D.N.R.COLLEGE, (AUTONOMOUS): BHIMAVARAM

DEPARTMENT OF MANAGEMENT STUDIES

VUCA MANAGEMENT

III SEMESTER

Presented By

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CP - 302, VUCA MANAGEMENT
MBA III SEMESTER eNOTES

UNIT I: Introduction to Volatility, Uncertainty, Complexity, Ambiguity (VUCA) – Significance – Challenges in Business – digitalization and globalization.

Introduction:

VUCA stands for volatility, uncertainty, complexity and ambiguity, a combination of qualities that, taken together, characterize the nature of some difficult conditions and situations. The term VUCA originated with the United States Army War College to describe conditions resulting from the Cold War. The VUCA concept has since been adopted throughout businesses and organizations in many industries and sectors to guide leadership and strategy planning. An awareness of the forces represented in the VUCA model and strategies to mitigate the harm they might cause are integral to crisis management and disaster recovery planning.

Volatility is the quality of being subject to frequent, rapid and significant change.

Uncertainty is a component of that situation, in which events and outcomes are unpredictable.

Complexity involves a multiplicity of issues and factors, some of which may be intricately interconnected.

Ambiguity is manifested in a lack of clarity and the difficulty of understanding exactly what the situation is.

Challenges in Business:

We live in rapidly changing times, especially for businesses. Consider that, in a single generation, businesses have had to adapt to entirely new marketing channels (web and social), decide how to invest in and utilize new technologies, and compete on a global stage Just a few of the challenges one can see businesses facing are:

1. **Uncertainty about the Future**

Being able to predict customer trends, market trends, etc. is vital to a changing economic climate.

2. **Financial Management**

For any business, ultimate objective is to wealth creation for shareholders. Acquiring cheaper sources of funds and utilizing them in optimum manner is always a big challenge for business houses.

3. **Monitoring Performance**

Using a meaningful set of rounded performance indicators that provide the business with insights about how well it is performing is key. Most business people are not experts in how to develop KPIs, how to avoid the key pitfalls and how to best communicate metrics so that they inform decision-making. In most cases companies rely on overly simple finance indicators that just clog up the corporate reporting channels.

4. **Regulation and Compliance**

As markets and technologies shift, so do rules and regulations. Depending on the industry, it will be a challenge to adopt new regulations and compliance.

5. **Competencies and Recruiting the Right Talent**

Identifying and recruiting the right talent in the right position is very important and challenging task as human capital can affect the business. one of the indicators for the success of business is its human resource planning and development.

6. **Technology**

As technologies change practically at the speed of light, it’s vital for companies to innovate or be left behind. Technological changes always impact the business in terms of prospects and growth.

7. **Exploding Data**

Maintaining data base, using data warehousing and data mining techniques to provide customized services to the customers is important.

8. **Customer Service**

In a world of instant gratification, customers expect instant customer service — and can take to the web to share their displeasure at less than satisfactory service just as quickly.

9. **Maintaining Reputation**

In a similar vein, because customers can voice any displeasure so much more publicly and loudly than ever before, businesses have to monitor and maintain reputations.

10. Knowing when to Embrace Change

Early adopter or late to the game? Not everything new is better, yet eschewing every change runs the risk of becoming obsolete. So, it is difficult for any company to decide on these lines to adopt change.

***We are living in an era of constant change for the foreseeable future: change is the new normal. Preparing for and embracing that change by investing in the right way is the best way to meet these challenges head on. ***

Globalization

Globalization is the tendency of investment funds and businesses to move beyond domestic and national markets to other markets around the globe, thereby increasing the interconnection of the world. Globalization has had the effect of markedly increasing international trade and cultural exchange.

According to WHO, globalization can be defined as" the increased interconnectedness and interdependence of peoples and countries. It is generally understood to include two inter-related elements: the opening of international borders to increasingly fast flows of goods, services, finance, people and ideas; and the changes in institutions and policies at national and international levels that facilitate or promote such flows".

In short, Globalization is the free movement of goods, services and people across the world in a seamless and integrated manner. In other words, when countries that were hitherto closed to trade and foreign investment open up their economies and go global, the result is an increasing interconnectedness and integration of the economies of the world. The importance of this economic phenomenon can't be stressed enough; arguably the most significant contributor to increasing a country's GDP (standard of living) is foreign direct investment — that is, foreign companies who invest in your country.

Globalization has been credited with helping shift wealth to less-developed countries. However, globalization is also often blamed for the loss of employment in developed nations, as corporations ship manufacturing facilities and jobs overseas in order to save costs; critics say it weakens national sovereignty as well.

Advantages of Globalization to Business:

1. Businesses are opened to new markets.

2. Could find new investment opportunities through Globalization.

3. Invasion and diversification is possible

4. Collaborations are possible.

5. Globalization has spurred the spread of new technology, helping to make economies greener and more productive.

6.Globalization has helped to reduce gender wage discrimination and giving new opportunities to women.

7. Globalization has improved the quality of management in firms and the working conditions for people.

Disadvantages of Globalization to Business:

1. Increased competition from foreign markets.

2. Small industries will suffer with competition with global MNCs.

3. Due to globalization, traditional sectors will be adversely affected.

4. Reduced flexibility compared to smaller firms.

5. Issues with supply chain.

Significance of VUCA

HOW WELL CAN YOU PREDICT THE RESULTS OF YOUR ACTIONS?

complexity

Characteristics: The situation has many interconnected parts and variables. Some information is available or can be predicted, but the volume or nature of it can be overwhelming to process.

Example: You are doing business in many countries, all with unique regulatory environments, tariffs, and cultural values.

Approach: Restructure, bring on or develop specialists, and build up resources adequate to address the complexity.

volatility

Characteristics: The challenge is unexpected or unstable and may be of unknown duration, but it's not necessarily hard to understand; knowledge about it is often available.

Example: Prices fluctuate after a natural disaster takes a supplier off-line.

Approach: Build in slack and devote resources to preparedness—for instance, stockpile inventory or overbuy talent. These steps are typically expensive; your investment should match the risk.

ambiguity

Characteristics: Causal relationships are completely unclear. No precedents exist; you face "unknown unknowns."

Example: You decide to move into immature or emerging markets or to launch products outside your core competencies.

Approach: Experiment. Understanding cause and effect requires generating hypotheses and testing them. Design your experiments so that lessons learned can be broadly applied.

uncertainty

Characteristics: Despite a lack of other information, the event's basic cause and effect are known. Change is possible but not a given.

Example: A competitor's pending product launch muddies the future of the business and the market.

Approach: Invest in information—collect, interpret, and share it. This works best in conjunction with structural changes, such as adding information analysis networks, that can reduce ongoing uncertainty.

HOW MUCH DO YOU KNOW ABOUT THE SITUATION?

Digitalization

Digitalization is the integration of digital technologies into everyday life by the digitization of everything that can be digitized. Creating value at the new frontiers of the business world, creating value in the processes that execute a vision of customer experiences, and building foundational capabilities that support the entire structure.

To meet these high customer expectations, companies must accelerate the digitization of their business processes. But they should go beyond simply automating an existing process. The literal **meaning** of **digitalization** gives an apparent idea of development and technology dependent world.

The digital economy is the new productivity platform that some experts regard as the third industrial revolution. Digital revolution, also known as 'The Internet Economy' or Internet of Everything (IoE), is expected to generate new market growth opportunities, jobs and become the biggest business opportunity of mankind in the next 30 to 40 years.

Goldman Sachs predicts that India - comprising 15% of the world population, with a growth rate of 7 to 8%, could be the second largest economy by 2030. India's new leadership considers the digital economy as a major growth enabler.

Focus areas include agriculture, health, water quality, natural disasters, transportation, security, automobile, supply chain management, smart cities, automated metering and monitoring of utilities, waste management, oil and gas. Cisco estimates that all IoE pillars - Internet of things, Internet of people, Internet of data, and Internet of Process for India have a value at stake (VAS) of INR 31.880 trillion (about half a trillion U.S. dollars) for the next ten years. From that INR 7.263 trillion is in the public sector and INR 24.616 trillion is in the private sector during the next decade.

Nearly 40 percent of the global value at stake will have new winners and vendors in the next decade. This major opportunity of the digital economy has the power to change the lives of millions of people of India. It could be an important vehicle for change and it could provide the opportunity for India to dramatically expand its role and influence in the global economy and become a powerhouse of digital innovation.

The Importance of Digitalization

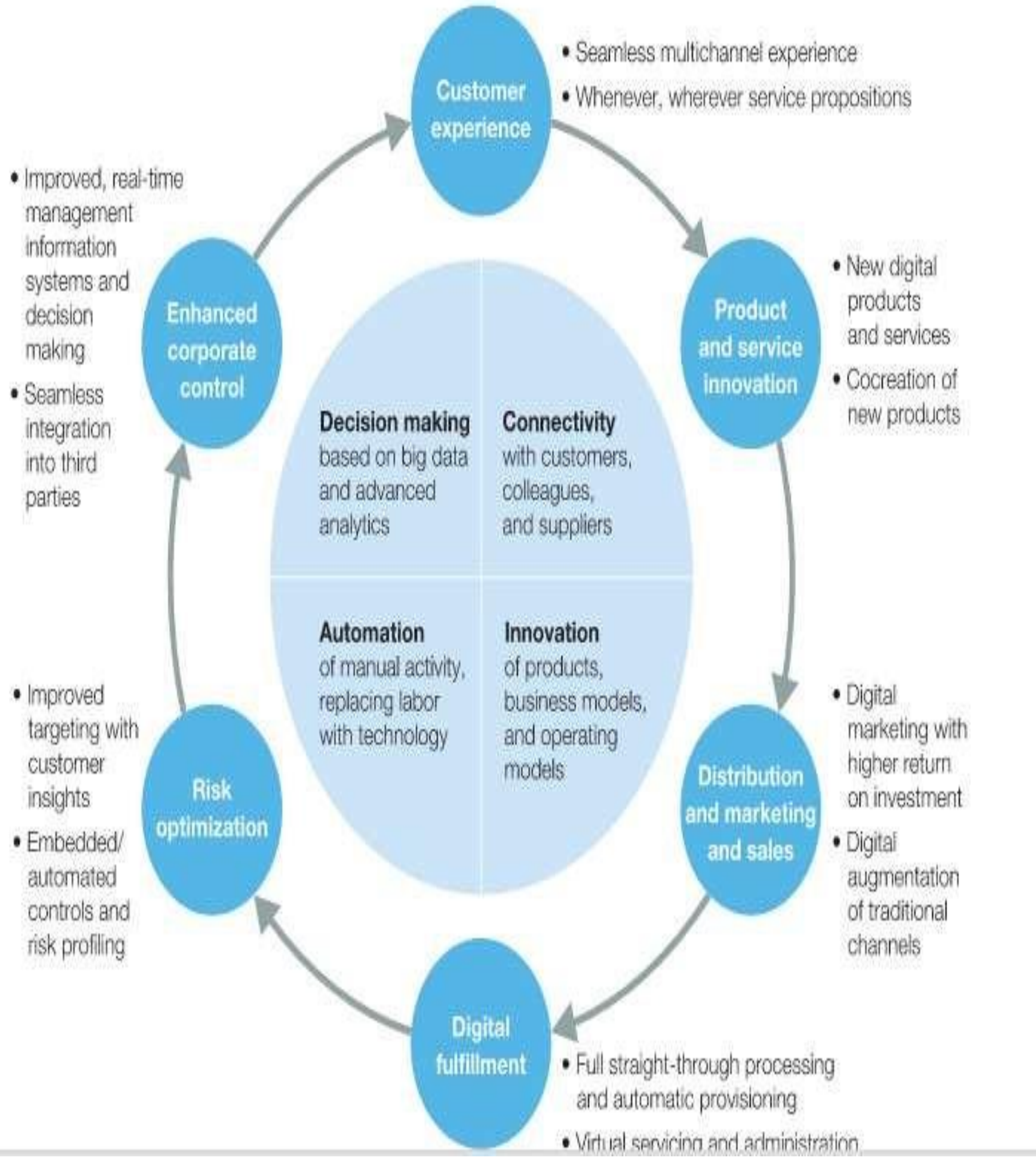
Digitization is a process of converting information from the normal form into a digital (computerized) format. This format presents data that is represented as bits or bytes. **Digitalization of business** helps to improve the efficiency of its process, consistency, and quality. It can:

- Integrate conventional records or files into a digitalized form, eliminating redundancies and shortening of communications chain
- Improve and facilitate a better informational exchange
- Help in providing customer service anywhere in the world
- Reduce operational cost
- Prevent human error
- Take advantage of analytics & real user data
- Improve the continuity of business growth

Advantages of Digitalization

- Improve the efficiency of business processes, consistency, and quality worldwide.
- Cost Reduction
- Reduction in Cycle time
- Improve accessibility and facilitate better information exchange worldwide
- Decision making becomes simpler
- Improvement plan for business continuity
- Increase response time and customer service anywhere in the world
- Automatically collect data that can be mined to better understand process performance, cost drivers, and causes of risk.

Role of Digitalization



Model Questions from UNIT -I

I. Short Notes

1. Define Volatility.
2. What is Uncertainty?
3. Ambiguity.
4. Define Certainty
5. Importance of VUCA Management.
6. Define Globalization.
7. What is Digitalization?

II. Essays

1. Explain the Objectives of VUCA Management.
2. Explain in detail about the Challenges in Business.
3. Explain the Significance of VUCA Management.
4. Define Globalization. Explain Advantages and Disadvantages of Globalization.
5. Briefly explain Advantages and Disadvantages of Digitalization.

UNIT – II: Industrial sickness –Causes, Consequences – Crisis Management – Types of Crisis & Turnaround Strategies.

Industrial Sickness

Industrial sickness refers to the uneconomical performance of industrial entities. It reflects poor functioning of business operations and suggests that something has seriously gone wrong with the usual business running.

As the term indicates, industrial sickness is related with industrial/ production/ manufacturing units of large, medium and small scale businesses. Similar to the sickness of human body, industrial sickness also has its own causes, symptoms, consequences as well as remedies.

Definition

According to Companies (2nd Amendment) Act, 2002:

"Sick Industrial Company" means an unit which has accumulated losses in any financial year which are equal to 50% or more of its average net worth during 4 years immediately preceding such financial years or Failed to repay its debts within any 3 consecutive quarters on demand made in writing for its repayment by a creditor or creditors of such company.

Symptoms of Industrial Sickness

1) Inappropriate utilization of resources.
2) Rejection rate of goods manufactured is very high.
3) Overuse of cash credit facilities on a regular basis and failing to pay instalment on credits and interest on loans taken from banks and other financial institutions
4) Constant inconsistency prevailing in cash, credit accounts.
5) Failure to pay statutory liabilities.
6) Employing working capital funds for financing capital expenditure
7) Continuous loss of profits, fluctuations or downward trends in sales and stagnation followed by downfall in the market share.
8) Longer and larger outstanding bills.
9) Diverging industrial funds and employing it to other purposes which may not relate to industry.
10) A major decline in the market causing failure of all the units engaged in this industry.
11) Conducting quick expansion activities and too much diversification with a short interval of time.
12) Several law suits pending against the firm.
13) Frequent changes made in the management of the industry including professional or an individual authority.
14) Failure to submit periodical financial data, stock statement, etc.

Internal Causes for Industrial Sickness

1) Lack of Finance:

Lack of finance is one of the internal disorders which may lead to industrial sickness. It may be caused due to insufficient funds involving uneconomical and unproductive working capital management, improper utilization or diversion of funds, weak equity base, exclusion of planning and budgeting, deficient use of assets and use of inappropriate costing and pricing methods.

2) Bad Production Policies:

The next reason for sickness can be related to the production decisions viz. choosing inefficient site for conducting production activities, poor maintenance of plants and machineries, absence of quality control measures, absence of standard research and development techniques, etc.

3) Marketing and Sickness:

The health and vigour of an industry is invariably influenced by its marketing activities. An inappropriate marketing strategy may cause poor performance of its products and services in market, and ultimately lead towards industrial sickness.

4) Inappropriate Personnel Management:

Improper personnel management yet another cause for sickness of an industry. Lack of efficient personnel management policies can be observed in the form of mismanagement of wages and salaries of employees, absence of behavioural approach causing discontentment and resentment among workers and employees, inefficient labour relations, etc.

5) Ineffective Corporate Management:

Another important internal cause for industrial sickness is ineffective corporate management. If the corporate policies are inappropriate, its top management lacks integrity and the control lacks among corporate managers and authorities, then such reasons become the major cause for industrial sickness.

External Causes for Industrial Sickness

These are the external factors which are beyond the control of management of an industry. Some of these external factors are as follows:

1) Personnel Constraints:

Personnel constraints such as lack of availability of skilled manpower or labour, disparity in wages of employees and labours as compared to other industries, and the type of labour employed/available in a region.

2) Marketing Constraints:

Marketing constraints include recession in market, liberal licensing and tax policies imposed by the government and regulation on making bulk purchases, dynamic international market environment which may undergo sudden changes, etc.

3) Production Constraints:

Sickness of small scale industries also arises due to the lack of power supply, fuel and high prices, dearth of raw material, import/export restrictions, etc. These factors are categorized as product constraints causing industrial sickness.

4) Financial Constraints:

The last most common external cause of sickness in an industry is financial constraints. Such constraints may arise due to any delay in disbursement of loan by government, unfavourable investments etc.

Consequences of Industrial Sickness

1) Large-Scale Unemployment:
When a sick unit fails to take forward its operational activities and consequently shuts down, then the number of workers and labour engaged in such industries become unemployed.
Such consequence is severe if the industrial unit is employing large scale workforce

2) Wastage of Resources:
India being a capital deficient economy can encounter adverse effects, if an industrial unit is shut down due to sickness as all the resources invested in that unit will be wanted. This issue is especially critical for large scale sick units where considerable investments are employed in setting up of plants and machinery.

3) Adverse Effects on Related Units:
Forward and backward connections create a linkage between different industries. Due to this reason, failure of one industry is expected to affect the other related industries as well. For example, a textile unit which purchases its raw materials and other inputs from other industrial unit and sells the manufactured products to other. Therefore, if the textile unit becomes sick, it will possibly influence the business operations of these associated industrial

units.

4) Industrial Unrest:

The closure of a large-scale industrial unit may lead to the rising unrest among the workforce engaged in such unit. Such unrest may cause situations of strike which will affect the overall industrial environment affecting the production of several other associated units.

5) Adverse Effects Investors and Entrepreneurs:

The investors who have invested their capital in an industrial unit may be largely discontented if such unit becomes sick and closes down. Such discontentment among the existing investors may also discourage the prospective investors willing to invest in these industrialunits.

6) Losses to Banks and Financial Institutions:

Banks and other financial institutions which have provided credit to sick industrial units suffer considerable financial losses on account of closure of such units. For example, ICICI, IDBI and IFCI have witnessed such losses due to the non-recovery of loans provided to the industrial units that are now categorized as sick units. Such large-scale losses may cause inadequacy of funds among banks and financial institutions arising due to blocked funds.

7) Decline in the Revenue of Government:

A huge amount of revenue is generated by the central, state and local governments from industrial units in the form of taxes and duties imposed on these units. Moreover, industrial sickness causes decrease in the amount of revenue generated by the government from these units.

MEANING OF CRISIS

A sudden and unexpected event leading to major unrest amongst the individuals at the workplace is called as organization crisis. In other words, crisis is defined as any emergency situation which disturbs the employees as well as leads to instability in the organization. Crisis affects an individual, group, organization or society on the whole.

Characteristics of Crisis

- Crisis is a sequence of sudden disturbing events harming the organization.
- Crisis generally arises on a short notice.
- Crisis triggers a feeling of fear and threat amongst the individuals.

Crisis can arise in an organization due to any of the following reasons:

1. Technological failure and Breakdown of machines lead to crisis. Problems in internet, corruption in the software, errors in passwords all result in crisis.

2. Crisis arises when employees do not agree to each other and fight amongst themselves. Crisis arises as a result of boycott, strikes for indefinite periods, disputes and soon.
3. Violence, thefts and terrorism at the workplace result in organization crisis.
4. Neglecting minor issues in the beginning can lead to major crisis and a situation of uncertainty at the work place. The management must have complete control on its employees and should not adopt a casual attitude at work.
5. Illegal behaviours such as accepting bribes, frauds, data or information tampering all lead to organization crisis.
6. Crisis arises when organization fails to pay its creditors and declares itself a bankrupt organization.

Crisis Management

The art of dealing with sudden and unexpected events which disturbs the employees, organization as well as external clients refers to Crisis Management.

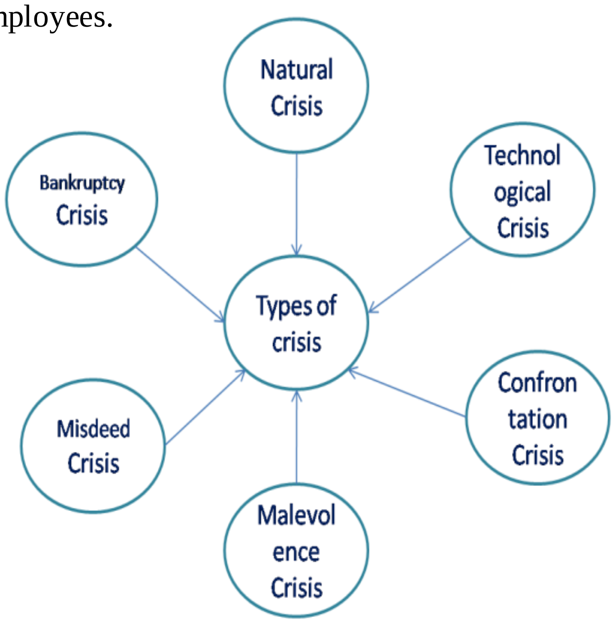
The process of handling unexpected and sudden changes in organization culture is called as crisis management.

Need for Crisis Management

1. Crisis Management prepares the individuals to face unexpected developments and adverse conditions in the organization with courage and determination.
2. Employees adjust well to the sudden changes in the organization.
3. Employees can understand and analyze the causes of crisis and cope with it in the best possible way.
4. Crisis Management helps the managers to devise strategies to come out of uncertain conditions and also decide on the future course of action.
5. Crisis Management helps the managers to feel the early signs of crisis, warn the employees against the aftermaths and take necessary precautions for the same.

TYPES OF CRISIS

Crisis refers to sudden unplanned events which cause major disturbances in the organization and trigger a feeling of fear and threat amongst the employees.



Following are the types of crisis:

Natural Crisis

1. Disturbances in the environment and nature lead to natural crisis.
2. Such events are generally beyond the control of human beings.
3. Tornadoes, Earthquakes, Hurricanes, Landslides, Tsunamis, Flood, Drought all result in natural disaster.

Technological Crisis

1. Technological crisis arises as a result of failure in technology. Problems in the overall systems lead to technological crisis.
2. Breakdown of machine, corrupted software and so on give rise to technological crisis.

Confrontation Crisis

1. Confrontation crises arise when employees fight amongst themselves. Individuals do not agree to each other and eventually depend on non-productive acts like boycotts, strikes for indefinite periods and soon.
2. In such a type of crisis, employees disobey superiors; give them ultimatums and force them to accept their demands.
3. Internal disputes, ineffective communication and lack of coordination give rise to confrontation crisis

Malevolence Crisis

1. Organizations face crisis of malevolence when some notorious employees take the help of criminal activities and extreme steps to fulfil their demands.
2. Acts like kidnapping company's officials, false rumours all lead to crisis of malevolence.

Misdeeds Crisis

1. Crises of organizational misdeeds arise when management takes certain decisions knowing the harmful consequences of the same towards the stakeholders and external parties.
2. In such cases, superiors ignore the after effects of strategies and implement the same for quick results.

Crisis of organizational misdeeds can be further classified into following types:

Crisis of Skewed Management Values: Crisis of Skewed Management Values arises when management supports short term growth and ignores broader issues.

Crisis of Deception: Organizations face crisis of deception when management purposely tampers data and information. Management makes fake promises and wrong commitments to the customers. Communicating wrong information about the organization and products lead to crisis of deception.

Crisis of Management Misconduct: Organizations face crisis of management misconduct when management indulges in deliberate acts of illegality like accepting bribes, passing on confidential information and so on.

Crisis due to Workplace Violence: Such a type of crisis arises when employees are indulged in violent acts such as beating employees, superiors in the office premises itself.

Crisis Due to Rumours: Tarnish the Spreading false rumours about the organization and brand lead to crisis. Employees must not spread anything which would image of their organization.

Bankruptcy Crisis: A crisis also arises when organizations fail to pay its creditors and other parties. Lack of fund leads to crisis.

Natural Crisis: Disturbances in environment and nature such as hurricanes, volcanoes, storms, flood; droughts, earthquakes etc result in crisis.

Sudden Crisis: As the name suggests, such situations arise all of a sudden and on an extremely short notice. Managers do not get warning signals and such a situation is in most cases beyond any one's control.

Smoldering Crisis: Neglecting minor issues in the beginning lead to smoldering crisis later. Managers often can foresee crisis but they should not ignore the same and wait for someone else to take action. Warn the employees immediately to avoid such a situation.

CRISIS MANAGEMENT MODEL

Gonzalez-Herrero and Pratt proposed a Crisis Management Model which identified three different stages of crisis management.

According to Gonzalez-Herrero and Pratt, crisis management includes following three stages:

1. Diagnosis of Crisis

The first stage involves detecting the early indicators of crisis. It is for the leaders and managers to sense the warning signals of a crisis and prepare the employees to face the same with courage and determination. Superiors must review the performance of their subordinates from time to time to know what they are up to.

The role of a manager is not just to sit in closed cabins and shout on his subordinates. He must know what is happening around him. Monitoring the performance of the employee regularly helps the managers to foresee crisis and warn the employees against the negative consequences of the same. One should not ignore the alarming signals of crisis but take necessary actions to prevent it. Take initiative on your own. Don't wait for others.

2. Planning

Once a crisis is being detected, crisis management team must immediately jump into action. Ask the employees not to panic. Devise relevant strategies to avoid an emergency situation. Sit and discuss with the related members to come out with a solution which would work best at the times of crisis. It is essential to take quick decisions. One needs to be alert and most importantly patient. Make sure your facts and figures are correct. Don't rely on mere guess works and assumptions. It will cost you later.

3. Adjusting to Changes

Employees must adjust well to new situations and changes for effective functioning of organization in near future. It is important to analyze the causes which led to a crisis at the workplace. Mistakes should not be repeated and new plans and processes must be incorporated in the system.

Turnaround Strategies:

A turnaround is the financial recovery of a company that has been performing poorly for an extended time. To affect a turnaround, a company must acknowledge and identify its problems, consider changes in management, and develop and implement a problem-solving strategy.

Following are certain **indicators** which make it mandatory for a firm to adopt this strategy for its survival. These are:

- Continuous losses
- Poor management
- Wrong corporate strategies
- Persistent negative cash flows
- High employee attrition rate
- Poor quality of functional management
- Declining market share
- Uncompetitive products and services

Also, the need for a turnaround strategy arises because of the changes in the external environment, change in the government policies, saturated demand for the product, a threat from the substitute products, changes in the tastes and preferences of the customers, etc.

Features of Turnaround Strategy

1. Turnaround involves restructuring the sick company.
2. It is applicable to a loss-making unit.
3. It needs consultation of internal and external experts.
4. It is a long and time-consuming process.
5. It involves in-depth planning with evidential testing.
6. It is a capital intensive strategy.
7. It helps to utilize all available resources optimally.
8. It leaves a permanent effect on the structure of the sick company.
9. It needs full co-operation of people associated with the sick company for its success.

Types of Turnaround Recovery Strategies

1. Cost efficiency strategies

Most companies implement turnaround recovery strategies in the pursuit of cost efficiencies. Cost efficiencies entail a varied range of actions aimed at producing quick wins for a company. The measures may improve a company's cash flow or stabilize its finances before coming up with more complex strategies.

Cost efficiency strategies are often implemented first in any recovery strategy. Companies prefer turnaround recovery strategies that achieve cost efficiencies because they are easy to implement, require little capital, and their effects are almost immediate. Cost-oriented turnaround strategies include reducing (R&D), stretching accounts payable, eliminating pay increases, reducing accounts receivable, cutting inventory, investment diversification, and reducing marketing activities.

The measures can be accompanied by reduced pressure from debt repayments through financial restructuring. However, such an action carries some risk. Companies that solely rely on cost-cutting as a turnaround recovery strategy risk face increased staff turnover because of the reduced employee morale. Cost efficiency strategies can also damage the resources necessary to maintain a company's core focus.

2. Asset retrenchment strategies

Companies that face performance decline usually pursue asset retrenchment actions after a cost-efficiency drive. Under the strategy, companies evaluate underperforming areas to eliminate them or make them more efficient.

The usefulness of retrenching assets as a turnaround recovery strategy depends on a company's ability to generate cash flow. For example, a company may dispose of its old assets to generate cash or invest in new ones.

3. Focus on a company's core activities

Companies also resort to focus on their core activities as a turnaround recovery strategy. Under the increased focus, companies identify markets, customers, and products that can potentially generate high profits, and adopt the measures as the main focus of the firm activities.

For example, a company may re-focus on loyal or less price-sensitive customer segments or product lines best known to it. It may develop a clear competitive strategy through focus.

4. Change of leadership

Companies often replace incumbent CEOs as a turnaround recovery strategy. During turnaround situations, most companies appoint new chief executives from outside the company as a way of injecting a new way of thinking into the top management.

It is inspired by the idea that CEOs bear the responsibility for a company's negative position, and their replacement serves as a signal of change. CEO replacement can always be accompanied by an overhaul of the top management team to avoid repetition. As a result, a new senior management team can enable a company to focus on new strategies to lead the turnaround.

Model Questions from UNIT -II

I. Short Notes

8. Industrial Sickness
9. What is Crisis Management?
10. Turnaround Strategies

II. Essays

6. Explain in detail about Causes and Consequences of Industrial Sickness.
7. Explain the Types of Crisis.
8. Briefly Explain the Types of Turnaround Strategies.

UNIT III: Merger Strategies, Acquisitions/Takeovers, Joint Ventures, Strategic Alliances – restructuring.

Merger:

A merger is a deal to unite two existing companies into one new company. There are several types of mergers and also several reasons why companies complete mergers. Most mergers unite two existing companies into one newly named company. Mergers and acquisitions are commonly done to expand a company's reach, expand into new segments, or gain market share. All of these are done to please shareholders and create value.

Types of Mergers:

There are five main types of company mergers:

- **Conglomerate:** nothing in common for united companies
- **Horizontal:** both companies are in same industry, deal is part of consolidation
- **Market Extension:** companies sell same products but compete in different markets
- **Product Extension:** add together products that go well together
- **Vertical Merger:** two companies that make parts for a finished good combination

There are five commonly-referred to types of business combinations known as mergers: conglomerate merger, horizontal merger, market extension merger, vertical merger and product extension merger. The term chosen to describe the merger depends on the economic function, purpose of the business transaction and relationship between the merging companies.

Conglomerate:

A merger between firms that are involved in totally unrelated business activities. There are two types of conglomerate mergers: pure and mixed. Pure conglomerate mergers involve firms with nothing in common, while mixed conglomerate mergers involve firms that are looking for product extensions or market extensions.

Example

A leading manufacturer of athletic shoes, merges with a soft drink firm. The resulting company is faced with the same competition in each of its two markets after the merger as the individual firms were before the merger. One example of a conglomerate merger was the merger between the Walt Disney Company and the American Broadcasting Company.

Horizontal Merger:

A merger occurring between companies in the same industry. Horizontal merger is a business consolidation that occurs between firms who operate in the same space, often as competitors offering the same good or service. Horizontal mergers are common in industries with fewer firms, as competition tends to be higher and the synergies and potential gains in market share are much greater for merging firms in such an industry.

Example

A merger between Coca-Cola and the Pepsi beverage division, for example, would be horizontal in nature. The goal of a horizontal merger is to create a new, larger organization with more market share. Because the merging companies' business operations may be very similar, there may be opportunities to join certain operations, such as manufacturing, and reduce costs.

Market Extension Mergers:

A market extension merger takes place between two companies that deal in the same products but in separate markets. The main purpose of the market extension merger is to make sure that the merging companies can get access to a bigger market and that ensures a bigger client base.

Example

A very good example of market extension merger is the acquisition of Eagle Bancshares Inc by the RBC Centura. Eagle Bancshares is headquartered at Atlanta, Georgia and has 283 workers. It has almost 90,000 accounts and looks after assets worth US $1.1 billion.

Eagle Bancshares also holds the Tucker Federal Bank, which is one of the ten biggest banks in the metropolitan Atlanta region as far as deposit market share is concerned. One of the major benefits of this acquisition is that this acquisition enables the RBC to go ahead with its growth operations in the North American market.

With the help of this acquisition RBC has got a chance to deal in the financial market of Atlanta, which is among the leading upcoming financial markets in the USA. This move would allow RBC to diversify its base of operations.

Product Extension Mergers:

A product extension merger takes place between two business organizations that deal in products that are related to each other and operate in the same market. The product extension merger allows the merging companies to group together their products and get access to a bigger set of consumers. This ensures that they earn higher profits.

Example

The acquisition of Mobilink Telecom Inc. by Broadcom is a proper example of product extension merger. Broadcom deals in the manufacturing Bluetooth personal area network hardware systems and chips for IEEE 802.11b wireless LAN.

Mobilink Telecom Inc. deals in the manufacturing of product designs meant for handsets that are equipped with the Global System for Mobile Communications technology. It is also in the process of being certified to produce wireless networking chips that have high speed and General Packet Radio Service technology. It is expected that the products of Mobilink Telecom Inc. would be complementing the wireless products of Broadcom.

Vertical Merger:

A merger between two companies producing different goods or services for one specific finished product. A vertical merger occurs when two or more firms, operating at different levels within an industry's supply chain, merge operations. Most often the logic behind the merger is to increase synergies created by merging firms that would be more efficient operating as one.

Example

A vertical merger joins two companies that may not compete with each other, but exist in the same supply chain. An automobile company joining with a parts supplier would be an example of a vertical merger. Such a deal would allow the automobile division to obtain better pricing on parts and have better control over the manufacturing process.

MERGERS AND ACQUISITIONS:

Mergers and acquisitions (M&A) are defined as consolidation of companies. Differentiating the two terms, **Mergers** is the combination of two companies to form one, while **Acquisitions** is one company taken over by the other. M&A is one of the major aspects of corporate finance world. The reasoning behind M&A generally given is that two separate companies together create more value compared to being on an individual stand. With the objective of wealth maximization, companies keep evaluating different opportunities through the route of merger or acquisition.

Mergers & Acquisitions can take place:

- by purchasing assets
- by purchasing common shares
- by exchange of shares for assets
- by exchanging shares for shares

Types of Mergers and Acquisitions:

Merger or amalgamation may take two forms: merger through absorption or merger through consolidation. Mergers can also be classified into three types from an economic perspective depending on the business combinations, whether in the same industry or not, into horizontal (two firms are in the same industry), vertical (at different production stages or value chain) and conglomerate (unrelated industries). From a legal perspective, there are different types of mergers like short form merger, statutory merger, subsidiary merger and merger of equals.

Reasons for Mergers and Acquisitions:

• Financial synergy for lower cost of capital

• Improving company's performance and accelerate growth

• Economies of scale

• Diversification for higher growth products or markets

• To increase market share and positioning giving broader market access

• Strategic realignment and technological change

• Tax considerations

• Undervalued target

• Diversification of risk

Principle behind any M&A is 2+2=5:

There is always synergy value created by the joining or merger of two companies. The synergy value can be seen either through the Revenues (higher revenues), Expenses (lowering of expenses) or the cost of capital (lowering of overall cost of capital).

Three important considerations should be taken into account:

• The company must be willing to take the risk and vigilantly make investments to benefit fully from the merger as the competitors and the industry take heed quickly

• To reduce and diversify risk, multiple bets must be made, in order to narrow down to the one that will prove fruitful

• The management of the acquiring firm must learn to be resilient, patient and be able to adopt to the change owing to ever-changing business dynamics in the industry

Stages involved in any M&A:

Phase 1: Pre-acquisition review: this would include self-assessment of the acquiring company with regards to the need for M&A, ascertain the valuation (undervalued is the key) and chalk out the growth plan through the target.

Phase 2: Search and screen targets: This would include searching for the possible apt takeover candidates. This process is mainly to scan for a good strategic fit for the acquiring company.

Phase 3: Investigate and valuation of the target: Once the appropriate company is shortlisted through primary screening, detailed analysis of the target company has to be done. This is also referred to as due diligence.

Phase 4: Acquire the target through negotiations: Once the target company is selected, the next step is to start negotiations to come to consensus for a negotiated merger or a bear hug. This brings both the companies to agree mutually to the deal for the long term working of the M&A.

Phase 5: Post merger integration: If all the above steps fall in place, there is a formal announcement of the agreement of merger by both the participating companies.

Reasons for the failure of M&A – Analyzed during the stages of M&A:

- **Poor strategic fit:** Wide difference in objectives and strategies of the company
- Poorly managed Integration: Integration is often poorly managed without planning and design. This leads to failure of implementation
- **Incomplete due diligence:** Inadequate due diligence can lead to failure of M&A as it is the crux of the entire strategy
- **Overly optimistic:** Too optimistic projections about the target company leads to bad decisions and failure of the M&A

Takeovers:

Takeovers and acquisitions are common occurrences in the business world. In some cases, the terms takeover and acquisition are used interchangeably, but each has a slightly different connotation. A takeover is a special form of acquisition that occurs when a company takes control of another company without the acquired firm's agreement. Takeovers that occur without permission are commonly called hostile takeovers. Acquisitions, also referred to as friendly takeovers, occur when the acquiring company has the permission of the target company's board of directors to purchase and take over the company.

Hostile Takeovers:

Hostile takeovers occur without the consent of the acquired firm's board of directors. The first step of a hostile takeover includes the acquiring firm taking over the company through a tender offer or proxy fight. Hostile takeovers through tender offers involve the acquiring company purchasing the shares of the target firm directly from shareholders, or on the secondary markets. Shares of a stock represent ownership of a company. Therefore, buying all or a majority of the company's shares allows the acquiring company to possess ownership of the target company. To purchase shares, the acquiring corporation offers a higher price to shareholders than the market value of the stock. A proxy fight involves the acquiring company seeking the voting rights of the target firm's shareholders to win control of the target's firms board of directors. The last step involves filing a 30-day acquisition notice with the Securities and Exchange Commission and the target firm's board of directors. After receiving the notice, the target company must formulate defensive tactics, or risk a hostile takeover.

Acquisitions:

Companies acquire other firms to increase their market share, obtain new facilities and acquire advanced technology. In an acquisition, the board of directors of an acquired firm agrees to allow another company to control the firm for a certain price. The firm making the acquisition usually agrees to purchase the acquired company's assets or stock. Purchasing the assets allows the acquiring company to avoid needing shareholders' approval. The company desiring to make the acquisition must perform due diligence before the acquisition process begins.

Joint Venture Definition:

The dictionary meaning of the word 'venture' is a hazard or a risk. However, a joint venture in business deals with risk as well as benefits. The joint venture is a commercial enterprise in which two or more companies join their forces to gain a tactical and strategic edge in the market. Companies consider joint venture in order to pursue a certain or specific task. The task may be a new project or an entirely new firm. There is no limitation to the involvement of more than two companies at a time. Companies initiate it with the help of a contractual agreement between the parties. The profit and loss in this technique is shared with the participants. However, involving in a joint venture does not affect the individual business of the participants.

A joint venture (JV) is a business arrangement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task. This task can be a new project or any other business activity. In a joint venture (JV), each of the participants is responsible for profits, losses and costs associated with it. However, the venture is its own entity, separate and apart from the participants' other business interests.

Strategic Joint Venture:

A business agreement between two different companies to work together to achieve specific goals. Unlike a merger or acquisition, a strategic joint venture does not have to be permanent, and it offers companies the benefits of maintaining their independence and identities as individual companies while offsetting one or more weaknesses with another company's strengths. A strategic joint venture may also be called a "strategic partnership."

Types of Joint Venture:

A joint venture is an enterprise that lasts for a finite time. There are several types of joint ventures, which a company can implement based on the firm. There is no fixed structure of the joint venture program. There are two major types of joint venture i.e. insider and outsider joint venture along with their variants. However, the joint venture partnership varies according to the contract or the agreement between the companies. An international joint venture is one of the most successful approaches to set up a business in foreign countries.

1. Insider joint venture:

Does the word ‘insider’ ring any bell? The word insider means someone from the organization who has an access to the confidential information of the company’s operations. Well, the term is almost similar when you include in the joint venture firm. Insider joint venture type allows joint effort of the people to focus on a single product. Each participant shares an equal right, access and contribution in operating various functions that need attention. Here in the company can view any information, as it possesses equal rights. Some insider functions of joint venture include pooling the resources for efficient research and development, product examination facility, abundance space, etc.

2. Outsider joint venture:

If you think that being an outsider is referred to someone who is not an insider then you are right. Outsider joint venture means the same. Each participant of the outsider joint venture enterprise takes up a function relating to the product. However, the focus of each participant is limited to the function he or she is assigned to perform. For example, a company produces a product and implements the joint venture deal in it for the promotional purpose. Both the firms are equally involved in the same product however; the functions are different.

3. Marketing joint venture:

The word 'marketing' is not a foreign term to you. Marketing refers to the promotional process of a certain product. In a marketing joint venture structure, two marketing companies come together to promote the product equally. A joint marketing venture can benefit in cutting down the individual cost and avails a better reach. Most of the large enterprises or firms implement this efficient technique. Benefits of a joint venture marketing include combined advertisement, co-hosting facilities for promotional seminars, etc.

A joint venture is a flexible enterprise and you can choose its types according to the requirement. The flexible nature depends and differs according to the contractual agreement between the participating organizations.

Consideration and Evaluation before Involving in Joint Venture:

Involving in a joint venture is an important decision for the organizations. Therefore, it is necessary to consider and evaluate important factors before signing a contract with another firm.

1. Required determination:

Projects are performed to step up on the stair of success. However, it is important to know whether the other party is equally interested. Moreover, it is also important to ensure that the firm is certified. After all, the number of cons and crimes in the corporate sector has increased, at a significant rate, in the past years.

2. Partnership:

It is ideal to have a 50/50 profit and loss partnership. However, in the corporate world it is important to consider the partnership layout. Either the input, assets, funds, etc. should be invested equally or the profit/loss ratio should be set based on the investment.

3. Contract \ Agreement:

Well, a legal agreement is the most important thing that you need to consider. It should include all the rules of partnership and other functions. Thus, it is important to maintain a perfect agreement with the help of legal authority. Let us have a look at the things that one should include in the agreement.

Contractual Agreement:

A contractual agreement is a very important part that is required to set up the joint venture enterprise. Joint venture has certain factors and possibilities that need consideration thus, it is important to include everything in a legal format. Let us have a look at the elements that are required to add into the legal document before starting the joint venture.

1. The involving parties:

It is very important to mention the involving parties. It is very common fact and hardly people forget about it. However, you should include it, as it is an important element. When two parties are involved it is not a problem however if there are more than three or four parties then it is essential to mention all of them along with the firms.

2. Reasons and objectives:

Any task happens for a reason. For instance, you drink water because you are thirsty. Similarly, it is important for the company to mention the objective and the reasons for which the joint firm is set. Moreover, it may be helpful while terminating the contract when the required objectives are not accomplished.

3. Contribution of monetary funds and assets:

As we have discussed previously that, the profit and loss partnership is considered on 50\50 basis. However, the input and the assets matter. The profit and loss partnership depend upon the investment of each firm. Thus, mention the assets and monetary fund invested by each firm.

4. Dispute handling:

Where two people meet, it is impossible to avoid disputes. Although you cannot ignore dispute, you can pre-arrange the resolution. How would you do so? Well, by involving clear clauses regarding the functions, assets, as well the rules of management, responsibilities and processes.

5. Termination rules:

You may call it the start of the end. Well, termination is the last thing you look forward to, before any deal. However, it is important to include termination rules. The 'what ifs' factors are the reason why termination rules are necessary. What happens when the objectives are not fulfilled? What happens when the company is suffering loss? Thus, clearing the reasons of termination rules is required.

6. Confidentiality guarding rules:

Before starting any enterprise in a combined manner, it is important to have background knowledge of the other participant. In an insider joint venture, the participants have equal right to view the confidential matters. However, to ensure that they maintain the confidentiality it is essential to include rules in the agreement.

ADVANTAGES OF JOINT VENTURES:

Joint venture brings along many advantages to the firm as long as the objectives are accomplished. Let us look at some of the advantages of joint venture that are mentioned below.

1. Profit at low cost:

Joint venture is created to complete a certain task or a project. However, in a small-scale company it is difficult to build up the machinery that the product needs. In the moment of need, joint venture is the perfect solution. For example, if a company has a plan for the perfect product. However, due to financial shortage there is not enough machinery or resources available. At such a time, if another company, which is equipped, lends a hand in the form of joint venture, then it becomes easier to produce. Moreover, if the product acquires success then both the companies can enjoy the profit.

2. Flexible nature:

By now, flexibility is the new favorite word in the corporate sector. The corporate world always looks out for the success and benefit. The joint venture enterprise runs around the word ‘flexible’. Here, by flexibility, I mean to say is that each participant has the freedom to continue with the individual business. The joint venture participants can only interfere within the participated project. Thus, during the term of the contract participants can freely resume their business as long as they fulfill the needs mentioned in the agreement. This is one of the benefits of joint ventures.

3. Start-up push:

Credential is very important in the early stage of the business. However, if you have the perfect plans of production and other resources then joint venture can be useful. Affiliating with a well-known brand can provide a good consumer base as well as market credential and recognition. Moreover, for the other participant, this is the best way to enter into foreign market. As some of the rules and regulation of places, prevent the foreign industries unless affiliated with the local brand.

4. Shared costs, expenses, benefits, and risk:

Joint venture brings along the boon of sharing. It is truly said that sharing is caring. In business, shared costs, expenses, benefits and risks facilitate the company to flourish. Shared cost lessens the required financial burden. Moreover, the equal participation enables the company to focus on the betterment of the product. If the product receives appreciation in the market then the participants enjoy profit. However, if the product fails to bring success then you should divide the loss according to the contract. This is one of the best joint venture benefits.

5. Learning ground:

An entrepreneur may acquire a qualifying degree but he also requires practical knowledge. However, practical knowledge comes with experience in any field. Thus, affiliating with a joint venture for a certain period or task gives experience and proves to be a benefiting factor for the present task. Moreover, the other party can provide a good consumer base and social contacts.

DISADVANTAGES OF JOINT VENTURES:

Advantages may exceed the disadvantages however; you should remember that sometimes faith and risk play the key role in the journey of success. Let us look at some of the disadvantages of joint venture that are mentioned below.

1. Flexibility is restricted:

Flexibility is important however; some projects require full concentration and thus the simultaneous work may become impossible. In times like such the participants need to focus on the product of the joint venture and the individual businesses suffer in the process. For example, company A requires technological assets thus in joint venture company B avails the facility. In the same time, if the company B requires those technical assets then he has to postpone the individual project for the time being.

2. Assets and claims:

This point will clarify the need for a proper joint venture agreement. It is required to mention the assets and involvement of the participants in order to prevent claims of the other parties. Thus, it is important to abide confidentiality and royalty rules in the contract. This will save you in the future from legal troubles.

3. Equal involvement is impossible:

50/50 profit is ideal but it is impossible to maintain a 50/50 contribution. Let us make it easier by a simple example. If the Company A is planning the production process, whereas Company B is responsible for the production and the Company C is responsible for planning and implementing market strategies. Company A will not be involved in the production and promotion process as a result the pressure will be on Company B and C. Moreover, this will affect the individual business.

4. Rapport formation:

Disputes are one of the major problems that lead to various problems in the joint venture. In the corporate world, it is important to maintain relations. However, it is difficult to form rapport between people of different culture as a result; it will hamper the process of the completion of the task. Thus, joint venture brings a bit of obstacle in the form of relationship maintenance.

Joint venture is a perfect strategy for the entrepreneurs. Although it helps in expanding the company in the market it also requires experience and co-operation. However, the organization should always analyze and compare the joint venture advantages and disadvantages before implementing.

Strategic Alliance:

A strategic alliance is an arrangement between two companies that have decided to share resources to undertake a specific, mutually beneficial project. A strategic alliance is less involved and less permanent than a joint venture, in which two companies typically pool resources to create a separate business entity. In a strategic alliance, each company maintains its autonomy while gaining a new opportunity.

A **strategic alliance** in business is a relationship between two or more businesses that enables each to achieve certain strategic objectives neither would be able to achieve on their own. The strategic partners maintain their status as independent and separate entities, share the benefits and control over the partnership, and continue to make contributions to the alliance until it is terminated. Strategic alliances are often formed in the global marketplace between businesses that are based in different regions of the world.

Purpose of Strategic Alliances:

Strategic alliances allow two organizations, individuals or other entities to work toward common or correlating goals. The idea is for all parties to benefit, in the short-term, long-term or both. The agreement may be formal or informal in nature, but each party's responsibilities must be clear. Further, they may be in place for short or long periods of time depending on the needs and goals of those involved.

Often, strategic alliances allow involved organizations to pursue opportunities at a faster rate than if they functioned alone. It provides access to additional knowledge and resources that are held by the other party, which may ease the learning curve for the new pursuit, along with providing setup time and costs.

This strategy provides more flexibility than joint ventures, as the involved parties do not need to merge any assets or funds in order to proceed. Instead, they each remain autonomous in nature, which can help ease the function of the agreement when the two entity's business practices are highly varied.

Risks of Strategic Alliances:

Though the arrangement is generally spelled out clearly, the differences in how the businesses operate can cause some struggles. Further, if the alliance requires informing one party of the other party's proprietary information, there may be a level of distrust within the corresponding leadership.

In cases of long-term strategic alliances, the involved parties may become dependent on one another. While the risk is lower if the dependency is experienced by both parties, the risk can increase significantly if the dependence becomes one sided, as this puts an advantage to one side.

Example of Strategic Alliances:

An oil and natural gas company might form a strategic alliance with a research laboratory to develop more commercially viable recovery processes. A clothing retailer might form a strategic alliance with a single clothing manufacturer to ensure consistent quality and sizing. A major website could form a strategic alliance with an analytics company to improve its marketing efforts.

The Five Factors of a Strategic Alliance:

The five criteria of a "strategic" alliance

What is it that makes an alliance truly strategic to a particular company? Is it possible for an alliance to be strategic to only one of the parties in a relationship? Many alliances default to some form of revenue generation—which is certainly important—but revenue alone may not be truly strategic to the objectives of the business. There are five general criteria that differentiate strategic alliances from conventional alliances. An alliance meeting any one of these criteria is strategic and should be managed accordingly.

1. Critical to the success of a core business goal or objective.
2. Critical to the development or maintenance of a core competency or other source of competitive advantage.
3. Blocks a competitive threat.
4. Creates or maintains strategic choices for the firm.
5. Mitigates a significant risk to the business.

The essential issue when developing a strategic alliance is to understand which of these criteria the other party views as strategic. If either partner misunderstands the other's expectation of the alliance, it is likely to fall apart. For example, if one partner believes the other is looking for revenue generation to achieve a core business goal, when in reality the objective is to keep a strategic option open, the alliance is not likely to survive.

Examining each of the five strategic criteria in depth provides insight into how the strategic value of alliances can be leveraged.

1. Critical to a business objective:

While the most common type of alliance generates revenue through a joint go-to-market approach, not every alliance that produces revenue is strategic. For example, consider the impact on revenue objectives if the relationship were terminated? Clearly, a truly strategic relationship would have a great bearing on the prospects for achieving revenue growth targets.

In addition to a single strategic alliance, related groupings of alliances—networks or constellations— may also be critical to a business objective. Sun Microsystems has established a group of integrator alliances that function as an effective marketing channel and drive significant revenues for the company each quarter.

This category also includes alliances with high potential, such as alliances that have large but unrealized revenue opportunity. Consider the impact of new industry standards that make it possible for products from different manufacturers to work together. This can unlock customer value and boost the revenue potential of new, technology-based products. From writable DVD formats to next-generation wireless technologies, technical standards are democratically determined in consortiums of interested industry participants. With product development racing in parallel, the first mover's advantage can be substantial, and hence alliance development and lobbying within an industry become paramount to financial success.

Cost reduction may also be a core business objective of the alliance, particularly among supply- side partners. By investing together in new processes, technologies and standards, alliance partners can obtain substantial cost savings in their internal operations. Again, however, a cost-saving alliance is not truly strategic unless it has an underlying business objective, such as "to achieve an industry-leading cost structure."

2. Competitive advantage and core competency:

Another way in which an alliance can prove to be strategic is to play a key role in developing or protecting a firm's competitive advantage or core competency. Learning alliances are the most common form of competitive/competency strategic alliances. An organization's need to build incremental skills in an area of importance is often accelerated with the help of an experienced partner. In some cases, the learning objective of the relationship is openly agreed between the partners; however, this is not always the case. Learning alliances work best when:

1. The objectives are openly shared
2. There is little chance of future competition (such as when the partners are in adjacent industries)
3. The cultures of the organizations are similar enough to enable process and methods to be leveraged, and
4. The governance structure of the alliances is established to promote learning at the executive, managerial and operational levels.

3. Blocking a competitive threat:

An alliance can be strategic even when it falls short of establishing a competitive advantage. Consider the case of an alliance that blocks a competitive threat. It is strategic to bring competitive parity to a secondary segment of a market in which the firm competes, when the *absence* of parity creates a competitive disadvantage in the related primary segments of that market. For example, competing in the high and medium price range of a market with a premium product may leave the firm vulnerable to a low-priced entry. If the firm's manufacturing processes do not permit the creation of a low-priced product entry, a strategic alliance with a volume partner in an adjacent market can successfully block the competitive threat.

Another example of strategic alliances that block competitive threats are the airline alliances that permit route-sharing among carriers. The two primary determinants of customer flight selection are routing and cost. Therefore, the adoption of route-sharing alliances by the airlines blocks the competitive threat of preferential routing in the specific markets in which the airline chooses to compete. In essence, strategic alliances within the airline industry ensure competitive parity with respect to routing and force other factors such as on-time departures and customer service to become the bases for competitive differentiation.

4. Future strategic options:

From a longer-term perspective, an alliance that is not fundamental to achieving a business objective today could become critical in the future. For example, in 1984, a U.S. consumer products company needed to expand distribution beyond the Midwestern states. Faced with the prospect of European competition at some point in the future, the firm made a strategic decision to invest in an alliance with a distribution and support services company that had incremental distribution capacity in the U.S. and a similar presence in Europe, rather than invest in expanding its own local distribution capabilities. With the option to expand into European distribution at any point, the firm could work to sew up the U.S. market before expanding too quickly internationally.

5. Risk mitigation:

When an alliance is driven by intent to mitigate significant risk to an underlying business objective, the nature of the risk and its potential impact on the underlying business objective are the key determinants of whether or not it is truly strategic. Dual sourcing strategies for critical production components or processes are excellent examples of how risk mitigation can become the context for supply-side strategic alliances.

As process manufacturing companies advance the yield of their operations, suppliers often collaborate with the manufacturer to ensure their new products fit within its new operations. The benefits of such an alliance are cost savings to the manufacturer and accelerated product development for the supplier. In situations where the supplier's product is critical to the manufacturer's operation, it may be necessary for the manufacturer to have strategic alliances with two competing suppliers in order to mitigate such risks as unilateral cost increases or degradation in quality of service.

RESTRUCTURING:

Restructuring is a type of corporate action taken when significantly modifying the debt, operations or structure of a company as a means of potentially eliminating financial harm and improving the business. When a company is having trouble making payments on its debt, it will often consolidate and adjust the terms of the debt in a debt restructuring, creating a way to pay off bond holders. A company restructures its operations or structure by cutting costs, such as payroll, or reducing its size through the sale of assets.

Organizational Restructuring:

When a company restructures internally, the operations, processes, departments or ownership may change, enabling the business to become more integrated and profitable. Financial and legal advisors are often hired for negotiating restructuring plans. Parts of the company may be sold to investors, and a new chief executive officer (CEO) may be hired to help implement the changes. The results may include alterations in procedures, computer systems, networks, locations and legal issues. Because positions may overlap, jobs may be eliminated and employees laid off.

Restructuring should result in smoother, more economically sound business operations. After employees adjust to the new environment, the company should be better equipped for achieving its goals through greater efficiency in production.

Costs of Restructuring:

Costs can add up quickly for things such as reducing or eliminating product or service lines, canceling contracts, eliminating divisions, writing off assets, closing facilities and relocating employees. Entering a new market, adding products or services, training new employees, and buying property results in extra costs as well. New characteristics and amounts of debt often result, whether a business expands or contracts its operations.

STRATEGIC ALLIANCES AND RESTRUCTURING:

There's an African proverb that tells us "when the music changes, so must the dance." As government funding dries up and competition for charitable dollars grow, many nonprofits are being forced to step back and examine the dance; which may mean merging, restructuring, or forming strategic alliances with other nonprofits that share similar missions.

Nonprofit Consolidation Strategies:

Unlike the corporate world, where such changes are common, nonprofit mergers are relatively rare. One reason is that corporations have the luxury of offering financial incentives to help overcome emotional resistance; an avenue typically closed to nonprofits. No one gets rich when nonprofits merge. Without such tools, negotiating and managing a nonprofit consolidation of any kind requires greater finesse and expertise at understanding the obvious and subtle impacts. Hiring an outside consultant with that expertise is imperative, and the earlier you do so, the less disruptive the process can be.

Long-term Advantages

At LCG, we begin working with nonprofit executives and boards during the earliest exploration phases. Our process can help you realistically assess the situation and determine if an alliance or merger is a viable option and, if so, how to proceed through each step of a structured plan. Our experience and objectivity provide unbiased guidance to help you negotiate terms while avoiding conflicts and roadblocks. Your investment in a consultant who will smooth the path and minimize discord both streamlines the consolidation process and establishes a positive tone that can pay dividends for years to come.

Model Questions from UNIT -III

I. Short Notes

11. Define Merger
12. Acquisition
13. Takeovers
14. Joint Venture
15. Strategic Alliance

II. Essays

9. Explain in detail about Types of Mergers.
10. Explain the reasons for Mergers and Acquisitions.
11. Briefly Explain about the Types of Joint Ventures.
12. What are the Advantages and Disadvantages of Joint Ventures.
13. Explain the purpose of Strategic Alliances in detail.
14. Explain the concept of Restructuring.