CHANGE MANAGEMENT

MODULE CODE: ABVM3141

TOTAL ECTS: 5 ECTS

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1. General information

1.1. Module introduction

Change management module is prepared to equip students with the concept of how to manage both expected and unexpected changes in value chain. The module contains only one learning task i.e. Change Management. The learning task incorporates four major sections. Section I deals with changes and risk management. The main emphasis of the section is how to manage both changes and risk in value chain. Section II, deals with the concept of leadership in Value chain management. Section III briefs strategic management in value chain. Finally, the last section emphasizes on the importance of participation in value chain development and management.

1.2. Relation with the curriculum

The Rationale of the Program dictates addressing the current challenges in agricultural production and management, managing agro-business industries, adapting and adopting of new technologies and the protection of firms from debilitating risks. In this dynamic and turbulent environment change is inevitable whether the companies like or not. As a result, the way organizations manage change determines their success and failure. Therefore, the module has a good correlation with the curriculum in such a way that change management is important in Agribusiness firms and in Value chain Management to capitalize opportunities.

2. Module objectives

The general objective of this module is to introduce students with the basic concept of change and its management in value chain development and management process. Specifically, up on the completion of this module, students will be able to:

- Explain and use the concepts of change and risk management in value chain
- Describe different leadership styles and approaches and their applications to different scenarios
- Develop strategic mechanisms to overcome the foreseen and unforeseen risks and uncertainty in agribusiness and value chain analysis
- Mobilize human and material resources for managing changes in organizations.
- Develop positive attitudes towards teamwork and customer or consumer demands
- Coordinate the stake holders' participation in value chain development and management process

Learning task: Change Management

3.1 Change and Risk Management (18hrs)

3.1.1 Overview of Change Management

Definition

- **What is Change and Change Management?** (You can use the following space to write your answer)

____

Change is an alteration of a company's strategy, organization or culture as a result of change in its environment, structure, technology or people. A manager's job would be straight forward and simple (not to say boring) if changes were not occurring in these areas. Good managers have competence to manage change in the company's environment. These change can be alteration in structure (design of jobs, span of control, authority relationships or coordinating mechanisms), in technology (equipment, work process or work methods) as well as in people (behaviors, perceptions, expectations or attitudes).

Reasons for change

A complex structure like an organization is driven by external and internal factors in regard to the need for change. There are a number of external forces that create the explicit need for change.

- Market situation or market place
- Technology
- Government laws and regulations
- Economics

Parallel to the external reasons there are different internal forces for change.

- Corporate strategy
- Workforce
- Technology and Equipment
- Employee attitudes

Therefore, Change Management is the:

- Correct understanding of organizations that want or need to be changed
- Correct understanding of the people who are willing or forced to change
- The effectively realization of change

- Understanding the dynamic of change

Effective management of the change associated with a project requires:

- **A Change Sponsor**: The sponsor must be a senior manager with sufficient authority to initiate the change process and the ability to sustain it through to implementation.

- **A Clearly Defined Business Objective**: The objective of the change must be clearly documented and communicated to all individuals who will be impacted by the change. In particular it is essential that the business objective is clearly understood by the sponsor.

- **A Tolerance for Ambiguity**: While the objective of the change must be clear at the start of the project, the exact nature and extent of the changes will become progressively clearer during the progress of the project. All participants in the change process must understand that this ambiguity is a normal part of the change process, but that as the change progresses the ambiguity will decrease and measurable benefits will be identified.

- **Commitment at all Levels**: Commitment to the change must start with the CEO, senior management or the Change Sponsor and continue through all levels of the agency that are affected by the change. This commitment cannot be delegated and is demonstrated through actions such as ensuring adequate resources are assigned to the change and providing clear support for the change process at management meetings.

- **Open Communication**: A formal communication plan is an essential element for building commitment to the change. Communication up and down the organization structure must be open and allow all participants, and other stakeholders such as unions, to feed their views and opinions into the change process. The communication mechanisms adopted for the project must be dynamic and be adjusted as needed to meet the needs of the change.

- **An Appropriate Change Management Methodology**: Using formal methods for managing change is essential on complex projects when the cost of failure is high and the probability of failure is real due to the anticipated resistance to change. Using an appropriate Change Management methodology will increase the likelihood of successfully implementing the changes associated with a project.

Change Management Processes

Psychologist Kurt Lewin recommends that any change effort be viewed as a process with three distinct phases:

(1) Unfreezing,
(2) Changing, and

(3) Refreezing.

He believes that each of these phases must be handled effectively for a change to be successful.

1. **Unfreezing**: is the managerial responsibility of preparing a situation for change. It involves disconfirming existing attitudes and behaviors to create a felt need for something new. Unfreezing is facilitated by environmental pressures, declining performance, recognition of a problem, or awareness that someone else has found a better way, among other things. Many changes are never tried or fail simply because situations are not properly unfrozen at the outset.

2. **Changing**: The changing phase involves taking action to actually modify a situation by changing such things as the people, tasks, structure, and/or technology of the organization.

3. **Refreezing** is the final phase of the planned change process.

Designed to maintain the momentum of a change and eventually institutionalize it as part of the normal routine, refreezing ensures that the full benefits of long-lasting change are secured. Refreezing involves positively reinforcing desired outcomes and providing extra support when difficulties are encountered. It involves evaluating progress and results, and assessing the costs and benefits of the change.
And it allows for modifications to be made in the change to increase its success over time. When all of this is not done and refreezing is neglected, changes are often abandoned after a short time or improperly implemented. Refreezing is the final phase of the planned change process. Designed to maintain the momentum of a change and eventually institutionalize it as part of the normal routine, refreezing ensures that the full benefits of long-lasting change are secured. Refreezing involves positively reinforcing desired outcomes and providing extra support when difficulties are encountered.
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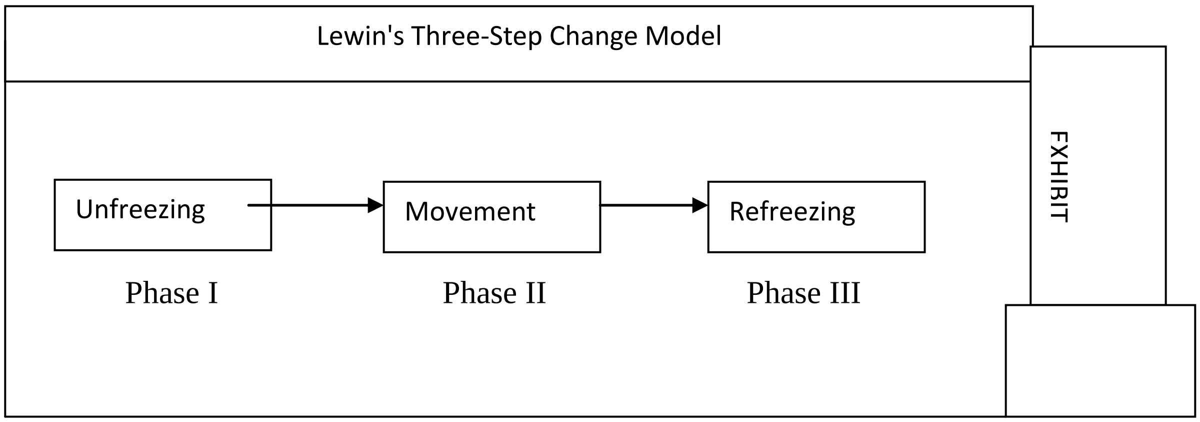

Figure I: Expanded Change Model

Phase I: Unfreezing (create a felt need for change)
This is done by:
- Establishing a good relationship with the people involved
- Helping others realize that present behaviors are not effective
- Minimizing expressed resistance to change.

Phase II. Changing (implement change)
This is done by:
- Identifying new, more effective ways of behaving
- Choosing appropriate changes in tasks, people, culture, technology, and/or structure
- Taking action to put these changes into place.

Phase III: Refreezing (Stabilize change)
This is done by:
- Creating acceptance and continuity for the new behaviors
- Providing any necessary resource support, using performance-contingent rewards and
- Positive reinforcement

Often, early in the process, the organization seeks the assistance of a change agent-a person or a group that will manage the change process. The change agent may be a member of the organization or an external consultant. According to Michael Beer (1980), the power of the change agent to implement change comes from five sources:

1. High status ascribed by members of the client organization, based on their perception that the change agent is similar to them in behaviors, language, values, and dress.

2. Trust in the change agent based on his or her consistent handling of information and maintaining a proper role in the organization
3. Expertise in the practice of organizational change.
4. Dissatisfied constituencies within the client organization who perceive the change agent to be the best opportunity to change the organization to suit their needs.
5. Established credibility based on Experiences with previous projects with the clients organizations.

The change agent generally has the responsibility for implementing the change process, which normally follows Lewin's three-stage model.

Change Management Roles

The roles and responsibilities of each participant and stakeholder in the change process must be clearly defined from the start of the project. The four key roles are:

- **Chief Executive Officer** who must demonstrate commitment to the change and ensure that the Change Sponsor accepts ultimate responsibility for its successful implementation. The CEO should also be a vocal and active champion of any major change projects that are undertaken by the agency.

- **Change Sponsor** who could be the Project Sponsor and who has the authority and organizational power to initiate the change and sustain it through to its implementation. The Change Sponsor must have the seniority to ensure that the necessary resources are available throughout the change process.

- **Change Agents** who are responsible for making the change a reality through activities such as design of the elements of the change and development of plans for its implementation. Individuals with this role include the Project Manager, project team members and key influencers within the agency.

- **The individuals or groups who must actually change**. Typically, these are the staff that will use the new system or technology and includes all who are a sources or recipient of information from the system.

An individual can have more than one of the above roles. For example, a manager may be responsible for implementing change within their department (Change Agent) and also need to change the way they work.

Line management must often act as Change Agents because they have the influence and authority to make the change take place. Change Agents often need to be **dedicated** to the change process and line management acting in this role may need to be able to delegate some or all of their normal responsibilities.

Care must be taken to ensure that the **most appropriate** individuals are selected to act as Change Sponsor and Change Agents. The team formed to implement the change must have a good knowledge of current work practices and the confidence of the management and staff that must change. If the change management team does not have experience in implementing changes of comparable scope and complexity, it should obtain specialist advice and assistance.

The management and staff with a detailed understanding of current work practices also play a key role in the Change Management process by assisting with the selection of the people who must change and the identification of the changes that are required.

The implementation of change usually requires an **increase in effort** by the agency. The nature and extent of this increased effort should be identified as early in the project as possible, with strategies developed to address this requirement. These strategies may include use of under-utilised resources within the agency and the use of temporary resources such as contract staff.

During the extended implementation of a large change, it is highly likely that one or more of the key stakeholders or participants in the change process will need to be replaced. It is essential that a formal process be identified at the start of the project to cater for these situations and to ensure that there is adequate **hand-over** of responsibilities, and that sufficient time is allowed for orienting new Sponsors and Change Agents.

Summary of key activities associated with the identification of key change management roles:

- Identify Change Sponsor, Change Agents and people who must change;
- Identify the level of effort required and develop a plan to cater for it;
- Develop a process to cater for changes in stake-holders or key participants;

3.1.2 Risk and uncertainty analysis

The concept and definition of Risk

Due to imperfect knowledge about the future, our actions are likely to result in outcomes, which are different from our expectations. This is something that is not desirable. Risk exists because there is no perfect foresight about the future.

Because risk is undesirable and its consequences are, at times, damaging to individual, businesses and the society as a whole, mankind is constantly developing its predictive ability through the constant upgrading and refinement of its knowledge. The more mankind is knowledgeable about the future, the more certain it will be concerning future events. But, the disappointing phenomenon is that perfect foresight about the future is something impossible. Thus, risk becomes a fact of life that will remain side by side with the activities of mankind.

Every discipline has its own specialized terminology, which has very simple meanings in every day usage often take on different and complicated connotations when applied in a specialized field. This section mainly emphasized on the concept of risk.

No comprehensive definition exists so far. It is defined in different forms by several authors with some differences in the wordings used. The essence however is very similar. In general, risk refers to exposure to adverse consequences.
Before we define risk for our purpose, it would be advisable to consider the various definitions given by different scholars and practitioners to comprehend the basic concept of risk.

Economists, satiations, decision theorists and insurance theorists have long discussed the concept of “risk” and “uncertainty” in an attempt to arrive at a definition of risk.

Up to the present time, they have not been able to agree on a definition that can be used in each field with the same facility, nor does it appears likely that they will not do so in the near future.

Risk management is still in its infancy as a body of theory. As a result, we find many contradictory definitions of risk throughout the literature dealing with this phenomenon from the risk management or an insurance point of view. One reason for these contradictions is that risk management or insurance theorists have attempted to borrow the definition if risk used in other fields.

The term risk used in different ways; the following are some definitions given by different scholars and practitioners in the different fields:

- Risk is the chance of loss.
- Risk is the possibility of loss.
- Risk is uncertainly.
- Risk is the probability of any outcome different from the one expected.
- Doubt
- Worry
- The exposure of adverse consequence
- Undesirable events

Risk Identification

- It is the process of identifying potential loss confronting the firm.
- It is a fundamental / basic duty that must precede all other functions of risk management.
- It is the first step in the risk management process. Here, the risk manager tries to locate the areas where losses could happen due to a wide range of perils. Risk identification is a very difficult process; because the risk manager has to look in to all operations of the company so as to identify where exactly risks emanate from. In addition, risk identification is continuous job since risk environment is dynamic

- Note:

- ✓ Poor identification leads to unplanned retention. Unplanned retention cannot be the right decision unless it becomes right by chance.
- ✓ All the subsequent steps in risk management build upon it and its effectiveness affects the success of the whole risk management process.

To identify all the potential losses, the risk managers undertake two activities. First, a check list of the losses that could occur to any business; and second, systematically approaching and discovering which of the potential losses included in the check list are faced by the organization.

We are going to study these two steps in detail.

A. Checklist of potential losses

Checklist of potential losses is a list of all possible asset of organization together with their respective loss exposures. Loss exposure checklist provides a listing of common risk exposures of the firm. It is the simplest and effective tool for risk identification. In fact, it is one of the most common tools used for identifying and analyzing risk.

B. Systematic approaches

In order to identify the potential loss, the risk manager should have sources. Some of the systematic approaches / tools used by risk managers to the problem of risk identification are:

- Insurance policy checklists
- Risk analysis questionnaires
- Flow process charts
- Analysis of financial statements and
- Inspections of the organization’s operations or on-sight inspection.
- Analysis of the environment
- Contract analysis
- Statistical record of losses
- Interaction with other department

1. Insurance Policy Checklists

The checklists are available from insurance companies and from publishers specializing in insurance related publications. Here, the risk manager initially collects a specimen of insurance policy forms from various insurers. He, then, proceeds to prepare a checklist of various types of pure risk that can be dealt with insurance. Through close examination of the policy forms, the risk manager can identify the non-insurable risks and accordingly will consider other risk handling tools. The principal defect/limitation of this approach is that concentrates on insurable risks only, ignoring the uninsurable pure risks.

2. Risk Analysis Questionnaires

It also called as “fact finders” because it leads the risk manager to the discovery of risks through series of detailed and penetrating questions.

In most instances, these questionnaires are designed to identify both insurable and uninsurable types of risks.

This questionnaire directs the risk manager to secure the operation and the properties of that organization.

3. Flow Process Charts

Flow process charts show all the operations of the firm starting with raw materials, electricity / power and other inputs at suppliers' location and ending with finished products in the hands of customers is constructed.

Secondly, the checklist of potential property, liability and personnel losses is applied to each property and operations showing the flow charts to determine which loss the organization faces. i.e. - Draw flow charts starting from raw materials and ending to finished products in the hands of customers.

4. Analysis of Financial Statements

Analysis of the organizations financial statements can also aid in the process of risk identification. i.e.

- The asset listing in the balance sheet and
- The income and expense classification in the income statement.

5. On – sight inspection

-The risk manager will have **firsthand** information through direct inspection

“One picture is worth of a thousand words. “Seeing is believing”

6. Analysis of the environment

A careful analysis of the environment (internal and external) can help in identifying the exposures to particular firms. Four components of the relevant environments that are identified in literature are customers, suppliers, competitors and regulators. In analyzing each component, important considerations are the nature, relationship, their heterogeneity and their stability. For example, is the product distributed directly to one group of buyers or indirectly through whole sellers and retailers? Does the firm have single or multiple suppliers? What special obligations are imposed by outsiders such as Government, customers, and unions?

7. Contract analysis

Many of the organizations exposure to risk arises from the contractual relationship with other person and organization. Thus, examination of contracts of the organization may reveal areas of exposures that are not evident from the organizations operations and activities.

8. Statistical record of losses

An approach that probably suggests fewer exposures than the other but which may identify some exposures not otherwise discovered is to consult statistical records of losses or near losses that may be repeated in near future.

9. **Interaction with other department**

This is another way to identify losses facing a business via systematic and continuous interaction with other departments in the business. For instance, extended visit with managers and employees of other department help the risk manager obtain complete understanding of activities and potential losses created by these activities

Risks related to business activities

Most risks of business environment are speculative in nature. The finance literature considers five types of risks that business organizations face in the course of their normal operation. These are: business risk, financial risk, interest rate risks, purchasing power risks, and market risks. Each of these is briefly discussed below.

Business Risk- This is the risk associated with the physical operation of the firm. Variations `in the level of sales, costs, profits are likely to occur due to a number of factors inherent in the economic environment. Business risk is independent of the company is financial structure.

Financial Risk-This is associated with debt financing. Borrowing results in the payment of periodic interest charge and the payment of principal upon maturity. There is a risk of default by the company if operations are not profitable. Other financial risks include; bankruptcy, stock price decline, insolvency. Bondholders are less exposed to financial risk than common stockholders because they have a priority claim against the assets of an insolvent firm. Government securities. However, bear very low risk.

Interest Rate Risk- This is a risk resulting from changes in interest rates. Changes in interest rates affect the prices of financial securities such as the prices of bonds etc. for interest rate rise depresses bond prices and vice, versa.

Purchasing power Risk- This risk a rises under Inflationary situations (general price rise of goods and services) leading to a decline in the purchasing power of the asset held. Financial assets lose purchasing power if increased inflationary tendencies prevail in the economy.

Market Risk - Market risk is related to stock market. It refers to stock price variability caused by market forces. It is the result of investors 'reactions to real or psychological expectations. For example, some forecasts may convince investors that the economy is heading towards a recession. The market index would decline accordingly. In other situation investors erroneously overreact to events and affect the market by making abnormal transactions. The market, in many cases, is also affected by such events as: presidential elections, trade balances, balance of payment figures, wars, new inventions, etc… Market risk is also called systematic or non-diversifiable risk. All investors are subject to this risk it is the result of the workings of the economy; and cannot be eliminated through portfolio diversification. However, investors are paid for this risk.

Risk Management

Risk management refers to the identification, measurement, and treatment of exposure to potential accidental loses almost always in situations where the only possible outcomes are losses or no change in the status.

Risk management is defined as a systematic process for the identification and evaluation of pure loss exposures faced by an organization and individuals, and for the selection and implementation of more appropriate techniques for treating such exposures

Objectives of risk management

Risk management has several objectives that can be classified as pre-loss objectives and post-loss objectives.

Pre-loss objectives: a firm may have several risk management objectives prior to the occurrence of a loss. The most important once are economy, the reduction of anxiety and meting external imposed obligations.

The first goal means that the firm should prepare for potential losses in the most economic way. This involves an analysis of safety programme exposures, insurance premiums, and the costs associated with the different techniques for handling losses.

The second objective, some loss exposures can cause greater worry and fear for the risk manager, key executives and stockholders than other exposures. In such situations the risk manger wants to minimize the anxiety and fear associated with all loss exposures.

The third objective is to meet any externally imposed obligations. This means that the organization must meet certain obligations imposed on it by outsiders. For example, the government may require a firm to install safety devices to protect workers from any harm. Therefore, the risk manager is supposed to see such externally imposed obligations and meet them.

Post-loss objectives: the most important post- loss objective is survival of the organization. I.e. after the loss occurs, the firm can at least resume partial operations within some reasonable time period if it chooses to do so.

The other post loss objective is to continue operation. For some firms, the ability to operate after a severe loss is an important objective. This is particularly true for certain organizations such as public utility firms, which must continue to provide service. Other objectives of post loss objectives include stability of earnings, continued growth of the organization, and minimizing the impact of loss on the general society.

Risk management process

As the process, risk management includes the following sequential steps.

1. Identifying loss exposures: the loss exposures of the business or family must be identified. Risk identification is the first and the most difficult function that the risk manger must do. Failure to identify all the exposures of the business of family means that the risk manager will have no opportunity to deal with these unknown exposures intelligently.

2. Measuring the losses: After the identification of risk, the next step is the roper measurement of the losses associated with these exposures. This measurement includes a

determination of the probability that the loss will occur, the impact the losses will have up on the financial affairs of the organization or family, and the ability to predict the loses that will actually occur during the budget period. The measurement process is important because it indicates the exposures that are most serious and consequently most in need of urgent attention.

3. Selection of the risk Management tools: once the exposures has been identified and measured, the various tools of risk management should be considered and a decision made with respect to the best combination of tools to be used in attacking the problem. These tools include avoiding the risk, reducing the chance that the loss will occur or reducing its magnitude if it does occur, transferring the risk to some other party and retaining or bearing the risk internally. The third alternative includes the purchase of insurance. Selection of tools should be done in consideration of the financial position of the organization or family, its overall policy with reference to risk management and its specific objectives.

4. Implementing the decision made: After deciding among the alternative tools of risk treatment, the risk manger must implement the decision made. For example, if insurance is to be purchased establishing proper coverage, obtaining reasonable rates, and selecting the insurer are part of the implementation step.

5. Evaluating the result: The results of the decision made and implemented in the first four steps must be monitored to evaluate the wisdom of those decisions and to determine whether changing conditions suggest another solutions.

Risk Measurement

Once the risks have been identified, the risk manager must evaluate them. That is, measuring the potential size of the loss and the probability that it is likely to occur.

Risk measurement is required by the risk manager for two purposes:

1. To determine their relative importance and
2. To obtain information that will help him/her decide upon the most desirable combination of risk management tools or methods.

In order to arrive these two points, what dimensions to be measured? Two most important dimensions to be measured are

i. The loss frequency:- the probability of occurrence of losses and

ii. The severity of the losses:-the magnitude of loss and severity of losses.

Risk control techniques

A. Avoidance

Risk avoidance:

- Includes not performing an activity that could carry risk.

- Avoidance may seem the answer to all risks, but avoiding risks also means losing out on the potential gain that accepting (retaining) the risk may have allowed. Not entering a business to avoid the risk of loss also avoids the possibility of earning profits.

Avoidance is a useful and common approach to the handling of risk. However, it has the following off-putting characteristics. These are:

- Most business would not be able to operate unless they either owned or rent a fleet of cars.
- The potential benefits to be gained from employing certain persons, owning a piece of property, or engaging in some activity may so far outweigh the potential losses and the risks involved that the decision maker gives little consideration to avoiding the associated risks.
- Avoiding risk may create another risk. For instance, a firm may avoid the risks associated with air shipments by substituting train and truck shipments. In the process however, it has created some new risks.
- It may not be possible to avoid all losses.

B. Loss control:

Attack the risk by lowering the chance that loss will occur or by reducing its severity if it does occur while permitting the firm, individual or the society to commence the activity creating the risk. Unlike the avoidance technique, loss control deals with an exposure that the firm does not wish to abandon. Its purpose is to change the characteristics of the exposures that it is more acceptable to the firm.

Loss control includes Loss prevention and reduction methods:

Prevention program is defined as a measure taken **before** the misfortune occurs.

Generally speaking, loss prevention programs intend to reduce the chance of occurrence.

Example:

- Constricting a building with a fire resistance material / fireproofing.
- Constructing a building in a place where there is little danger.
- Regularly inspecting the machine/area
- The existence of automatic loss detection programs.
- Fire alarms
- Warning posters /No Smoking!! And DANGER ZONE!! /…

Loss reduction program:

- Seek to reduce the potential severity of the loss.
- Can be classified as **minimization or salvage programs**

Minimization program take effect in advance of the loss or while it is occurring. e.g. automatic sprinkler-minimize the fire loss by spraying water up on a fire soon after it starts in order to confine damage to limited area.

Salvage program become effective after the loss is over. E.g. restoration of damaged property to the highest possible degree of usefulness.

Examples of loss reduction programs:

- Automatic sprinkler
- An immediate first aid
- Medical care and rehabilitation service
- Guards
- Fire extinguisher
- Fire alarms

C. Separation /Diversification

- Separation of the firm's exposures to loss instead of concentrating them at one location where they might all is involved in the same loss.

The principle is "**Don't put all your eggs in one basket**"

Example: Instead of placing its entire inventory in one warehouse, the firm may elect to separate this exposure by placing equal parts of the inventory in different widely separated warehouses.

- It is considered as a loss reduction measure.
- This separation of exposures reduces the maximum probable loss to **one event**.

The probability of some loss actually increases. Because, the probability that at least one of several unit will suffer a loss is greater than the probability that any particular unit will suffer a loss. Emphasis is placed here, however, on the fact that through this separation the firm increases the number of independent exposures units under its control.

D. Combination

- It is a pooling or combination process.
- Risks are pooled when the number of independent exposure units under observation is increased.
- Unlike separation, which spreads a specified number of exposure units, combination increases the N° of exposure units under the control of the firm.
- In the case of firms, combination results in the pooling of resources of two or more firms. The new firm has more building, more automobiles, and more employees than either of the original companies. This leads to financial strength, thereby minimizing the adverse effect of the potential loss.

3.1.3 Risks and costs of poorly managing change

Change Management involves understanding and controlling the exposure to hazards such that overall risk to the business is handled in an efficient and effective manner. For example, if an organization were deploying a new desktop operating system across the enterprise, an effective Change Management process would understand the risks involved, assess the impact, and coordinate the change so impact to the business was minimized.
Therefore, the intent of Change Management is to act as an enabler that provides a mechanism by which the business can quickly adapt and respond to changing conditions, without the negative consequences that are often associated with hasty action.

Change Management supports business adaptation in several ways. First, effective Change Management offers a standardized method that efficiently evaluates the potential positive and negative aspects of change, and allows for the prompt handling of all change-related activities. Second, Change Management ensures that all changes are recorded, evaluated, properly planned, and accounted for, such that the organization has an ongoing living history of change-related activities. Finally, Change Management minimizes the disruptions often associated with change at all levels.

Changes that are poorly reviewed, assessed, and managed can have a significant, detrimental impact upon business operations. Inadequately reviewed, assessed, and managed changes are equivalent to gambling with the ability of the business to continue operations unimpeded. Changes, while always involving some amount of risk, can be made less risky if they are adequately reviewed, assessed, and coordinated.

Consequences of Mismanaging change

Each of us has been a part of a change that was poorly managed - either as the offender or as the victim. When projects and initiatives are mismanaged from the "people side" of change perspective, results and outcomes are not achieved.

There are two perspectives about the impact of not managing change effectively: costs and risks. These perspectives play out on two levels - the project or initiative level and the organizational level. While some of these costs and risks may seem "soft" - many of them are quantifiable and can have a significant impact on financial performance - both of the project and of the organization as a whole.

Project level impacts

Project level impacts are related directly to the specific project or initiative that is not utilizing change management. These projects can impact tools, technologies, processes, reporting structures and job roles. They can result from strategic planning, from internal stimuli such as performance issues, from external stimuli such as regulation or competitive threats, or from demands by customers and suppliers. The initiatives may be formalized as projects with project managers, budgets, schedules, etc. or they may be informal in nature but still impact how people do their jobs.

While these projects and initiatives can take on a number of different forms, the fact remains that ignoring or mismanaging the people side of change has **real consequences for project performance**. Below are some examples of the costs and risks at a project level when we do not manage the people side of change.

Costs:

- Project delays
- Missed milestones
- Budget overruns
- Rework required on design
- Loss of work by project team

Risks:

- Resistance active and passive
- Project put on hold
- Resources not made available
- Obstacles appear unexpectedly
- Project fails to deliver results
- Project is fully abandoned

When change management is applied effectively, we can prevent or avoid costs and mitigate risks tied to how individual employees adopt and utilize a change.

Organizational level impacts

The organizational level is a step above the project level impacts. These costs and risks are felt not only by the project team, but by the organization as a whole. Many of these impacts extend **well beyond the lifecycle of a given project**. When valuable employees leave the organization, the costs are severe and in some cases we can never recover fully. A legacy of failed change presents a significant and ever-present backdrop that all future changes will encounter.

The organizational costs and risks of poorly managing change include:

Costs:

- Productivity plunges (deep and sustained)
- Loss of valued employees
- Reduced quality of work

Risks:

- Impact on customers
- Impact on suppliers

- Morale declines
- Legacy of failed change
- Stress, confusion, fatigue

Applying change management effectively on a particular project or initiative allows you to avoid organizational costs and risks which last well beyond the life of the project.

A third dimension of costs and risks

There is one final dimension of costs and risks to consider, beyond the project and organizational impacts. When we try to introduce a change without using effective change management, we are much less likely to implement the change and fully realize the expected results and outcomes. This final dimension provides answers to the question: **what if the change is not fully implemented?**

If the change does not deliver the results and outcomes - in large part because we ignored the people side of change - there are additional costs and risk including:

Costs if the change is not fully implemented:

- Lost investment made in the project
- Lost opportunity to have invested in other projects

Risks if the change is not fully implemented:

- Expenses not reduced
- Efficiencies not gained
- Revenue not increased
- Market share not captured
- Waste not reduced
- Regulations not met

Table II: Summary of Consequences of mismanaging changes in different levels

	Costs	**Risks**
Project level	• Project delays • Missed milestones • Budget overruns • Rework required on design • Loss of work by project team • ***Your specific project costs***	• Resistance active and passive • Project put on hold • Resources not made available • Obstacles appear unexpectedly • Project fails to deliver results • Project is fully abandoned • ***Your specific project risks***
Organizational level	• Productivity plunges (deep and sustained)	• Impact on customers • Impact on suppliers

	• Loss of valued employees • Reduced quality of work • ***Your specific organizational costs***	• Morale declines • Legacy of failed change • Stress, confusion, fatigue • Change saturation • ***Your specific organizational risks***
If the change is not implemented	• Lost investment made in the project • Lost opportunity to have invested in other projects • ***Your specific costs if the change is not fully implemented***	• Expenses not reduced • Efficiencies not gained • Revenue not increased • Market share not captured • Waste not reduced • Regulations not met • ***Your specific risks if the change is not fully implemented***

Learning Activity: Students will visit actual agribusiness firm (s) or any other Organization(s) to see their Change and Risk management techniques.

Continuous assessment: Test and quiz will be used to assess the students' understanding level on the section.

Summary

Change Management is the: correct understanding of organizations that want or need to be changed**,** correct understanding of the people who are willing or forced to change**,** the effectively realization of change and understanding the dynamic of change.

Change Management Processes involves the following three important phases. These are:

1. Unfreezing,
2. Changing, and
3. Refreezing.

Organizations can use the following risk control techniques. These are: avoidance, loss control, separation /diversification and combination.

There are two perspectives about the impact of not managing change effectively: costs and risks. These perspectives play out on two levels - the project or initiative level and the organizational level.

3.2 Leadership and Group Dynamics (16 hrs)

3.2.1 Introduction to leadership: theories and concepts

Definition

- ✍ ***What is Leadership?*** (You can use the following space to write your answer)

____
____
____
_____ .

Leadership is a relationship between the individual and the group depending mainly on a certain situation and is very much dynamic in nature.

Peter Drucker the guru of Management defines Leadership as “The only definition of a leader is someone who has followers." *While* ***John C Maxwell*** defines "leadership is influence - nothing more, nothing less."

According to ***Tannenbaum, Waschler and Massarik*** “Leadership is interpersonal influence exercised in a situation and directed through the communication process toward the attainment of a specific goal or goals”. Hence leadership is the process of influencing the members of the group with respect to goal setting and goal achievement. For our purpose leadership may be classified at 3 levels:

- *Top Manager – The Big Boss*
- *Middle Manager – Simply Boss*
- *Front line Manager – Foreman and Supervisor*

All of them operate on different levels and have different responsibilities and duties having the same problem of dealing with people and leading them. This chapter discusses major theories and issues related with leadership and also give suggestion for developing global leaders in the new millennium.

In the words of ***Keith Davis,*** “Leadership is the ability to persuade others to seek defined objectives enthusiastically. It is the human factor that binds a group together and motivates it toward goals”.

In the words of ***Gupta***, “Leadership may be defined as a process of influencing the action of individuals as members of a group to achieve the desired goal in a given situation use of force by the leader.

Hodge and Johnson are of the opinion that, "leadership is fundamentally the ability to form and mould the attitudes and behavior of other individuals, whether informal or formal situation and that management relates to the formal task of decision and command."
Ivencevich, Szilagyi& Wallace, defines leadership "as the relationship between two or more people in which one attempts to influence the other toward the accomplishment of some goal or goals. Thus, leadership is a process of influencing other people to mobilize and direct their efforts towards certain goals and to accomplish these goals through them.

Remember Leadership is a process and not a position. This important process has three important components/ingredients ***1) Leader, 2) Followers and 3) Situation;*** these are the three components play very important role on the process of leadership.

Leaders are those persons who are able to influence others and who possess managerial authority.

Leadership*,* then, is the ability to influence a group toward the achievement of goals. *Trust* is the foundation of leadership. Leaders develop an environment of trust where the organizational members tend to establish a follower-ship with the leader.

Who is a leader? A leader is defined as any person who influences individuals and groups/teams within an organization, helps them in the establishment of goals, and guides them toward achievement of those goals, thereby allowing them to be effective.
If you study the life of successful leaders, you can find them a challenges of the process, they inspire a shared vision, enable others to act, they model the way by showing the path, encourage the followers, act as change agent and take followers to the destination. Similarly, we also discussed leaders of corporate sector who created impression in this world.

Think of someone in your life whom you would consider as "Leader". What are the qualities of character that this person has? Here are some well recognized important characters that person "leader" may have.

Table I: Important Characters of Leaders

Honest	***Trustworthy***
Good Role Model	***Caring***
Committed	***Good listener***
Treats People with Respect	***Positive and Enthusiastic***
Risk Taker	***Planner***
Decision Maker	***Consistent***
Transparent	***Responsible***
Open	***Accountable***
Sensitive	***Connected to the Community***

Knowledge	***Wisdom***
Social Skills	

Source: *Virtual University of Pakistan*

Are we born with these qualities or are they learned behaviors? To some degree we have all of them; some more so than others. We must choose and work to strengthen these qualities in ourselves if we are to be effective leaders.

Today's effective leaders must have the capability and confidence to build and develop focused and motivated teams that deliver outstanding operational performance in line with the strategic goals of the organization. This course highlights the processes and techniques leaders have at their disposal to develop their effectiveness and maintain top team performance.

Leadership is the process of guiding & directing the behavior of people in the work environment

- ***Formal leadership:*** the officially sanctioned leader-ship based on the authority of a formal position.
- ***Formal leaders*:** are members of an organization with authority to influence other members to achieve organizational goals.
- ***Informal leadership:*** the unofficial leadership accorded to a person by other members of the organization.
- ***Informal leaders:*** lack formal authority, but sometimes exert just as much influence as formal leaders and sometimes more. Informal leaders influence others, based on special skills or talents that help achieve group goals.

The Concept of Leadership

Historically the concept of leadership has had two distinct phases differing considerably in their philosophy. These are:

A. ***Scientific Management:*** The first phase originated in the early 1890's by Taylor. In this system the manager's sole purpose was to expedite the goals of the organization and the management was completely impersonal. The personal interactions were ruled out. Hence Bennie (1966) said that the philosophy of Scientific Management was that the only road to efficiency and productivity was to surrender man's needs to the services of a blood less machine.

B. Human Relation phase: The second phase was the Human Relation phase. The Hawthorne studies marked the beginning of the end of scientific management. If Taylorism implied organization without considering the human element taken, the extreme form of human relation notion implied people without any organizational constraints. Such extreme views are futile. Any useful and meaningful model of leadership must certainly include both the aspects and must admit that the organizational structure goals and objectives are also as important as the interpersonal relationship between employee and supervisors.

Characteristics of Leaders

The following are the characteristics of leaders:

- The leader is constantly interacting and commanding.
- They motivate others (team members),
- They are good team builders,
- Solve problems of others and organizations,
- They are good listeners and resolve conflicts,
- Anticipate Change and mange it within team and organizations
- They encourage risk taking by their team members
- They promote creativities.
- The leader makes the organization a part of his self-image.
- The leader's personal goals, values and feelings are organizationally centered.
- The leader handles the supervisors as individuals.
- The leader controls the transmission of important information.
- The leader emphasis the present and
- The leader sets realistic goals.

Yukul identified four common traits or areas of competence shared by all ninety leaders.

- ***Management of attention:*** The ability to communicate a sense of outcome, goal, or direction that attracts followers.
- ***Management of meaning:*** The ability to create and communicate meaning with clarity and understanding.
- ***Management of trust:*** The ability to be reliable and consistent so people can count on them.
- ***Management of self:*** The ability to know one's self and to use one's skills within limits of strengths and weaknesses.

Qualities of Leaders

Real leaders have certain qualities which make them different from rest of the team members / followers. Few of those qualities are given in the following manner:

1. ***Vision:*** A leader has to have some ideas about his/her organization, about how the future could be different. A leader requires strong sense of purpose and should be clear in concept of collective Vision (Organization) and recognizes what must be done and how to makes strategies for the accomplishment of their vision. Clear concepts about vision can make a leader more focused and effective. Vision about what is happening, what needs to be done and what is coming in future.

2. ***Ability:*** Leaders must know about his or her Job and keep knowledge updated and have ability to understand information, formulate strategies, and make the decisions. If leader fails to do all these, employees do not respect him/her, and ultimately leader loses faith and trust. That will be failure of a leader. Followers always look toward leaders when making decision, when they are in problem, or stuck or when things are not working. They will look toward leaders. Even for technical issues, they will look toward leaders for solution. So a leader must have the ability to handle all such issues.
3. ***Enthusiasm:*** This is also an important trait of leaders. Leaders always create excitements, which causes others to become interested and willing to accept the challenges. Leaders always generate enthusiasm in followers so that this excitement can trigger the goal oriented actions and ultimately followers get motivated and involved in the achievement of the organizational goals.
4. ***Stability:*** Stability is another important quality of leaders. Leaders need to be emotionally stable in handling challenges, in decision making and during the time of pressures. During the process of leadership plus and minuses do come and leaders need to face them with courage and unless they have stability in their personality, this will become very difficult. Leaders should possess objectivity, should not bring personal problems to work and be emotionally stable.
5. ***Concern for Others:*** Leaders must be concerned always for their followers, with their welfares and don't treat them as machines. It is always the responsibility of the leaders to think about the welfare of the employees. A leader must have a humble and caring attitude towards employee/followers. So that if he/she always puts the interest of others first the loyalty will be built, and ultimately the employees will work with more devotion and commitment.
6. ***Self – Confidence:*** Self confidence is very important quality one should have. For leaders this will become even more important. All we discussed different leaders qualities above, these are all linked with the self concept. With self confidence, leaders can manage and handle even difficult situations. That is the trait/quality which is appreciated by all concerns. Successful leaders stay calm and confident and show confidence in their actions.
7. ***Persistence:*** Determination of a leader is also very important for business success. So, a leader should have the devotion and commitment for business and continuously motivate the employees for achieving the organizational goals. The outgoing approach and persistence approach is always paying and pushing the followers for the accomplishment of goals.
8. ***Vitality:*** Leaders need strength/energy and stamina. Effective leaders are electric, vigorous, active, and full of life, regardless of age or disability. These qualities energize followers too. To achieve goals, leaders need stamina, energy, health, and vigor. Same is true for followers.

9. ***Charisma:*** A Personality Trait, a quality that generates others' interest and creates followers. To influence others, charisma plays very important role.

10. ***Integrity:*** The most important quality of leader is honesty, strength of character, and courage. Leaders need to have strong integrity. So leader must have loyal, honest with his/her work and also with his/her team too. It will also lead to trust and respect. Honesty, strength of character, and courage will always lead to trust building, creating loyalty.

Leadership Theories/Approaches

A review of the leadership literature reveals an evolving series of 'schools of thought' from "Great Man" and "Trait" theories to "Transformational" leadership (see table). ***Whilst*** early theories tend to focus upon the characteristics and behaviors of successful leaders, later theories begin to consider the role of followers and the contextual nature of leadership.

Table II. A review of Leadership Theories

Great Man Theories	Based on the belief that leaders are exceptional people, born with innate qualities, destined to lead. The use of the term 'man' was intentional since until the latter part of the twentieth century leadership was thought of as a concept which is primarily male, military and Western. This led to the next school of Trait Theories
Trait Theories	The lists of traits or qualities associated with leadership exist in abundance and continue to be produced. They draw on virtually all the adjectives in the dictionary which describe some positive or virtuous human attribute, from ambition to zest for life
Behaviorist Theories	These concentrate on what leaders actually do rather than on their qualities. Different patterns of behavior are observed and categorized as 'styles of leadership'. This area has probably attracted most attention from practicing managers
Situational Leadership	This approach sees leadership as specific to the situation in which it is being exercised. For example, whilst some situations may require an autocratic style, others may need a more participative approach. It also proposes that there may be differences in required leadership styles at different levels in the same organization
Contingency Theory	This is a refinement of the situational viewpoint and focuses on identifying the situational variables which best predict the most appropriate or effective leadership style to fit the particular circumstances
Transactional Theory	This approach emphasizes the importance of the relationship between leader and followers, focusing on the mutual benefits derived from a form of 'contract'

	through which the leader delivers such things as rewards or recognition in return for the commitment or loyalty of the followers
Transformational Theory	The central concept here is change and the role of leadership in envisioning and implementing the transformation of organizational performance

Each of these theories takes a rather individualistic perspective of the leader, although a school of thought gaining increasing recognition is that of "dispersed" leadership. This approach, with its foundations in sociology, psychology and politics rather than management science, views leadership as a process that is diffuse throughout an organization rather than lying solely with the formally designated 'leader'. The emphasis thus shifts from developing 'leaders' to developing 'leader-full' organizations with a collective responsibility for leadership.

Leadership Styles Based on Authority

1. ***Autocratic leadership:*** This type of leadership is practiced by the managers concentrating on power and authority within themselves. Leader expects high degree of compliance by subordinates. He is dogmatic and positive in his approach. Manager exhibiting this type of style has the ability and enforces decision by use of rewards and fear of punishment. Communication tends to be primarily in one direction from manager to follower. Some autocratic leaders are seen as "benevolent autocrat." Though they listen considerably to their followers' opinion before making any decision, the decision remains to be their own. They seemingly consider their subordinate's ideas but when it comes to decision making they are more autocratic than benevolent. An advantage of autocratic leadership is the speed of decision-making, as the leader does not have to obtain group members approval. However there appears to be a low morale syndrome on the group members because their views are not given due consideration and may resent the decision and support the same as little as possible.

2. ***Democratic or Participative Leadership:*** In contrast to autocratic leadership, democratic or participative leader consults subordinates, encourage participation in decision-making. In the process of interaction with subordinates, democratic leader suggest actions or decisions and obtains views of those under him. He has respect for subordinates view and does not act without their concurrence. The leader is supportive. This style of leadership has various advantages, which include high morale and support of subordinates, smooth implementation due to subordinates being party to decision making. Because of the participation of subordinates, the quality of decisions is better as compared to the autocratic leader. Disadvantages include slower decision, lack of accountability for decisions per se and possible compromise in the process of trying to please majority of the people involved in decision-making.
3. ***Laissez – faire Leadership**:* A leader who practices laissez-faire leadership is also called "free rein" leader who uses his power very little giving subordinate full freedom of action and

independence for setting their goals and means of achieving them. These types of leaders depends heavily on subordinates and see their role as one of aiding the operation of followers by furnishing required information when asked for and acts only as contact between various departments and outside agencies (external environment). Here the leader attempts to exercise very little control or influence over the group members. Such type of leadership style promotes individual growth and freedom of action for goal setting. However, the loose control by the leader over the group may lead to lack of group cohesiveness and unity of purposes toward organizational objective. This may ultimately led to inefficiency and even worse to chaos.

3.2.2. Conflicts and Conflict Management

Meaning and Nature of Conflict

Conflict can be defined ***(Thomas K.A.)*** as the, "process that begins when one party perceives that another party has negatively affected something that the first party cares about."Conflict must be perceived by either of the parties. Stiff opposition due to incompatibility of organizational goals characterizes it. Conflict can also be caused due to difference about interpretation of facts or issues involved. Conflict takes an ugly turn and takes a form of violence due to disagreement based on behavioral expectations. It could be covert or overt and can be seen when one observes violent acts of individual in organizations.

Austin defines conflict *"as a disagreement between two or more individuals or groups, with each individual or group trying to gain acceptance of its views or objective over others."*

Conflict Management focuses on maintaining conflict at functional levels for a department, work unit, or an entire organization. Conflict management does not mean the complete elimination of conflict nor does it refer only to conflict reduction. It means maintaining conflict at the right level to help the department, work unit, or, organization reaches its goals. Basic to the process of conflict management is the selection of a desired level of conflict. The desired level of conflict varies according to the perceived conflict requirements of the unit. Several factors affect the choice of the desired level of conflict, organizational culture place differing values on debate, disagreement, and conflict itself. Managers in organizational cultural, that support debate, doubt, and questioning may perceive a higher desired level of conflict than chose who do not. The nature of the organization's products or services also affects the desired level of conflict. Creative and innovative products or services require a higher level of conflict than more routine and predictable products and services.

Organizations facing fast-changing external environments require higher conflict levels for successful adaptation than organizations facing stable external environments. Suppression and withdrawal are two symptoms of dyes-functional low conflict. Suppression includes denial of different and a desire to perceive similarities between parties that do not exist. Repressing controversial information and prohibiting disagreements about legitimate issues also are signs of suppression. Withdrawal includes reduced communication to avoid interactions that could lead to controversy, the belief in "peace at any price", and walking away from a disagreeable interaction. Because of the growing complexities of organizational life and the demands made upon individuals and groups, conflicts is more likely to be a usual occurrence than a rarity in contemporary organizations.

Functional and Dysfunctional Conflict

Conflict that supports the individual and group goals, which leads to higher performance is called ***functional conflict*** while the conflicts that hinders individual or group performance is called ***dysfunctional conflict****.* The latter generally takes destructive form. There is thin margin between the two types of conflicts mentioned above. While evaluating the impact of conflict on goal achievement, individual perception and effect of group performance should be evaluated. If the conflict contributes towards higher performance then the conflict should be called functional or otherwise dysfunctional. Conflict can be broadly classified in three types i.e**. *task oriented conflict, behavioral conflict and structural conflict or process conflict.***

- ***Task conflict*** relates to the group goals or objectives to be achieved by the group.
- ***Behavioral conflict*** relates to individual's value system, approach, attitude, ego state, skill and norms being followed by him. Studies reveal that most of the dysfunctional conflict falls under this category.
- ***Process conflict*** is related to how a task is being accomplished in the organization. It is related with various processes, procedures, drills and instructions that are being followed on a particular job. When individual differs in this regard, conflict arises. This type of conflict can be eliminated to a large extent by following strict discipline in the work procedure and adhering to the rules and regulations. A positive point of functional conflict is as under:

Functional Conflict

- Conflict develops cohesiveness within the group members. A group goal therefore becomes a priority. Individual goals are then relegated to secondary position.
- Conflict leads to innovation and creativity, as there is competing sprit among various groups.
- Conflict provides challenging work environment and enhances opportunities for Self-development of group that leads to formation of group norms.

- Enhance work culture leads to up gradation of various systems within the organization and therefore growth is achieved.

Dysfunctional Conflict

Conflict may turn out to be detrimental and disastrous and having deleterious effects. Dysfunctional nature of conflict can be identified in the following circumstances:

- When conflict does not lead to solution.
- When basic goals of the organization are neglected.
- People should be treated with due respect. If it is violated and a climate of distrust and suspicion is created people feel defeated and demeaned which develops antagonism and leads to conflict.
- Conflict may lead to absenteeism and subsequently to increased turn over if not controlled in time.
- Dual management style may create hatred and lead to dysfunctional conflict.
- Disagreement with management may be considered as disloyalty, if this environment prevails, an opportunity for creativity would be lost and employees would lose interest in their job. This would lead to increased conflicting situations.

Nature and Scope of Conflict

Every organization has its objective. It is further broken down as departmental objectives, group goals and lastly individual goals. When individual interacts with another individual there is perceptual and communication problems that causes misunderstanding and leads to individual conflict situation. It is also true of groups. Group conflicts indicate the way of inter-group behavior in an organization. Inter-group conflict occurs due to group competition and group cohesiveness. This leads to a feeling of **'we'** and **'they'**. "We are always right and they are always wrong", hence a beginning of conflict. Aims and objectives of various organizations differ drastically that give rise to greater competition hence a high level of conflict. Conflict can arise between employer and employees, management and workers, one department and another, stakeholders, shareholders, producer and customers and between various trade unions that are often politically motivated.

Conflict can be considered as expression of hostility, negative attitude, aggression and gross misunderstanding. It is caused due to varying interest of individual or groups. ***Pondy*** has described that the term 'conflict' is used in four ways to indicate: -

- Antecedent conditions of conflicted behavior, such as scarcity of resources.
- Affective states of individuals involved such as stress, tension, hostility, anxiety etc.
- Cognitive state of individuals that is their perception or awareness or conflicted situations.
- Conflicted behavior, ranging from passive resistance to overt aggression.

Transition of Conflict

The following are transitions of conflict:

Traditional view

During 1930-40s, conflict was considered to be bad and viewed negatively. It was considered harmful, unnecessary and considered synonymous to violence, destruction and irrational. The view held that the conflict arose due to poor communication, lack of openness, lack of trust and failure of managers to be responsive to the needs and aspirations of their employees. The view further held that the conflict must be avoided at all costs. During the same period, the scientific management and administrative school of management that were in the state of evolution, developed such organizational structure where responsibilities had been properly laid down, and rules, regulations and policies had been inbuilt in the system. Thus a proper mechanism was introduced in the management systems and an adequate attention was paid by the managerial staff to ensure that there was no misunderstanding among the employees and that the conflict was avoided.

Human Relations View

Human relations view, which prevailed between 1940-70 states that conflict, is a natural occurrence of individual behavior and that the conflict cannot be avoided. The theory propagated that we must accept conflict since we cannot eliminate the same. It further states that organizations must lay down proper policy and procedure, set achievable goals. Have proper communication and thereby avoid stress and strain. Resources should be properly allocated and steps taken to avoid occurrence of conflict. An environment of trust, cooperation, friendship and sharing is built amongst the employees so that increased productivity for the organization is achieved. Avoidance of conflict and trust building is the key for the prosperity of the organization.

Behavioral View

Behavioral scientists encourage conflict on various grounds. They feel that a group having inter-group harmonious relations, peace and cooperation among group members is likely to be non-vibrant, static in nature and can display apathetic attitude towards group members. In this situation the groups are non responsive. What is required today is innovation, creativity and an ability of the group to meet the social obligations. Hence there is a need for maintaining minimal level of conflict within the group. This would lead to group being viable. Group members should be self-critical and develop creativity. Minimum level of conflict between the groups would increase competitiveness that will lend itself to higher productivity and increased job satisfaction. It must be borne in mind that only minimum level of conflict is necessary for it to be beneficial. Behavioral view proposes that because people differ in their attitudes, values and goals, conflict is but a natural outcome in any group of people and that it can be helpful and constructive. (Chandan S). The neo-classicists emphasized the understanding of individual psychology, development of informal groups, informal leadership, and a democratic-participative leadership style so as to avoid conflicts and establish harmony in the organization.

Modern View

The modern view holds that conflict may be necessary for organizational effectiveness. It is believed that harmonious, peaceful and cooperative groups can become static and un-innovative. Minimum level of conflict that keeps the group alive, self critical and creative is desirable. Modernists believe that conflict is structural in nature, is inevitable and endemic to the organizational milieu. It is a product of systems and determined by structural factors and integral to the nature of change. When groups interact there is bound to be difference of opinion and disagreements, which is a cause for conflict. It exists even when there is single individual who is faced with organizational problems like decision making. Conflict should be welcomed and managed effectively. Some of the positive points of minimum level of conflict are as under:

- Conflict should be expressed. By doing so, communication between two groups is restored that promotes growth.
- Minimum level of conflict serves as pre-requisite for organizational development. Conflict brings changes.
- Conflict helps achieve cohesion within the group that develops group identity and members of the group follow group norms setting aside personal problems. This tendency leads higher level of productivity, sense of identity with the organization and increases group ability to compete with groups and departments.
- Poor decisions are detrimental to organizational growth. Minimum level of conflict promotes stimulus for analytical thinking, which may challenge views, policies and systems prevailing in the organization. It will lead to reviews hence new policies may be introduced in the organizations.
- Conflict can serve as power equalizer between two parties. This is clearly observed during management union meetings. While management is powerful at the beginning of the discussion it however tends to equalize itself as the discussion proceeds.

Sources of Conflict

The following are the source or causes of conflict:

Communicational Aspect

Communication is an important process in the organization. Poor communication, passing of incomplete information to a department may cause conflict because this may have far reaching consequences in attainment of organizational goals. Importance of full and complete communication cannot be over emphasized in the fast moving organizations in the present era of information technology. Some of the reasons for poor communication are as under:

- ***Inadequate communication:*** where too much or too little information is passed from one department to the other.
- ***Filtration effect:*** where end receiver receives very scant information having little or no value.
- ***When information is not received on time:*** it must be noted that delayed information has no value as the decision might have already been taken without the information.
- ***Barriers of culture, language***.
- ***Inadequate training*** of sender and receiver.
- ***Noise problems.***

Types of Conflict

As discussed earlier, organizations exist based on various groups and departments where scares resources have to be put in to use through various processes. Systems and subsystems exist in the organizations that are managed by individuals and work teams or work groups. While interacting with each other on individual, team or group levels, there may be occasions when conflict occurs due to perceptual differences. The conflict may be intra-personal, inter-personal, intra-group, inter-group or intra-organizational in nature. These are discussed below.

Intra-personal Conflict

Intra personal conflict is also called the conflict within the individual. This type of conflict can be of two types: -

1. ***Value Conflict:*** Every individual has to play certain roles, which conforms to his value system. However, there are certain situations when an individual may have to compromise on value system and beliefs. For example, finance manager of an organization, while submitting tax returns to the government may conceal some facts, which may go against his belief and value system. This situation may cause tension and conflict within the individual.
2. ***Decision-Making:*** Problem solving is one of the important jobs every individual has to undertake in work environment. Every problem has various courses open. At times it is difficult for a person to select an appropriate course of action. This situation causes conflict within the individual. He therefore will have to take decisions based on the past experience and the knowledge. It may be noted that decision-making has

become simpler these days due to firstly; information technology where required data is available and secondly, group decision is the norm in most of the organizations.

Inter-personal Conflict

Inter-personal conflict relates to conflict between two or more individuals and is probably the most common and recognized form of conflict. Interpersonal conflict is caused due to disagreement over goals and objectives of the organization. These are heightened due to difference of opinion of individuals and when issues are not based on facts. Every organization is full of unresolved issues and problems differing situations that lead to conflict. Conflict can also take place between one person of a group with another person of the same group or another group on issues relating to decision-making. Individuals may have a difference of opinion on selection of a particular course of action that will lead to disagreement and often result in the conflict. It is the merit of the issue, and willingness of members of the organization to accept the others point of view that will avoid the conflict situation.

Intra-Group Conflict

Intra-group conflict relates to values, status and roles played by an individual in the group and the group norms. Individual may want to remain in the group for social needs but may disagree with the methods and procedures followed by the group. The conflict may arise when social changes are incorporated in the group. When group faces new problems and when values are changed due to change in social environment. Intra-group conflict is like Inter-personal conflict except that the people involved in the conflict episode belong to a common group.

Inter-Group Conflict

Conflicts between different groups, sections and departments are called inter-group conflict. For example, conflict between production and sales departments over the quality being produced and the customer requirements. Inter-group conflict causes due to factors inherent to the organizational structure like independence, inconsistency in various policy matter, variance on promotion criteria, reward system and different standards being adopted for different sub-units and departments. Organizational objectives can only be achieved when all departments work towards attainment of organizational goals. This is possible when interactions between departments are smooth and cordial. Conflict can be avoided by better communication between departments, joint decision making, removing disparity in-group goals and paying due respect and displaying concern for other group’s views.

Inter-Organizational Conflict

Inter-organizational conflict takes place between two dependent organizations. Conflict can take place between government organization, unions and the operating industry. Government organizations function to ensure that minimum standards are followed by the organizations. Managers must try and reduce inter-organizational conflicts by adopting positive approach and by following strictly, the rules and regulations laid down by the government agencies. Conflict can also take place between seller and buyer organizations.

Intra-Organizational Conflicts

Intra organizational conflict encompasses horizontal, vertical, line–staff and role based conflicts. Let us briefly study these situations.

a. ***Horizontal Conflict:*** Horizontal Conflict is caused due to incompatibility of goals, sharing limited resources and difference in time orientation. It leads to tension, misunderstanding and frustration on the part of both the parties. Horizontal conflict relates to employees or group at the same level. Organizational goal at implementation level vary from department to department. Finance department may not be able to spare additional amount as may be required by research and development department for new product development that may cause tension, misunderstanding between two individuals or departments. Individuals may note able to meet the targets of production in given time due to variety of reason that may cause conflict with sales department as the latter would like to flood the market with their product to make the presence felt. It has been seen that due to increased interdependence of individuals or groups to carry out various functions, situations do arise where there is difference of opinion on issues that cause conflict between individuals or groups.

b. ***Vertical Conflict:*** Vertical conflict refers to conflicts that might take place between different levels of hierarchy. Conflicts between subordinates and superior occur due to incompatibility. It is generally caused because of differences in perception, value system, goals that may be assigned, cognition and difference in individual behavior. Conflict is also caused due to inappropriate communication between individuals at two different levels.

c. ***Line and Staff Conflict:*** Line and staff conflict has been traditional. Line authority creates product and services and contributes directly towards the revenue generation. While staff authority, assists line authority and acts in advisory capacity. Staff and line authority have a different predispositions and goals. They have different skills and expertise. Since staff authority(managers) are in the chain of command and have a day to day access to the top boss, have tendency to dictate terms to the line authority and usually disregard the working knowledge of the line authority. They have tendency to dominate and disregard the efforts put in by line authority managers. On the contrary staff managers have a technical knowhow and they are able to advice the line authority to cut down cost of production and save on wastage etc. Line authority does not like their advice at times. Staff managers get frustrated when their suggestions and ideas are not implemented by line managers and hence the cause for conflict. In the process the organizational goals are not achieved as per plans.

d. ***Role Conflict:*** A person in an organization has to perform various roles. Conflict arises when roles assigned to him have different expectation. 'Time' management may cause conflict. A person may be asked to take care of an additional section in the absence of section head. Value system in an organization is also a cause for conflict. Supervisor is asked to be honest while he is dealing with sale of the product while the same person may be asked to pay commission to an official from whom a sanction is required to be obtained, thereby causing a conflict situation in the ethical value system of an individual. When an individual is line or a staff employee and also a union representative, has to perform duties of conflicting nature hence a role conflict.

Conflict Process

Pondy developed a conflict process model, which is useful to understand how a conflict starts. He has delineated five steps that he calls as 'conflict episode'. These are *latent conflict, perceived conflict, felt conflict manifest conflict, conflict resolution and conflict aftermath.*

Latent Conflict

It is a first stage of conflict when conflict-promoting situations appear on the scene between individuals and groups. In this stage potential conflict inducing forces exist. For example demand for various resources by departments when some may get and be satisfied and others may not get and be dissatisfied. Hence there may exist in a situation between two groups. At this stage the seeds of dissatisfaction have been sown.

Perceived Conflict

When one party frustrates the design of the other party**,** people perceive that a conflict condition exists. For example sales manager may need additional budget for promotional activities which financial manager may not release. The sales manager may attribute lack of finance as potential cause for fall in sales. Thus a conflict between the two may brew. At this stage the conflict does not surface.

Felt Conflict

At this stage, the conflict is actually felt and cognized. As stated earlier, the funds are not released by the finance manager and the problem is being surfaced and there is a likelihood of confrontation.

Manifest Conflict

In this stage, there is not only recognition or acknowledgement of conflict but also manifestation of conflict by covert or overt behavior. It is a stage of open dispute. Both parties devise their strategies to face each other. In the above example sales manager may make his point for additional funds for promotional activities especially during festival season. Finance manager may openly turn down the request since he might have allotted additional funds for procurement of better raw material for production department. Sales manager may argue that better raw material has no meaning unless the facts are brought to the notice of customers, which can only be done through promotional campaign. The debate may be unending and frustrating.

Conflict Aftermath

Once the conflict is resolved between the two parties, there is always a party, which is looser because the resolution is the outcome of win – lose or the compromise strategy, a stage is set for subsequent conflict episodes. A party, which feels defeated, may start preparations and be on the lookout for the assault to take the revenge. Conflict resolution has been added as an additional box in the figure to elucidate that conflict aftermath is a direct function of the results of the conflict resolution style adopted and exercised in any given situation.

Conflict Resolution Model

The following are the conflict resolution models:

Avoidance

One or both parties could **avoid** facing the conflict. The situation pertains to un-cooperative and unassertive behavior on the part of parties involved. A Party may avoid facing B Party. When situation reaches a point of negligence by A Party, B Party may take advantage of the situation. By avoiding, the individual might side step, postpone or even withdraw from the conflicting situation. This strategy is useful when issues involved in conflict are of a very minor nature or when more important issues deserve attention. This strategy suits a manager whose power base is very low and there is no chance of satisfying one's own concerns. Avoidance strategy should be applied when one feels that people in the organization should cool down so that the issue can be handled at a later date in a better psychological environment. The issue can also be postponed if additional information is required to be obtained. Avoidance is a poor strategy hence if someone else is able to handle the situation of conflict more effectively; he should be allowed to do so. Managers having high score on avoidance as a strategy of conflict management, may suffer from delayed decision making and hence the loss to the organization. Those who have a low score on avoidance thereby wanting to attend to every single issue may spend lot of time on every trivial issue, hurt people's feelings and stir hostility in the organization that should be taken care of.

Competing

This strategy may be adopted when other strategies of conflict resolution are not workable. Competing is also useful in emergencies where quick decisions are required. In this strategy power must be used unilaterally as a weapon when unpopular decisions like termination, pay cuts, layoffs, cost cutting and enforcing discipline are required to be taken. This strategy is based on win-lose principle of managing conflicts. The managers who are high on power base have an added advantage in using competing strategy because people from opposite side would not dare confront a person who is so powerful. There is a tendency that managers using this strategy should be careful about 'yes' men around them. They should identify conflicting situations and take bold decisions based on win-lose strategy. On the other hand there are managers who are low on competing mode, are likely to feel powerless in many situations. Not realizing that though they have power but they are not comfortable using it. By trying to use power, one could enhance one's achievement. Another drawback in scoring low is that such individuals find it difficult to take bold stand on various issues concerning organizations. In situations when a manager is very low on 'concern for the people' may postpone vital decisions on matters pertaining to subordinates that may be detrimental to organizational effectiveness.

Collaborating

Strategy of collaboration involves attempt of one party to work with the other party in cooperative manner and find solutions to the problem for mutual benefits. The strategy involves identification of areas of disagreement, examining the issue in greater detail and a workable solution arrived at, which is for mutual benefit. This strategy signifies when two sets of solutions are important for both parties to be compromised, hence finding integrated solution become imperative. This strategy signifies joint efforts, gain for both parties and integrated solutions arrived at by consensual decisions. ***Sekaran*** concluded that when people are high on collaborating, they have to be concerned about how they spend their time and other organizational resources. Collaboration is time and energy consuming. Not all situations need collaborative solutions. Over use of collaboration and consensual decision-making may reflect risk aversion tendencies or an inclination to defuse responsibility. When people score low on collaborating, they may fail to capitalize on situations, which would benefit immensely from joint problem solving. Also by ignoring the concerns of employees, decisions and policies may be evolved, which make the organizational members both unhappy and uncommitted to the system. The strategy attempts a win - win solutions to their goals.

Accommodating

In accommodating mode a person scarifies his own interest for accommodating other person's interest. It is form of selfless generosity, obeying other person's point of view. This mode is usually adopted when other person's view is stronger, you want to achieve goodwill and indicate that you are reasonable. This strategy of conflict resolution is important when you want other person to give at a later date when it favors you. ***Sekaran*** concluded that when people are high on accommodating score they might be differing too much to the wishes of others and pay very little attention to their own ideas and concern even though they may realize that they are not getting the attention they deserve. This might even lower one's self esteem in addition to depriving on the influence, respect and recognition from others, since it negates the potential contribution that individuals are capable of making to the organization. While individual low on accommodating score, they should start thinking about whether they lack the goodwill of others and whether others perceive them as unreasonable, uncompromising, rigid and demanding.

Compromising

In conflict situation, compromising is a mode when both parties try to find out some expedient, mutually acceptable solution that scarifies both the parties partially. In compromising, there is no clear winner or loser. None of the parties is fully satisfied as they ration the object of conflict and accept the solution which is not complete to either of the parties. In compromising, there is a possibility of an atmosphere of 'gamesmanship' in the work environment. There is also a possibility of compromising on certain principles of behavior which are not desirable. Values, ethics, principles and long term objectives of the organization must be protected while adopting compromising. When people are tough to compromise, they find it hard to make concessions and land up in power struggle that must be avoided. Compromising policies can easily be adopted when competing or collaboration strategy fails. Research indicates that people have underlying disposition to handle conflict in certain ways. Especially individuals have preferences among the five conflict handling intentions. Their preferences tend to be relied upon quite consistently, and a person's intentions can be predicted rather well from a combination of intellectual and personality characteristics. When confronting conflict situation, some people want to win it at any cost, some want to find an optimum solution, some want to run away, others want to be obliging, and still others want to "split the differences" ***(Robbins Stephen P.)***.

Women Leadership

The natural leadership talents of women:

For millions of years, men and women did different jobs, tasks that required different skills. As natural selection weeded out less able workers, time carved differences in the male and female brain. No two human beings are alike. Countless cultural forces influence how men and women think and act. And each one of us is an elaborate mix of both male and female traits. Yet, *on average*, each sex has its own range of abilities; each is a living archive of its distinctive past.

Helen E. Fisher, (Ph.D) in her research identified some talents that women express more regularly than men; aptitudes that stem, in part, from women's brain architecture and hormones, skills that leadership theorists now espouse as essential to leadership effectiveness. These talents are not exclusive to women, of course, yet women display them more regularly than men. These natural talents are:

1. **Web Thinking: Women's Contextual View**

One remarkable difference is (HF) the way that men and women tend to think. Psychologists report that when women cogitate, they gather details somewhat differently than men. Women integrate more details faster and arrange these bits of data into more complex patterns. As they make decisions, women tend to weigh more variables, consider more options, and see a wider array of possible solutions to a problem. Women tend to generalize, to synthesize, to take a broader, more holistic, more contextual perspective of any issue.

According to social scientists and business analysts, women are better able to tolerate ambiguity—a trait that most likely stems from their ability to hold several things simultaneously in mind

2. **Mental Flexibility**

Women's brain architecture for web thinking has endowed them with another natural talent—mental flexibility. Mental flexibility is an essential trait of leadership in our dynamic global economy.

In a recent study of nine hundred managers at top U.S. corporations, researchers reported that "women's effectiveness as managers, leaders and teammates outstrips the abilities of their male counterparts in 28 out of 31 managerial skill areas." Among these skills was "generating new ideas."

3. **Verbal Articulation: Words Are Women's Tools**

Women have other skills that enable them to lead. An exceptional female talent is the ability to find the right word rapidly—basic articulation. Women's verbal skills begin to emerge in early childhood. Infant girls babble more than infant boys. They speak sooner, with longer utterances and more complex grammatical constructions. By age twelve, girls excel at grammar and spelling and at understanding and remembering what they read. Words were women's tools. Words still sway minds and hearts. And as contemporary women leaders have opportunities to express their "voices" in the workplace, their power will increase.

4. Executive Social Skills

Women have what scientists call "executive social skills." From millennia of rearing prelinguistic babies, women have evolved a keener ability to pick up the nuances of posture and gesture, read complex emotions in faces, and hear slight changes in tone of voice. Women, on average, have a better sense of taste, touch, smell, and hearing.

They see better in the dark, have better peripheral vision, and remember more objects in the room or landscape

5. Networking, Collaboration, and Empathy

Along with women's executive social skills are their remarkable facilities for networking, collaboration, empathy, inclusion, and sharing power. Men tend to cast themselves within hierarchies and view power as rank and status; women, on the other hand, form cliques and regard power as an egalitarian network of supportive connections. These traits have also been linked with hormones.

When birds and mammals are injected with the predominantly male hormone, testosterone, they begin to fight for rank; infusions of estrogen tend to produce nurturing and connecting behaviors instead. These feminine dispositions to work in egalitarian teams, network, and support others were unquestionably vital to ancestral women who needed to support one another and their children.

Today these traits are still more impressive contributions to the contemporary business environment

Learning Activity: Students visit actual agribusiness firm (s) or any other Organization(s) to see their leadership style and conflict management system.

Continuous assessment: Test and group report/presentation on the visit will be used to assess the students' understanding level on leadership and group dynamics concept.

Summary

- "Leadership is interpersonal influence exercised in a situation and directed through the communication process toward the attainment of a specific goal or goals". Hence leadership is the process of influencing the members of the group with respect to goal setting and goal achievement

- A good Leaders are expected to have the following qualities: vision, ability, enthusiasm, stability, concern for others, self – confidence, persistence, vitality, charisma and integrity

- Conflict can be defined ***(Thomas K.A.)*** as the, "process that begins when one party perceives that another party has negatively affected something that the first party cares about.

- The conflict may be intra-personal, inter-personal, intra-group, inter-group or intra-organizational in nature.

- Depending on the nature of conflict and its magnitude, organizations can use avoidance, competing, collaborating, accommodating, and compromising as a means to resolve conflict.

3.3 Strategic Management (20hrs)

- Please try to define what Strategic Management is? (You can use the following space to write your answer)

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- What do you think Strategic Management do with the value chain? (You can use the following space to write your answer)

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3.3.1. The Nature of Strategy Management

Definition

The term strategic management is defined in many ways by different writers. Some of the definitions include:

1. Strategic management is the process of systematically analyzing various opportunities and threats vis-à-vis organizational strengths and weaknesses, formulating, and arriving at strategic choices through critical evaluation of alternatives and implementing them to meet the set objectives of the organization.
2. Strategic management (SM) can be also defined as the set of decisions and actions resulting in formulation and implementation of strategies designed to achieve the objectives of an organization
3. Strategic Management can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives. As this definition implies, strategic management focuses on integrating management, marketing, finance/accounting, production/operations, research and development, and computer information systems to achieve organizational success. The purpose of strategic management is to exploit and create new and different opportunities for tomorrow; long-range planning, in contrast, tries to optimize for tomorrow the trends of today. Strategic management is all about gaining and maintaining competitive advantage- what rival firms cannot do. Strategists helps an organization in gathering, analyzing and organizing information and responsible for the success or failure of an organization. They may differ in their approach from organization to organization (philosophies, attitudes, values).

From the above definitions of strategic management one can identify that at least:

- Strategic management is an art and a science of choosing the alternatives from the designed and available courses
- Strategic management involves set of decisions and actions
- Strategic management enable an organization to achieve its objectives
- Strategic management is concerned with gaining and maintaining competitive advantage- what rival firms cannot do.
- Strategists helps an organization in gathering, analyzing and organizing information and responsible for the success on failure of an organization. They may differ in their approach from organization to organization (philosophies, attitudes, values).

According to Robinson and Pearce (2005), strategic management involves attention to no less than nine critical areas:

1. Determining the mission of the company, including broad statements about its purpose, philosophy, and goals.
2. Developing a company profile that reflects internal conditions and capabilities.
3. Assessment of the company's external environment, in terms of both competitive and general contextual factors.
4. Analysis of possible options uncovered in the matching of the company profile with the external environment.
5. Identifying the desired options uncovered when possibilities are considered in light of the company mission.
6. Strategic choice of a particular set of long-term objectives and grand strategies needed to achieve the desired options.
7. Development of annual objectives and short-term strategies compatible with long-term objectives and grand strategies.
8. Implementing strategic choice decisions based on budgeted resource allocations and emphasizing the matching of tasks, people, structures, technologies, and reward systems.
9. Review and evaluation of the success of the strategic process to serve as a basis for control and as an input for future decision making.

These nine areas indicate, strategic management involves the planning, directing, organizing, and controlling of the strategy-related decisions and actions of the business. By strategy, managers mean their large-scale, future- oriented plans for interacting with the competitive environment to optimize achievement of organization objectives. Thus, a strategy represents a firm's "game plan". Although it does not precisely detail all future deployments (people, financial, and material), it does provide a framework for managerial decisions. A strategy reflects a company's awareness of how to compete, against whom, when, where, and for what.

Benefits of Strategic Management

Strategic management allows an organization to be more proactive than reactive in shaping its own future; it allows an organization to initiate and influence (rather than just respond to) activities-and thus to exert control over its own destiny. Historically, the principal benefit of strategic management has been to help organizations formulate better strategies through the use of a more systematic, logical, and rational approach to strategic choice. This certainly continues to be a major benefit of strategic management, but research studies now indicate that the process, rather than the decision or document, is the more important contribution of strategic management. The strategic management approach emphasizes interaction by managers at all levels of the organizational hierarchy in planning and implementation. A major aim of the process is to achieve the understanding of and commitment from all managers and employees. When managers and employees understand what the organization is doing and why, they often feel that they are a part of the firm and become committed to assisting it, and become creative and innovative as the process provides an opportunity to empower individuals.

The benefits of strategic management according to Robinson and Pearce (2005) include:

1. Strategy formulation activities should enhance the problem prevention capabilities of the firm. As a consequence of encouraging and rewarding subordinate attention to planning considerations, managers are aided in their monitoring and forecasting responsibilities by workers who are alerted to needs of strategic planning.

2. Group-based strategic decisions are most likely to reflect the best available alternatives. Better decisions are probable outcomes of the process for two reasons: first, generating alternative strategies is facilitated by group interaction; second, screening of options is improved because group members offer forecasts based on their specialized perspectives.

3. Employee motivation should improve as employees better appreciate the productivity – reward relationships inherent in every strategic plan. When employees or their representatives participate in the strategy formulation process, a better understanding of the priorities and operations of the organization's reward system is achieved, thus adding incentives for goal-directed behavior.

4. Gaps and overlaps in activities among diverse individuals and groups should be reduced as participation in strategy formulation leads to a clarification of role differentiations. The group meeting format which is characteristic of several stages of a strategy formulation process, promotes an understanding of the delineations of individual and subgroup responsibilities.

5. Resistance to change should be reduced. Although making good strategic decisions is the major responsibility of an organization's owner or chief executive officer, both managers and employees must also be involved in strategy formulation, implementation, and evaluation activities. Participation is a key to gaining commitment for needed changes. The required participation helps eliminate the uncertainty associated with change, which is at the root of most resistance. While participants may be no more pleased with their own choices then they would be with authoritarian decisions, their acceptance of new plans is more likely if employees are aware of the parameters that limit the available options.

According to Greenley (cited in David 2005) strategic management offers the following benefits:

1. It allows for identification, prioritization, and exploitation of opportunities.
2. It provides an objective view of management problems.
3. It represents a framework for improved coordination and control of activities.
4. It minimizes the effects of adverse conditions and changes.
5. It allows major decisions to better support established objectives.
6. It allows more effective allocation of time and resources to identified opportunities.
7. It allows fewer resources and less time to be devoted to correcting erroneous or ad hoc decisions.
8. It creates a framework for internal communication among personnel.
9. It helps integrate the behavior of individuals into a total effort.
10. It provides a basis for clarifying individual responsibilities.
11. It encourages forward thinking
12. It provides a cooperative, integrated, and enthusiastic approach to tackling problems and opportunities.
13. It encourages a favorable attitude toward change.

14. It gives a degree of discipline and formality to the management of a business.

Levels of Strategy

Strategy formulation, implementation, and evaluation activities occur at three hierarchical levels in a large organization: corporate, divisional or strategic business unit, and functional. Alternatively, strategy may operate at different levels of an organization corporate level, business level, and functional level.

1. Corporate Level strategy

Corporate Level Strategy occupies the highest level of strategic decision-making and covers actions dealing with the objective of the firm, acquisition and allocation of resources and coordination of strategies of various SBUs for optimal performance. Such decisions are made by top management of the organization. Top management of the organization is responsibility to achieve the planned financial performance of the company in addition to meeting the non-financial goals viz. social responsibility and the organizational image. Corporate strategy defines the business in which a company will compete preferably in a way that focuses resources to convert distinctive competence into competitive advantage.' Corporate strategy is not the sum total of business strategies of the corporation but it deals with different subject-matter. The corporate level strategies translate the orientation of the stakeholders and the society into the forms of strategies for functional or business levels. Corporate Level Strategies is the level where vision statement of the companies emerges

2. Business Level strategy

Business-level strategy is - applicable in those organizations which have different businesses- and each business is treated as strategic business unit (SBU). The fundamental concept in SBU is to identify the discrete independent product/market segments served by an organization. Since each product/market segment has a distinct environment, a SBU is created for each such segment. For each product group, the nature of market in terms of customers, competition, and marketing channel differs. Therefore, it requires different strategies for its different product groups. Thus, where SBU concept is applied, each SBU sets its own strategies to make the best use of its resources (its strategic advantages) given the environment it faces. At such a level, strategy is a comprehensive plan providing objectives for SBUs, allocation of resources among functional areas and coordination between them for making optimal contribution to the achievement of corporate-level objectives.

This level consists of primarily the business managers or managers of Strategic Business units (middle level managers). Here strategies are about how to meet the competition in a particular product market and strategies have to be related to a unit within an organization. The managers at this level translate the general statements of direction and intent churned out at corporate level. The managers identify the most profitable market segment, where they can excel, keeping in focus the vision of the company.

3. Operational Level/ Functional-level Strategy

Functional strategy, as is suggested by the title, relates to a single functional operation and the activities involved therein. Decisions at this level within the organization are often described as tactical. Such decisions are guided and constrained by some overall strategic considerations. Functional strategy deals with relatively restricted plan providing objectives for specific function, allocation of resources among different operations within that functional area and coordination between them for optimal contribution to the achievement of the SBU and corporate-level objectives. Below the functional level strategy, there may be sub-operations-level strategies as each function may be dividend into several sub functions. For example, marketing strategy, a functional strategy, can be subdivided into promotion, sales, distribution, pricing strategies with each sub function strategy contributing to functional strategy.

The following diagram shows the hierarchy of the three levels of strategy

Note that strategies at all the three levels are interlinked. Business level strategies are derived from corporate level strategy and functional level strategies from business level strategies. Higher level strategy generates a lower-level strategy and a lower-level strategy contributes to the achievement of the objectives of higher-level strategy.

The three levels of strategic decision have varying characteristics due to the varying responsibility and authority at different levels of management functioning. The following table shows characteristics of strategic decisions at corporate, business and functional level strategies.

Table 3.1 Characteristics of Corporate, Business and Functional Level Strategies

Characteristic	Corporate Level	Business Unit Level	Functional Level
Nature	Conceptual	Conceptual but related to business unit	Totally operational
Measurability	Non – measurable	Measurable to some extent	Quantifiable
Frequency	Large spans 5-10 years	Periodic	Annually
Adaptability	Poor	Average	High
Character	Innovative and creative	Action –Oriented	Totally action oriented
Risk	High	Moderate	Low
Profit	Large	Moderate	Low
Flexibility	High	Moderate	Low
Time	Long range	Medium range	Short range
Costs Involved	High	Medium	Low
Cooperation Needed	High	Medium	Low

3.3.2. The Hierarchy of Strategic Management

A. Creating a Vision

Definition of Vision

Aspirations, expressed as strategic intent, should lead to an end; otherwise they would just be castles in the air. That end is the vision of an organization. It is what the firm would ultimately like to become. The strategic management effort begins with creation of organizational vision. In other wards vision statement writing is the first step in strategic management. At this step, managers are required to envision where the organization should be headed in the long run and understand how it might get there. By breaking out of the constraints of current organizational circumstances they create or define a different future than the one anticipated.

Vision refers to category of intentions that are broad, all inclusive, and forward looking. It is the ability to see things ahead of themselves. It represent mental picture. It is vivid dramatic and complete picture of the shape of future things. It is a vividly descriptive image of what a company wants to be or wants to be known for. Vision statement defines what the organization what to be in the future. It answers the question “What do we want to become/ what do we want to be”. McClendon and Quay (1988) have defined vision as “a mental journey from known to the unknown, creating the future on the basis of current facts, hopes, dreams, dangers (threats) and opportunities. True visionary leaders tend to see opportunities before they see threats.” Vision is a necessary preproduction to success. However it is not a panacea for all ills.

Many organizations today develop a vision statement that answers the question, “What do we want to become?” Developing a vision statement is often considered the first step in strategic planning, preceding even development of a mission statement. Many vision statements are a single sentience. For example, the vision statement of stokes Eye Clinic in Florence, South Carolina, is “Our vision is to take care of your vision.” The vision of College of Business and Economics of the Ambo University is stated as “We envision being the leading College of Business and Economics in East Africa in education, research and consultancy and community service and finally advance the welfare of the society.”

Benefits of vision

The Bible says that “Where there is no vision, the people perish”. The same holds true for organization without vision statement. Good vision statement has many benefits to organization. Some of these include:

- Good visions are inspiring and exhilarating
- Visions represent a discontinuity, a step function and a jump ahead so that the company knows what it is to be
- Good visions help in the creation of a common identity and a shared sense of purpose
- Good visions are competitive, original and unique. They make sense in the market place as they are practical
- Good visions foster risk-taking and experimentation
- Good visions foster long-term thinking.
- Good visions represent integrity; they are truly genuine and can be used for the benefit of people.
- Effective vision statement link core value of organization

Dear students, to obtain the stated benefits vision of the organization has to be shared among employees. It has to percolate down to the desk of every individual. To do so it has to be communicated using all available means (magazines, notice board)

B. Mission

Nature of Mission statement

A mission is defined as "the fundamental purpose of the organization and its scope of operation" Mission statement clarify the purpose of an organization in a language that customers, managers and employees will understand. Mission refers to the essential purpose of the organization concentrating particularly why it is in existence, the nature of the business it is in, and the customer it seeks to serve and satisfy. It defines the purpose or reason for the organization existence. Mission – enduring statements of purpose - distinguish one business form other similar firms. It defines scope of firms operations in product and market terms.

Mission embodies the business philosophy of strategic decision makers; implies the image the company seeks to project; reflects the firm's self-concept; indicates the principal product or service areas and primarily customer needs the company will attempt to satisfy. In short, the mission describes the product, market, and technological areas of emphasis for the business. And it does so in a way that reflects the values and priorities of strategic decision makers.

Mission has external orientation and relates the organization to the society in which it operates. A mission statement helps the organization to link its activities to the needs of the society and legitimize its existence. It defines the business which the company will undertake.

An organization's mission when expressed in managerially meaningful terms indicates exactly what activities the organization intends to engage in now and in future. It suggests something specific about what kind of organization it is and is to become. It depicts the organization's business character and does so in ways that tend to distinguish the organization from other organizations. Mission sets forth principles and conceptual foundation upon which the organization reacts and the nature of the business in which it plans to participate.

Organizational mission, defined properly, offers guidance to managers in developing sharply focused, result-oriented objectives, strategies, and policies. Therefore, a detailed understanding of organizational mission is the starting point for rational managerial action and for the design of its strategies. Managerial effectiveness tends to begin with clarity of mission with an accurate, carefully delineated concept of just what the organization is trying to do and why.

An organization's mission focuses on external, rather internal. In other wards mission has external orientation and relate the organization to the society in which it operates. It link organization with the need of society and legalize its existence. It answers the question what is the business and how it goes there. Moreover, mission tangiblizes the vision – translate it into reality. It addresses the issues more explicitly and serves to identify the care, the uniqueness of the organization. Characteristically, it is a statement of attitude, outlook, and orientation rather than of details and measurable targets.

Organizational mission encompasses the broad aims of the organization; it defines what for the organization strives. Therefore, the process of defining mission for any organization can be best understood by thinking about it at its inception. Truly speaking, an organization's mission lies in the basic philosophy of those who create and manage the organization. Philosophy, in the context of management of an organization, consists of an integrated set of assumptions and beliefs about the way the things are, the purpose of the activities, and the way these should be. These assumptions and beliefs of those who create an organization (owners) and those who manage it (managers, specially the decision makers) become base for defining mission of the organization. These assumptions and beliefs are sometimes explicit, and occasionally implicit, in the minds of the decision makers. The philosophy of a person has its origin in two premises-fact premises and value premises. Fact premises represent our descriptive view of how the world behaves. They are drawn from research findings and our experiences. Value premises represent our view of the desirability of certain goals and activities.

Often the mission is written in terms of the general set of products and the services the organization provides and the markets as well as clients it serves. Such definition, of course, depends on the scope of the organization and its capacity to serve the society. Definition of a mission must also a due regard for the needs and interests of the organization's stakeholders, especially major clients. A mission addresses the basic question that faces all strategists: "What is our business?" A clear mission statement describes the values and priorities of an organization. Developing a mission statement compels strategists to think about the nature and scope of present operations and to assess the potential attractiveness of future markets and activities.

A mission statement broadly charts the future direction of an organization. For example, the mission of Kellogg Company is "to be the world's leading producer of ready-to-eat cereal products and to manufacture frozen pies and waffles, toaster pastries, soups, and other convenient foods." The mission of College of Business and Economics of the Ambo University is declared as " Our efforts in the College of Business and Economics is to produce competent and determined human resource through programs at graduate, undergraduate, and short term training programs; conducting research and consultancy and rendering community service to public, private (profit making) and non-profit organizations, so that beneficiaries could receive superior value products and services and thereby enriches our staff and partners to share our success."

Functions of Mission

According to King and Cleland (quoted in David Fred, 2005) defining mission statement for an organization serves the following function (benefits).

- To ensure unanimity of purpose within the organization.
- To provide a basis for motivating the use of the organization's resources.
- To develop a basis, or standard, for allocating organizational resources.
- To establish a general tone or organizational climate, for example, to suggest a businesslike operation.
- To serve as a focal point for those who can identify with the organization's purpose and direction, and to deter those who cannot from participating further in the organization's activities.
- To facilitate the translation of objectives and goals into a work structure involving the assignment of tasks to responsible elements within the organization.
- To specify organizational purposes and the translation of these purposes into goals in such a way that cost, time, and performance parameters can be assessed and controlled.
- Provides the boarding for strategy formulation. It helps to focus on the real strategies and secondary issues. It provide guidance for strategy making
- Formally acknowledge responsibilities toward various stakeholders and set standards for organizational performance along a stated dimension. Stakeholders are interested parties which affects and affected by organization. Stakeholder include; shareholders, customers, staff, suppliers, market intermediaries, community, government and etc
- Mission statement outlines norms of individual behavior. It provides ethical standard for organization
- Mission statement acts as touch stone for decision making. It provides core principles for decision making

Characteristic of good mission

While framing the mission statement, the following points should be taken into consideration:

- It should be feasible. Followers should not fill it is impossible. It should be neither too high to be unachievable, nor too low to de-motivate the people for work.
- It should be precise – not to narrow and not too broad. It should be precise but self-explanatory, neither too narrow so as to restrict the organization's activities, nor too broad to make itself meaningless
- It should be clear, both in terms of intentions and words used;– to lead to action
- It should be motivating – for employees , customers and society
- It should be distinctive (unique). It should be distinctive, both in terms of the organization's contributions to the society and how these contributions can be made.
- It should indicate major components of strategy- shows major strategies adopted

- It should indicate how objectives are to be accomplished.- give clue how to accomplish objective

Formulating Mission Statement

The process of defining the mission for a specific business can perhaps be best understood by thinking about a firm at its inception. The typical business organization begins with the beliefs, desires, and aspirations of a single entrepreneur. The sense of mission for such an owner-manager is usually based on several fundamental elements. Among others it includes:

- Belief that the product or service can provide benefits at least equal to its price.
- Belief that the product or service can satisfy a customer need currently not met adequately for specific market segments.
- Belief that the technology to be used in production will provide a product or service that is cost and quality competitive.
- Belief that with hard work and the support of others the business can do better than just survive, it can grow and be profitable.
- Belief that the management philosophy of the business will result in a favorable public image and will provide financial and psychological rewards for those willing to invest their labor and money in helping the firm to succeed.
- Belief that the entrepreneur's self-concept of the business can be communicated to and adopted by employees and stockholders.

As the business grows or is forced by competitive pressures to alter its product/market/technology, redefining the company mission may be necessary. If so, the revised mission statement will not reflect the same set of elements as the original. It will state the basic type of product or service to be offered, the primary markets or customer groups to be served, the technology to be used in production or delivery; the fundamental concern for survival through growth and profitability; the managerial philosophy of the firm; the public image sought; and the self-concept those affiliated with it should have of the firm.

C. Goals

Every organization has some function to perform and some contribution to make to the environment of which it is a part. The function of the business enterprise may be seen as the creation and/or supply of goods and services. It may also be to provide a source of employment and income for prospective applicants. All these involve bringing together the factors of production in appropriate units of organization and their successful mix and direction in order to create value added outcome.

Apart from performing some function, all organizations have some incentive for their existence and for their operations. Goals of an organization refer to a general statement of direction inline with the mission. Goal could be quantitative and qualitative in nature. The goals of an organization are the reason for its existence. The activities of an organization are directed to the achievement of its goals. A goal is a future expectation. It is something the organization is trying to accomplish. The meaning of a goal is however subject to many interpretations. It can be used in a very broad sense to refer to the overall purpose or general objective of an organization, for example, to produce pencils. A goal may refer to more specific desired accomplishments for example to produce and sell a given number of HB pencils within a given period of time.

The goals of an organization will determine the nature of its inputs and outputs, the series of activities through which the outputs are achieved and interactions with its external environment. The extent to which an organization is successful in attaining its goals is a basis for the evaluation of organizational performance and effectiveness.

D. Objectives

The goals of the organization are usually translated into objectives. Objectives set out more specifically the goals of the organization, the aims to be achieved and the desired end-results. The objectives of an organization are related to the input-conversation-outputs cycle when viewed from the systems theoretical perspective. In order to achieve its objectives and satisfy its goals, the organization takes input from the environment through series of activities, transforms these inputs into outputs and returns them to the environment as inputs to other systems. The organization operates within a dynamic setting and success in achieving its goals will be influenced by a multiplicity of interactions with the environment.

Objectives are narrower than goals and are of a shorter time. Objectives are an essential part of the decision-making process involving future courses of action. Objectives may be set out either in general terms or in more specific terms.

General objectives are determined by top management. Specific objectives are formulated within the scope of general objectives and usually have more defined areas of application and time limits.

Objectives are concrete, quantified, or at as least a more precise statement in line with the goal. They are operational definition of goals and help managers to take specific action. They help to accomplish goals. Organizations have many objectives than goals. Objectives of the organizations have to be satisfy the SMARTER (S= Specific, M= Measurable, A= Achievable, R= Realistic, T= Time bound, E= Enhanceable, R= Rewarding) principle.

E. Policies

While objectives refer what is to be done, polices focus on how organizational objectives will be achieved. Polices provide a general guideline to action. It is a framework for managers to follow in decision-making and handling problem situational. Polices define an area within which a decision is to be made and ensure that the decision will be consistent with, and contribute to an objective. Policies are guides to decision making and address repetitive or recurring situations. Policies are the means by which annual objectives will be achieved. They are most often stated in terms of management, marketing, finance/accounting, production/operations, research and development, and computer information systems activities.

Policies can be established at the corporate level and apply to an entire organization at the divisional level and apply to a single division or at the functional level and apply to particular operational activities or departments. Policies, like annual objectives, are especially important in strategy implementation because they outline organizations expectations of its employees and managers. Policies allow consistency and coordination within and between organizational departments.

Policy provides guiding principles of areas of decision making and delegation. Some policy decisions are directly influenced by external factors. For example, government legislation on racial or sexual discrimination affects decision making. Thus, actual implementation of policies is somehow difficult. For instance, filling top vacancy from internal employee where the organization has no adequately qualified and experienced staff to fill senior organizational positions.

F. Procedures

Whereas polices are general framework to attain the organizational objectives, procedures are specific steps required to achieve goals. Procedures show chronological sequences of required action (show sequence of activities). They guides to action, rather than to thinking and they detail the exact manner in which certain activities must be accomplished. They are found in all functions numerous at the lower level and help in the implementation of polices (outline the how of the decision). They cut across department when many people in the functions are involved in the task. Unlike polices, they limit creativity and initiatives. Well-established procedures provide specific instructions in handling organizational operations.

G. Rules

A rule is a statement that tends to restrict actions or prescribe specific activities with no discretion. In other words a rule is a specification for actions that must be taken, or must not be taken in particular circumstances. They spell out specific required actions or no actions, allowing no discretion. That is they creativity and initiative. They are usually the simplest type of plan. They are designed to be clear and unambiguous.

a. **Program.** Program **e**ncompasses a complex whole of goals police, rules, task, recourse required, etc. that are desired to chart a desired course of action.
b. **Budget.** Budget refers **to a** statement of expected results expressed in numerical terms. It relates to a specific time span in the future. It is used for allocation and control of resources. It also called financial plan/profit. It address issues in very detail manner, and limit freedom

3.3.3. Environmental Analysis

The analysis of the environment – both external and internal is thought to be important because it increases the quality of the strategic decision making; it enables organization to see change in the environment and influence or adjust itself with it. Careful analysis of both internal and external influential factors helps the organization identify its weaknesses and strengths; threats to its continued effectiveness and opportunities for its improvement. For this reason, the internal and external analysis are often referred to as "SWOT Analysis", whereby internal factors are restated as the strengths and weaknesses while external factors can be restated as opportunities and threats. Generally, environmental analysis is very important to success. This is because it helps managers to prepare themselves for any eventuality created by environment.

External Environment Analysis

External environment comprises all factors external to the firm that can lead to opportunities and threats. External trends and events significantly affect all products, services, markets, and organizations in the world. Changes in external forces translate into changes in consumer demand for both industrial and consumer products and services. External forces affect the types of products developed, the nature of positioning and market segmentation strategies, the type of services offered, and the choice of businesses to acquire or sell. External forces directly affect both suppliers and distributors. Identifying and evaluating external opportunities and threats enables organizations to develop a clear mission, to design strategies to achieve long-term objectives, and to develop policies to achieve annual objectives.

The external analysis is important because it furnishes vital information with regard to present and future critical factors such as economic, political, and future critical factors such as economic, political, technological and social. The process of external analysis must identify the key opportunities and threats on which an organization should base its strategy. According to Pearce II and Robinson (1991) an opportunity is a major favorable situation in a firm's environment. Identification of a previously overlooked market segment, changes in competitive or regularity circumstances, technological changes, and improved buyer or supplier relationships could represent opportunities for the firm. They defined a threat as a major unfavorable situation in an organization's (firm's) environment. Threats are key ingredients to the firm's current or desired opposition. The entrance of new competitors, slow market growth, increased bargaining power of key buyers or suppliers, technological changes, and new or revised regulations could represent threats to success. Understanding the key opportunities and threats facing a firm helps its managers identify realistic opportunities from which to choose an appropriate strategy and clarifies the most effective niche for the firm.

Opportunities and threats are largely beyond the control of a single organization – thus the word external. The wireless revolution, biotechnology, population shifts, changing work values and attitudes, space exploration, recyclable packages, and increased completion from foreign companies are examples of opportunities or threats for companies. These types of changes are creating a different type of consumer and consequently a need for different types of products, services, and strategies. Many companies in many industries face the severe external threat of online sales capturing increasing market share in their industry. Other opportunities and threats may threats include the passage of a law, the introduction of a new product by a competitor, a national catastrophe, or the declining value of the dollar. A competitor's strength could be a threat. Unrest in the Middle East, rising energy costs, or the war against terrorism could represent an opportunity or a threat.

A basic tenet of strategic management is that firms need to formulate strategies to take advantage of external opportunities and to avoid or reduce the impact of external threats. For this reason, identifying, monitoring, and evaluating external opportunities and threats are essential for success. This process of conducting research and gathering and assimilating external information is sometimes called environmental scanning or industry analysis. Lobbying is one activity that some organizations utilize to influence external opportunities and threats.

The process of performing an external audit must involve as many managers and employees as possible. As emphasized in earlier chapters, involvement in the strategic management process can lead to understanding and commitment from organizational members. Individuals appreciate having the opportunity to contribute ideas and to gain a better understanding of their firm's industry, competitors, and markets.

To perform an external audit, a company first must gather competitive intelligence and information about economic, social, cultural, demographic, environmental, political, governmental, legal, and technological trends. Individuals can be asked to monitor various sources of information, such as key magazines, trade journals, and newspapers.

External environment of organization can be splited into the general environment and task environment further. The general environment consist political environment, economic environment, social and cultural environment, and technological environment (PEST). The task environment constitute factors that are closer to organizational boundary such as; competitors, suppliers, customers (buyers), potential substitute and new entrants. In the section under I will present the PEST variables. Variables in the task environment will be discussed in the industry analysis section

The general environment

The general environment of organization is also called macro or mega environment. The PEST variables constitute the macro environment of the organizations. Each of these variables is discussed briefly here under.

A. Political, Governmental, and Legal Forces

Successful strategic management depends on thorough evaluation of the political circumstances that will confront with the organization. The legal and regulatory policies of the organizations' operation are defined by political factors.

Federal, state, local, and foreign governments are major regulators, deregulators, subsidizers, employers, and customers of organizations. Local, state, and federal laws, regulatory agencies, and special interest groups can have a major impact on the strategies of small, large, for-profit, and non profit organizations. Some laws and regulations could restrict the potential profits of business organizations. These include: tax laws, minimum wage legislation, pollution and pricing policies, administrative laws and may other political actions aimed at protecting employees, customers, the general public, and the environment. On the other hand, there are some political actions that are designed to benefit and protect organizations. These include patent laws, government subsidies, and product research grants. In short political, governmental, and legal factors, therefore, can represent key opportunities or threats for both small and large organizations. Thus, those political factors that either benefit or limit the organization need to be critically assessed.

B. Economic Factor

Each organization must consider economic trends in the segments that affect the organization. In particular the economic assessment must address the overall economic forecast for the planning period and the likely funding stream that will be available to the organization through the budget or other sources. Moreover, all of the national forces that can affect the economic well being of the organization should be thoroughly analyzed. For instance, the availability of credit, the level of disposable income, the prosperity of people to spend, interest rates, inflation rates, devaluation/price controls, unemployment levels, increasing numbers of two-income households, and other trends in the economy.

C. Social and Cultural Forces

A number of social factors can greatly influence the future of an organization. To mention some of them, they include the beliefs, values, attitudes, opinions, and life styles of persons in the organization's external environment, as developed from cultural, demographic, ecological, religious and ethnic conditioning. Social, cultural, demographic, and environmental changes have a major impact upon virtually all products, services, markets, and customers.

D. Technological Forces

Organizations that traditionally have limited technology expenditures to what they can fun after meeting marketing and financial requirements urgently need a reversal in thinking. The pace of technological change is increasing and literally wiping out businesses every day. An emerging consensus holds that technology management is one of the key responsibilities of strategists. Firms should pursue strategies that take advantage of technological opportunities to achieve sustainable, competitive advantages in the marketplace.

In practice, critical decisions about technology too often are delegated to lower organizational levels or are made without an understanding of their strategic implications. Many strategists spend countless hours determining market share, positioning products in terms of features and price, forecasting sales and market size, and monitoring distributors; yet too often, technology does not receive the same respect.

Not all sectors of the economy are affected equally by technological developments. The communications, electronics, aeronautics, and pharmaceutical industries are much more volatile than the textile, forestry, and metals industries. For strategists in industries affected by rapid technological change, identifying and evaluating technological opportunities and threats can represent the most important part of an external audit.

Internal Analysis

Internal analysis (strategic capability assessment) is the process by which the strategist defines the distinctive competencies of his/her firm, i.e. the strength as well as the weakness in managing resource and performing identified functions. It is the process that matches internal competencies of the firm (strength) with environmental opportunities and minimize weakness of the firms to meet the threat posed by the environment.

The experiences of different organizations – both large and small – indicate that thorough internal assessment is critical in developing a strategy. This analysis is necessary to identify the organization's competitive advantages and disadvantages. Competitive advantages and disadvantages are the strengths and weaknesses of the organization relative to its present and likely future competitors.

Pearce II and Robinson (1991) have defined the strengths and weaknesses of the organization as follows.

Strengths: Strength is a resource, skill, or other advantage relative to competitors and the needs of the markets a firm serves or expects to serve. It is a distinctive competence that gives the firm a comparative advantage in the market place. Strengths may exist with regard to financial resources, image, market leadership, buyer/supplier relations, and other factors.

Weaknesses: A weakness is a limitation or deficiency in resource, and capabilities that seriously impedes a firm's effective performance. Facilities, financial resources, management capabilities, marketing skills, and brand image can be source of weaknesses.

Overall, the internal analysis of an organization is both quantitative and qualitative assessment of the organization as it is today in terms of people, financial resources, technological capability, and information sources. It must be borne in mind that simply knowing the sheer number of resources, for example employees, may not be enough when the key issues may become the skills they bring to the job, the experiences they have or the intangibles such as work motivation or morale. Similarly, knowing the absolute size of the budget may be less important than knowing how flexibly that money can be spent. A qualitative look at the resources of the organization is the prime indicator of the ability of the organization to succeed with the strategic change effort.

Internal strengths and internal weaknesses are an organization's controllable activities that are performed especially well or poorly. They arise in the management, marketing, finance/accounting, production/operations, research and development, and management information systems activities of a business. Identifying and evaluating organizational strengths and weaknesses in the functional areas of a business is an essential strategic-management activity. Organizations strive to pursue strategies that capitalize on internal strengths and eliminate internal weaknesses.

Strengths and weaknesses are determined relative to competitors. Relative deficiency or superiority is important information. Also, strengths and weaknesses can be determined by elements of being rather than performance. For example, strength may involve ownership of natural resources or a historic reputation for quality. Strengths and weaknesses may be determined relative to a firm's own objectives. For example, high levels of inventory turnover may not be strength to a firm that seeks never to stock-out.

Internal factors can be determined in a number of ways, including computing ratios, measuring performance, and comparing to past periods and industry averages. Various types of surveys also can be developed and administered to examine internal factors such as employee morale, production efficiency, advertising effectiveness and customer loyalty.

Internal audit provide more opportunity for participants to understand how their jobs, departments, and others fit into the whole organization. It enables participants (managers and employees) to perform better through understanding how their work affects other areas and activities of the firm. Internal audit requires gathering, organizing and evaluating about the firms operations.

The process of analyzing internal resources of an organization involves four basic steps. These are:

1. Developing a profile of the organization's principal resources and skills in broad areas: financial; physical, organizational and human; and technological.

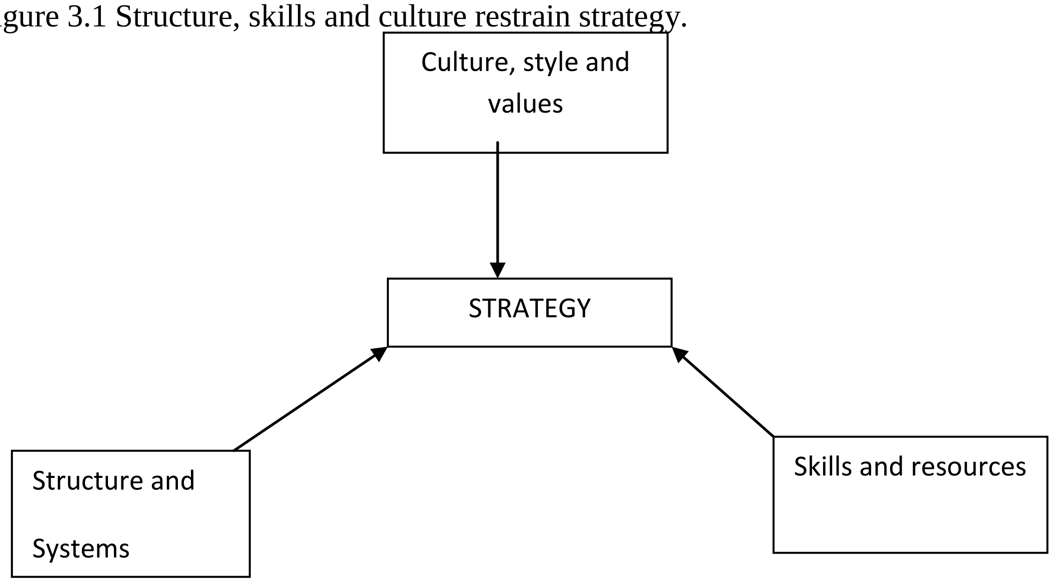
2. Determining the key success requirement of the product/market segments in which the organization competes or might compete.

3. Comparing the resource profile to the key success requirements to determine the major strengths on which an effective strategy can be based and the major weaknesses to be overcome.

4. Comparing the organization's strengths and weaknesses with those of its major competitors to identify which of its resources and skills are sufficient to yield competitive advantages in the marketplace.

The strategy of the firm is influenced and constrained by the existing structure, culture, values and resources. The reality of most organizations is that they fall somewhat short of the ideal or optimum set of skills, structure and values required to be a top performer in their industry. Figure 3.2 shows the effect of structure, culture, and skills and resources. These factors are presented in detail in the following subsections

Figure 3.1 Structure, skills and culture restrain strategy.



Structure and systems

Most organizations have structures that have emerged over time rather than resulting from deliberate attempts to design the ideal organization. However, these emerging structures should be reasonably efficient, otherwise the firm would have gone bust a long while ago.

Because there is no ideal structure all firms suffer from weaknesses and problems that derive from the way people are organized. For example, as most firms grow they adopt a functional structure. This type of structure gives us the benefits of having specialists (in sales, production, engineering, personnel) but there are disadvantages that can stem from this form of specialization:

1. Different functions tend to have different ways of seeing the world. This can cause communication problems and can make it difficult to get all parts of the firm pulling in the same direction.

2. Each function has its own priorities, and these priorities can bring it into conflict with other functions (e.g. production prefers long runs of the same product, sales like to offer customers flexibility and variety).

3. Over time, these two combine to set up ‘walls’ between functions that make it difficult to achieve co-ordination and communication across the organization.

Structure can influence the strategy of the firms particularly where one function tends to dominate the senior management positions. For example, an predominance of process engineers in the strategic apex could lead to an excessive concern with capacity expansion and process innovation which might be out of line with the needs of the buyers (e.g. for more specialties and tailored solutions rather than low cost ‘commodities’). Structure can also reduce the firm’s ability to adapt to external changes. Some organizations are excessively rigid, which hinders flexibility and can stifle creativity and initiative.

There is evidence to suggest that as firms adapt their strategies over time they tend not to readjust their structures to match the new strategy. Take, for instance, a firm that grows through the success of a single product. The firm then introduces new products into the same broad market to sustain the past growth rate, leading eventually to a greatly expanded multi-product firm. What tends to happen to the structure during this phases of expansion and product diversification is as follows.

1. The early phase of rapid growth is coped with through an informal structure, with little specialization (every one lends a hand to do whatever needs doing to meet customer orders).

2. This is followed by a professionalization of the firm as the need for systems and specialists becomes essential to cope with the expanding size of the business. Typically, functional specialisms emerge in finance and accounting, production, demonstration and sales.

3. The problems arise when firms stick with this functional structure as they become increasingly large and diverse. As more people join the number of management levels increases, resulting in communication problems up and down the hierarchy. Functional goals tend to leave no-one looking after the needs of a particular product or customer; people just do their bit and pass it on to the next department.

What tends to follow is a downturn in performance which seems to be the necessary catalyst that pushes the management into structural reorganization.

The key issue in organization is, having split up the task into specialist bits, to make sure it all comes together satisfactorily in the end. What is lacking in the over-large functional structure is co-ordination across the organization. There is a number of ways of tackling this problem:

1. Break the firm up into smaller business units that can focus on particular products, or markets.
2. Introduce staffs who are responsible for coordinating activities across the functions (product managers, project leaders).
3. Formalize the role of the product/Project managers in a matrix structure.

Generally, structural change is something that most management's avoid. It can create uncertainty, anxiety and resentment especially if it is badly managed. As a consequence reorganization is not only delayed but when it does occur managers tend to opt for structures that have already been tried (and succeeded) elsewhere.

Systems can help or hinder the implementation of strategy. In some bureaucracies staffs at lower levels have to get approval from senior management for often quite trivial decisions or expenditures. If you grow up in this type of structure you are unlikely to feel comfortable about taking responsibility and exercising initiative. Job descriptions can be used defensively to avoid having to pick up new problems or responsibilities that have emerged due to changes in the environment. On the other hand, a lack of systems and documentation can lead to people reinventing the wheel, and to valuable information leaving the organization when individuals retire or move on.

Do the control systems measure what is important? Or do they measure only those things you can count? This is critical, because the control systems signal clearly to staff what the real priorities are. These things are measured, action is taken if you do not meet the required level of performance, and therefore, these things must be critical to the strategy of the organization.

Planning alone cannot create massive mobilization of resources and people and can never generate high quality of strategic thinking required in complex organizational context. For this to happen, the planning should be carefully fit together and integrated with significant administrative systems viz. management control, communication, information management, motivation, rewards etc. It is also vital that all these systems are supported by organizational structure that defines various authority and responsibility relationships, among various members of the company and specifically at operational level. The culture of the organization should be accounted for, and these systems should find adaptability with the culture of the organization.

Culture, style and values

A manager's perceptions of the world, like everyone else's are colored by his or her background and experience. So, when we try to inject some analysis and structure into the strategy-making process we need to be aware of the limitations of the individual manager and the management team.

Take, for example, the managers' views of the competition. These will be influenced by a whole host of factors, including comments made by customers, ex-employees, other managers, and by their advertisements, reported performance, as well as rumors that circulate in the industry. These snippets of information may well be 'interpreted' in the management team to fit a well-accepted, shared stereo type of a particular competitor. This could be based around some collective past experience where the firm either 'won' or 'lost' some battle with the competition. In some firms the competition are formally 'rubbished' by the senior management (although salespeople in the field might take a different view); in others there is a kind of collective inferiority complex. Summed up in the saying the grass is always greener on the other side'. The point about this excursion into how people see the world is that perceptions critically affect the decision making processes in the firm. 'Objective' information is ignored or downgraded if it does not fit the prevailing view of the world.

Strong shared values can be a tremendous driving force in the firm. Therefore, the values that pervade an organization would tend to be a stabilizing force, keeping the firm doing what it has done in the past, and is doing now. Problems arise if these values do not support the preferred strategy. For example, take the management consulting division of one of the major accounting firms. The dominant beliefs and values were:

1. There is safety and security in being big'
2. 'We are professionals who are trained to avoid risk at all costs'
3. 'Loyalty to the firm brings promotion'
4. 'Partners know best, so make sure you check whatever you are doing with them'

These beliefs and values are strongly reinforced by the training that staffs receive, the role models around them in the firm, and the rituals and stories that form part of most organizations. But the preferred strategy requires risk taking, devolved responsibility and the exercise of initiative at all levels if it is to succeed. Interestingly, the person who acted as the driving force behind the new strategy joined the firm from outside.

Problems can arise where the management is determining strategy in a group or committee setting. There may be a set of unwritten 'rules' about how we conduct ourselves which could be harmful to good decision making. For example, it may be considered 'bad form' openly to criticize suggestions made by the managing director. It could be that the management team views itself as lightly knit and any doubters are clearly not ‘team players’ just plain fear or blind ambition can prevent people from speaking their minds.

In some organizations you find a predominant management style. This style gets reinforced where firms generally promote from within, again, as with shared. Values, the style can fit the strategy very well, but in some firms the domination firm which has an operating core comprising hundreds of staff doing routine, repetitive jobs. In many of these organizations you will find an autocratic style prevails. In some this takes the form of paternalism (or the ‘benevolent autocrat); in others it is expressed in the form of rather more unsavory, authoritarian regimes.

The autocratic style in many respects fits the particular requirements of the mass- production firm. It centralizes decision making (which helps with co-ordination) and it helps to reinforce discipline on the shop floor. You may not like this style, but there is no doubt that it can be effective. The problems arise when this style seeps into other parts of the organization where it is not appropriate, for example, the R&D department, stifles initiative and generally de-motivates highly skilled staff who prefer to be managed in less ‘interfering’ way.

How do you preserve islands of consultative management style in a sea of authoritarianism? Even if you believe participation is the correct style there are great pressures on you to manage otherwise. There will be pressures from colleagues (you would be considered as ‘weak’), pressures from bosses (‘you’re not in control’) and pressures from staff (‘we don’t know how to respond to this unfamiliar approach’)

Lastly, cultures and values can become so entrenched in a firm that managers deny the realities of the marketplace and stick with the same strategy long after it was clear to those outside that the firm was backing a loser. Thus exit barriers are set up that prevent firms from leaving the industry.

Skills and resources

Strategic internal capability assessment involve (1) resource audit – quantity and quality of resources available to the firm, (2) resource analysis – individual strengths and synergistic linkage (value chain analysis), (3)identifying core competence; provides potential access to a wide variety of market, make significant contribution to perceived customer benefits of the end product, and is difficult for competitors to imitate (out perform competitors and provide supreme value for customer, (4) Comparative analysis of competencies(determine competitive position and uniqueness using; historical analysis, industry norms, benchmarking) , (5)Assessing over all balance and mix(Interaction of each unit, and portfolio analysis) and (6) identification of critical success factor(factors for successful gaining and maintaining a competitive advantage)

Resource audit must be comprehensive. It should be based on defined criterion. Some elements of resource audit include among others :(1) Financial resource (debt-equity ratio, return on investment, credit rate etc), (2) physical resource (plant size, economic of scale, resale value of fixed assets, alternative use of fixed assets etc), (3) human Resource (qualification, labor relation, compensation package , labor turnover etc), (4)Technological(significance of patent, research and development employees, facilities and expenditure etc), and (5)reputation on intangibles (loyalty, quality etc).

A distinctive competency is a unique strength that allows a company to achieve superior efficiency, quality, innovation or customer responsiveness and thereby to create superior value and attain a competitive advantage. A firm with a distinctive competency can differentiate its products or achieve substantially lower costs than its rivals. Consequently, it creates more value than its rivals and will earn a profit rate substantially above the industry's average.

The distinctive competencies of an organization arise from two complementary sources: its resources and capabilities. The financial, physical, human, technological, and organizational resources of the company can be divided into tangible resources (land, buildings, plant, and equipment) and intangible resources (brand names, reputation, patents, and technological or marketing know-how). To give rise to a distinctive competency, a company's resources must be both unique and valuable. A unique resource is one that no other company has.

Capabilities refer to a company's skills at coordinating its resources and putting them to productive use. These skills reside in an organization's routines, that is, in the way a company makes decisions and manages its internal processes in order to achieve organizational objectives. More generally, a company's capabilities are the product of its organizational structure and control systems. They specify how and where decisions are made within a company, the kind of behaviors the company rewards, and the company's cultural norms and values. It is important to keep in mind that capabilities are, by definition, intangible. They reside not so much in individuals as in the way individuals interact, cooperate, and make decisions within the context of an organization.

The distinction between resources and capabilities is critical to understanding what generates a distinctive competency. A company may have unique and valuable resources, however unless it has the capability to use those resources effectively it may not be able to create or sustain a distinctive competency. It is also important to recognize that a company may not need unique and valuable resources to establish a distinctive competency so long as it has capabilities that no competitor possesses.

Most organizations would tend to approach an audit of skills and resources on a functional basis. In other words, the management would work through each function or department asking questions about what they were particularly good (and bad) at, and catalogue the various types of physical and other resources the function or department bad at its disposal. This is all right as a starting-point, but it has considerable limitations as a way of assessing the organization's position vis a vis competitors and its ability to meet the present and future needs of customers.

Instead of this functional approach, we shall use a rather different set of categories to appraise the capabilities of the organization as a whole rather than as a set of distinct departments. We consider below various ways in which the organization can possess 'distinctive competence'. If the organization has no particular skills in an area, this may raise questions about whether or not this is critical to developing competitive advantage and meeting customer needs. If it is critical, then this must be a priority area for future development. However, if you feel that a more conventional audit would help your analysis, you may try approaching the audit using the value chain categories instead of the current functional or departmental structure you already have in place. This approach may throw up some interesting insights.

A. Economies of scale

Economies of scale can derive from many areas of the organization. Typically areas which tend to have a high fixed cost component (like advertising, management services, R&D) benefit most from larger scale operations. Assessing the organization's position we need to identify areas where competitors are exploiting scale economies more effectively than we are, and areas that could yield useful economies that might give us an edge?

There are also diseconomies associated with large-scale production which may be important to the organization's ability to adapt, motivate its employees, serve particular segments, etc

B. Learning and experience

Learning can reduce costs, and help the firm to be unique. Questions need to be asked about whether or not the firm is exploiting the potential benefits of learning. Do we communicate ideas and suggestions effectively? Do we thoroughly document changes and improvements? Do we protect our ideas and expertise from exploitation by competitors?

C. Linkages

The cost and performance of one activity is often affected by how other activities are performed. For example, planned maintenance can cut machine downtime, higher-quality components can reduce production costs, coordinating procurement and assembly can help keep stock levels down (e.g. 'just –in-time). One problem with functional organization structures is that these opportunities to reduce costs or improve performance are often missed because co-operation and communication across the organization are not encouraged. Link can be set up with suppliers and distributors to reduce handling and packaging costs and to eliminate goods-in inspection.

D. Response time

How rapidly can we respond to an order? How long does it take us to develop a new product? How fast can we customize a product or service to meet a customer's particular requirements? How soon can we deliver? How fast can we respond to customers' queries? Response time can be critical both to lowering costs and to developing a competitive advantage. For example, many Japanese firms have reputations for innovation which have been achieved not through original R&D efforts but through incorporating other people's innovations rapidly into their new products, improving response time can reduce work in progress and inventory costs. There is evidence to show that the longer it takes to fill an order, the more expensive it is to produce. Lastly, how many orders have been lost due to a firm's inability to respond fast enough to the customer's requests?

3.3.4. Strategic Analysis and Choices

Strategic Analysis

There are different strategic alternatives / opinions which could be broadly categorized into four major groups: integration strategies, intensive strategies, diversification strategies and defensive strategies which are discussed in the following table:

Table 3.1Major groups of strategic alternatives /opinions

S.No	Strategy	Sub strategy	Definition/ Description
1	Integration Strategies	Forward Integration	Gaining ownership or increased control over distributors or retailers
		Backward Integration	Seeking ownership or increased control of a firm's suppliers
		Horizontal Integration	Seeking ownership or increased control over competitors
2	Intensive Strategies	Marker Penetration	Seeking increased market share for present products or services in present markets through greater marketing efforts.
		Market Development:	Introducing present products or services into new geographic area
		Product Development	Seeking increased sales by improving present products or services or developing new ones

3	Diversification Strategies	Concentric Diversification	Adding new, related products or services
		Horizontal Diversification	Adding new, unrelated products or services for present customers
		Conglomerate Diversification	Adding new, unrelated products or services
4	Defensive Strategies	Retrenchment	Regrouping through cost and asset reduction to reverse declining sales and profit
		Divestiture	Selling a division or part of an organization
		Liquidation	Selling all of a company's assets, in parts, for their tangible

Michael Porter's Generic Strategies and Joint Venture/Partnering

In the 1980s Michael Porter had identified three strategies; namely cost leadership strategies, differentiation strategies and focus strategies. Joint venture is also becoming popular strategy as a result of globalization. These strategies will be discussed here under.

Cost Leadership Strategies

A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain cost leadership benefits. But cost leadership generally must be pursued in conjunction with differentiation. A number of cost elements affect the relative attractiveness of generic strategies, including economies or diseconomies of scale achieved, learning and experience curve effects, the percentage of capacity utilization achieved, and linkages with suppliers and distributors. Other cost elements to consider in choosing among alternative strategies include the potential for sharing costs and knowledge within the organization, R&D costs associated with new product development or modification of existing products, labor costs, tax rates, energy costs, and shipping costs.

Requirements of cost leadership

- Strive for longer production
- Offering uniform product (narrow)
- Construct efficient scale facilities
- Experience
- Minimum cost in R&D , service , promotion
- Production of satisfactory product

- Decreasing advertising and promotion
- Being positioned at lower ladder in the product

Differentiation Strategies

Different strategies offer different degrees of differentiation. Differentiation strategy is concerned with pursuing a competitive advantage by attempting to create unique product /service. Differentiation does not guarantee competitive advantage, especially if standard products sufficiently meet customer needs or if rapid imitation by competitors is possible. Durable products protected by barriers to quick copying by competitors are best. Successful differentiation can mean greater product flexibility, greater compatibility, lower costs, improved service, less maintenance, greater convenience, or more features. Product development is an example of a strategy that offers the advantages of differentiation.

Requirements for differentiation include -

- Clear understanding of customers
- Knowledge of values of customers and stakeholders
- Being in the unique position
- Clear definition of competition
- Awareness of environmental change
- Making sure the base of differentiation is difficult to imitate
- Identification of potentially available base of differentiation
- Determine industry growth rate (at maturity , imitation is common)

Focus Strategies

A successful focus strategy depends on an industry segment that is of sufficient size, has good growth potential, and is not crucial to the success of other major competitors. Strategies such as market penetration and market development offer substantial focusing advantages.

An organization using a focus strategy may concentrate on a particular group of customers, geographic markets, or on particular product-line segments in order to serve a will-defined but narrow market better than competitors who serve a broader market. In other words focus strategy resets on the choice of a narrow competitive scope within in the industry; may be a particular buyer, group, a segment of the product line of a geographic market. It is concerned with serving a particular target market very well and designed to get cost advantage in the target segment.

Focus strategy suit when:

- Customer in the niche have special needs
- Many under served of over served market segment exist
- Segment have enough customer that can at least finance operational cost

- Niches must be profitable
- Niches have good growth potential
- Strong competences and capacity to serve the niche exist
- Difficult for competitors to serve the niche
- The firm has limited resources to serve broad market
- Viable entry barriers exist

Joint Venture/Partnering

Joint venture is a popular strategy that occurs when two or more companies form a temporary partnership or consortium for the purpose of capitalizing on some opportunity. Often, the two or more sponsoring firms form a separate organization and have shared equity ownership in the new entity. Other types of cooperative arrangements include research and development partnerships, cross-distribution agreements, cross-licensing agreements, cross-manufacturing agreements, and joint-bidding consortia.

Strategic Choice

Strategic choice is the decision to select strategy/ies from among the alternatives, the strategic that will best meet the organization objectives.

Managing the Corporate Portfolio:

There are many techniques used to manage corporate portfolios. Here we shall discuss only three: A the industry life cycle (product life cycle model) Arthur D Little (ADL) matrix and the BCG matrix.

Industry life cycle

Over time most industries pass through a series of well-defined stages, from growth through maturity and eventually into decline. These stages have different implications for the form of competition. The strength and nature of each of Porter's five competitive forces typically changes as an industry evolves. The changes in the strength and nature of these forces give rise to different opportunities and threats at each stage of an industry's evolution. The task facing managers is to anticipate how the strength of each force will change with the stage of an industry's development and to formulate strategies that take advantage of opportunities as they arise and that counter emerging threats.

Industries follow the same pattern as the product life cycle. Industry life cycle, however, is longer than product life cycle. The industry life cycle model is a useful tool for analyzing the effects of an industry's evolution on competitive forces. Using the industry life cycle model, we can identify five industry environments, each linked to a distinct stage of an industry's evolution: (1) an embryonic industry environment, (2) a growth industry environment, (3) a shakeout industry environment, (4) a mature industry environment, and (5) a declining industry environment

Arthur D Little (ADL) Matrix

Part of thinking about strategy involves thinking about the state of your industry; understanding how your organization fits into it; and, from this, figuring out your best way forward. While there are many tools that help you do this, you can get particularly useful insights with the Arthur D Little (ADL) Matrix. Developed in the late 1970s by the highly respected Arthur D Little consulting company, it helps you think about strategy based on:

- **Competitive Position** - How strong is your strategic position?
- **Industry Maturity** - At what stage of its lifecycle is the industry?

The ADL Matrix addresses these unique needs by recommending general strategies for different combinations of competitive position and industry maturity.

Industry Maturity: there are four categories of industry maturity (also referred to as the industry life cycle):

1. **Embryonic** – The introduction stage, characterized by rapid market growth, very little competition, new technology, high investment and high prices.

2. **Growth** – The market continues to strengthen, sales increase, few (if any) competitors exist, and company reaps rewards for bringing a new product to market.

3. **Mature** – The market is stable, there's a well-established customer base, market share is stable, there are lots of competitors, and energy is put toward differentiating from competitors.

4. **Aging** – Demand decreases, companies start abandoning the market, the fight for market share among remaining competitors gets too expensive, and companies begin leaving or consolidating until the market's demise.

Competitive Position: the five categories for competitive position are as follows:

1. **Dominant** – This is rare and typically short-lived. There's little, if any, competition, usually a result of bringing a brand-new product to market or having built an extremely strong reputation in the market (think Microsoft).

2. **Strong** – Market share is strong and stable, regardless of what your competitors are doing.

3. **Favorable** – Your business line enjoys competitive advantages in certain segments of the market. However, there are many rivals of equal strength, and you have to work to maintain your advantage.

4. **Tenable** – Your position in the overall market is small, and market share is based on a niche, a strong geographic location, or some other product differentiation. Strong competitors are overtaking your market share by building their products and defining clear competitive advantages.

5. **Weak** – There's continual loss of market share, and your business line, as it exists, is too small to maintain profitability.

The resulting ADL Matrix looks like this, with the various strategies prescribed for each of the 20 combinations:

Table 3.3 ADL Matrix

		Industry Maturity			
		Embryonic	**Growth**	**Mature**	**Aging**
Competitive position	**Dominant**	-Aggressive push for market share - Invest faster than market share dictates	- Maintain industry position and market share - Invest to sustain growth	- Maintain position, grow market share as the industry grows - Reinvest as necessary	- Maintain industry position - Reinvest as necessary
	Strong	-Aggressive push for market share - Look for ways to improve competitive advantage - Invest faster than market share dictates	-Aggressive push for market share - Look for ways to improve competitive advantage - Invest to increase growth and position	- Maintain position, grow market share as the industry grows - Reinvest as necessary	- Maintain industry position or cut expenditures to maximize profit (harvest) - Minimum reinvestment

	Favorable	- Moderate to aggressive push for market share - Look for ways to improve competitive advantage - Invest selectively	- Look for ways to improve competitive advantage and market share - Selectively invest to improve position	- Develop a niche or other strong differentiating factor and maintain it. - Minimum or selective reinvestment	- Cut expenditures to maximize profit (harvest) or plan a phased withdrawal - Minimum investment or look to get out of current investment
	Tenable	- Look for ways to improve industry position - Invest very selectively	- Develop a niche or other strong differentiating factor and maintain it - Invest selectively	- Develop a niche or other strong differentiating factor and maintain it or plan a phased withdrawal. - Selective reinvestment	- Phased withdrawal or abandon market - Get out of investments or divest
	Weak	- Decide if potential benefits outweigh costs, otherwise get out of market - Invest or divest	- Look for ways to improve share and position, or get out of the market - Invest or divest	- Look for ways to improve share and position or plan a phased withdrawal - Selectively invest or divest	- Abandon market - Divest

The BCG Matrix

To ensure long-term value creation, a company should have a portfolio of products that contains both high-growth products in need of cash inputs and low-growth products that generate a lot of cash. The BCG matrix is -developed by Boston Consulting Group (BCG) - a tool that can be used to determine what priorities should be given in the product portfolio of a business unit. It has 2 dimensions: market share and market growth. The basic idea behind it is that the bigger the market share a product has or the faster the product's market grows the better it is for the company.

Portfolio analysis provides framework for classifying each SBUs and help to develop individual strategy for investment, development, or divestiture. In other words SBU is the basic unit of the firm for strategic management. It might be used for entire firm, a division, a product line single product as long as independent unit with own customer resource, self management, and competitor.

The analysis helps to decide about the proper balance of the entire organization, and gives valuable guidelines regarding acquisition, sell off etc…

Two factors (variables) are used in analyzing the portfolio of business. These are held.

- Market sales held by SBU &
- Rate at which the market is growing

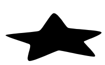
Relative market share refers to the ratio of the firm's market share to that of its largest competitor. It is a better indicator of the position of a firm in the market than simple market share.

The BCG Plot results in Four Quadrants

- Y- axis – Relative growth rate low to high
- X-axis- Relative market share high to low
- Business above like are at growth stage, those below are of maturity or decline stage
- Those on left market leaders , those on right lagging behind

Table 3.4 The BCG Matrix

Annual Real Rate of market growth

(High) ↑ / (Low) ↓	High	Low
(High)	**STAR**  Earnings : High Growth : Stable growth Cash flow: Neutral Strategy : Invest for growth	**QUESTION MARK** Earning : low, stable ? Cash flow: Negative Strategy : analyze to determine whether business can be grow into star or will degenerate into dog
(Low)	**CASH COW**  Earning: High and stable Cash flow: High, stable Strategy : Milk	**DOG**  Earning : Low , unstable Cash flow : Neutral or negative Strategy: Divest

High ← Relative Market Share → Low

1. **Question Mark** (= high growth, low market share)

- Low market share but compete in a high growth industry
- Have the worst cash characteristics of all, because high demands and low returns due to low market share
- Needs high cash for growth and cash generation is low
- If nothing is done to change the market share, question marks will simply absorb great amounts of cash and later, as the growth stops, a dog.
- Intensive strategy or sell them(increase market share or deliver cash)
- Identify SBU most that benefit from extra resource and can move to star. If it is not possible divest

2. **Stars**(=high growth, high market share)

- Use large amounts of cash and are leaders in the business so they should also generate large amounts of cash.
- Best long-run opportunity from growth and profitability
- Higher market share and high industry growth
- Rapidly growing industry , large market share
- Require sound investment
- Needs investment to maintain or strengthen their dominant position
- Forward integration, backward integration, horizontal integration and intensive strategies are appropriate

3. **Cash Cows**(=low growth, high market share)

- High relative market share but compete in a low growth industry.
- Generate cash in excess of their needs ; so milk them
- Minimal investment for growth
- Source of resource for development elsewhere (star and question mark)
- Try to maintain the position so much as possible

- Product development, concentric diversification may be attractive where it can be weak, retrenchment or divestiture can be more appropriate

4. **Dogs** (=low growth, low market share)

   - Low market share and compete in a slow or no growth industry
   - Avoid and minimize the number of dogs in a company
   - Often liquidate or divested or retrenched
   - Retrenchment is best in case chance to bounce back and become profitable (properly managed)

Learning activity

Learners are expected to visit agribusiness firm and develop strategies for change.

Continuous assessment

The continuous assessment methods that are used to evaluate the learners in this learning unit are: quiz, test, group discussion, presentation of the visit.

Summary

Strategic management is concerned with gaining and maintaining competitive advantage for the organization. It is an art and science of formulating strategies, implementing strategies and evaluating and controlling the process so as to achieve the intended goals of the organization. Organizations operate their activities within an environment. The environment affects organizational performance and it is also affected by the organization. The environment of the organization can be systematically categorized into external environment and internal environment. Strategies are means by which long-term objectives of the organization will be achieved. They provide important framework for thinking and action. There are different strategic options which could be systematically categorized into integration strategies, intensive strategies, diversification strategies, and defensive strategies each having different forms.

Michael Porter has identified generic strategies that consists cost leadership strategies (concerned with gaining cost leadership benefits), differentiation strategies (concerned with gaining competitive advantage through creating unique product/ service) and focus strategies (concentrating on a particular group of customers, geographic markets, etc). Joint Venture is also becoming popular strategy as a result of globalization. Joint venture is mostly temporary partnership between or among companies for the purpose of some opportunity.

Strategic choice refers to the decision to select strategy/ies from the alternatives, the strategy that will best meet the organization objectives.

3.4 Participatory Process in Value Chain

- ***Can you explain the concept of Participatory value chain development?*** (Use the following space to write your answer)

____
____
____
____

Significant stakeholder involvement in a value chain development initiative increases the likelihood of success and sustainability. With broad participation, solutions to value chain constraints are generally more appropriate to the local setting, and when stakeholders understand and take ownership of the value chain development process they are more likely to remain actively engaged beyond the life of the project.

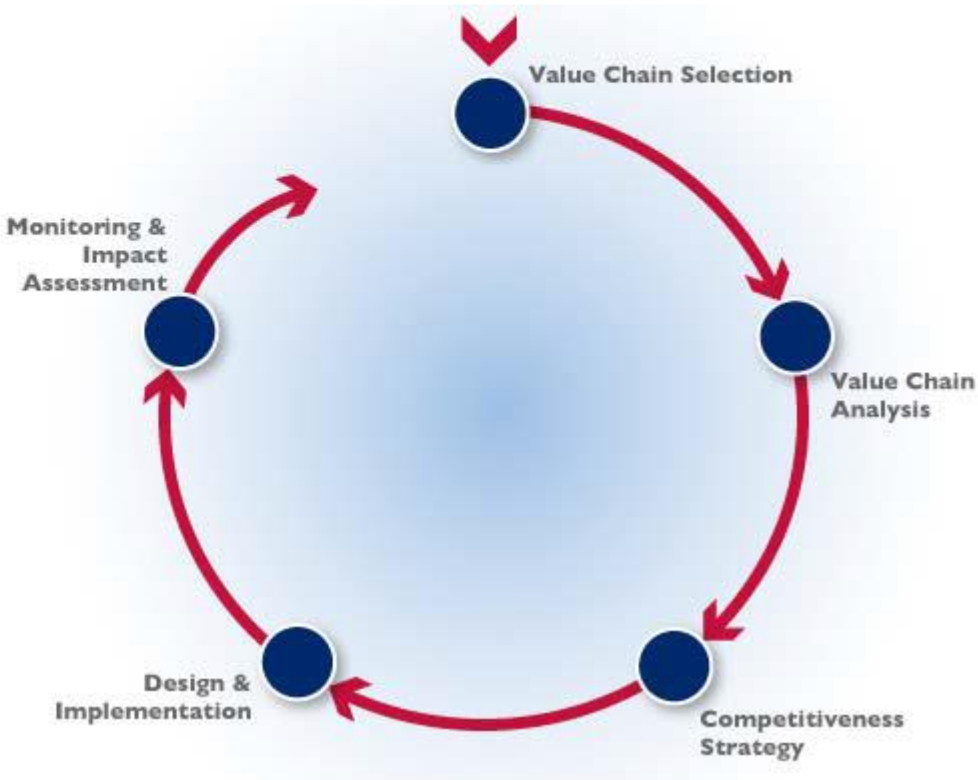
The value chain approach necessitates consideration of all actors in a market system—the private-sector firms in the value chain from input supply through to end market retailers, service providers, and public and private decision-makers in the enabling environment—and is there-fore intrinsically participatory to some degree. However, emerging best practice in value chain development recommends a greater level of participation. Explicitly engaging key actors from different levels of the value chain throughout the project lifecycle and devolving to them a high level of goal setting, decision making and responsibility for action.

The degree of stakeholder participation ranges from low—where there is consultation with stakeholders through questionnaires and interviews; to high—where stakeholders have the opportunity to contribute substantially to the formulation of an intervention, are in part responsible for its implementation, and are involved in the selection of criteria by which success is measured.

The adoption of participatory approaches is hindered by a number of factors. First, while the need to obtain stakeholder buy-in has often been reiterated, practical steps to ensuring participation and local ownership have not been clearly articulated. Second, there is sometimes concern that promoting the participation of a wide range of actors is a resource-heavy distraction from the real business of stimulating commercial transactions, especially when project targets are ambitious and timeframes short. Third, high-profile stakeholders are sometimes asked by numerous donors and implementing agencies to participate in surveys, interviews and workshops, and are consequently reticent to commit their time to yet another development initiative. In such cases, participation can become less strategic, with heavy representation by small-scale producers (especially if provided incentives such as per diems or the expectation of project subsidies) and little or no involvement by private-sector decision-makers and change agents such as larger-scale processors, end market buyers, exporters or even innovative producers.

This explanation aims to demonstrate why and when participation can be effective, and gives guidance on how to implement participatory approaches throughout the value chain development project cycle (see figure 1).

Figure 1: Value Chain Project Cycle



3.4.1 Participatory Analysis

A participatory approach is essential during value chain analysis, which involves information collection primarily through semi-structured interviews with informed respondents to facilitate focused, conversational, two-way communication. This is followed by analysis of the in-formation together with industry stakeholders to ensure that it accurately reflects the local reality.

The careful selection and participation of key informants determines the quality of the value chain analysis. The number of people interviewed will depend on many factors including the time and funds available and logistical constraints. Although the sampling is not intended to have statistical significance, respondents should include representatives from each level of the value chain and others who understand trends in the end markets. As the key constraints to end market opportunities become clear, the selection of informants will become increasingly biased in favor of those likely to benefit from the removal of these constraints. Stakeholder participation at this stage should go beyond the provision of information to involvement in value chain mapping or the formation of interest groups to lay the groundwork for participation in other stages of the project cycle.

The information gathered from interviews should be analyzed by a broad representative group of stakeholders. This can occur through a series of meetings with key stakeholders or through a structured, interactive event that brings together recognized key players in the value mended by trusted sources, as well as decision makers and other stakeholders.

In these group settings, constructing visual images can be a non-threatening exercise that offers a way to break the ice in initial contacts. By encouraging diverse stake-holders to collaborate in the development of a value chain map, a shared understanding of the value chain can be reached. Together, stakeholders learn how a value chain functions and their role within it. Collaborative development of the map also increases the sense of "buying in" to the participatory approach.

Steps in a participatory planning process:

A typical participatory planning process will involve the following main steps:

- Determine need for planning process
- Stakeholder identification
- Stakeholder mobilization
- Stakeholder analysis
- Definition of mechanism for stakeholder participation and process to be used to arrive at decisions and solutions
- Identification of problems, issues, and needs
- Definition of goals and objectives
- Collection of information on which to base decisions
- Analysis and sharing of results with stakeholders
- Identification and assessment of options
- Negotiation
- Formulation of decisions and agreements
- Monitoring and evaluation

3.4.2 Stakeholder Identification

The first step in the process of stakeholder engagement is stakeholder identification– determining who your project stakeholders are, and their key groupings and sub-groupings. (Remember that certain stakeholder groups might be pre-determined through requirements.) From this flows stakeholder analysis, a more in-depth look at stakeholder group interests, how

they will be affected and to what degree, and what influence they could have on your project. The answers to these questions will provide the basis from which to build your stakeholder engagement strategy.
Here it is important to keep in mind that not all stakeholders in a particular group or sub-group will necessarily share the same concerns or have unified opinions or priorities.

A. Identify those stakeholders directly and indirectly affected by the project

When identifying affected stakeholders, a systematic approach often works well, starting with delineating the project's geographic sphere of influence. Here, think not only about the primary project site(s), but also all related facilities, including associated facilities, transport routes, areas potentially affected by cumulative impacts, or unplanned but predictable developments. Use this analysis to establish and articulate your project's area of influence and determine who might be affected and in what way.
This process will begin to reveal those most directly affected by the project, whether from the use of land at the project site or the effects of air and water emissions, from off-site transportation of hazardous materials, or even the socio-economic effects of job creation throughout the supply chain.

B. Identify those whose "interests" determine them as stakeholders

For some projects, the most vocal opposition may come from stakeholders outside the affected area – in other parts of the country, from other countries altogether, or even from overseas.
Underestimating their potential influence on project outcomes may pose risks. It is therefore important to also include in your stakeholder analysis those groups or organizations that are not adversely affected, but whose interests determine them as stakeholders.
"Interest-based" analysis and mapping can help clarify the motivations of different actors and the ways in which they might be able to influence the project. For this set of stakeholders, cost-effective solutions (newsletters, websites, and targeted public meetings) can establish and maintain open channels of communication. Choosing not to engage with these parties creates the risk that their issues may get discussed through other outlets such as the media or political process. While this may happen anyway, it is usually better to be proactive in trying to manage such risks by offering opportunities for constructive dialogue.

C. Be strategic and prioritize

It is not practical, and usually not necessary, to engage with all stakeholder groups with the same level of intensity all of the time.

Being strategic and clear as to whom you are engaging with and why, before jumping in, can help save both time and money. This requires prioritizing your stakeholders and, depending on who they are and what interests they might have, figuring out the most appropriate ways to engage. Stakeholder analysis should assist in this prioritization by assessing the significance of the project to each stakeholder group from their perspective, and vice versa. It is important to keep in mind that the situation is dynamic and that both stakeholders and their interests might change over time, in terms of level of relevance to the project and the need to actively engage at various stages. For example, some stakeholders will be more affected by a particular phase of a project, such as construction activities.

When prioritizing, it might be helpful to consider the following:

- What type of stakeholder engagement is mandated by law or other requirements?
- Who will be adversely affected by potential environmental and social impacts in the project's area of influence?
- Who are the most vulnerable among the potentially impacted, and are special engagement efforts necessary?
- At which stage of project development will stakeholders be most affected (e.g. procurement, construction, operations, decommissioning)?
- What are the various interests of project stakeholders and what influence might this have on the project
- Which stakeholders might help to enhance the project design or reduce project costs?
- Which stakeholders can best assist with the early scoping of issues and impacts?
- Who strongly supports or opposes the changes that the project will bring and why?
- Whose opposition could be detrimental to the success of the project?
- Who is it critical to engage with first, and why?
- What is the optimal sequence of engagement?

D. Refer to past stakeholder information and consultation

Referring to historical stakeholder information related to your project or locality can save time and flag up risks, liabilities, or unresolved issues that can then be prioritized and managed in relation to the different strategic alternatives being considered.

E. Develop socio-economic fact sheets with a focus on vulnerable groups

For complex projects likely to impact upon people and the environment over a large geographic area, or affect vulnerable groups, it may be useful to compile socio-economic information for distribution to project staff and external consultants working in the proposed project area. Collecting this type of data in advance can help ensure that any future stakeholder engagement activities are culturally appropriate from the outset, and that the groups most vulnerable or potentially disadvantaged by the proposed project are identified early on. An experienced social scientist familiar with the local area would be needed to develop such fact sheets, which could then be used and expanded throughout subsequent phases of the project.

Descriptions of the social and cultural dimensions of an area may include information on:

- Population numbers and mapped locations
- Demographic characteristics of the local population
- The status of women, economic livelihoods (permanent, seasonal, migrant labor, unemployment), land tenure, and natural resource control
- Levels of literacy and health care
- Ability to access technical information
- Cultural values and perceptions

F. Verify stakeholder representatives

Identifying stakeholder representatives and consulting with and through them can be an efficient way to disseminate information to large numbers of stakeholders and receive information from them.

When working to determine representatives, however, there are a number of factors worth considering. First, try to ensure that these individuals are indeed true advocates of the views of their constituents, and can be relied upon to faithfully communicate the results of engagement with the project company back to their constituents.

One way to do this is to seek verification that the right representatives have been engaged, by talking directly to a sample of project-affected people. Ground-truthing the views of the designated representatives in this way can help highlights any inconsistencies in how stakeholder views are being represented. Legitimate stakeholder representatives could be, but are not limited to:

- Elected representatives of regional, local, and village councils
- traditional representatives, such as village headmen or tribal leaders (chairmen, directors) of local cooperatives, other
- community-based organizations, local NGOs, and local women's groups
- politicians and local government officials
- school teachers
- religious leaders

In addition, be aware that the very act of establishing certain people as the "liaison" between the local population and the project confers upon them a certain degree of power and influence. In certain situations, this can be perceived as empowering one group (or set of individuals) relative to another, which can lead to tensions of conflict.

G. Engage with stakeholders in their own communities

In general, companies that choose a venue where stakeholders feel more comfortable - most likely at a location within the community tend to have more productive engagement processes, for the following reasons:

- It lends transparency to the process. Community members can witness the process and stay informed about what is being discussed on their behalf, and what has been agreed at the close of consultation or negotiations.
- It increases accountability of local leaders. Community members will know what they are entitled to demand, and they will be able to monitor its delivery and avoid corruption.
- It sends the message that companies value the input of communities enough to travel there and spend time there.
- It contributes to community members' feeling of ownership over the engagement process. Community members say that the opportunity to have input into public meetings gives them a sense of having a role in the outcome of decisions.
- Finally, it allows community members to identify their own representatives, preventing illegitimate representatives from claiming that they speak for communities.

H. Remember that government is a key stakeholder

There are many important reasons to establish and maintain good working relationships with governmental authorities at different levels, and to keep them informed of the project's activities and anticipated impacts. Government support can be critical to the success of a project, and routine engagement with various regulatory and public service authorities is often required as part of doing business. On a practical level, local government authorities may have long-established relationships with project-affected communities and other local and national stakeholder groups, and as such can play a role in convening and facilitating discussions between the project and stakeholder representatives. Local government can also partner with private companies in many respects, for example, in providing services, communicating information to the local population, or integrating local development plans with the operational needs of the project.

I. Work with representative and accountable NGOs and community-based organizations

Non-governmental organizations (NGOs) and community-based organizations (CBOs), particularly those who represent communities directly affected by a project, can be important stakeholders for companies to identify and engage on a proactive basis. NGOs may have expertise valuable to effective stakeholder engagement.

For example, they can be sources of local knowledge, sounding boards for project design and mitigation, conduits for consulting with sensitive groups, and partners in planning, implementing and monitoring various project-related programs. However, it is important to carry out initial research regarding the local power dynamics and existence of special interest groups to ensure that any intermediary organizations, such as NGOs, are truly representative of and accountable to the community interests they claim to support and represent. If there is NGO opposition to your project, engaging early to try and understand the concerns or critiques being raised can offer an opportunity to manage these issues before they escalate or find another outlet for expression.

J. Recognize employees as a good channel of communication

Local communities tend to be viewed as those "outside" the company gates. In reality, however, a good part of your workforce may be part of these communities or reside among them. Whether implicitly or explicitly, employees communicate messages about the company and the project to the outside world and help to create perceptions as well as pass along information. This provides a great opportunity for companies to leverage this built-in channel of communications as a means of outreach and dissemination to the local population. Feedback from the local workforce can also be a way to identify emerging issues and concerns of local communities.

Companies who do this well make an effort to keep their employees well-informed, involve them in the company's stakeholder engagement strategy, and recruit their help as front-line ambassadors in relationship-building with the local population.

Guidelines for effective stakeholder's participation

1. **Be explicit about how the participatory approach will be applied.** Participation does not happen automatically: project implementers must be proactive in applying a participatory approach. Staff must be prepared to let stakeholders take the driver's seat, realizing that stakeholder buy-in is an incremental process; and donor expectations must be managed. Participatory "monitoring benchmarks" should be used throughout the project cycle. The goal of the approach should be kept in mind: not participation for its own sake, but to foster firms working together to increase industry competitiveness.

2. **Ensure that donor support is appropriate.** Donor funds must be flexible and responsive to stakeholders' needs, and sufficient in terms of amount and duration to enable stakeholders to continue to implement the competitiveness strategy. Just

because a process is participatory does not necessarily imply that it can be left to the stakeholders without assistance, particularly if value chain actors are geographically dispersed.

3. **Gain the interest and buy-in of key actors.** It cannot be assumed that important stakeholders will want to use their scarce time and resources to participate in a value chain development initiative. Facilitators must identify vital issues or "hooks" to show the opportunity costs of non-participation. Value chain actors need incentives to be involved, but the goal is to tap into existing energy, resources and aspirations rather than create dependency through temporary subsidies. An example of a typical "hook" is addressing quality issues: actors want to participate because they recognize that low quality is stop-ping them from achieving higher returns.
4. **Identify common interests to facilitate the development of trust.** Value chains are often characterized by adversarial relationships and mistrust, so projects must conduct activities to promote the development of trust—or at least of understanding—among stakeholders, to facilitate information sharing and cooperation. It is important to clarify with stakeholders that the purpose is not a re-distribution of margins from one group of actors to another. Rather, the value chain development process focuses on stakeholders' shared interests. However, care should be taken not to foster collusion that limits up-grading. Effective competition drives innovation.

5. **Build MSEs' capacity to participate.** If MSEs are to effectively participate in a process that involves other, more powerful stakeholders then it is likely that projects will need to help them to become more confident and articulate. While not the starting point, empowering producers can be critical to a successful value chain project.

6. **Develop a communication strategy.** Having a clear plan of how to communicate project objectives and the results of stakeholders' activities is important, particularly to attract key stakeholders and keep their interest and commitment. The media can be strategically engaged as a partner that is involved from inception. Other mechanisms for communication include conferences, sector-specific seminars, case studies and written materials.

7. **Build the capacity of facilitators.** Strong facilitation skills are essential to encourage and maintain stakeholder participation. Facilitators must be flexible and have a deep understanding of both the project's aims and the local context. A consultant with industry-specific expertise can add credibility to the project team, but must be willing to serve as a resource rather than lead the analysis, strategy development and implementation processes.

Prioritising Value Chains for Analysis

The value chain describes the full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use. (Kaplinsky and Morris 2000 p.4)

Prior to starting a value chain analysis it is necessary to decide which sub-sectors, products or commodities should be prioritised for analysis. As resources for undertaking analyses will invariably be limited, it is important to identify appropriate value chains for analysis and follow up activities.

1. What are the key criteria on which to base the selection of value chains to be analysed?

2. Which value chains are most appropriate to analyse?

Participants in assessment of value chain priority

Participants involved in this exercise should have a common understanding of the value chain's development in the area. It may be helpful to carry out a pre-evaluation by visiting sub-sectors, product or commodity partners to identify representatives, actors and/or key informants to ensure that the participants have (i) relevant knowledge and (ii) adequate representation on the value chains. It is advisable to keep participant numbers small. Likely participants are local policy and decision makers, farmers, private sector actors, service providers, development organisations and community representatives.

Steps in Prioritising Value Chains for Analysis

The prioritising process follows four steps that are common to processes of making allocation choices under a situation of scarce resources. The final priority can be determined on the basis of the ranking obtained. For each of the following steps, two methodologies will be proposed; a rigorous participatory methodology and a less rigorous methodology that could be adopted if time and resources are limited or participatory methods are not appropriate.

1. Determine criteria and build understanding of priorities

Value chain analysis starts with the selection of a value chain. As the key entry point of the value chain analyses proposed in this took is poverty alleviation and achieving pro-poor outcomes, the criteria selected would reflect this entry point. The first step is to make considerations of the priorities in the ranking of a potential value chain. These can include the following integrated criteria:

(1) Potential of the value chains to improve livelihoods of the poor people;

- Present integration of the poor in the market (what are they producing, selling, employment)
- Potential of the product/activity for poverty reduction
- Potential for Labor Intensive Technology
- Low barriers to entry for the poor (capital, knowledge)
- Low risk
- Poverty incidence and/or absolute poverty figures

(2) Market potential

- Strong domestic and/or international demand for the product
- Growth potential of certain products/activities
- Possibility for scaling up
- Potential for leveraging public investment with private investment
- Involves a large number of people

(3) Other criteria, such as

- The value chain actors have entrepreneurial capacity to achieve improvement.
- Environmental sustainability
- Within framework of national and regional strategies
- Social inclusion and gender

If time and resources permit, then the decision of which specific criteria to use for value chain selection should be made in a participatory manner, with discussions among participants as to which criteria are most relevant for the local conditions and requirements of the analysis. This serves to increase ownership of the process and also can strengthen common understanding among participants in identifying the potential value chains for the final selection. Once selection of the criteria is agreed upon, participants should move to weighting of the criteria (Step 2).

If time and resources are limited, or it is not possible to undertake a participatory process of criteria development, then pre-selecting a smaller set of criteria for value chain selection prior to the participatory meeting should be considered. These could take the form of the first two integrated criteria discussed above - in other words the two selection criteria would be (i) potential for improvements of the livelihood of the poor and (ii) market potential.

2. Weighting of criteria

Some of the criteria will probably be considered to have a higher level of importance in the decision making process and so should have a greater influence on the ranking of value chains.

Weightings are commonly assigned in two main ways:

i. **Simple numeric**– for example, 1, 2, 3 or 4 - where the relative importance of criteria is in direct proportion to the numeric weighting. This means that a criterion with a weighting of 4 is considered to be twice as important as a criterion with a weighting of 2, and 4 times as important as a weighting of 1.

ii. **Proportional**, where all of the criteria have a combined weighting of 100 %, and the relative importance of each criteria is reflected in the proportion of the total weighting that is assigned to that criteria. For example, if there are three criteria, then they could be weighted as Criteria 1 (50%); Criteria 2 (30%) and Criteria 3 (20%).

If time and resources permit, deciding on the weighting of the various criteria should be undertaken in a participatory manner, with inclusion of all participants in the decision making process. As was the case with the selection of criteria, this is important in building ownership of the process and increasing understanding of the reason for value chain selection. However, if time and resources are limited then the weightings for various criteria can also be pre-determined prior to a participatory identification process.

3. Identifying a list of potential products/activities

Once the criteria for selecting the value chain to analyse have been chosen and weighted, the next step is to make a list of all the potential value chains/ products/commodities in the geographic area under consideration. This list could be developed in a participatory manner with actors, who may or may not be the same as the actors who developed the criteria in Step 1. The value chains identified are usually based on products that are already produced in the area, products which are technically feasible to produce in the area, products which have a pro-poor focus, or products that are judged to have a good market (local, regional, national or international market).

The participants then discuss to share their understanding of the potential value chains identified and agree to make the list.

The participatory process of identifying potential value chains can often result in a large number of potential chains being identified. To increase the efficiency of the value chain ranking undertaken in Step 4, it is advisable to reduce this "long list" of potential value chains to a "short list" of a more manageable size (potentially between three and six chains).

4. Ranking of products/activities

A set of criteria can be developed to differentiate between potential value chains depending on the purpose of the analysis.

3.4.3The role of facilitators

The definition of facilitate is "to make easy" or "ease a process". What a facilitator does is plan, guide and manage a group event to ensure that the group's objectives are met effectively, with clear thinking, good participation and full buy-in from everyone who is involved.

To facilitate effectively, you must be objective. This doesn't mean you have to come from outside the organization or team, though. It simply means that, for the purposes of this group process, you will take a neutral stance. You step back from the detailed content and from your own personal views, and focus purely on the group process. (The "group process" is the approach used to manage discussions, get the best from all members, and bring the event through to a successful conclusion.

What Does a Facilitator Do?

To facilitate an event well, you must first understand the group's desired outcome, and the background and context of the event. The bulk the responsibility is then to:

- **Design and plan** the group process, and select the tools that best help the group progress towards that outcome.
- **Guide and control** the group process to ensure that:
  - ✓ There is effective participation.
  - ✓ Participants achieve a mutual understanding.
  - ✓ Their contributions are considered and included in the ideas, solutions or decisions that emerge.
  - ✓ Participants take shared responsibility for the outcome.
- **Ensure that outcomes, actions and questions are properly recorded and actioned, and appropriately dealt with afterwards.**

3.4.4 Tools for facilitating participation

This is a compilation of tools that can be used when working in groups. Often it is best to have someone facilitate these exercises and to set some ground rules together with the group, such as 'No-interrupting' and 'Stick to time. Some general points to bear in mind:

- Every group is different. Some tools may not be appropriate in a specific group or situation. Don't force a tool on a group or an individual; do let people decide for themselves to what extent they want to participate.
- Be flexible. Don't let the process dominate the spirit of the group, but allow tools to evolve organically with the group. Be creative and invent your own tools.
- Make use of visual aids such as blackboards. Use them to write down instructions, questions to consider and to record responses from the participants.

- Be aware that people might not be happy to share with the whole group everything that was said in a pair/small group.
- Do explain the purpose of a tool before asking the group to use it. That way people feel in control of what they are doing, allowing them to participate more fully.

Tools for Introductions and Starting Meetings

These tools help people get acquainted with each other and are best used at the beginning of a meeting.

1. **Personal Introductions:** Each person gives their name, where they are from and one other fact about themselves. This third fact could be freely chosen by each individual or the facilitator could suggest a theme (e.g. what kind of food they like, why they are at the meeting, something good that happened in the last week).

2. **Pair Introductions:** Ask people to pair up with people they don't know or know less well. One person interviews the other for three minutes, then roles are swapped. Questions can include the reasons why the person is there and what they are hoping to learn/achieve during the meeting/workshop.

Tools for Tackling Issues

1. **Brainstorms** are a tool for sparking creative thinking and help to quickly gather a large number of ideas. Begin with stating the issue to be brainstormed. Ask people to call out all their ideas as fast as possible - without censoring it. The crazier the ideas the better.

This helps people to be inspired by each other. Have one or two note takers to write all ideas down where everyone can see them. Make sure there is no discussion or comment on others' ideas. Structured thinking and organizing can come afterwards.

2. **Pros & Cons:** Got several ideas and can't decide which one to go for? Simply list the benefits and drawbacks of each idea and compare the results. This can be done as a full group, or by asking pairs, or small groups to work on the pros and cons of one option and report back to the group.

Tools for Encouraging Participation

1. **Active Agreement:** is a useful ground rule for every meeting or workshop. It asks everyone to take an active part in making decisions. When the group is asked a question or has to make a decision, insist on active agreement. Too many bad decisions are made because people stare at their feet rather than clearly agree or disagree. Later on those same people may feel that the decision was not one they supported, leading to tension in the group. By insisting on active (dis)agreement this

can be avoided and decisions that represent the views of all can be reached. Silent applause, or lack of it, (see *Hand signals*) can be a useful way of showing active agreement.

2. **The Parking Lot** makes sure all ideas get recorded and participants don't feel like they've been ignored. Whenever anything comes up that's not relevant to the discussion at hand "park" it in the Parking Lot (a large sheet of paper on the wall). In other words write it up on the paper and deal with it later. This allows you to stay focused but reassures participants they will be heard. Of course if you want to avoid people feeling ignored, make sure you do deal with parked items! Consider having a space reserved on the agenda to deal with parked items.
3. **Go-rounds:** Everyone takes a turn to speak on a subject without interruption or comment from other people. Go-rounds are useful for equalizing participation and giving everyone some clear space to express their opinion. Allowing people to "pass" means that quieter people don't feel put on the spot.
4. **Working in Small Groups:** There are many reasons why you may want to split into smaller groups:
    - Large groups can sometimes become dominated by a few people or ideas, stifling creativity and the contributions of others.
    - It can be difficult to discuss emotionally charged issues in a large group.
    - Effectiveness: many topics are discussed more effectively in a smaller focus group.
    - Smaller groups allow time for everyone to speak and to feel involved.

Tools for Evaluating Meetings and Workshops

- Ask everyone to list two or three high and low points of the event.
- Draw up a questionnaire and distribute it amongst the participants for filling in.
- Ask "What are you taking away from this session?" This rapid review can help people notice what they have learned.
- Have a round where everyone sums up their feelings or ask everyone to write down comments on a large piece of paper.

Learning Activity: Students visit at least two actual agribusiness firms and analyze to what extent their value chain development and management was participatory.

Continuous assessment: Test, group presentation, and assignment will be used to assess the students' understanding level on participatory approach in value chain management.

Summary

Significant stakeholder involvement in a value chain development initiative increases the likelihood of success and sustainability. The careful selection and participation of key informants determines the quality of the value chain analysis.

Stakeholder Identification involves the following series of activities

- Identify those stakeholders directly and indirectly affected by the project
- Identify those whose "interests" determine them as stakeholders
- Be strategic and prioritize
- Refer to past stakeholder information and consultation
- Develop socio-economic fact sheets with a focus on vulnerable groups
- Verify stakeholder representatives
- Engage with stakeholders in their own communities
- Remember that government is a key stakeholder
- Work with representative and accountable NGOs and community-based

  Organizations
- Recognize employees as a good channel of communication

The role facilitators in Value chain development stakeholder's participation are: design and plan, guide and control and ensure that the intended outcomes obtained.

3.5 Proof of Ability

Students will be assessed for overall competencies that cover the entire learning as shown in the following table.

Product	Criteria (Mode of assessment)	Score (50%)	Competency assessed
Managed change and risk In value chain	Identified cause of change and managed risk (Written test)	15%	To mange
Developed management strategies for a change	Explained concepts, described steps (Criteria based interview)	15%	To develop
Leaded group dynamics so as to compromise and effectively manage changes	Showing Leadership skill (role model played in class rooms)	10%	To lead
Analyzed stakeholders involvement in value chain development and management	Identified Agribusiness firm and analyzed extent of customers participation in value chain development and management models (Written exam, task based interview)	20%	To analyze

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