Biyani's Think Tank

Concept based notes

Business Policy and Strategic Management

MBA

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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

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M-302
BUSINESS POLICY AND STRATEGIC MANAGEMENT

Course/Paper : 302 MBA **Max.Marks : 70**
Semester-III **Time : 3 Hrs.**

Objective:
The objective of the course to equip the students with analytical tools for Cracking case studies by scanning the business environment and coming to a decision. The students will benefit by acquiring new ways and means of developing strategic decision making skills.

Section-A

Introduction: Business policy-evolution of the concept. Difference between business policy and strategic management. Corporate governance- concept, issues, models, evolution and significance. Introduction to Strategic Management-Concept importance of strategic Management, Strategy & Competitive Advantage, Strategy Planning & Decisions, strategic Management Process.

Top management perspective: Establishing company direction-developing strategic vision, setting objectives and crafting a strategy-Internal & External Environment, Formulating Long Term objective & Strategy, Strategic Analysis & Choice.

Analyzing business environment: Analysis of Business environment at 3 levels-Macro external environment analysis, external environment analysis (Industry analysis and competitor analysis) porter's five forces and competitor analysis framework, and firm level internal analysis.

Identifying alternative strategies: Grand strategies: stability, growth, retrenchment & combination strategies.

Competitive strategy and competitive advantage: Industry and competitive analysis, strategy and competitive advantage, Principles of Competitive Advantage-Identifying Value Activities, Competitive Scope and the Value Chain, the Value Chain and Generic Strategies, Mergers & Acquisitions Strategies.

Section-B

Case Study

Unit 1

Introduction

Q.1 What is Business Policy?

Ans. The term "Business Policy" comprises of two words, Business and Policy.

Business : "Business means exchange of commodities and services for increasing utilities."

Policy : Policies may be defined as "the mode of thought and the principles underlying the activities of an organization or an institution." Policies are plans in they are general statements of principles which guide the thinking, decision-making and action in an organization.

Business policy as a principle or a group of related principles, along with their consequent rule (s) of action that provide for the successful achievement of specific organization / business objectives. Accordingly, a policy contains both a "principle" and a "rule of action." Both should be there for the maximum effectiveness of a policy.

Q.2 What do you understand by evolution of business policy?

Ans. Due to the increasing environmental changes in the 1930s and 40s in the US, planned policy formulation replaced ad hoc policy-making. Based on this second paradigm, the emphasis shifted to the integration of functional areas in a rapidly changing environment.

Increasing complexity and accelerating changes in the environment made the planned policy paradigm irrelevant since the needs of a business could no longer be served by policy-making and functional-area integration only. By the 1960s, there was a demand for a critical look at the basic concept of business and its relationship to the environment. The concept of strategy satisfied this requirement and the third phase, based on & strategy paradigm, emerged in the early sixties. The current thinking- which emerged in the eighties- is based on the fourth paradigm of strategic management. The initial focus of strategic management was on the intersection of two broad fields of enquiry: the processes of business firms and the responsibilities of general management.

Q.3 Differentiate between business policy & strategic management?

Ans. Difference between Strategic Management and Business Policy

Strategic Management		Business Policy
1)	Deals with strategic decisions that decide the long-term health of an enterprise. It is a comprehensive plan of action designed to meet certain specific goals.	It offers guidelines for managers to take appropriate decisions.
2)	It is a means of putting a policy into effect within certain time limits.	It is a general course of action with no defined time limits.
3)	Deals with those decisions which have not been encountered before in quite the same form, for which no predetermined and explicit set or ordered responses exist in the organization and which are important in terms of the resources committed or the precedents set.	It is a guide to action in areas of repetitive activity.
4)	It deals with crucial decisions, whose implementation requires constant attention of top management.	Once policy decisions are formulated, these can be delegated and implemented by others independently.
5)	Strategies are specific actions suggested to achieve the objectives.	Policies are statements or a commonly accepted understanding of decision making.
6)	Strategies are action oriented.	Policies are thought oriented.
7)	Everyone is empowered to implement the strategy.	Power is delegated to the subordinates for implementation.
8)	Strategies are means to an end.	Policies are guidelines.
9)	Strategy is concerned with uncertainties, competitive situations, and risks etc that are likely to take place at a future date.	Policy is in general concerned with the course of action to fulfill the set objectivies.
10)	Strategy is deployed to mobilize the available resources the best interest of the company.	Policy is an overall guide that governs and controls the managerial action.

Q.4 What is corporate governance?

Ans. Corporate governance is a system of structuring, operating and controlling a company with a view to achieve long-term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers, and complying with the legal and regulatory, apart from meeting environmental and local community needs."

Corporate governance can be defined as a set of systems and processes which ensure that a company is managed to the best interests of all the stakeholders. The set systems that help the task of corporate governance should include certain structural and organizational aspects; the process that helps corporate governance will embrace how things are done within such structure and organizational systems.

Corporate governance is of interest to us as it determines the strategy of the organization and how it is to be implemented. It is also important to us because the Corporate Governance framework determines who the organization is there to serve and how the priorities and purpose of the organization are determines.

Corporate governance is the set of mechanisms used to manage the relationship among stakeholders that is used to determine and control the strategic directions and performance of organization.

Q.5 Elaborate the significance of Corporate Governance?

Ans. Good corporate governance has assumed great importance and urgency in India due to the following reasons:

1) **Changing Ownership Structure**: The profile of corporate ownership has changed significantly. Public financial institutions are the single largest shareholder in most of the large corporation in the private sector. Institutional shareholders have reversed the trend of scattered shareholders. Institutional investors (foreign as well as Indian) and mutual funds have now become singly or jointly direct challenges to managements of companies. Due to threat of hostile takeover bids and the growth of institutional investors the big business houses started talking about corporate governance.

2) **Social Responsibility**: A company is a legal entity without physical existence. Therefore, it is managed by board of directors which is accountable and responsible to shareholders who provide the funds. Directors are also required to act in the interests of customers, lenders, suppliers and the local community of enhancing shareholders' value. An effective system of corporate governance provides a mechanism for regulating the duties of directors so that they act in the best interests of the companies. Control systems are established either through law or self-regulations.

3) **Scams:** In recent years several corporate frauds have shaken the public confidence. Harshad Mehta scandal, CRB Capital case and other frauds have

caused tremendous loss to the small meetings. Shareholders, associations, investors, education and awareness have not emerged as a countervailing force.

4) **Globalization:** As Indian companies went to overseas markets for capital, corporate governance became a buzzword. Sinking capital markets in India from 1994 through 1998 and the desire of more and more companies in India to get listed on international stock exchanges also prompted them to pay attention to corporate governance. We must, however, remember that corporate governance is not a trick to prop up the sensex of to bring in foreign capital. It implies management of the corporate sector within the constraints of fair play, responsibility and conscience with regard to all the stakeholders.

Q.6 Detail about concerning issues of corporate governance?

Ans. Basic issues

1) **Ethical Issues**: Ethical issues are concerned with the problem of fraud, which is becoming wide spread in capitalist economies. Corporations often employ fraudulent means to achieve their goals. They form cartels to exert tremendous pressure on the government to formulate public policy, which may sometimes go against the interests of individuals and society at large. At times corporations may resort to unethical means like bribes, giving gifts to potential customers and lobbying under the cover of public relations in order to achieve their goal of maximizing long-term owner value.

2) **Efficiency issues**: Efficiency issues are concerned with the performance of management. Management is responsible for ensuring reasonable returns on investment made by shareholders. In developed countries, individuals usually invest money through mutual, retirement and tax funds. In India, however small shareholders are still an important source of capital for corporations as the mutual funds industry is still emerging. The issues relating to efficiency of management is of concern to shareholders as, there is no control mechanism through which they can control the activities of the management, whose efficiency is unfavorable for returns on their (shareholders) investments.

3) **Accountability Issues**: Accountability issues emerge out of the stakeholders' need for transparency of management in the conduct of business. Since the activities of a corporation influence the workers, customers and society at large, some of the accountability issues are concerned with the social responsibility that a corporation must shoulder.

Structural Issues

Corporate governance is viewed as interactions among participants in managerial functions (e.g., management), oversight functions (e.g., the board of directors and

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audit committee), audit functions (e.g., internal auditors and external auditors), monitoring functions (e.g., the SEC, standard setters, regulations), and user functions (e.g., investors, creditors, and other stakeholders) in the governance system of corporations.

Corporate governance consists of internal and external mechanisms, directing, and monitoring corporate activities to create and increase shareholder value. Organizations that strive to develop effective corporate governance systems consider a number of internal and external issues.

These issues affect most organizations, although individual businesses may face unique factors that create additional governance questions. **For example**, a company operating in several countries will need to resolve issues related to international governance policy

1) **Boards of Directors**: Members of a company's board of directors assume legal and ethical responsibility for the firm's resources and decisions, and they appoint its top executive officers. Board members have fiduciary duty, meaning they have assumed a position of trust and confidence that entails certain requisite responsibilities, including acting in the best interests of those they serve. Thus, board membership is not designed as a vehicle for personal financial gain; rather, it provides the intangible benefit of ensuring the success of the organization and the stakeholders affected and involved in the fiduciary arrangement.

2) **Shareholders and Investors**: Because they have allocated scarce resources to the organization, shareholders and investors expect to reap rewards from their investments. This type of financial exchange represents a formal contractual arrangement that provides the capital necessary to fund all types of organizational initiatives, such as developing new products and constructing new facilities. Shareholders are concerned with their ownership investment in publicly traded firms, whereas "investor" is a more general term for any individual or organization that provides capital to a firm. Investments include financial, human, and intellectual capital.

3) **Internal Control and Risk Management**: Controls and a strong risk management system are fundamental to effective operations because they allow for comparisons between the actual performance and the planned performance and goals of the organization. Controls are used to safeguard corporate assets and resources, protect the reliability of organizational information, and ensure compliance with regulations, laws, and contracts. Risk management is the process used to anticipate and shield the organization from unnecessary or overwhelming circumstances, while ensuring that executive leadership is taking the appropriate steps to move the organization and its strategy forward.

4) **CEO Compensation**: How executives are compensated for their leadership, organizational service, and performance has become an extremely troublesome topic.

Many people believe that no executive is worth millions of dollars in annual salary and stock options, even one who has brought great financial returns to investors. The reality, however, is that some executives continue to receive extremely high pay packages while their companies fall into ruin.

Q.7 Describe the factors which have contributed to the evolution of corporate governance?

Ans. Many factors have contributed to the evolution of corporate governance. Some of these are:

1) **The Responsibility for Ensuring Good Corporate Shifted from Government to a Free market Economy**: With the relaxation of direct indirect administrative controls by the government, alternative mechanisms became necessary to monitor the performance of corporations in free-markets. Shareholders believed that market forces could ensure good corporate conduct (self imposed) by way of rewarding success and punishing failures of corporations. Many free-market economies laid down effective regulations to monitor the corporations. However, regulations alone not ensure good governance. To become effective, they must be enforceable by law.

2) **Active Participation of individual and Institutional Investors:** The second factor that boosted corporate governance is the growth of global fund management business. Institutional investors such as insurance companies, pension and tax funds account for more than half the capital in the corporations of USA. This trend is also growing in India. Earlier Institutional investors did not monitor the activities of the corporations in which they invested. But the competition in the fund management business has forced them to take an active role in governance in order to safeguard their investments in the corporations. Now, many institutional investors express their views strongly with regard to various matters such as financial and operational performance, business strategy, remuneration of top-level managers etc. Along with the non-executive directors, these institutional investors monitor the performance of corporations.

The active investor demands good performance in the form of return on investment and they also expect timely and accurate information regarding the performance of the company. Institutional investors can exert pressure on the management as they own a considerable share in the capital and any criticism from these investors can have a major impact on the share prices. Investors believe that only strong corporate governance mechanisms and practices can save