many reasons.
16. In real life, many firms are prospering without planning and strategies management.
17. Some other reasons for the failure of the strategic management are-
 - a. Poor communication system
 - b. Failure to manage change
 - c. Failure to coordinate
 - d. Over estimation of resource competence
 - e. Inability to predict environmental reaction
 - f. Failure to obtain employee commitment
 - g. Failure to obtain senior management commitment
 - h. Failure to understand the customer.

Q.5 Explain the role of Strategic Management in business organization?

Ans. Role of Strategic Management in business organization-

1. It gives direction to business.
2. It gives sense of identity and unity towards business objectives.
3. It helps an organization in achieving its goals in an efficient and effective manner.
4. It helps in getting rid of the threats or else neutralizes them.
5. It enables organization to grasp every opportunity that is available in the market.
6. Strategic management decisions are usually made in a rational and in a logical manner.
7. It helps in forecasting.
8. It helps in grasping every opportunity that is available in the market.

9. It helps in maintain past profits trends and helps as well in increasing the future profits.
10. It helps and assists in coping with uncertain environments.
11. It helps in increasing performance level.

Q.6 What do you mean by non business organization? Explains the role of strategic management in non business organization?

Ans. Non business or Not For Profit (NFP) organizations include

- i. Private non-profit corporations such as:
Private colleges, charitable institutions, trusts, hospitals, institutions
- ii. Public government units or agencies such as:
State Universities, prisons, welfare departments

Till now studies in strategic management have dealt with profit making firms to the exclusion of non profit or government organizations. This however is changing. More and more number of not for profit organizations are adopting strategic management.

Reasons why it is difficult to apply the strategic management here-

- i) It is hard to measure service.
- ii) Service is intangible many a times.
- iii) Existence of multiple service objectives developed to satisfy multiple sponsors.
- iv) There may be weak client influence.
- v) Often the organization has a local monopoly.
- vi) Clients payments may be a very small source of funds.



Chapter-2

Strategy and Tactics

Q.1 What do you mean by strategy?

Or

Define Strategy?

Ans. Strategy-

- i. It is an ancient concept.
- ii. Originally, the word 'strategy' is derived from the Greek word- 'STRATEGEIA'. It means 'the art of the general'.
- iii. There is no single definition which is universally accepted. Various authors and managers use the term differently.
- iv. Some of the important definitions of strategy are as follows-

Definitions-

A. According to Alfred Chandler :-

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

B. According to Andrews, "strategy is the patron of objectives, purpose or goals and major policies and plan for achieving these goals, stated in such a way so as to define what business the company is in or is to be and kind of company it is or is to be"

C. According to Henry Mint Z berg-

He defined strategy as, "a pattern in a stream of decisions and actions."

D. Melvin J. Stanford defines, "Strategy is the way in which management chooses to utilize the firm's resources within its

environment to reach its objectives. Strategy thus involve multilateral relationships among the firm, its objectives and the environment”.

v. **Conclusion ; Definition-**

‘A strategy is a set of decision making rules which guides and links the human and other resources of an organization and with the challenges and risks posed by the outer world. It deals with the direction and choice that the company or business enterprise desires to follows.”

vi. ‘Strategy is a course of action through which an organization relates itself to environment to attain its objectives.’

Q.2 What are the elements of strategy?

Or

What are the important features of strategy?

Ans. Elements of Strategy or Features of Strategy-

1. It depicts the relationship of the business organization with its environment.
2. It is best utilization/optimum utilization of a firm resource in a rapidly changing environment.
3. It is a course of action through which an organization relates itself to environment to attain its objectives.
4. It is developed at higher [level
5. It is planning for long term.
6. It is forward looking
7. It helps in direction giving before making plans
8. A choice of particular activities or action.
9. Basic issue of a strategy is-

Business- What it is?

It's products?

It's function?

It's markets?

It's objectives?

10. It is a broader term
11. It is formed and implemented in a very uncertain environment
12. It involves fewer people
13. It requires such information which is easily not available
14. It requires fewer details
15. It is highly important because it decides the future of an organization as a whole.
16. It is more than just a blue print for winning customers.
17. It is a broad programme for achieving organizations objectives.
18. It helps in implementing a mission of business.
19. It has also a component of 'competitive advantage.'

Q.3 What is the importance of strategy?

Ans. Strategy: importance-

- i. Gives direction
- ii. Helps in knowing exactly what work is to be done
- iii. Facilitate optimum utilization of resources and their allocation.
- iv. Helps in coordination of business activities.
- v. Increases efficiency of men, machines.
- vi. Better time utilization of workers in production process
minimization of idle time.
- vii. Helps in avoiding overlapping, conflicting and contradictory behavior
- viii. It helps in setting priorities
- ix. Strategy is interactive
- x. It helps in critical analysis of internal and external business environment
- xi. It helps in operational control.

Q.4 What are the levels of strategy?

Ans. Strategies are operated at different levels in a organization. There are four levels of strategy. They are-

- I. Corporate level strategy.
- II. Business level strategy
- III. Functional level strategy
- IV. Operating level strategy

I. Corporate level strategy-

- Formulated where** - At the corporate level
- Formulated by** - Top management
- Formulated why?** - To oversee the interests and operation of organizations
- Position** - It occupies the highest level of strategic Decision making
- Level of decision making-** It occupies the highest level of strategic decision making
- Covers what** - Cover action dealing with the objectives of firm, acquisition and allocation of resources, and coordination of strategy of various units.
- Applicability** - It applies to the enterprise as a whole
- Explains what ?** - It explains the business in which a firm will compete and how it should utilize its resources.
- Level** - It is highest level of strategy

II. Business level Strategy-

- Planned by whom** - Managers

Concerned with what?	-	Concerned with managing the interests and operations of a particular line of business.
What type of plan?	-	A managerial game plan for a single business.
Deals with questions	-	<ol style="list-style-type: none"> 1. Business competition in market 2. Business offer of products and Services
Builds capabilities	-	<ol style="list-style-type: none"> 3. Customers to serve 4. Distribution of company resource with is the business
Builds capabilities	-	Competitively valuable

III. Functional level strategy-

Definition- A functional strategy is a short term game plan for a key functional area within a company.

Implements- Functional strategies help in implementing grand strategy.

Focus- on external environment

Decision making- At operational level with respect to specific functional areas-

- Production
- Marketing
- Personnel
- Finance etc.

Types of functional strategies-

1. Marketing strategy.
2. Operations strategy
3. R & D (Research & Development Strategy)
4. Information system strategy

5. HR strategy (Human Resource)

6. Financial Strategy

IV. Operating level Strategy-

Concerned with- The regulation of day-to-day activities of departmental and supervisory managers

Approach-

- For managing key operating units such as plants, sales etc
- Handling daily task with strategic significance.

Concepts deal with-

1. Manufacture of a product
2. Production process
3. Deployment of physical resources
4. Level of technology.

New Revolutionary changes-

- i. Diversification of business activities
- ii. Use of computer-integrated design and manufacturing
- iii. Computer system
- iv. Automation
- v. Robotics
- vi. Just in time system

Decision area in operations strategies-

i. Structured decisions

- Process technology
- Capacity
- Facilities
- Supply network

ii. Infrastructure decisions-

- Planning and control
- Quality
- Human resources
- New product development
- Performance measurement.

5.

Q .5 What are the elements of the strategic management process?

6.

Ans. Strategic management process is a flow of information regarding the inter-connected stages of analysis which aims at attaining the objective.

Elements of strategic management process or steps are-

I. Establishing strategic foundation- The following are established for laying down the foundation of the strategic management-

- a. Vision
- b. Mission
- c. Business definition
- d. Business objectives
- e. Business goals
- f. Business models

II. Strategy Formulation- It involves steps.

- Environmental Analysis
- Organizational Analysis
- Corporate Analysis
- SWOT Analysis
- Strategies- Corporate and business level
- Strategic Analysis/ appraisal and choice of strategy
- Strategy final plan.

III. Implementation of strategies-

- The design of organizational structure
- Project implementation
- Procedural implementation
- Structural implementation
- Resource allocation implementation
- Behavioral implementation
- Functional implementations

IV. Evaluation and Control of Strategic implementation-

- Direction right or not
- Results-positive or negative
- Favorable or unfavorable
- Evaluation of strategies implemented
- Measurement of organizational performance
- Feedback from strategic evaluation leads to control of strategy
- Strategies may be reformulated if necessary or required.

Q.6 What do you mean by tactics? What are its characteristics?**Ans. "Tactics"**

1. Tactics is a means through which predicated plan are executed.
2. It is best and optimal utilization of various organizational resources committed through strategy
3. Some people are of the opinion 'Strategies and tactics have same meaning and can be used in place of other.'
Both these terms are quite different.
4. Tactics is only a part of strategy by which predetermined plan are executed.
5. Tactics is usually short term decisions
6. Tactics are short duration, adaptive action interaction realignments that opposing forces use to accomplish goals.
7. Tactics is developed at lower levels.
8. Tactics is a part of strategy
9. Tactics is normally free from subjective values
10. Less alternatives available
11. Tactics problems nature of structured nature
12. Tactics follow strategy
13. Tactics involves a large number of people
14. Tactics formulated on functional concepts
15. Tactics are of less importance
16. Tactical decisions are the frame set by the strategy

17. Tactics: normal importance is there
18. Easier to evaluate
19. Requires higher details
20. Repetitive in nature
21. Information required is of easy to get nature.

Q.7 Differentiate between Strategy and Tactics?

Ans.

S. No.	Strategy	Tactics
1	It is developed at higher levels	It is developed at lower levels
2	Strategy is a broader term	Tactics is a part of strategies
3	Nature : original	Nature : tactics is follows strategy
4	Strategic problems are not structured	Tactics are structured in nature
5	Strategies involves fewer people	Tactics involves a large number of people
6	Strategies have more personal subjective values	Tactics is normally free from values of such type
7	Total range of alternatives is far greater	Total range of alternatives is less in comparison
8	Strategy requires information which is easily not available	Tactics requires normal information
9	It covers long time period. But time limit is flexible as per requirement	Short term period
10	It required fewer details	It requires more details

11	Strategy is formulated and implemented in a highly uncertain environment	Tactical decisions more certain
12	Formulated on 'corporate concept'	Formulated on 'functional concept'
13	Strategy is highly important because it decides the future of an organization as a whole.	It is less important because it is related to a particular of the organization.

Q.8 Define 'Mission' or 'organizational mission'. What are its characteristics?

Ans. 'Mission'

1. **Definitions-**

- (A) According to Thompson, "Mission may be defined as an important goal of an organization which is related with things that why is it existence, in which business he, and what customers desire he wants to serve and satisfy."
- (B) Hunger and Whalen, defined mission as, "Mission is the purpose or reason for the organization existence".
- (C) According to Koontz and O' Donnell, "Mission is the fundamental work given by the society to an organization".
- (D) According to Daulton .e.McFarland, "The word mission is a general term describing an organizations fundamental reason for existence."
- (E) Jauch and Glueck defines as, "Mission can be seen as a link between performing some social function and more specific targets or objectives of the organization."

A firm's mission should be clear and concise and distinguish it from any firm and should contain the following concepts.

1. Organization purpose
2. Principal business units of the organization key beliefs
3. Company values
4. List of major stakeholders in business
5. Define the code of conduct of employees.

Example how they have to behave in organization

Mission characteristics-

Mission is-

1. A very comprehensive term
2. The basis of objectives, goals, and strategies.
3. Long term commitment of an organization
4. Dynamic
5. Changed according to change in environment
6. A fundamental responsibility and work given by society to an organization.
7. Used to show about the organization the following
 - Character
 - Principles
 - Values
 - Philosophy
8. Firms self concept
9. Focused on customer linking, preferences, utilities.
10. Grand design of the corporation
11. Basis or standard for allocating organizational resources.
12. Helping in assessment and control of cost, time, and performance parameters of an organization.
13. Used in establishing a general tone or organizational climate.
14. Comprised of the following-
 - a. A purpose
 - b. A strategy

- c. A set of values
- d. Behaviors
- e. Standards

Q.9 What is mission statement? What are the components of a mission statement? What are the characteristics of a mission statement? What are the uses of a mission statement?

Ans. According to Thompson, "Mission statement defines what business the company presently in and conveys the essence of 'who are we, what we do and where we are now? It provides a basis for long term course; make a choice about where we are going.'" With the mission statement, an organization proves its existence and authenticity in society.

Components of a mission statement-

1. What the company is?
2. What the company does?
3. What is the position of a company at present now?
4. Where the company is going?
5. How the company will conduct business
6. What are the company's, major products or services?
7. Who are the customers of the company?
8. Company is dealing in which market, Domestic? Regional? International?
9. Company's state of technology i.e. advanced, normal, old, outdated, progressive, computerized etc.
10. Company's future growth prospects?
11. Company's profitability present and future?
12. Company's
 - Beliefs
 - Values
 - Ethical priorities

- Vision
 - guideline
13. Company's future prospects of growth and success.
 14. Employees, staff of the company.

Mission statement-

1. Mission word should be real and must be able to achieve. I must be practicable as well.
2. Should be precise
3. Should not be longer
4. Should not be meaningless
5. A mission should be clear on which action can be taken.
6. 'Mission' word should be motivation for the society and members of the organization.
7. Organizations mission should be unique and distinctive from other firms and organizations.
8. Mission should be inspiring
9. Mission should be flexible enough so that it is adopted in changing present scenario.

Q.10 Explain the concept of Goals?

Or

Define the term 'Goal'? What is the importance of goal setting? Discuss the major characteristics of effective goals?

Ans.

'Goals'

1. Are those plans which give direction to the actions of a firm?
2. Are the future states of affairs?
3. Are the guidelines on which management has to work?
4. Are the targets to be achieved by a company or organization?
5. Are temporary?
6. Are specific?
7. Should be easy to understand
8. Should be measurable

9. Should be relative
10. Should be challenging but practical
11. Are for short term?
12. Are having public relations values?
13. Helps in goodwill building with suppliers, customers, public and government.
14. Should be realistic and challenging
15. Goals may be official or operational



Chapter-3

Environment-External Analysis and Appraisal

Q.1 Explain the concept of environment. What is Internal and External Environment?

Ans. Environment consists of all the conditions, circumstances and influences surrounding and effecting an organization in its totality.

Environment is related with totality of all those external factors and events which affect success and efficiency of a business undertaking and are beyond the capacity of its management. Due to this reason, a firm tries to adjust itself according to its environment and change its strategy accordingly to achieve its goals.

Environment is a complex and wider term. By large the business environment is external.

The environment can be divided into two categories-

- I. Internal environment OR Micro environment
- II. External Environment OR Macro Environment.

I. **Internal Environment OR Micro Environment**:- Micro environment is related with internal environment in which an organization operates and which is directly controlled by business firm

The micro environment or Internal Environment refers to-

- a. Work place
- b. Work culture
- c. Colleague relations
- d. Office dynamics
- e. Goal
- f. Working system
- g. Organization structure
- h. Organizational strength and weakness etc.

- II. **Macro Environment OR External Environment:** - The word 'macro' means large, global and can be used to describe the aggregate of factors that surround the organization. The components of macro environment OR External environment are-
- a. Physical environment
 - b. Economic environment
 - c. Social environment
 - d. Political-legal environment
 - e. Technological environment
 - f. Global environment

Q.2 Discuss the Physical Environment of business?

Ans. The main or basis of operation of business is the physical environment. It sets nature's boundaries.

The following factors are included in physical environment: -

1. **Natural Resources**- Water, minerals, land, raw materials etc.
2. **Climate**- Rain, humidity and coolness etc.
3. **Infrastructure**- Warehousing, water, electricity, transport, bank, insurance etc.
4. **Energy**- Solar energy, gas, water, coal, petrol, atomic, energy.
5. **Public utilities**- Water, post and telegram, electricity, transport.
6. **Topography**- Topology and locational aspects of business.
7. **Ecology**- Includes all human beings, human and non human.

Physical conditions affect demand structure, pricing, flow of supply, structuring and functioning of business.

The problems related to physical environment of a business are-

- a. Improper utilization of natural resources
- b. Centralization of business
- c. Environmental pollution
- d. Regional imbalances
- e. Economic disparity
- f. Urbanization

Q.3 Discuss the Social Environment of business?**Ans. Social Environment of Business:-**

Business is a social institution and it is influenced by social environment. The components of social environment are-

1. Population expansion and its characteristics. Sex ratio (male, female), caste, religion, education, income, age structure etc.
2. Family structure may be nuclear or joint.
3. Level of public responsibilities, mutual cooperation and organization, labour union, welfare organization, religious socio organization, public faith in cooperative organization.
4. Responsibility of public
5. Mentality of public towards work
6. Attitude towards management
7. Traditional and scientific approach
8. Customs
9. A business cannot ignore the values, beliefs and style prevailing in the society
10. Educational institutions
11. Religion
12. Tastes and preferences
13. Buying and consumption habits of people.
14. Language of people

The social environment refers to how people and communities behave their relationships, education and occupation, and the condition in which they live. The social environment factor consists of human relationships.

Culture determines the types of goods and services a business should produce. The type of goods people eat, the clothes they wear and building materials they use to construct house vary from culture to culture.

Therefore, firms should understand cultural preferences and provide products and services accordingly. The values and beliefs associated with culture also vary from culture to culture.

Newer attitude on the part of workers and employee about how many hours they wish to work, the environment quality they want at work, and the kind of management style they expect affects the strategy of formulation of business.

The consumer movement due to passing of consumer protection act also forces to make adjustments in the business strategy.

Q.4 Discuss the Ethical Environment of business?

Ans. Ethical Environment of Business-

1. Business has to follow ethical values of the society.
2. Ethics refers to the code of conduct that guides an individual in dealing with others.
3. Ethical rules differ from legal rules. Ethical rules are not enforced by Public authority where as legal rules are enforced by public authority.
4. Society expects businessman to act ethically.
5. The best way is to encourage business to frame their own codes of conduct and adhere to them.
6. Business ethics includes issues such as-
 - a) Product quality
 - b) Customer satisfaction
 - c) Employee wages and benefits
 - d) Community
 - e) Honesty
 - f) Trust
 - g) Organizations work culture
7. Social objectives of ethics in business-
 - a) To produce and supply goods of standard quality.
 - b) Avoidance of following anti social practices-
 - Hoardings
 - Black marketing
 - Smuggling
 - Over charging
 - c) Provides employments and helps increasing standard of living.
 - d) Business community should have a positive approach towards, the policies of the government of the country.
 - e) The business should use the national resources of the country in the best interest of the country.
8. Effects of good business ethics on society-
 - a) Better business relations
 - b) Better cooperation

- c) Societal integration
- d) Wealth creation
- e) Make up the moral foundation
- f) Economic stability
- g) Development and stability of upcoming society

Effects of bad business ethics on society

- a) Societal system breakdown
- b) Business practices can cause a lot of unnecessary losses, setbacks.
- c) Recession, breakdown, downfall of societies in history
- d) Spark off serious disorder, mistrust, loss of reputation.
- e) War
- f) Huge financial losses
- g) Descript the regular flow of commercial activity

Q.5 Describe the economic and non economic components of external business environment.

Ans. Economic Environment and its components: -

Economic Environment is generally related to those external factors which have direct economic effect upon business. Economic factors are the factors which affect business to a large extent. Major factors of the economic environment are-

- (i) Economic conditions
- (ii) Economic policies
- (iii) Economic systems

The components of the economic environment are-

1. Natural Resources
2. Human Resources
3. Social and cultural systems
4. Political system
5. Market conditions
6. Economic laws
7. Transport and communication
8. Education system
9. Technological development
10. Government policies

11. Capital and money market
12. International conditions
13. Entrepreneur and innovation
14. Population

Non economic external environment and its components-

Non economic environment is constituted of those non economic components under which the business institutions of the country works.

The components are-

1. Physical environment
2. Socio cultural environment
3. Political environment
4. Legal environment
5. Technological environment
6. Educational environment
7. Historical environment
8. Ethical environment
9. Cultural environment
10. Ecological environment
11. International environment

Q.6 Discuss the Technological Environment of business?

Ans. Technological Environment of Business: -

1. 'Technology'

- a. It is the knowledge of methods to perform certain task or solve the problems linked to products or services.
- b. It can be defined as all the knowledge about products, processes, tools, methods and systems employed in the creation of goods or in providing services.
- c. It is the way to do things
- d. It is the practical implementation of knowledge
- e. Basically, it refers to the sum total of knowledge providing ways to do things.
- f. It is defined by JK Galbraith as, "Technology means systematic application of scientific or other organized knowledge to practical tasks".

2. Technological Environment

Features and characteristics

- a. It has far reaching effects. People cannot escape technological change whether they are prepared for it or not.
- b. It is different from science. Science is systematized body of knowledge. Application of this knowledge/such knowledge is technology.
- c. With advances in science new technology developed.
- d. Requirement of new technology leads to the new scientific inventions in discoveries
- e. Technological environment goes on changing frequently and again and again.
- f. Changes come very fast.
- g. Its effects are widespread
- h. It is self reinforcing

Choice of technology

Factors to be considered in the selection of technology are-

1. Customer's likings, preferences and desires.
2. Speed of introduction of new process and production
3. Market potential
4. Product competitiveness
5. Great technology gap between India and outside.
6. Availability of technology for import in strategic areas.
7. Out flow of resources
8. Out flow of foreign currency

Kinds of Technology-

Technology can be classified as-

1. **New Technology-** Any new technology to any newly introduced or implemented technology.

Example- New computer software,
New internet website for marketing company product

2. **Emerging Technology**- It is technology which is not yet fully commercialized but will become so with in 4/5 years to come. It is currently in little use but is expected to evolve significantly. Emerging technologies create new industries and may make existing ones obsolete.
3. **High Technology**- High technology or High-tech refers to advanced or sophisticated technologies. It employs highly educated people such as scientists and engineers.
4. **Low Technology**- Normal educated people can work on it. Low research expenditure required.
5. **Appropriate Technology**- The term appropriate technology is used to indicate a good match between the technology utilized and the resources required for its optimal use.

Present Scenario- Now it has become essential for top managers that they must have close watch on technological changes that may affect their business to a large extent. Top managers should work closely with R & D People to encourage more market oriental research.

Q.7. Discuss the legal environment of business.

Ans. Legal Environment of Business-

1. Legal system of a country is framed by the government of that country.
2. The laws which are paned by the government for business operation is called legal environment.
3. In every country, the government of that country has authority to regulate business activities. These regulations of the government are considered as legal environment.
4. The dimensions of the legal environment are-
 - a. The domestic laws of home country.

- b. The domestic laws of each of foreign markets & countries.
 - c. International law
5. Legal system of one country is different from that of the another.
 6. Domestic laws govern marketing within a country i.e. consumer protection act relating to purity, safety, or performance of the product. Domestic market also governs the marketers in the areas of product packaging, marketing and labeling.

The Government Acts and Government policies relating to legal environment for business operations are-

1. Constitutional provisions
2. Laws related to social control, nationalization, socialization, privatization.
3. Pollution control laws.
4. Industrial and labour laws-
 - The factories Act, 1948
 - The minimum wages Act, 1948
5. Tax laws and policies
6. Justice laws
7. Economic policies
8. Economic laws-
 - MRTP Act
 - FEMA
 - SEBI
9. Monetary policy
10. Industrial policy
11. Agricultural policy
12. Environment Protection Act, 1986
13. The Weights and Measures Act
14. The Consumer Protection Act, 1986
15. The income Tax Act, 1961
16. The Indian Companies Act, 1956
17. The Sale of Goods Act.

Legal Environment Components-

1. Legal environment is the legal surrounding that affect management activities. The legal surroundings may include Acts, regulations, rules, precedent, institutions and processes.
2. Objectives of legal environment are-
 - a. Protect the interest and rights of consumers, society, organization, employees.
 - b. Encourage those who follow laws restrict and punish those who break laws.
 - c. Regulate activities by legal provisions. The concepts regulated includes-
 - Labour relations
 - Wages
 - Licensing
 - Monopoly
 - Foreign investment
 - Environment protection
 - Import and Export
 - Pricing
 - Taxation
3. **Law-** It includes laws enacted by the central and state government.
Courts- are institutions established to solve legal disputes.
Law administrators- Government agencies, lawyers, police and fast play an important role in law administration.

Q.8. Explain the Global Environment of Business.

Ans. Global Business Environment

OR

International Business Environment

It includes all commercial transactions that take place between two or more than two nations. The commercial transactions includes many aspects some of them are-

- a. Government transactions

- b. Capital investment
- c. Logistics i.e. warehousing of goods
- d. Sales
- e. Transportation

These transactions may be for probes or political gains or profits. Global business environment involves differences in the following aspects and concepts-

- a. Language differences
- b. Accounting standard differences among nations
- c. Living standard of labour
- d. Culture and traditions differences.
- e. Economic, Industrial, Agricultural, Monetary policy differences
- f. Work culture
- g. Corporate culture
- h. Foreign currency exchange
- i. Export and Import rules, regulations and Acts
- j. Climatic differences
- k. Educational level and standard differences.

According to ICFAI centre for Management Research, "Global Business Environment is the environment in different sovereign countries, with factors exogenous to the home environment of the organization influencing decision making on resource use and capabilities. This includes the social, political, economic, regulatory, tax, cultural, legal and technological environments".

Nature of Global Business Environment

1. Managing and conducting international (Global) trade operations is a crucial and difficulty task due to differences or variations in

factors such as- cultural, educational, technical, political, social, and natural.

2. If people of one country has poor economic conditions they will prefer to buy
“Loss costly products”
If people, population of a country is rich and has higher ability to buy then they will purchase ‘high quality high priced products’. Goods by multinationals are marketed keeping in mind there concepts.
3. An international trade house requires accurate information to make appropriate forecasts and decisions.
4. International trade houses wants to get timely information i.e. appropriate information at appropriate time for quick decisions.
5. For having impacts on the foreign economies, the size of the international trade should be large.
6. On the basis of geographical basis segmentation, the most of the international trade houses markets are segmented.
7. The domestic market has less potential than international market.

Elements of Global Business Environment-

1. International ecological/natural environment
2. International political environment
3. International economic environment
4. International technological environment
5. International social environment
6. International legal environment
7. International cultural environment

International Business Environment includes the following concepts-

1. **International Ecological/Natural Environment-**
Environment effected a lot by increasing population, high degree of urbanization, and steep rise in energy use.

By ecological/natural environment we mean all living and non living things around us within which we live and work. Individual effects environment & environment effects individual.

The management team must keep in mind in their decision making process, the ecological factors such as, soil, water, air, land, etc. There relationship shall be understood.

The managers should have a sound knowledge of the country's environment for making decision about advertising and promotional activities.

2. **International Political Environment-**

- i. It refers to-
 - a. Type of government
 - b. Government relation with business and businessman
 - c. The political risk in a country
- ii. It is dealing with different types of relationships, levels of risks and types of governments.
- iii. Under types of government

Government may be-

- Monarchies
- Dictatorships (military and nonmilitary)
- Single party data
- Multiparty democracies
- Government changes by different methods, by elections, death, coup or war

3. **Global Technological Environment-**

Technological advances impacts the all aspects of marketing process.

The advances in the electronic communications has revolutionized the-

- a. Management control capabilities
- b. Practicalities of carrying out the business function internationally

c. The ability to gather data on markets.

4. **Global Social Environment-**

All jobs and workplace have to be designed according to the changing life style. The traditional life style has been changing owing to the differing life styles.

5. **International Economic environment-**

All nations have different types of economic environment. The country may be either developed country or developing country and emerging economics developed country means rich country. Developing country means poor country emerging economics means country moving from poorer to richer.

6. **Global Legal and Regulatory Environment-**

Organizations operating in different countries required to know and comply with the laws of the domestic country as well as the host countries they operate in.

7. **Global Cultural Environment-**

National culture is the body of beliefs and values that includes factors such as-

- a. History
- b. Religion
- c. Language
- d. Geographic location
- e. Government
- f. Education

The firms companies do the analysis of culture by seeking to understand there factors. Culture analysis is a must for production decision making such as what to produce? How much to produce? For whom to produce etc.

Q.9. What are the major sources of external environmental information?

Ans. The strategists can use the following techniques in collecting and analyzing external environmental information.

I. Information Gathering**1. Verbal information**- It may be gathered from sources.

- a. Audio Visual media
- b. Conversation among
 - Competitors
 - Wholesalers
 - Retailers
 - Dealers
 - Customers
 - Employees
 - Managers
 - Supervisors
 - Subordinates

2. Written and documentary information from there**a. International Publications**-

The following international organization provide information-

- International Labour Organization (ILO)
- UNESCO
- WHO
- UNDP
- World Bank
- IMF
- World Economic Survey
- UNICEF
- Asian Development Bank
- Red Cron International

b. Government of India Publications-

- Five years plans
- Census Reports
- Economic survey
- Export Import policies
- Annual report published by different govt. departments
- RBI Annual reports.

c. Institutional Publications-

- ASSOCHAM (Federation of Indian Chamber of Commerce and Industry)

- National council for applied economic research
 - The centre for monitoring India economy
 - The Bombay stock exchange directory
- d. Periodicals, Newspapers, Journal Books, Magazines-
Books**
- Books in public, business, schools, colleges and university library.

Magazines

- Business India
- Business World
- Business Today
- Forbes
- Fortune

Journal

- Wall street journal
- Trade journals

Newspapers

- Economic Times
- Financial Express
- Business Standard
- The Times of India

e. Man Media- It includes

- Internet
- Television
- TV networks all
- Radio
- Tape Recorders Cassettes
- Online information
- Tablet Pcs./Laptops/Computers

f. Legal Research databases

II. **Spying-**

In large companies, experts or spies are appointed by the top management to know-

- a. Secrets of competitors, dealers, customers
- b. Important matters of competitors, dealers, customers

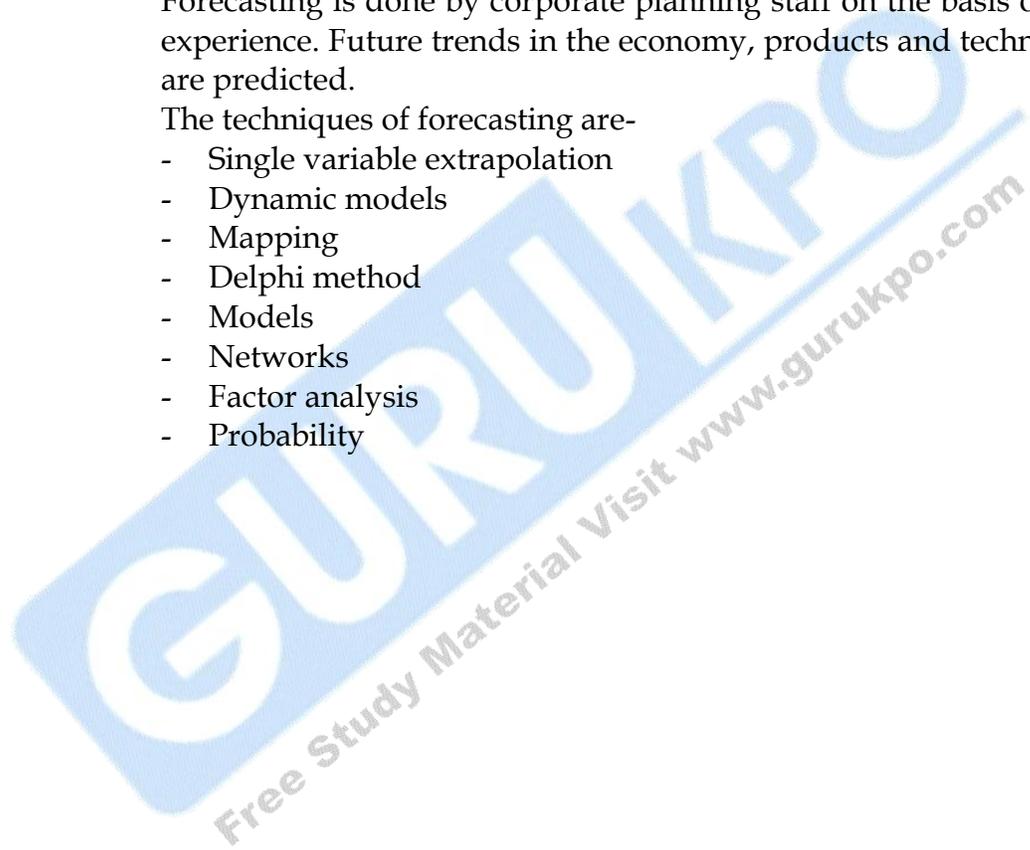
The use of spying is increasing a lot in all kind of industries in India and world.

III. **Forecasting-**

Forecasting is done by corporate planning staff on the basis of past experience. Future trends in the economy, products and technology are predicted.

The techniques of forecasting are-

- Single variable extrapolation
- Dynamic models
- Mapping
- Delphi method
- Models
- Networks
- Factor analysis
- Probability



Chapter 4

Functional Strategy

Q.1 What is functional strategy

Ans. **Pearson and Robinson** defines "A functional strategy is the short term game plan for a key functional area within a company. Such strategies clarifies grand strategy by providing more specific details about how key specific details about how key functional areas are to be managed in the near future."

The major key functional areas are marketing, production, finance and personnel

Functional strategy characteristics-

1. It includes activities to be undertaken "now" or in the time to come immediately.
2. Time duration generally two to four years.
3. Emphasis on present tense i.e. what is to be done now for making the business strategy work.
4. Due to changes in the business scenario the adjustments and readjustments can be done by managers easily.
5. Specific functional strategy for each functional area, and each functional head.
6. Primary involvement of operating managers in functional strategies formulation & implementation.
7. functional strategy objectives-
 - a. Maximum production at minimum cost
 - b. Profit maximization
 - c. High quality staff and officers

- d. Best and optimum utilization of available resources
- e. Standard quality production of goods and services.
- f. New product innovation and design.

8. **Types of functional strategy-**

- a. Marketing strategy
- b. Operational strategy
- c. Research and Development (R & D) strategy
- d. Information system strategy
- e. H.R. strategy
- f. Financial strategy

Q.2 Define the term 'Marketing Strategy'.

Ans. 'Marketing' is a comprehensive term and it includes all resources and a set of activities necessary to direct and facilitate the flow of goods and services from producer to customer in the process of distribution.

'Marketing' is managing profitable customer relationships. Marketing strategy includes

(a) - attracting new customers by promising superior value and

(b) - to keep and grow current customers by delivering satisfaction.

'Management strategy' is the art and science of finding, retaining and growing profitable customers.

Marketing strategy

1. It is a firm's plan
2. It is for attaining the marketing objectives of a firm.
3. It is a concept of resource allocation in such an appropriate manner, that the marketing objectives of the firm are achieved.
4. Marketing strategy includes these sub strategies-
 - a. Competitive position
 - b. Distribution channel and policy
 - c. Pricing policy
 - d. Market positioning

- e. Target markets- Local, domestic, regional, national, international
 - f. promotion strategies
5. P's of marketing are-
 - a. Product
 - b. Price
 - c. Place
 - d. Promotion
 - e. Position
 - f. Packaging
 - g. People
 6. C's of marketing are-
 - a. Customer solution
 - b. Cost
 - c. Convenience
 - d. Communication
 7. Marketing strategy includes issues such as-
 - Product line
 - Product mix
 - Channel of distribution
 - Pricing of products and services
 - Sales promotion
 - Marketing mix.
 8. Marketing strategy deals with-
 - Pricing of a product
 - Selling of a product
 - Distribution of a product
 9. Product- Major policy issues are-
 - a. Product mix
 - b. market segmentation
 - c. Product positioning
 - d. Branding

- a. **Product mix**- A company product mix has a certain width, length, depth and consistency.

Width - Company can add new product lines.

Length - The Company can lengthen each product line.

Depth - The Company can add more product variants to each product

Consistency - Single field or several fields' product line.

- b. **Marketing segmentation**- Market segmentation refers to the act of dividing a market into distinct groups of buyers who might require separate products or marketing mixes.

Market segmentation can be done on the basis of variables.

- Socio-Economic characteristics of buyer group
- Age
- Sex
- Income
- Education
- Geographic basis
- Buyer behavior basis.

- c. **Product positioning**- Positioning involves a choice to serve a market segment.

Position is the act of designing the company's offer and image so that it occupies a distinct and valued place in the target customers mind.

Product can be differentiated in a dozen i.e. features, performance, quality, conformance etc.

- d. **Branding**- 'A brand is name item, sign, symbol, or design or a combination of them, intended to identify the goods or services of one seller or a group of sellers and to differentiate them from those of competitors.

Manufacturers, who brand their products, can use following brand name strategies.

- Individual brand name
- family brand name
- private brand name

10. Marketing strategy can be either
- Push strategies
 - Pull strategies.

Q.3 Write a note on “components of marketing strategy”

Ans. Components of marketing strategy

1. Product
2. Price
3. Channel of distribution
4. Product promotion.

1. **Product-**

- Product satisfy customer wants
- Products are to be manufactured keeping in mind the liking, preference, desire of the customers/consumers.
- Mixing of a product includes concepts product physical existence, product services, and product branding and product package.

2. **Product price-**

Product price is printed on packing cover. Maximum Retail Price, MRP is mentioned.

Price of the product may be changed as per market price strategy for attracting by giving trade discount, sale discount, allowance, liberal and free dealings, credit sales etc.

3. **Channel of distribution-** Channel of distribution includes-

- a. Interdependent manufacturers
- b. Retailers

- c. Wholesalers
- d. Authorized agents
- e. Authorized dealers
- f. Company sales outlets
- g. Consignment agents

The proper placement of product is done through channels of distribution

4. **Product Promotion**- Promotion is the process of marketing communication involving information, persuasion and influence. Promotion has three specific purposes:-
- a. It communicates marketing information to consumers ,users and resellers.
 - b. It persuades and convinces the buyer
 - c. Promotional efforts act as powerful tool of competition providing the cutting edge of its entire marketing.

Promotion strategy consists of five major tools-

- a. Advertising
- b. Public relations and publicity
- c. Sales promotion
- d. Personnel selling
- e. Direct marketing

Chapter 5

Human Resource Strategy

Q.1 Explain in detail the concept of Human Resource Strategy.

Ans. Human Resource Strategy-

HR Strategy deals with one of the most precious resources-human resources in the organization. It is the people who decide the organizational strategies, and carry out its various functions and implement them. In the achievement of strategic goals, human resources play a vital role.

Human Resource (HR) Strategy-

Characteristics-

1. It is linked to objectives of the organization.
2. It must be prepared in easy and understandable language.
3. It must be clear and comprehensive.
4. It must depict future action plans.
5. HR strategy must be flexible enough to make adjustment as per requirements of the time.
6. HR strategy must be fair, just, and equitable for all concerned.
7. It should encourage self development among staff and employees.
8. It must be reasonable and appropriate.
9. Appropriate number of HR strategies must be developed.
10. It must be based on
 - reasoning
 - facts
 - figures

- logic
 - sound judgment
11. It must be reviewed at appropriate time interval

Components for Developing Human Resource Strategy-

1. **Basic objective of human resource strategy is-** Organization require 'right person' at the 'right place' and at 'right time'.
2. **Career Planning and Development-** Career planning means helping the employee for planning about their career in term of three capabilities and organizational needs career development to defined as the interaction of psychological, sociological, Physical, cultural, economic and chance factors that shape the sequence of jobs, occupation/profession or career that a person may engage in throughout a lifetime.

Career development means the process of increasing an employee potential for advancement and career change.

In present contest every organization provides career development opportunities to its employees.

3. **Human Resource Planning-** it includes.
 - a. Resources available and its planning for utility
 - b. future forecasting
 - c. work scheduling
 - d. job design
 - e. career and job management
 - f. corporate culture
 - g. skills of labour
 - h. environmental scanning
 - i. labour-
 - productivity

- absenteeism
 - turnover
4. **Procedure and method of work-**
- How to do work
 - job specification
 - job analysis
 - motion study
 - time study
 - standard work procedure
 - technology used
 - computer access
 - advance techniques of production
5. **Fair Employment Practices-**
- a. **Minority races-** No employment discrimination should be made in the form of white & black, male and female, general caste and schedule cast etc.
 - b. **Employment Records-** should be maintained in all organization.
 - c. **Female Employees-** Organization should provide equal employment opportunity for females.
 - d. No sexual harassment.
 - e. **Old Aged Employees-** Old employees are the assets of the organization. No age discrimination shall be there.
 - f. **Nationalities-** Globalization and growing role of Multinational Corporation have made the issue of nationalities more important. Whole work has changed in a 'global village'; management must formulate its personal HR strategy in global perspective.
 - g. **Handicapped employees-** It is legal and social responsibility of management to provide employment to handicapped employees.
6. **Staffing-** staffing related aspects are-

- a. Appropriate match between strategic goals to be achieved.
- b. Kind of people employed.

Staffing includes-

- a. There is necessity of recruiting and maintaining the required number of workforce.
- b. It is necessary to ensure that the quantity of people employed are skilled and competent and are appropriate to the specific requirements of the strategy.

Methods or sources of Recruitment-

Internal Sources- includes-

- a. Personnel already employed in the organization.
- b. Personnel available through;
Transfer, Promotion, Demotion, Up gradation.
- c. Retired employees
- d. Retrenched employees
- e. Relatives of personnel

External sources-

- a. Cell phones
- b. Labour union
- c. Schools
- d. Colleges
- e. Universities
- f. Casual applicants
- g. Nepotism
- h. Leasing
- i. Employment Agencies
- j. Advertising in Newspapers
- k. Advertising on websites

STEPS IN SELECTION PROCEDURE ARE-

1. Bio-Data/CV receiving in the employment office
2. Preliminary interview
3. Blank Application

4. Scrutiny of Application Received.
5. Selection Test
6. Main interview by Employment Office
7. Reference checking of the candidate
8. Medical examination
9. Fund Acceptance by department head
10. introduction

Interview-

- a. is a face to face interaction between two persons for a particular purpose.
- b. It is most widely used technique in selection.
- c. Interview is the only way to see the candidate in action.
- d. One of the ways to predict the candidate's job performance.

Purposes of an employment interview are-

- a. To find appropriate candidate for a specified job.
- b. To get more information about the candidate
- c. To give the candidate-
 - an accurate picture of the job
 - Details of term and conditions of the job.
 - Some idea about organization employment policies and employer employee relations.
7. **Training Policy-** Training policy of the company. Training is process by which people learn knowledge and skill for doing a specific job. Training may be on the job training or off the job training.

Training benefits increase in

- (i) Efficiency of work performance of the employees.
- (ii) Minimize wastage and spoilage and scrap of materials
- (iii) Improve level of performance
- (iv) Establish uniformity in work methods and procedures
- (v) Helps to improve the quality of product and service.

(vi) Reduce cost and wastage.

8. **Motivation system**- Every employer has a separate need, drives, motives which motivate him to work.

Motivation system should be-

- (i) Flexible
- (ii) Comprehensive
- (iii) Competitive
- (iv) Simple and easy to understand
- (v) Develop a spirit of mutual operation.

9. **Personnel mobility**- It is in the form of-

- Promotion
- Demotion
- Transfer
- Separation
- Deputation
- Departmental Transfer
- Sectional Transfer
- Inter-plant Transfer

10. **Industrial Relations**-

Industrial relation is one of the most delicate and complex problems of modern industrial society.

Labour unions, trade unions

Main objective of the Industrial relations is the-

- (a) Maintenance of the harmonious relationship between management and labour.
- (b) To safe guard interests of the both labour and the management
- (c) Industrial democracy establishing
- (d) Ensure industrial peace
- (e) Minimize or avoid industrial unrest, lockouts, strikes etc.

Q.2 Explain the concept financial strategy.

Ans. FINANCIAL STRATEGY- Finance is the foundation of business. No business can be started without neither finance nor is its development possible. It is treated as life blood of business. It is important for industry and commerce as lubricant for wheels. The success of business depends upon sufficient furnace and its effective management.

Finance Requirements may be for-

1. **Fixed Assets-**
 - a. Plant and machinery
 - b. Furniture and Fixtures
 - c. Land and Buildings
 - d. Other fixed Assets
2. **Current Assets-**
 - a. Cash balance
 - b. Book debts and bills and acceptance
 - c. Stock
3. Promotion Expenses
Operating Expenses
Cost of Financing

Sources of Finance-

- I. Internal Sources of Finance
 - II. External Sources of Finance
 - III. Sources of Fixed Capital
 - IV. Sources of Working Capital
- I. **Internal Sources of Finance**
 - a. Depreciation fund
 - b. Ploughing back of profits
 - c. owned funds
 - II. **External sources of furnace**
 - a. Shares
 - Equity shares

- Preference shares
- b. Debentures
- c. Commercial banks
- d. Public deposits
- e. Loan from financial institution
- f. Trade credit
- g. Leave finance
- h. Private loan
- i. customer's Advance
- j. Indigenous bankers

III. Sources of Fixed Capital-

- a. Owned capital
- b. Debentures
- c. Shares
- d. Loan from financial institutions
- e. Public deposit

IV. Sources of working capital-

- a. Customers Advance received
- b. Fund linked
- c. Banker's
- d. Trade Credit
- e. Commercial Banks

Investment decisions or uses of funds-

Uses of Funds-

1. Funds lost in trading due to loss
2. Redemption of debentures
3. Redemption of preference shares
4. Repayment of long term loans taken in the past
5. Payment of tax
6. Payment of dividend on shares
7. Non business payments

8. Purchase of Fixed Assets-Examples-
 - a. Factory equipments
 - b. Electrical installation
 - c. Furniture and fixture
 - d. Vehicles
 - e. Plant and machinery
9. Current Assets- Examples-
 - a. Investors/stock
 - Raw Material
 - Work in progress
 - Finished goods
 - b. Cash in hand
 - c. Cash at Bank
 - d. Current investment
 - e. Loans and advances
 - f. Trade creditors

Working Capital Management-

Working capital refers to the portion of capital which is employed in the business to carry on its day-to day activities. It is used by the business to perform its operating activities. Therefore, the capital invested into the business to carry on the continuous operational activities of a concern is called the working capital. Working capital is the life blood of every business concern. Working capital of a business is invested in its current Assets and current liabilities.

Importance of working capital-

1. Smooth and successful ongoing of business operating day to day activities.
2. An uninterrupted or continuous flow of production.
3. Ensure continuous supply of raw materials in time at least price.
4. Efficient utilization of fixed assts.
5. Easy availability of short term loans.

6. Easy availability of bank overdraft.
7. Regularity in payment of dividend to shareholders.

Classification of working capital-

- I. **On the basis of concept-**
 1. Gross working capital
 2. Net working capital
 - a. Positive working capital
 - b. Negative working capital
- II. **On the basis of time-**
 1. Permanent working capital
 2. Temporary working capital

Sources of working capital-

- I. Sources of Permanent Working capital
 1. **External Sources-**
 - a. Issue of shares
 - b. Issue of debentures
 - c. Rising of long-term loan.
 - II. **Internal sources-**
 - a Ploughing back of profit or reinvestment of funds
- III. **Sources of temporary working capital-**
 - i. **External Sources-**
 - a. Short-term public deposits
 - b. Outstanding wages
 - c. Outstanding expenses
 - d. Bank overdraft
 - e. Short Term borrowing
 - f. Advance from customers
 - g. Trade creditors

ii. **Internal Sources-**

- a. Provision for taxation
- b. Provision for depreciation

Determinants of working capital-

1. Business size
2. Nature of business
3. Operating cycle length
4. Policy of production
5. Price level charges
6. Divided Policy
7. Requirements of cash Reserve
8. Levels of Taxes
9. Depreciation Policy and methods
10. Business: Expansion and growth
11. Seasonal variation
12. Credit policy
13. Production policy

Dividend Policy Decision-

That portion of divisible profits which is received by the shareholders in proportion to their holdings is called as dividend. The term divisible profit refers to that profit of the company which can be distributed in the form of dividend among its shares holders.

Provision of the Indian companies Act, 1956 in respect of dividend.

1. A company cannot pay dividend out of its capital in carry condition.
2. Dividend can be paid only out of-
 - a. Profits of current year
 - b. Undistributed profits of previous years.
3. We must follow the provisions of Memorandum of Association and Articles of Association while declaring and distributing dividend.
4. Payment of dividend only from profits

5. Dividend can be paid only in cash.
6. Payments of dividend can be done only to specified person.
7. Dividend should be paid within 30 days of its declaration.

