Chapter 8

8.0 Gearing up Resources

Once the tasks associated with strategy implementation are identified, its time for action to restructure, augment, acquire and modify the existing resources and infrastructure (monetary, physical, human, organization and intangible resoureces) to meet the requirements of future business. There challenge of managing involves not only meeting the requirements, but also the task of managing change (discussed in chapters 9-12) and resolving many dilemmas involved.

8.1 Financial Resources

Managing financial resource and structure is not only important and critical, but even a delicate task, involving tight rope walking. It is important because the business can't start if there is no arrangement of finance. It becomes critical if various assumptions regarding inflow of funds fail and the supply gets choked, bringing one or more activities to stand still at once. Outflow is a commitment to suppliers of various inputs, labour, tax authorities and financing agencies etc., who expect timely payments of their dues, failing which they can stop supply, agitate and go for punitive action respectively. It becomes a delicate exercise to match inflows and outflows, at any point, if outflow commitment exceed the inflows that materialise from customer, then pressure for making arrangements for extra funds quickly may become excessive. On the other hand if the inflows are arranged to have more cushion to meet demands of outflows, it hits profitability as funds arranged from banks and other agencies have associated cost of interest. The management of inflows and outflows (each component of which is subject to probabilities, depending upon the behavior of different stake holders and environmental uncertainties) thus becomes a delicate exercise and tight rope walking (neither too much inflow nor uncovered outflows), keeping as little a cushion as possible.

Funds for long terms requirements of financing land, plant & machinery, building, technology and long term components of working capital are arranged through long term sources of reserves, issue of equity shares, interest bearing securities like bonds, debentures etc., and loans from bankers.

A company has option to go for any one or more of the above sources of funding long term requirements. The difficulty with loan, debentures or bonds is that they are fixed charge (interest) bearing instruments of funding i.e., the payment of interest has to made whether the company is making profit or not. It thus aggravates the situation if the company is making loss, and if the profit is small, the interest burden itself can push the company into loss. In a loss situation the repayments due and interest payment may lead to a default situation and the creditors, after waiting for some time, say few months, may start recalling the loan, thus further aggravating the situation. This may lead to court cases and litigation, including the attachment and sale of property on the orders of the court. Even before that, if the company is in loss, the banks may create difficulty is providing working capital, leading to delays and default of the payments due to the various suppliers and payments of salary and wages to employee, who may agitate and stop supplies and work.

The alternative to loans for meeting long term funds requirements is equity. It does not create any fixed charge like interest. If there is profit, then only dividends are to be paid and there is lot of discretion in terms of how much to pay or not pay any dividend at all. The profit generated may be kept as reserves after paying taxes as due. Since it does not create any fixed change (like interest), it does not aggravate the loss making situation which the loans, bonds or debentures do. Further, there is no repayment is to be made (after a fixed period) as installment or in one go. Equity thus does not create or aggravate a loss making situation and provides a safety cushion for the management.

Equity is therefore a very attractive proposition. However is has its own difficulties and demands. It can either be subscribed by the owners- promoters or by public issue. The former has its own limitations. Owner-promoter have limited resources. If they have surplus, they may like to invest elsewhere in expectation of higher return or park elsewhere for safety of their funds, instead of putting all the eggs in one basket.

The public issue is a long drawn and complex process and raising funds on short notice is not possible. The same holds true for raising money from public through bonds and debentures. First a proposal is to be made for approval by the Controller of Capital Issues. Then brokers and underwriters have to the appointed, which have its' own costs and time line. After that an advertisement is to be given to invite subscription from public. After the issue date share/bonds/debentures are to be allotted. Then balance of the unpaid part of the face value is to be collected. All this takes 6 months or more to materialise.

It is not just the time taken for getting subscription from public that creates difficulties, but an even more important factor that impinge on it, the timing of the public issue. If the share market is down, public may not enthusiastically subscribe and the issue may be under subscribed, and even the open market of share may be less than the issue price.

Another point to be noted in this connection is that it is not the general market condition, but the perception of company and its performance in the immediate past period and future potential that affect public perception of the issue and then its subscription. Even if the general market conditions are conductive but the company's performance is not satisfactory, the issue may not be adequately subscribed.

An important point that may also be noted is the premium on which a issue is proposed over the face value. This premium is good fortune and builds reserves and thus owners funds of the company, (which affects the company's capacity to raise loans and debt funds). If the issue is ill timed (when company is not perceived to be doing well) or the general market conditions are not good/ favorable, the premium charged may not be high and thus despite public issue, owners' funds may not increase substantiality. If it is well timed, under good market conditions, the premium may fetch good reserves and owner's funds, and also enhance capacity to raise debt funds also. The overall funds available for deployment in long terms assets may then be sufficient or more than required.

Equity issue has another aspect, which need careful consideration. This is regarding controlling interest, especially in case of public limited companies. If the owner's stake becomes low, there is potential threat of its takeover by existing competitors or others' who want to enter the field without setting up a business from scratch. This has become more common after 1991 when India opened its economy for foreigners. A company has to guard against the threat of takeover, which increases if the company is doing very well as also if it is not doing well.

If the company is doing very well and earning very good profit, but the surplus are not properly distributed as bonus, dividend etc., the reserves increase, which leads to excess cash and the company becomes attractive takeover target. This extra cash has to be parked (invested) somewhere, either in banks as deposits or in shares of other company, to generate some income, else the return on investment will reduce, which will be seen as poor performance by investors. The parking of funds however does not reduce the risk of takeover. It may indeed further increase it.

From the above discussion it will be realised that raising long term funds through equity, debt instruments (bond/debentures) or loans is not easy. Although raising money through long term loans from financial institutions may be easy in modalities, even financial institutions and banks do not give unlimited loans easily, but decide it on the basis of equity and total owners funds in terms of debt/equity ratio. If the ratio in high (say above 2:1), they may ask owners-promoters to bring/increase owners funds. The company is safe if the debt/ equity ratio is less than 2:1. If the company' profit potential in next 1-2 years is likely to be poor, it is safer to keep it even below 1:1. However, too high a equity distributes the profit after tax over a larger number of shares, thus earning per shares becomes low, which affects the price of company's shares in the market adversely and it may be detrimental if company is planning for raising funds from market.

With so many factors affecting the raising of long term funds, for financing fixed assets and long term component of working capital, the exercise becomes truly demanding, delicate and tight rope walking.

If a company goes for acquiring (or merging with) another firm company the requirement of funds increases at times in unpredictable way depending upon negotiations or deal for acquisition. As the negotiations proceed, especially when there are other interested parties, the demand of company being acquired and bidding by other parties increase, which the company has to match. It is not easy at that point to raise funds through public subscription in equity (no time available), and owner promoters may not have adequate funds. Normally, therefore, such requirements are met with debt funds, which adversely affect the company's financial structure. Quick fire action are required to release and divest assets of acquired (merged) company, which are not required, to mobilise funds/cash to correct the acquired and acquiring companies financial structure and position.

When the company goes for growth through acquisitions and mergers, there may be additional demands of rationalization of fixed assets and human resources. One may not need the two marketing managers for same business, so is the case with finance, operations and personnel chiefs. On the same note there may be no need for two factories for manufacturing same product(s). Often disinvestment of unwanted assets may be needed, especially if there is acquisition/ merger with sick company, because the latter are typically laden with loads of unwanted and underutilized assets and manpower. More on the topic is discussed in the section on management of mega changes, in the chapter on managing strategic changes.

When a company diversifies geographically, especially in foreign country, it has to take care of differences in laws and statutory clearances, as there may be wide variations from the area the company may be currently operating in. Failure to understand the differences may lead to real and serious problems.

When a company diversifies to enter foreign market, either through exports or through setting up facilities in one or more countries, to sell in the same or other countries, additional complexities arise in managing financial resources. Firstly, it has to understand the laws of home country for investment abroad, including detailed documentation, failing which consequences as serious as charges of money laundering may follow.

It also requires a clear understanding of the laws and policies for investment of those countries. Not all the countries welcome investment from abroad in all the industries and in unrestricted manner. The funds have to be raised within the investment laws and policies of the home and host countries.

The next thing, a challenge, is arranging foreign exchange for investment abroad, which may not be easy, depending upon the currency reserves of home country. No country, except a few allows free flow of foreign currency outward. The possibility of money laundering may also deter in allowing it.

A company may also raise funds abroad, which eases the problem of arranging foreign exchange. However, it takes a long time to earn a name and reputation as a good company in the home as well as host/ other countries to be able to generated adequate response from the market in host country.

Another issue that makes the task of raising of investment funds abroad a difficult one is the adverse and fluctuating foreign exchange rates. For example, if US$ and Indian rupee exchange rate is 1:70, the performance of Indian company may look inferior, when converted in US$ terms and thus the perception of Indian company be adverse affected in USA market. At the same time, if the Investment is to go from India, the company has to shell out more rupees for same investment, in US$ terms. Thus the currency fluctuations alone can create problems in arranging required funds for investment.

8.2 Physical Infrastructure

Physical infrastructure creation is one of the most challenging and critical task in strategy implementation, especially in case of large manufacturing companies. As one moves from trading activity to manufacturing, the component of fixed assets like land, plant and machinery, buildings etc. increases. These require huge investment, cost of which can't be recovered in one year cycle of business. The cost is sunk. Unless the necessary facilities are created, the product can't he produced and sold and revenue realized to recover the investment sunk in fixed assets. The investment is stand still and no recovery of cost is possible unless revenue streams start flowing through manufacturing and sales of goods. In the beginning the investment in low but as the project work progresses, the investment keeps on adding, till the finished product rolls out. If there is delay in completion, the sunk cost increases as the interest on loan part of the funds mobilized for creating infrastructure keeps on piling at a compound rate, with penal interest on delay aggravating the situation.

Further, if necessary care is not taken the creation of infrastructure may take, inordinately longer time to materialise than estimated one. It hits in two ways, one the cost increases due to interest and the investment increase with time due to inflation. On the other hand, the revenue streams do not materialize (which have profit component) to mitigate the situation. It is thus doubles whapping. Another compounding factor is that market leadership may be lost as the competitors may enter the fray and occupy the company's expected market position.

The completion of project expeditiously and timely has two broad action points, one before the execution of project starts, and the other after the execution starts. In the pre execution stage, several cares are required in the project planning. First among them is reflecting the requirement. A company is an ongoing entity. The dreams should be for growth over a period of 20 years or so for middle size company and at least 10 years for startup or small companies. This leads to assessment of requirement of land, which can't be acquired on as and when basis as the area develops. After that the land should be earmarked for different facilities as a master plan. The project may be divided into different phases, each in small steps of 1-2 years. If a phase is thought of extending beyond it, there is every chance of project over shooting. To the extent possible the facilities should be planned in phases in such a way that revenue stream materialize fast, preferably in first year itself.

The next care to be taken is in terms of reflecting the requirements. If the requirements are reflected in loose or general terms, the Architect will have liberty to design anything and the debate on finalizing the design will ensue. Each change suggested may eat away few months by Architect to come with another design, which may be required to be modified again and again. The competence of architect in terms of developing design that meets requirements is imperative and quick back up with structural design in critical. If the architect and structural, electrical and allied designers are different agencies, the problem away arise in coordination, leading to delays.

A point that needs special mention is that the Architects have great tendency to provide one shot, frozen designs, rather than vertically expandable design, providing adequate ground space to take care of increased traffic, when vertical expanse takes place. One should be careful to avoid all the hassles with builders, due to repeated changes in previous stage design and cost overrun/revenue under run, due to delays caused by repeated design changes are to be borne by the client, threatening the viability of the business, if the company is not able to pass on the increased burden to customers.

Due care must be taken in selecting the Architect and Builders. The public sector companies in India are often bound by lowest quotation offer to be accepted as per vigilance guidelines. Due care should be taken in providing clear specification in tenders, failing which incompetent builders may get selected, who may not able to show progress due to lack of resources and capability. They struggle to survive, use substandard material and labor, leading to poor quality and conflicts arising on rejections. They also use substandard and weak subcontractors, who further aggravate the situation.

One must be clear before engaging even the Architect whether the land acquired is free of all encumbrances and has statutory clearances. Lack of this can stall project execution at any stage and result in variety of time consuming litigations. If land is not clear, appointment of Architect will mean his billing is on without commencement of work.

One must also avoid temporary structures as much as possible, because they have a great tendency to perpetuate far longer than initially thought of, and at times do not allow regular facilities to come up in proper time and fashion, leading to compromise on quality of service. This holds more important in service organizations, which need buildings than workshops.

Creation of some extra space in buildings is inevitable, even if the phasing out is done in steps of 3-5 years, as even with best possible efforts the buildings created for 3-5 years can't be used in 1st or 2nd years or even beyond for the purpose (business) they were created. It is prudent to go far multi-utility buildings as much as possible. This helps in optional utilization of buildings. Multi-utility design also helps in using that extra space for other activities or for launching new activities at a low key to check market response, so that regular facilities for them can be created on follow through. Starting new activities in such improvised designs help in over commitment to new activities without appropriate market response.

For the execution phase, one must use PERT (Programme Evaluation and Review Technique). The first step after the design is to develop a PERT diagram and also draw critical path. This is more talked than followed in letter and spirit. Lack of expertise is one key factor responsible for the same. The second key factor is the indifference of top executives to engage is project management. The top executives, who are keen for successful implementation of strategy selected do and have to take keen interest in project management, failing which the project keeps on missing deadlines with increasing cost, and non- realization of revenue timely, threatening the very viability of the business. This is required because lot of decision to be given on the spot in categorical ‘Yes’ or ‘No’ form, which junior levels can’t decide and a trail of file movement starts between top executive, project management team punctuated by architect and builders comments, clarification and delays.

The next and a big catch is in the time estimates for various activities of the PERT network. The time estimated for each activity is normally very much above the minimum required and people responsible for the each activity keep on adding cushions for their own safety. The estimates of time taken for each activity may be 2-5 time of min time required. Cumulative effect of it can easily be 2-3 times what may be required for completion of the project. If the people responsible for carrying out the activity(s) are not directly involved in development of PERT diagram, the estimates for each activity are as good as guestimates, as the PERT prepared by Architect or Builder are made to fit the overall time limits desired by the client, from beginning to end, rather than based upon proper assessment of time for each activity.

The provisional time estimates once given in PERT on overall basis and cleared by the client, are taken as sacrosanct. No one questions their sanctity. Then onwards, the exercises of review are only to incorporate delays already caused. No one looks back to suggest how the delays are to be made up by mobilizing additional material, labour and other resources.

One reason for this is the fact while additional cost for mobilization of additional resource is concern of all, very few persons in the project team are aware of the loss/ gain of revenue stream if crashing (reduction in time) is resorted by deployment of additional resources. Only the top executives, who have an idea of it, can give clearance for additional cost to expedite.

The monitoring of project should not be in the meetings through paper reports only, but on the spot, physical verification should be undertaken not only through formal visits, but frequent (even midnight) surprise checks, so that the key executives know the actual position, rather than the one reported by the project management team, which is often a late reporting with emphasis on justification for delay than how to ensure timely progress as per PERT diagram and restoring back slippage.

Often there is a tendency among project staff to declare things as complete, when only a part is done. For example the electrical engineer claiming completion when wiring or fitting only is done, but no power connection; either meters are not there or clearance from electrical authorities is not there or no energizing of line. So is the case with plumbing if pipes are laid (but not joined) or taps fitted it is declared completed, even if there is no water supply. This situation can be handled by using the concept "switch on the light", i.e., whether the facility is ready for final intended purpose.

At times in major projects with several buildings or workshops, there is shortage of critical material or supply or labour, and the work is scattered all around. In such a case prioritizing and chunking helps i.e., putting the workshops or buildings in priority order, depending upon how close they are to final use for delivery of product or service, and then divert critical resources to those buildings or workshops. A good way of expediting the work is to coincide the completion of building/workshop with declaration of its inauguration with some major event, when key/ top executives are assembling. This builds momentum in otherwise sleepy, slow paced progress of projects.

A point worth noting at this stage is whenever there is any alteration in design or material is being made, a formal concurrence from the builders should be taken (reflecting additional cost/reduction in cost) before the alternative in executed. This helps a lot in setting progressive and final bills and avoids scope for prolonged and costly litigation and arbitration with builders and architects, which may run into years, wasting precious time of project team, accounts department and senior/top executives and mars good relationship with them, which in turn jeopardizes chances of extension and repeat orders for development of future buildings, in harmony with past, at a fast pace.

One important point to be noted here is the maintenance of proper relationship with builder. It does not mean accepting all that he asks or claims, but understanding his problems and explaining clients' difficulties and constraints, what he can do or can't do. This opens up space for negotiation and agreement to expedite project completion. For example, most builders have problem of funds which they do not disclose initially. Later they start using substandard material, overbilling etc., all of which lead to problem of settling bills and litigations. If the payment of bills is expedited, the builder can be persuaded to stop overbilling and not use alternate (substandard) material without concurrence from the client.

A major factor which often misses attention is the duty of client as a principal employee. The strictness with which it is enforced varies from place to place. It can be easily taken care. But if the responsibility under the act is not understood well or taken lightly, it can create serious problems for senior executives (who are designated as principal employer), including summon and penalties that can disturb discharge of their normal, other duties.

If due care is taken is project management for creating physical infrastructure , one can reduce cost and time over runs dramatically, increase revenue stream and project to unexpected level, create new business opportunities that do not occur otherwise, ensure economic viability of the business, avert long drawn litigations and arbitrations and stay clear from inadvertent fouling with regulatory authorities.

8.3 Human Resource

It would be realised from the discussion so far, that human resource of management is a key factor for the success of corporate strategy. It is, indeed, a critical one, as being an organic part of the organization (unlike passive resources like physical infrastructure and financial resources), it can make (by active cooperation) or mar (by actively resisting) the task of strategy implementation. It is a resource which is to be modified and developed, rather than being bought or sold only as is the case with physical resource. It is a resource, which can be a great asset if managed well but could be a great liability if not managed well.

The management of human resource has four broad aspects. One, which relates more to the technical aspect of it, concerns with working out the number of people of varying skills and competence required for carrying out various activities for smooth running of the business, developing job descriptions, recruitment, postings and transfers etc., which are typically carried out by personnel department in industry. This aspect is not in the domain of strategic management. The others, perhaps the more important ones, are those of managing motivation and managing human resource development (including upgradation of technical/ managerial skills, attitudes, world views and orientations). Last but not the least is the task of managing resistance to change by people at different levels, which is very closely associated with the task of strategy implementation. Of the latter three, the first two are covered in this section and the last one is covered in chapter 10.

8.3.1 Managing Willingness/ Motivation

Of the three, managing motivation is primary. If one was able to have an excited workforce, willing to deliver goods, it is easier to manage various organisational tasks. Managing motivation revolves around three basics/ issues: identifying the (active) needs to be fulfilled, managing expectancy (discussed later in this chapter), and managing perceived equity (in rewards and punishments).

Motivational policies should be based upon constant and conscious search of currently active (or unsatiated) needs out of a variety of possible needs. An understanding of Maslow's need theory[1] comes handy for the purpose, which proposes that the driving force for every human action is urge for satisfaction of some or the other needs. Some needs are easily satiated (and recur fast like need for food) while there are many which are not easily satisfied like sense decision making authority, sense of worthwhile accomplishment etc. Maslow also proposed that there is a hierarchy of needs, classifying various

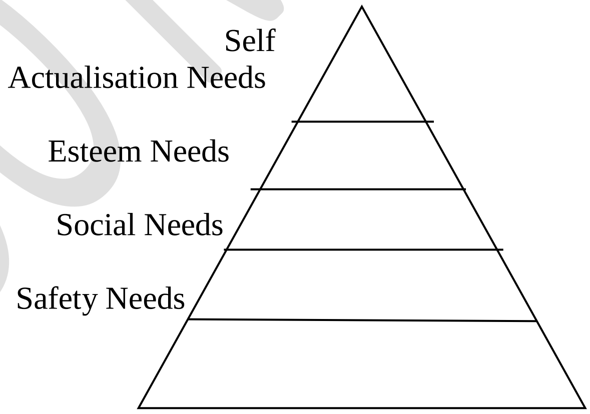

Fig. 8.1 Maslow’s need hierarchy

needs in five broad categories, which helps in identifying active needs. Unfortunately, the concerned managers, especially the policy makers rarely undertake such appraisal on an on-going basis.

The motivational policies should not aim at satisfaction of only a few lower order needs, e.g., physiological and safety needs. Often, there is over-emphasis on the hygiene factors (which reduce dissatisfaction but not increase job satisfaction) and little concern for the motivators (which increase job satisfaction thus willingness to work, resulting in organisation buying only the membership of the organization (i.e., employment) and not the "willingness to work". The use of motivators, such as the worthwhileness and the challenge in the job, the decision making authority etc., should be made as much as possible, especially in executive cadres. The major difference between the better performing and the poor performing organisations has been found to be in terms of the motivators 9higher order needs) rather than hygiene factors[2] (lower order needs).

Hygiene factors are comparatively more precise, easily measurable and controlled, while motivators are not so. While hygiene factors are extrinsic to the job (like food, job security, perks, salary, office room setting etc.) , motivators are intrinsic to the job (engrossing job, decision making authority, appreciation of job well done) and therefore can be taken care of at inter-personal level more effectively. Needless to add that this requires a very active involvement and training of supervisors (managers) for using motivators, since the motivators can be better taken care of at inter-personal levels, rather than at the policy levels[3].

Several other care have to be taken in developing appropriate motivational policies. The use of expectancy theories[4] is one of great value. Expectancies are of two types. One, called the expectancy of first order[5], concerns with the probability that one attaches to achievability of the targets being set for him by the superiors. The other, called expectancy of second order, also referred as the "instrumentality of efforts to rewards"[6], concerns with one's perception about the probability of his getting the rewards promised, if he was able to achieve the targets set. If one wants outstanding performance from his subordinates, he has to ensure that expectancy is high on both the dimensions (first and second order). It is, therefore, necessary that organisation policies and processes are designed in a way that ensures the two factors are properly taken care of. In a major study on comparative performance of public sector and private sectors companies in India, it was found that major sectoral differences in management of motivation were not in degree of need satisfaction, but instrumentality of efforts to rewards[7].

Another aspect that needs strategist's attention is the maintenance of equity[8]. Every person wants equity[9] in that the ratio of the rewards that he gets and the efforts that he makes, should be comparable to those of others i.e., there should be social equity. It is not an easy thing at all. But it is not as difficult either. Open favours and biases in the performance appraisal and reward and punishment system badly affect motivation and morale on account of absence of equity. Both the expectancy and social equity theories are of as much relevance as the need theories and should, therefore, be equally emphasised in managing motivation.

The target setting and evaluation of performance appraisal are processes which are diffused across the organisation. The performance appraisal and reward systems, should be properly designed keeping the above factors and audited from time to time, if one wants success of motivational policies. Failure to do so vitiates the effectiveness of most innovative HRM policies due to inequities. The issue will be discussed in greater details in the performance appraisal and reward system.

A critical factor that often misses the attention of policy makers, is the linkage between the personnel policies and business policies. The development of personnel policies, especially career growth policies cannot be decided devoid of the growth plans of the organization itself.

If the two are delinked specially in the case of professionally managed organisations (owners detached from management), where career growth is key to executive motivation, it may cause low morale and low motivation organisation wide. Any attempt to give artificial promoting may only shift the incidence from motivation to role stress. A vivid illustration of this phenomenon was seen in case of “Growth Bank”[10].

8.3.2 Human Resource Development

The issue of development of skills is quite an important one from the view point of strategy implementation, as the long term success of any organisation depends upon the necessary development and constant upgradation of skills to meet the changing task demands. Maruti Udyog Ltd.[11] is a classic case that describes how the development of skills could be closely linked with project implementation and indigenization programmes in a phased manner

Secondly, inadequate levels of skills lead to low levels of efficiency, delays and inaccuracies in work completion, which result not only in low quality, but also in an exponential increase in the costs. The latter happens because of two reasons. One, it involves the cost and time required for corrections and second it reduces the efficiency of others (including the superiors), (i) by interrupting others and (ii) through group pressures to maintain a level of efficiency that can be reached by the least competent person. The damage on account of incompetence can be very high, at times even irreparable.

The existence and perpetuation of inadequate skills is often due to the lack of realisation of the importance of need for continuous augmentation of skills. This happens primarily because of loss of sight of the organisational objectives and strategies in the managerial cadres. Another reason is the widely prevalent belief among supervisors that skill development can be through formal, structured method only. Supervisors often do not realise that it is not possible to have constant upgradation of skills without the active and conscious efforts towards the same by supervisors themselves. The practice of job rotation at times assumes priority over skills development through specialisation, which requires a reasonable length of stay in a particular cadre.

The existence of poor skills or competencies leads to increased demand for manpower. But that is not the solution. Indeed, it works the other way round. Two incompetent persons cannot finish the job of one person with adequate level of competence. One major problem in skill development in India has been the socio-culture milieu of the society in India, the patronage to life-time employment policy, protected markets and onus of learning being on the employer, rather than on the employees, leading to neither any pressure nor concern for continuous learning by the employees on their own. Superiors also neither demand, nor help or encourage development of skills. With opening of Indian economy to global competition, there is bit of change in the situation with pressure being felt but the efforts are still far short of what is required. The bite of low competence is felt only when the organisation moves towards sickness, when it is too late to undertake any serious human resource development programme.

The key to skill development is to promote the concept of sharing the responsibility of skill development with the employees -the initiatives taken by them, learning and using newer technologies, bringing innovation in tasks and work. Constant appraisal and monitoring of these parameters is important to achieve sustained development of skills. This must be supplemented with other supports like on the job training, providing opportunity to try out, experiment and innovate and by empowering the organisational people.

8.3.3 Performance/ Potential Appraisal and Reward System

As mentioned in section 8.3, the management of human resources has two significant components. One, the management of motivation and second the skill development. The strategists must ensure that there is an appropriate performance potential appraisal system to meet the twin objectives. No matter how attractive a corporate strategy he is able to visualise, it will not be fetching good returns in the long term, if he is not able to ensure an appropriate Performance/ Potential Appraisal and Reward System (PPARS). A sound PPARS should be able to recognise and differentiate between the good and the bad performance of individuals (for they are to be equitably rewarded), and also be able to identify one's potential for higher responsibilities and develop strategies to exploit it[12].

The PPARS may fail in more than one ways: in correctly appraising individual performances, in giving rewards that satisfy one's most potent needs, in ensuring equity in the reward, in failure to develop strong linkages between rewards to one's performance, in identifying one's potential and in exploiting the same.

The reasons for occurrence of such failures are many. Firstly, there may be a lack of appreciation of basic concepts. For example, it is often not realized that the active needs are different for people at different organisational levels.

At lower levels, it is more of lower order needs (i.e., hygiene factors) that people look for satiation, while at senior levels, people are operated more by higher level needs (i.e., motivators) like status, decision making authority, nature of job, job responsibilities etc.[13]. A closer scrutiny is required at the need requirements to tailor the executive growth plans. It has also to be ensured that not only one's technical competence but also (and more so) his managerial competence should be duly appraised, as one ascends the executive cadre. An incompetent executive once promoted, will not only be a non-performer himself, but will also kill the competent subordinates causing a more serious and permanent damage to the organisation. It may be mentioned here that one should not assume that the motivators are important only for higher organisation levels in all the cases. Once a person's physiological, safety and social needs are satisfied, he looks for "motivators" irrespective of the organisation level.

A point to be noted here is that hygiene factors are easy to quantify, measure and control, while motivators are not so[14]. For example, it is easy to decide what material benefits, like pay and other benefits ought to be given, but is not easy to quantify the need for a challenging job, sense of worthwhile accomplishment, recognition and other motivators. The hygiene factors (benefits etc.) can, thus, be taken care of more easily at policy levels, but motivators have to be taken care of at interpersonal levels. This means that every superior, all along the organisational hierarchy has an implicit role; that of Human Resource Manager, for motivating the staff through "Motivators". It is necessary to bring home this realisation, organisation wide. At the executive levels, it becomes all the more important to link individual's performance and organisation structure and strategy, to take care of motivators at executive cadres. In organisations, where all the need satisfier are linked to one's level or position one occupies in the organisation, it becomes all the more necessary to work out the minimum corporate growth rates necessary to meet the promotional requirements of the people at different levels. The organisation must be able to develop a corporate strategy, which would give physical growth in organisational activities at a rate, that is, meet individual's growth needs. A mismatch will frustrate people. In such a situation, even giving (fictitious) promotions by creating more positions would not help much[128a (growth bank)]. It would only shift the incidence from dissatisfaction arising out of lack of need satisfaction to increase in role stresses (such as increase in role erosion, role isolation etc. as seen in the case of Growth Bank)

The performance appraisal systems at times lack objectivity in evaluation. The problem arises on account of lack of clarity of the people responsible for performance appraisal and poor performance appraisal skills. If the organisation does not have clarity on organisation mission, objectives and strategies, one can't expect transparency and clarity about the criteria used in performance appraisal. Sometimes it happens on account of the sheer magnitude of the task involved. If the performance appraisal for heavy rewards (like promotion), involves only one stage of appraisal, there would be a very large number of people who have to be screened out. Organisations are, at times, unable to take out really competent line executives from their position to carry out the PPAR exercise. Thus, the "seconds" are involved in the assignment. Involvement of a large number of people in parallel appraisal exercises also creates differences in their evaluation. This may lead to variance in appraisal and consequently in the rewards given, thus reducing' the instrumentality of efforts to rewards. The strategist must ensure that the "selection system" does not start operating as a "rejection system".

The focus of appraisal system should also be to ensure equity. The distinction between equity and attractiveness of reward for the performance must be clearly understood. Rewards that satisfy needs not only depend upon the appraisal of performance but also upon the capacity of the organisation to give rewards. Even if the organisation is not able to reward the performance as people expected, the people would not be upset if equity was maintained in whatever rewards were "given". Appraisal should be done even if no rewards are to be given for some time, as it is not only useful for deciding rewards but also for identifying the potential for future performance and for grooming the people.

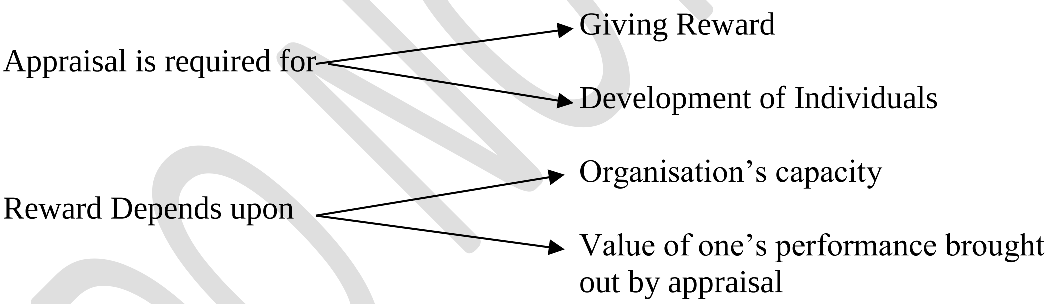

Fig. 8.2 Performance Appraisal and Reward System

Another significant dimension of PPARS is the timeliness of rewards. Rewards should not be too delayed. This may happen, if there were only few rewards; like promotion, other benefits, the opportunities given, etc. were related to a single appraisal, after a fixed period. PPARS should constantly appraise performance and rewards must follow from it in a timely manner, and in such tangible terms that are valued by the appraisees. If necessary they may be split so that rewards are given at shorter intervals.

While quantum of rewards to be given should form an integral part of input for deciding corporate growth rate and strategies to achieve it, ensuring high equity, high instrumentality between efforts and rewards and timeliness of the rewards, is a part of appraisal system design. While operation of the PPARS is not the role of strategists, it is their responsibility to ensure that adequate checks and balances are incorporated to hold the PPARS from malfunctioning.

Coming back to the second use of PPARS i.e., evaluation of potential for future performance, it is necessary that the appraisal system identifies new skills acquired by people since the last appraisal. An inventory of the same is of strategic importance.

Conscious efforts need to be made for appraising potential on an ongoing basis. If there is no improvement in one's potential for performance for several consecutive periods, it must be highlighted. It is surely a case of a stagnating person, who is going to frustrate future subordinates and superiors. If regular potential appraisal is done, it will have many advantages. People can be groomed in their natural directions, organisational requirements of trained people will be met timely, people will not lose rewards due to poor performance and the organisation can exploit newer competencies developed for undertaking bold plans of growth through expansion and diversifications. The potential appraisal system should be an integral part of employee appraisal and rewards system and it should be monitored at the corporate level.

8.3.4 Top Management Style

The management style with reference to the strategy implementation has to have a unique blend of task and people orientation[15]. Although the imperativeness of the task orientation is normally obvious to the people, the importance of people orientation is often not well realised. The people orientation is not for high affiliation but emphasis has to be on genuine participation/involvement in the decision making process[16]. Strategic changes require a high level of clarity about hows, whats, whens and whys related to the changes to be implemented. The implementation suffers badly if the style is coercive or authoritarian. The people orientation is imperative to reap the benefits ofempowerment[17]; the growth of employees (to be able to share higher responsibilities), collective wisdom, enhanced commitment and reduced guffaws, all so important for the successful implementation of strategy. Style should not block effective communication of the corporate strategy through inappropriate meta-verbal communication.

8.4 Managing Organisational Resources

8.4.1 Organisation Structure

Organisation structure is the network of durable and formally sanctioned organisational arrangements and relationships[18]. There are two aspects of organisation structure. One, called the superstructure[19], describes the way the people within the organisation are grouped into different departments for carrying out various tasks. The second aspect covers the task and authority relationships between different groups as well as the task responsibility assigned to various individuals and groups for planning, coordinating and controlling various activities. The organisation structure also includes the organisational mechanisms provided to resolve conflicts that may arise, between the individual and groups while discharging their responsibilities, on account of conflicting pressures and demands being made upon them[20].

Organisation structure plays a very important role in Strategic Management. Effecting appropriate organisation structure is one of the most critical tasks in strategy implementation. The success of strategy depends to a large extent upon how well the organisation structure is designed to coordinate and control various activities[21]. Its importance, however, should not be gauged only in terms of strategy implementation. Profound influence of organisation structure on strategy formulation, especially the way it constraints the latter, is often not realised[22]. The organisation structure is often allowed to evolve through operational pressures of coordination and control, rather than consciously and pro-actively designed and developed. A functional structure is frequently allowed to be carried on for too long on the criteria of economies arising out of specialisation, or by default. It hinders growth through diversification. In a company which was mainly engaged in undertaking contracts for setting up turnkey dairy projects but also supplied components for maintenance, a new managing director was appointed. Having come from a multiproduct multi-business company which had grown through divisional structure, he created a separate components division. Within three years the components division business was almost half of established dairy projects business.

In the absence of proper structural arrangements for corporate planning, the organisation structure badly constraints new product/ business development[23].If due care is not taken, it may kill even the idea of new product/business development. Likewise, if the organisation structure is not properly designed, it may not encourage strategic thinking in the organisation.

Organisation structure is one of the strongest cues that the people at various levels take as representation of top management thinking and priorities[24]. In a nutshell, the organisation structure design should not get determined by the requirements of coordination and control. It is also treated as an important tool for promoting strategic thinking and sound strategy formulation.

From the point of view of strategy implementation the dictum "Structure follows strategy"[25] should be adhered to. There are several alternative structures possible e.g., entrepreneurial structure, functional structure, line and staff organisation, product or geographical division structure, matrix structure and finally a mixed structure. However, none of the structures may be said to be the best. Each one has some advantages over the others and also some disadvantages (see table 8.1). The most appropriate design for any organisation will be the one which best caters to the unique combination of a number of internal and external factors of the organisation as mentioned below:

i) Nature of the external environment of the organisation.
ii) Size of the organisation.
iii) Nature and complexities of its operations,
iv) Advantages accruing from functional specialisation.
v) Advantages accruing from product specialisation.
vi) Advantages of regional specialisation (regional differences in customer tastes and preferences, cultures, political and regulatory environments, language, customs and practices).
vii) Nature and magnitude of interdependencies involved among various tasks/ functions/ products.
viii) Soundness of public infrastructure available like communication, transport etc.
ix) Concern for allowing each product business to exploit its full potential.
x) Concern for and pressure on the Chief Executives to deliver results.
xi) Requirements of corporate strategy communication
xii) Span of control of top executives.
xiii) Cost of supporting the organisation structure.
xiv) Availability of skilled generalists to head independent product/ business units.
xv) The top management styles (autocratic/participative).
xvi) Organisation culture.

From the above list of factors, it will be noted that there are two aspects of organisation structure design. One, the desirability aspect (what the structure should be), and the other, the achievability or workability aspect. The desirable aspect of design depends upon the need for differentiation and integration[26]. The level of differentiation (i.e., the number and \variety of groups grouping of people in various task sets) required is determined by characteristic of environment (discussed later) and the requirements of functional specialisation vs. product or geographical division specialisation[27]. The requirements of integration and preference for conflict resolving mechanisms[28] is determined by the level of differentiation attempted and the nature of interdependencies[29].

The other aspect, i.e., workability, demands that the structure should match with the managerial styles, the level and adequacy of managerial skills available, the cost of structure[30] and the organisation culture. Other factors that need to be considered are the span of control and the requirements of flexibility. Inadequacy in these aspects reduces the efficacy of organisation structure considerably. The physical spread of the organisation and the supporting external physical infrastructure, like the transport and communication systems, also influence the

Table 8.1

	Advantages	Disadvantages
Entrepreneurial Structure	Quick decision making, as power is centralised; Timely response to environmental changes ; Informal and simple organisation systems.	Excessive reliance on owner-manager and proves to be demanding; May divert attention of owner-manager to day-to-day operational matters and ignore strategic decisions; Increasingly inadequate for future requirements if volume of business expands.
Functional Structure	Efficient distribution of work through specialisation; Delegation of day-to-day operational functions; Providing time for the top management to focus on strategic decisions.	Creates difficulty in coordination among different functional areas Creates specialists which results in narrow specialisation, often at the cost of the overall benefit of the organisation; Leads to functional, and line and staff conflicts.
Divisional Structure	Enables grouping of functions required for the performance of the activities related to the division; Generates quick response to environmental change affecting the businesses of different divisions; Enables the top management to focus on strategic matters.	Problems in the allocation of resources and corporate overhead costs, particularly if the business and corporate objectives are ill defined; Inconsistency arising from the sharing of the authority between the corporate and divisional levels; Policy inconsistencies between the different divisions likely.
Strategic Business Units	Establishes coordination between divisions having common strategic interests;	There are too many different SBUs to handle; effectively in a large, diverse organisation;

	Facilitates strategic management and control of large diverse units; Fixes accountability at the level of distinct business units management.	Difficulty in assigning responsibility and autonomy to SBU head Addition of another layer of corporate and divisional management.
Matrix Structure Difficulty	Allows individual specialists to be assigned where their talent is most needed; Fosters creativity because of pooling of diverse talents; Provides good exposure to specialists in general management	Dual accountability creates difficulty for individual team members; Requires a high level of vertical and horizontal combination; Shared authority may create communication problems.

Source: Business Policy by Azhar Kazmi, (1992) New Delhi, Tata McGraw Hill
organisation structure design[31]. For example poor communication infrastructure may not be able to support effective centralised decision making.

It is necessary to understand the interplay among all these factors in the final design of the organisation. Although exhaustive details are outside the scope of this case book, one can have appreciation of it with brief discussion that follows.

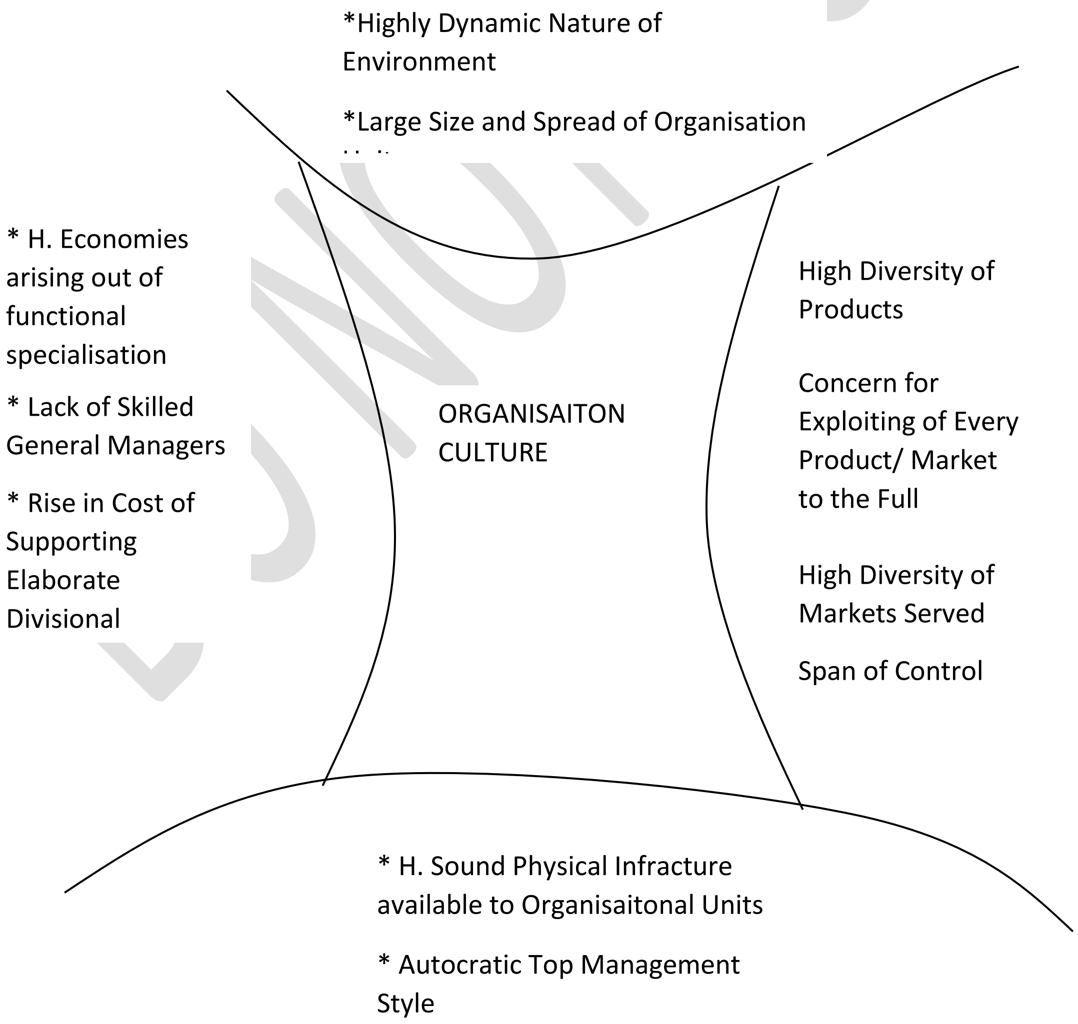

Fig. 8.3 Concern for and pressure on Chief Executive to Deliver Results

The impact of external environment on the structure design can be understood from the study of Lawrence and Lorsch, who observed that organisations which had achieved higher level of differentiation were better, performers than those which did not[32]. Differentiation refers to grouping of people in different sets, who face different environmental demands. These demands are in terms of the time, the task (or goal), and the interpersonal orientations. For example, the production and research tasks put very different time demands on people carrying out these functions, the former demands quick results from the subordinates while the other calls for patience. Likewise, production requires high task orientation of superiors for getting work from the people, while research and development demands high people orientation. If the production and research and development responsibilities are assigned to the same executive, the two would put opposite, conflicting demands on the executive concerned. These functions, therefore, should be separated out; else, either one or both of them will suffer. Lawrence and Lorsch also pointed out that the organisations which had differentiated more, but had not been able to achieve integration commensurately, performed worse than those which did not differentiate as much.

The characteristic of external environment makes a difference in structure design in yet another way. A highly dynamic and volatile environment will require quick response to environmental changes e.g., competitors' moves. If the organisation is large and/or well spread out it will demand decentralization of authority, which is achieved by following product or geographical divisional structure. However, it would involve a compromise with advantages accruing out of functional specialisation. Further, the desire to have a divisional structure (with profit/business responsibility on divisional managers) may remain a dream, if the organisation does not possess adequate number of "well rounded” general managers. It may a need a little time and lot of pain in grooming the executives for assigning responsibility of total results rather than of a limited/ functional area. At the same time, it may be possible to overcome the demands of quick response even with highly centralised, functional structure, if the communication and transport infrastructure available between different organisational units were sound enough in terms of the availability, reliability and cost effectiveness.

The working of group of people in departments and sections etc. is also affected by the nature of interdependence existing among various tasks and activities. Interdependencies indicate the nature of input-output relationship between groups (department/ divisions). The interdependencies are of three types; namely, the pooled interdependence, the sequential interdependence and the reciprocal interdependence[33]. In sequential interdependence output of an individual (or group A) is input of another individual (or group B). For example the production department is dependent on material management department for procurement of material without which it can't proceed with production. The delays or inefficiencies of material procurement department increase tension of production department. In reciprocal interdependence, A is dependent on B for an activity and B is dependent on A. Inefficiency of A creates problem for B and vice-versa. In the case of pooled interdependence, the people are dependent on each other indirectly, e.g., A group of people AI, A2, A3, A4 etc. are dependent on another person or group of persons. For example, a group of officers dependent on a typist pool for getting their letters and documents typed. Each person's action affects that of one or more of the other persons. Thompson[34] suggested that people or groups having reciprocal dependence should be grouped first. Next the sequentially dependent people should be grouped with those on whom they are dependent. Finally, if possible, those having pooled interdependence should be grouped together.

The need for integration is in terms of encouraging cooperation and reducing conflict across individuals and people in different groups. The conflicts arise out of two broad set of factors: one, the task demands generated from the environmental and other organisational pressures and, second, the nature of interdependence between the individuals/ groups. There are several conflicts resolution mechanisms available[35] as mentioned below. However, more often than not a combination of them has to be used.

Table 8.2

Conflict Resolving Mechanisms*

1. Use of hierarchical authority.
2. Setting standard systems and procedures (including those which may be used in case of disagreements).
3. Creating liaison positions.
4. Meticulous planning of work.
5. Use of task forces/ arbitrators to settle the disputes.
6. Human relations training to get them to understand and communicate with each other better.
7. Use of behavioural science techniques like confrontation meeting, managerial grid type programmes designed to raise inter-personal competencies.

While designing the organisational structure, one must not underestimate the factor of top management style[36]. Even if the environment is highly dynamic, it may not be possible to decentral1se effectively, if the management styles of top and senior executives are autocratic. Changing style is a very slow process and years may pass before effective decentralisation takes place.

Besides the style, the cost of operating the structure is also a significant factor, In the case of First National Bank[37], it was found that putting the regional offices at the circle office premises/ city was proving costlier than where the regional offices were shifted close to branches (in the same states. It was also found that in the latter regional offices were able to support mobilization of business and attend to branch calls better. Working out and quantifying the cost of organisation structure is quite a difficult task. As a result, often the cost is not considered in the design of the structure itself. It is a factor that can and should be considered.

Organisation structure is one of the most important communication tools for conveying to the masses the priorities and the mind of the top management for the future tasks and activities. By creating new departments and positions the management conveys the importance it attaches to these activities[38]. However, it must be remembered that the organisation structure is occasionally used as a means of managing motivation also, (as it reflects one's status which may satisfy his esteem needs). In such cases, the structural changes as a means of communication of top management priorities may misfire and fail. Further, the structure as a motivational tool should not be stretched too much to meet the motivational requirements. Often promotions are given based upon fictitious growth of the organisation (i.e., growth measured in financial terms rather than physical terms) to meet the promotiona1 needs of the people. This dilutes the job roles (as there are more number of people at each 1eve1 than what physical level of organisational activities would support. Occasionally new but unnecessary roles are created to accommodate the people promoted, at different levels. These short term and short sighted remedies do not help in solving the motivational problems, but only shift them from low need satisfaction to high role stress, especially at senior levels where people can be motivated by working on higher order needs. The case Growth Bank[39] amply illustrates how unwarranted structural changes (created positions to accommodate requirements of promotion) may not meet the needs of promotion but creates role stress of various kinds. It takes years before the superfluousness of many organisationa1 roles, especially the staff support, is realised and removed.

It may be pointed out here that all the executive roles depicted in any organisation chart rarely display the real, operating relationships[40]. The, political processes at times make the two widely different ones. It may also be noted that the organisation structure typically swings, in emphasis, between the functional and product/geographical divisions, as the organisation grows[41], from functional to divisional to functional one, albeit at broader, corporate levels.

The factors determining the design of organisation structure are so many, often making conflicting demands (see fig. 8.3), that the large organisations rarely have any of the basic structure in pure form. The large, complex organisations typically have a “mixed” organisation structure.

8.4.2 Systems

The major systems that need to be considered checked for modification at the time of strategy implementation are the ones related to planning, coordination, control and motivation.

8.4.2.1 Management Control System

The long term, sustained performance of an organisation requires that there are effective control systems in place. The control systems are of three types; namely the strategic control system, the management control system and the system for task controls[42]. The task control refers to control of various actions related to the operations, like procurement of material, issue of invoices, payment to suppliers and workers etc. The concern here is to ensure that the tasks are carried out timely, correctly and efficiently. Although the task control is not the job of the strategists, it is important that the people responsible for strategic management ensure that appropriate task control system is put in place for effective and efficient running of the operations.

Management control requires creation of responsibility centres i.e., autonomous organisational units responsible for overall responsibility of success of a strategy (business) and functions[43]. There are various types of responsibility centres possible i.e., Revenue Centres, Cost Centres, Profit Centres and Investment Centre, each having some advantages and limitations. It would be recalled from the previous section that the creation of responsibility centres is related to the organisation structure design. For example, the creation of profit centres, investment centres is better suited to divisional type of structure, while functional structure is more amenable to revenue and cost centres for management control. Which one is more appropriate for an organisation will depend upon the nature of business (dynamic/stable environment), the availability of skilled "well rounded" executives and the top management style (participative/ autocratic).

The process of management control[44] involves: i) setting up the targets or standards of performance for each of the responsibility centres (based upon objectives aimed to be achieved), ii) measuring the actual performance, iii) comparing the actuals with standards and analysing the variance, and finally, iv) taking the necessary corrective action on the business and/or the people shouldering the responsibility of carrying out various task related to their part of business concerned (see fig. 8.4).

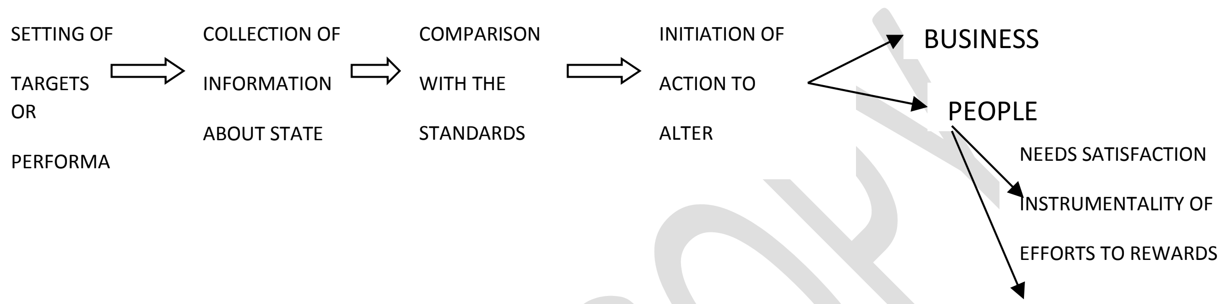

Fig. 8.4. Management Control Process

The practice of target setting varies from overall basis (like only profits) to very detailed, component wise (covering various items of income, expenditure, investments etc.). The measures of performance selected should not be so broad/ abstract that they do not allow any insight into the problem points and the actions that may be necessary. Neither it should be so detailed that people "lose sight of the forest itself while counting the trees". Indeed, the design of management control should be such that relevant details on key variables are available to the responsibility centre heads and other superior offices for necessary corrective action.

The key variables are those parameters which have important bearing on the overall performance[45]. They are of two types; the internal and the external. Internal key variables (like inventory slippages, production delays, customer complaints etc.), are essentially high risk points in overall system of organisation, where activities may go out of control or deviate from management plans. A strategy having large number of risk points will require more control measures, involving additional costs.

The external key variables are factors that are largely beyond the direct control of the organisation. These are environmental factors, like change in customer preference, competitors' moves etc. The key variables can change quickly and require prompt action. They may be measured directly or indirectly through surrogate measures. The key variables can be identified by looking at various functions of the company or organisation, by asking such questions as to why its customers are willing to pay for the product or services; which activities need to be done particularly well if the organisation has to be a successful one; what are the factors that management is concerned with most while making major decisions and so on. A list of answers to such questions will help in identifying the key variables, which can be picked up for management control, using the criteria of their importance, characteristic of volatility, measurability and need for prompt action[46] as much as possible..

Coming back to the other aspects, the reports of actual performance vis-a-vis targets set should be made more and more abstract for successive higher levels of the executive hierarchy. 1t allows them to manage by exception[47], i.e., getting necessary details for identifying areas requiring attention and at the same time flip-through the reports, if the performance was under control.

Management control requires a very high level of clarity about the long and short term objectives and their relative priorities. Some objectives are quantifiable like sales, profit etc. But some others are qualitative like "achieving a high level of customer satisfaction" or "maintaining product leadership" etc. Necessary measure for the qualitative objects should be devised[48]. Further, the objectives must be expressed in a form that makes it possible to set targets and measure the organisational performance on objectives. In setting targets efforts should be made to ensure that all the objectives (both long and short term) are covered in a mutually exclusive and collectively exhaustive way[49] as much as possible.

Management control may be tight or loose[50]. In a tight control there is a close, formal control exercised by the superiors on the subordinates' performance (detailed targets set, high frequency of review etc.). In a loose control system, superiors give broad guidelines and allow subordinates to do their best. Which one should be used would depend upon the top management style, the nature of business, environment, organisational spread, the organisational culture etc. A detailed account of it is beyond the scope of this chapter and may be had from any book on Management Control System.

Management Control Systems are typically feedback type control systems, in which the information on actual performance is periodically collected for comparison with targets/standards of performance set. One could also use (and is desirable to do so) feed-forward control system[51], where information is periodically collected on the environmental changes, which could alter the premises upon which the targets were initially based. The periodica1 review may alter/revise the performance target upward or downward and re-allocate the resources accordingly.

Frequency of review is an important aspect of management control. Too high a frequency of review may overload the operating staff so much so that they spend more time in supplying information to superiors in the organisation than attending to arrangement for supply of the product or service to the customers. Too tight a control may become a costly and time consuming affair, as too much information may be required from operating units. Also, if too much information is required, even the critical one may not reach the superiors in time. On the other hand, if the frequency of review is too less, it may be inconsequential, as no corrective actions may then be possible.

There are several techniques used for management control e.g., variance analysis (difference between target set and actual achievement, in absolute and percentage terms), standard costing, budgetary control etc., full description of which is outside the purview of this book and can be found in many standard books[52]. It must, however, be noted that whichever technique is used, one should be conscious of the fact that favourable variances from the targets/standards of performance need as much critical attention as unfavourable ones. The more the actuals are away from the targets, the more the chances of something going wrong; either the targets were not set correctly, or the environmental conditions and other premises used in the target setting were not coming true, or there is something wrong with the information available.

Another critical aspect of the Management Control is the efficacy of the follow up action taken, based upon the analysis of actual performance of business vis-a-vis the targeted one. This has two dimensions. First one is the follow up action on business, i.e., should one continue to pursue the targets which were not being achieved (committing more resources to it), modify the tactics, or modify the strategy itself and so on. It would require review of organisational environment: whether the assumptions made about it at the time of target setting have materialised. If not, what change may be necessary?

Second action is towards the responsibility centre staff, how well have they tried to achieve the targets. Is the good or bad performance due to favourable or unfavourable changes in external environment, or due to the hard work/ laxity on the part of responsibility centre staff? The correction here lies on motivational front, which is discussed later in the section on "staff".

The management control depends heavily on, and is constrained by, the efficacy and efficiency of the information system available. There is no point in having a comprehensive management control system with high frequency of review, if the information systems is sluggish and unreliable. It may also be mentioned here that the information required for control depends to a large extent on the accounting system in use in any organisation. For example, if the income and expense records are not maintained in an appropriate manner, it may not be possible to separate them out responsibility centrewise. Hence variance analysis may not be possible.

The effectiveness of management control systems rests on clarity in the assignment of responsibilities for implementing the strategy, and this is closely related to organisational structure. Besides the structural aspect, there are two other important aspects, relating to the accounting system and information flow. Inaccurate or inappropriate accounting system often leads to disastrous consequences such as sickness and even sellout of the enterprises[53]. Top management must ensure proper recording of income and expenditure/expenses and impress upon the management accounting also, rather than having the financial accounting only, to be able to understand how well each business/product/service is doing.

8.4.2.2 Information System

Managerial decision making requires information that is relevant, reliable: complete, precise and timely[54]. However, not all the time the information available meets these requirements. There are several factors responsible for the same. Acquisition of information involves cost and one has to make tradeoff between the cost of acquisition of information and the utility of it. The quality of information also depends on the source of information. The information may flow from external sources or may be generated internally. Sometimes the information required may not be available or may be inadequate. Occasionally the problems arise due to lack of clarity of purpose of information. The quality of information may also be affected by the organisational culture[55].

The information required for strategic management differs from those required for other purposes, namely control and coordination in many ways as shown in table 8.3. From strategic management point of view it is necessary to guard against certain fallacies. Although Management Information System (MIS) should take care of meeting requirements of all the management functions, the design of MIS design typically hovers around meeting the requirements of management control[56] and coordination functions only. It is necessary, and with the advancement in the field of computers communication, it is now possible to cover the requirements of strategic planning also while designing the information system for an organisation. As the strategy implementation begins, its information requirements should also be carefully evaluated and monitored. Database may be developed from control information over past years for forecasting, and pieces of information from the external sources be added for strategic analysis.

For strategists it is also necessary to ensure efficacy of information system in terms of reliability, timeliness, relevance and completeness. The information system, once designed, tends to bulge, with more and more information added to the regular information flows. For example, in a bank an attempt was made to rationalize the periodic returns submitted by branches to higher authorities, some of which were required for outside authorities like Reserve Bank of India. In all there existed 205 periodic returns at that point of time, some daily, some weekly, some fortnightly, some bimonthly, some monthly, some quarterly, some half yearly and some annual. The purpose was to reduce the burden of the time consuming and costly activity which engaged 5% of the branch time. As a result many information on significant items was not reaching higher authorities on time (as branches had to make lot of efforts to collect information because the activities were brisk) without reminders, but many 'nil' returns were promptly supplied (which was easy to fill and send as the concerned branches did not have those activities at significant levels). The concerned authorities felt hardly sixty percent of information which mattered was reaching on time.

Eight regional workshops were conducted and recommendations were discussed in a closing national seminar, which was attended by over 40 Senior Branch Managers, Regional Managers, Assistant General Managers incharge of Zones and Dy. General Managers, head of different departments. After day long discussion, agreement was reached to delete eight returns. However, before even minutes of the meeting were issued, as many returns were added by different authorities.

TABLE 8.3

Characteristics of Information Required for Various Purposee

	Strategy . Formulation	Strategy Implementation	Control	Coordination
Orientation	Futuristic	Past	Past	Current
Periodicity	One time	One time	Regular	Regular
Source	Mainly Ext.	Mainly Internal	Mainly Internal	Mainly Internal
		Internal historical	Internal current	Current
Structure	Less structured	Highly structured	Highly structured	Highly structured
Cost	High	Low	Moderate	Moderate
Quality Possible				
Completeness	Low	High	High	High
Reliability	Low	High	High	High
Precision	Low	High	High	High
Precision	Low	High	High	High
Speed	Low	High	High	High

There should be periodic, ruthless audit of information system to avoid information overload. Information overload occurs due to inertia in deletion of regular information and due to adhoc calls for information from superior offices. When a regular periodic report is not supplied, a reminder comes asking a part of regular information, urgently. Information overload also occurs due to lack of filtering (to help management by exception) in the upward flow of information and due to information supply determined by one's executive entitlement (like any other fringe benefits), rather than based upon needs. Occasionally the information overload also occurs due to lack of accountability, when people mark papers for information with intention to involve others, in case something goes wrong. Information audit reduces waste of resources, improves organisation communication, brings organisation clarity and helps in getting quality information.

Reliability and timeliness of information need special attention. Indeed, one of the best ways of knowing the state of health of an organisation is to critically peruse its information system for accuracy, speed and reliability of information records and flows. How much time a letter, a circular or a note takes to move from one place to another? Does it reach at all? What is the system to ensure it? Are the receipt and dispatches authentic? What action follows if the loss of information is noticed? An audit of this will reveal the extent to which the organisation might have lost its customers, but also its mission focus. It will also indicate the level of general indifference prevalent in the organisation.

8.4.3 Shared Values and Organisation Culture

One of the most significant components of strategic management is the design of shared values in the organisation. Shared values are the salient, positive, important traits of the organisation culture. Organisation culture may be defined as the commonly shared values, beliefs and patterns of behaviour. The behaviour of individuals is determined as much by the situational factors as by the values that they hold. For example, consider the case of a secretary of marketing manager who is preparing to go home after completing the day's work. Right then the telephone rings. A customer at the other end is frantically asking for some information regarding a component of the machine that was supplied by the company. The marketing manager is away. Picking up the phone may mean that she will miss the transport and reach home late by fifteen minutes or half an hour. The secretary has several options open to her. She may contact the second in command, the service engineer, explain the situation to him and convey the necessary message to the customer. She may ask the customer to wait till the marketing manager returns. She may even choose to ignore the ring and go home. The response will depend upon what she considers important, the value she holds regarding the customer's problems. Designing organisation culture, in terms of shared values, ought to receive proper attention of the strategists. Research studies have shown that excellent organisations develop certain philosophies regarding the way the key success factors of their business are to be handled, like " customer is supreme", "we are the leaders" etc.[57]. They transcend this concern through various policies and practices to the people at large. An inappropriate organisation culture can make the organisation system and structure malfunction, leading to failure of corporate strategy. Malfunctioning cultures may lead to a lot of "surprises" being experienced in the organisation. Things do not happen as and when expected leading to loss of performance. The importance and development of appropriate or inappropriate culture and its reinforcement through organisation structure, systems and processes can be understood in terms of what is known as the organisation "archetype" [58].

8.4.3.1 Concept of Organisation Archetype

Every organisation has certain prescribed framework for interaction within itself and outside, described in terms of roles and authority relationships for carrying out various activities and task responsibilities. These typically form the basic elements of organisation structure design. Organisations also prescribe systems and processes to operate and support effective functioning within the prescribed structure. The organisational performance depends not only on the design of these elements, but also (and perhaps more) on the coherence among various elements (like structure and systems) of McKinsey's 7S model explained in previous chapter.

A crucial point to note and realise here is that no organisation, even the most bureaucratic systems can develop so exhaustive and elaborate prescriptive framework (for organisation structure and systems) that it can take into account every possibility for interaction required and predefine authority systems required for all the situations: Even if it is aimed, such attempts may be dysfunctional and may seriously impair the organisational efficiency[59].

The organisational members, therefore, "do" and "must" fill in the rules or ignore them, to deal with the decision situation for which no rules/ system or guideline are already prescribed. There is, thus, an emergent pattern of interaction (or behaviour) that evolves over a period of time, which gradually gets established in the organization for dealing same or similar situations. Any conceptualisation of organisation, thus, has to take into account not only the prescribed framework (formal organisation), but also the emergent interactions (described variously as informal, organisation or organisation culture etc.). Ignoring either of these factors will result in dysfunctional conceptual is at ion, since both formal and informal organisations are meshed together in an intricate web of relationships. The different elements of organisation should be conceived as a whole, embracing both the prescribed and emergent structure and system. A more important point to note here is that the emergent pattern or orientation of structure and system is provided by the set of ideas and values (i.e., the interpretive schemes, embodied within them). Structure and systems from this perspective are not neutral instruments, but embody intentions, aspirations and purpose. An organisation archetype, in this sense is a particular composition of ideas, beliefs and values connected with structural and system attributes. These interpretive schemes set frames for appropriate domain of operations (organisation purpose or mission), the personal values of the key decision makers, appropriate principles of organising and the criteria for evaluation of performance of the organisation.

The organisation structure and systems (both in terms of prescribed framework and emergent interaction) are held in coherence by the interpretive schemes called organisation archetypes. Transition from one archetype to another is not easily achieved. It is imperative that while making strategic moves, especially those involving archetype changes, the strategist makes a special note of the change issues arising on account of cultural changes to be managed, through powerful tools like management audit[60], stream analysis[61] etc.

8.4.3.2 Designing Organisation Culture

The difficult part of design of organization culture is on account of its invisibility, which renders the diagnosis incomplete, incorrect and inadequate. A malfunctioning culture may lead to a lot of "surprises" i.e., things not happening as and when expected. The reasons could be people's could-not-care-less attitude, lack of control on their performance, movements of even presence in the organisation. Malfunctioning culture could also lead to failure in organisational systems, non-compliance to the laid" down procedures, wrong and misleading interpretations of policies, exploitation of quiet and scrupulous members, by the higher authorities and passive sabotaging of the corporate strategy.

The establishment of wrong culture is generally not by design but by failure to design, or on account of non-realisation of the importance of it and lack of appreciation of the personal values of key decision makers about the kind of organisation they wish to shape at the time of designing the organisation structure, systems and motivational policies. Inadequacies in control system design could be in the form of lack of personal accountability in the performance of tasks responsibilities, loose linkages between the reward/ punishment and one's efforts. Once set, such design defects take roots and become part of the organisation culture:

The way to cope with the poor or inappropriate organisation culture is to first measure the level of malady; how much is its spread in the organisation. If it has touched the top level also, then the problem is serious. If it has reached contemptuous level of deviance and defiance, the situation is grave. The diagnosis can be done by undertaking a management audit[62] and stream analysis[63]. The causes for failure will normally be traced in poor structure design (from individual's accountability point of view), inappropriate delegation of authority and the failures in systems to detect non or mal-performance. The linkage of reward punishment and efforts also need to be looked into critically.

8.4.5 Corporate Functional Policies

In every organisation the head of the functional areas/ divisions develop policies for delegating powers to various executives' in their functional areas/ divisions. However, the functional heads are sometimes not allowed by corporate management to take policy decisions in certain areas due to the requirements of integration and coordination among different functional areas/ organisational units, as well as due to the requirements of control. For example, in some multiproduct companies, the corporate management may prescribe transfer pricing policies to coordinate the activities between various independent divisions (responsibility centres), linked to each other by a input-output relationship[64] i.e., the output of one division may also be an input of other division. If this is not done, the feeder division may adopt such policy which the receiver division may not accept and place order to outside parties. This may result in loss of inside orders to outsiders and the company may lose its profit margin. The very purpose of divisionalisation (to benefit from efficiency expect from divisional autonomy) may prove to be counterproductive as the company may lose when divisions try to maximize their profit performance on which their reward depends. The irony is all this may happen without any body realizing it at various levels, or interdepartmental conflicts may increase, demanding frequent intervention from headquarters. Birch Paper Company case illustrates this dilemma very well.

Likewise the corporate management of a company may decide on a policy for make or buy decisions[65]. For example, a newly formed company, facing the problem of high cost of technology and equipment on the one hand, and head-on competition on the other, may decide not to have high cost of fixed assets. It may, therefore, decide to have not more than 30% in-house manufacturing as a corporate policy. The make and buy decisions by the production heads have to be taken within this corporate policy.

A company may even decide to be a quality leader and corporate headquarter may mandate that its divisions should ensure best quality in the market for their product and not cut cost of product R & D/ innovations budgets or compromise on quality for cost reduction to reduce price. A multi-business unit may also decide the level of breakeven point as a cut off criteria for investment decisions[66].

A multinational corporation may even decide to have a policy for every subsidiary company regarding the debt/equity ratio. Such concerns arise from the fact that the subsidiary companies accounts are to be consolidated with parent company, because the consolidated balance sheet of the parent company may have an adverse D/E ratio if the subsidiaries were allowed freedom to decide the ratio, and this in turn may affect the company's share price in home country stock exchange, which the parent company may not like to do. This results in loss of freedom of subsidiary company to decide the Debt/ Equity ratio even if host country condition allow higher D/E ratio.

At times such companies give policy guideline regarding executive renumeration[67] for international operations (e.g., the subsidiaries must be top ten pay masters in the host country) to keep parity with competitors in different countries and have compensation policy comparable or better than the competitors.

There cannot be any uniform prescription for functional policies at the corporate level. It is very much situational. It must, however, be noted that it is necessary to ensure that the company's functional area decisions are not taken incoherently by various functional areas. To the extent there is a need for a policy to achieve integration and coordination among functional areas as well as to meet the requirements of control, the policy must be highlighted as an integral part of corporate strategy for guiding the various functional area decisions.

Review Questions

1. Enumerate the problems and challenges in managing financial resources.
2. “One should not mind spending more at times instead of focusing on containing cost over runs in completing a project”. Discuss the rationale of the statement.
3. “If one does not have expertise of project management, one will not be able to execute corporate strategy effectively and efficiently”. Do you agree? Give reasons for your stand.
4. Is it desirable to build corporate strategy on organization slacks here and there? How is it to be operationalized
5. What are problems and challenges in managing resources for a strategist/
6. What leads to intuitive decision making in strategic management? Is political process avoidable in strategy implementation?
7. “Strategy implementation can’t be managed through mind alone”. Is the statement correct? What else is imperative?
8. Elaborate the concept of organizational resources. Are they as important as other resources?
9. “Ill managed organizational resources can make a sound strategy fail”. Discuss with examples.
10. “Opportunities may be lost due to organizational resources”. Comment.
11. “Once organisation’s mission becomes a part of shared values, you don’t need tight control”. Comment.

References

Not given intentionally.