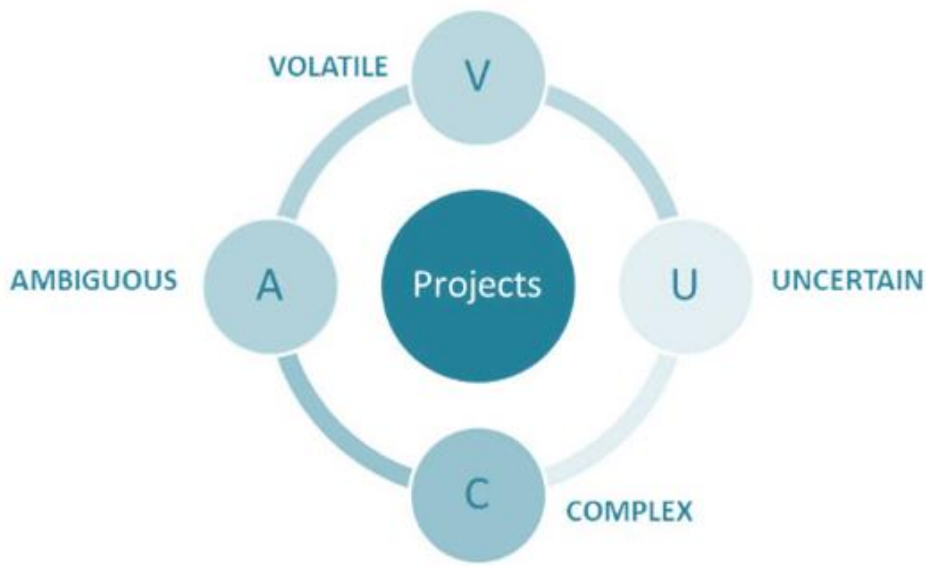
VUCA MANAGEMENT

MBA 3RD SEMESTER STUDY MATERIAL



SANJEEV INSTITUTE OF PLANNING AND MANAGEMENT, KAKINADA

CP 302 VUCA Management

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

UNIT II: Sensitive Analysis – Capital Expenditure decisions under risk & Uncertainty Introduction to Financial Derivatives – Turnaround Strategies (theory only).

UNIT III: Merger Strategies, Acquisitions/Takeovers, Joint Ventures, Strategic Alliances (theory only) restructuring - challenge of business sustainability.

UNIT IV: Crisis Management – Types, Strategies, Talent Management- triple bottom line approach. (People – social bottom line; Planet – ecological bottom line, Profit – economic bottom line).

UNIT V: Issues of VUCA in Product Management – Pricing, Promotion – Distribution, Strategic Leadership – Developing core competencies.

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

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:

Uncertainty about the future

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

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.

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.

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.

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.

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.

Exploding data

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

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.

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.

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. 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.

Disadvantages:

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.

Digitalization

Digitalization is the integration of digital technologies into everyday life by the digitization of everything that can be digitized. 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.

Categories of VUCA

Social inclusion:

Social inclusion is the process of improving the terms on which individuals and groups take part in society—improving the ability, opportunity, and dignity of those disadvantaged on the basis of their identity.

UNIT – 2: Sensitive Analysis – Capital Expenditure decisions under risk & uncertainty – Introduction to Financial Derivatives – Turnaround Strategies.

Sensitivity Analysis:

Sensitivity Analysis is defined as the technique used to determine how different values of an independent variable will impact a particular dependent variable under a given set of assumptions. It is used within specific boundaries that will depend on one or more input variables, such as the effect that changes in interest rates will have on a bond's price.

It is also known as the what - if analysis. Sensitivity analysis can be used for any activity or system. All from planning a family vacation with the variables in mind to the decisions at corporate levels can be done through sensitivity analysis.

Measurement of sensitivity analysis

Below are mentioned the steps used to conduct sensitivity analysis:

1. Firstly the base case output is defined; say the NPV at a particular base case input value (V1) for which the sensitivity is to be measured. All the other inputs of the model are kept constant.
2. Then the value of the output at a new value of the input (V2) while keeping other inputs constant is calculated.
3. Find the percentage change in the output and the percentage change in the input.
4. The sensitivity is calculated by dividing the percentage change in output by the percentage change in input.

This process of testing sensitivity for another input (say cash flows growth rate) while keeping the rest of inputs constant is repeated till the sensitivity figure for each of the inputs is obtained. The conclusion would be that the higher the sensitivity figure, the more sensitive the output is to any change in that input and vice versa.

The various techniques widely applied include:

- ***Differential sensitivity analysis:*** It is also referred to the direct method. It involves solving simple partial derivatives to temporal sensitivity analysis. Although this method is computationally efficient, solving equations is intensive task to handle.
- ***One at a time sensitivity measures:*** It is the most fundamental method with partial differentiation, in which varying parameters values are taken one at a time. It is also called as local analysis as it is an indicator only for the addressed point estimates and not the entire distribution.
- ***Factorial Analysis:*** It involves the selection of given number of samples for a specific parameter and then running the model for the combinations. The outcome is then used to carry out parameter sensitivity.

Through the sensitivity index one can calculate the output % difference when one input parameter varies from minimum to maximum value.

- ***Correlation analysis*** helps in defining the relation between independent and dependent variables.
- ***Regression analysis*** is a comprehensive method used to get responses for complex models.
- ***Subjective sensitivity analysis:*** In this method the individual parameters are analyzed. This is a subjective method, simple, qualitative and an easy method to rule out input parameters.

Using Sensitivity Analysis for decision making

One of the key applications of Sensitivity analysis is in the utilization of models by managers and decision-makers. All the content needed for the decision model can be fully utilized only through the repeated application of sensitivity analysis. It helps decision analysts to understand the uncertainties, pros and cons with the limitations and scope of a decision model.
Most if not all decisions are made under uncertainty. It is the optimal solution in decision making for various parameters that are approximations. One approach to come to conclusion is by replacing all the uncertain parameters with expected values and then carry out sensitivity analysis. It would be a breather for a decision maker if he / she has some indication as to how sensitive will the choices be with changes in one or more inputs.

Uses of Sensitivity Analysis

- The key application of sensitivity analysis is to indicate the sensitivity of simulation to uncertainties in the input values of the model.
- They help in decision making

- Sensitivity analysis is a method for predicting the outcome of a decision if a situation turns out to be different compared to the key predictions.
- It helps in assessing the riskiness of a strategy.
- Helps in identifying how dependent the output is on a particular input value. Analyses if the dependency in turn helps in assessing the risk associated.
- Helps in taking informed and appropriate decisions
- Aids searching for errors in the model

Conclusion

Sensitivity analysis is one of the tools that help decision makers with more than a solution to a problem. It provides an appropriate insight into the problems associated with the model under reference. Finally the decision maker gets a decent idea about how sensitive is the optimum solution chosen by him to any changes in the input values of one or more parameters.

Financial Derivatives:

Introduction: A derivative is a financial instrument that derives its value from an underlying asset. This underlying asset can be stocks, bonds, currency, commodities, metals and even intangible, pseudo assets like stock indices. Derivatives can be of different types like futures, options, swaps, caps, floor, collars etc. The most popular derivative instruments are futures and options.

Evolution of Derivatives:

- Globally, First derivatives started with the commodities, way back in 1984.
- Financial derivatives came in to existence in the 1970's.
- The first exchange where derivatives were traded is the Chicago Board of Trade (CBOT).
- In India, National Stock Exchange (NSE) introduced the first derivatives in June 2000.

Classification of Derivatives:

1. Forwards
2. Futures
3. Options
4. Swaps

Who will Execute Derivatives?

1. Speculators
2. Hedgers
3. Arbitrators

Types or instruments of Financial Derivative Contracts:

Forwards:

A *forward* contract specifies the price at which an asset can be purchased or sold at some future date. Although a forward contract is classified as a derivative in many markets it is difficult to distinguish between the underlying and the forward contract. Large trading volumes in OTC forwards can in fact make them more significant than spot markets.

Futures:

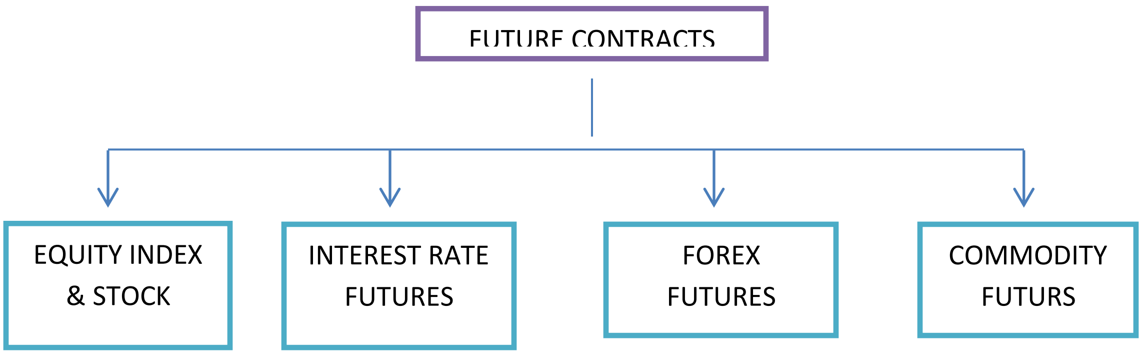
<u>Introduction</u>

Future contracts are also agreements between two parties in which the buyer agrees to buy an underlying asset from the other party (the seller). The delivery of the asset occurs at a later time, but the price is determined at the time of purchase.

6.4.1 Features of Future Market:

- Terms and conditions are standardized.
- Trading takes place on a formal exchange wherein the exchange provides a place to engage in these transactions and sets a mechanism for the parties to trade these contracts.
- There is no default risk because the exchange acts as a counterparty, guaranteeing delivery and payment by use of a clearing house.
- The clearing house protects itself from default by requiring its counterparties to settle gains and losses or mark to market their positions on a daily basis (NSCCL).
- Futures are highly standardized, have deep liquidity in their markets and trade on an exchange.
- Profits and losses on futures contracts are settled on a periodic basis (Marking to Market).
- An investor can offset his or her future position by engaging in an opposite transaction before the stated maturity of the contract.

Classification of Future Contracts:



Options:

Definition: An option is a derivative that gives one party a right and the other party an obligation to buy /sell at a specified price for a specified quantity. The buyer of the right is called the option holder. The seller of the right (and buyer of the obligation) is called the option writer. The cost of this transaction is the premium.

Terminologies used in options

a. Option holder: The buyer of the option who gets the right

b. Option writer: The seller of the option who carries the obligation

c. Premium: The consideration paid by the buyer for the right

d. Exercise price: The price at which the option holder has the right to buy or sell. It is also called as the strike price.

e. Call option: The option that gives the holder a right to buy

f. Put option: The option that gives the holder a right to sell

g. Tenure: The period for which the option is issued

h. Expiration date: The date on which the option is to be settled

i. American option: These are options that can be exercised at any point till the expiration date

j. European option: These are options that can be exercised only on the expiration date

k. Covered option: An option that an option writer sells when he has the underlying shares with him.

l. Naked option: An option that an option writer sells when he does not have the underlying shares with him.

M. In the money: An option is in the money if the option holder is making a profit if the option was exercised immediately.

N. Out of money: An option is in the money if the option holder is making a loss if the option was exercised immediately.

O. At the money: An option is in the money if the option holder evens out if the option was exercised immediately.

Call Option	**Put Option**
ATM Exercise Price = Market Price	Exercise Price = Market Price
ITM Exercise Price < Market Price	Exercise Price > Market Price
OTM Exercise Price > Market Price	Exercise Price < Market Price

Option strategies:

Strategy 1: Call Option

Strategy 2: Synthetic Long Call: Buy Stock, Buy Put

Strategy 3: Put Option

Strategy 4: Covered Call

Strategy 5: Straddle

Strategy 6: Strangle

Strategy 7: Collar

Strategy 8: Bull Call Spread Strategy: Buy Call Option, Sell Call Option

SWAPS

A swap is one of the most simple and successful forms of OTC-traded derivatives. It is a cash-settled contract between two parties to exchange (or "swap") cash flow streams. As long as the present value of the streams is equal, swaps can entail almost any type of future cash flow. They are most often used to change the character of an asset or liability without actually having to liquidate that asset or liability.

A Swap is an agreement to exchange a sequence of cash flows over a period of time in the future in same or different currencies. Mainly used for hedging various interest rate exposures, they are very popular and highly liquid instruments. Some of the very popular swap types are Interest Rate Swaps and Currency Swaps.

An **interest rate cap** is a derivative in which the buyer receives payments at the end of each period in which the interest rate exceeds the agreed strike price. An example of a cap would be an agreement to receive a payment for each month the LIBOR rate exceeds 2.5%.

Similarly an **interest rate floor** is a derivative contract in which the buyer receives payments at the end of each period in which the interest rate is below the agreed strike price.

Caps and floors can be used to hedge against interest rate fluctuations. For example a borrower who is paying the LIBOR rate on a loan can protect himself against a rise in rates by buying a cap at 2.5%. If the interest rate exceeds 2.5% in a given period the payment received from the derivative can be used to help make the interest payment for that period, thus the interest payments are effectively "capped" at 2.5% from the borrowers point of view.

Techniques in Swaps:

Fixed - Float *(Same currency)*

Fixed - Float *(Different currency)*

Float - Float *(Different Currency)*

Fixed - Fixed *(Different Currency)*

Turnaround Strategies:

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

Now the question arises, when the firm should adopt the turnaround 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 Viz, 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.

Effective Techniques or Turnaround strategies:

1. Situation reevaluation (Product, Customers, Finance, Process and People)
2. Crisis stabilization
3. Strategy Redefining (Vision, Purpose, Brand, Mission and values etc.)
4. Employee Retention and reemployment (retaining the right people)
5. Process and product improvements
6. Financial Restructuring
7. Back to normal (coming out of crisis through cash flow generation)
8. Becoming digital
9. Crisis stabilizati

Capital Expenditure decisions under risk and uncertainty:

Risk:

Risk exists because of the inability of the decision-maker to make perfect forecasts. In formal terms, the risk associated with anv investment may be defined as the variability that is likely to occur in the future returns from the investment.

Three broad categories of the events influencing the investment forecasts:

1. General economic conditions
2. Industry factors
3. Company factors

Techniques for Risk Analysis (Capital budgeting decisions)

a. Conventional Techniques of Risk Analysis

- Payback
- Risk-adjusted discount rate
- Certainty equivalent

b. Other Techniques

- Sensitivity Analysis
- Scenario Analysis
- Simulation Analysis

Payback period: Please refer Financial Management text book (capital Budgeting methods)*

Risk-adjusted discount rate: to allow for risk, the businessmen required a premium over and above an alternative which is risk free. It is proposed that risk premium be incorporated into the capital budgeting analysis through the discount rate.

RADR = Risk free rate + Risk Premium (or)

$K = Rf + Rp$

Equation for calculation of NPV: $NPV = \sum NCFt / (1+k)^{t} - CO$

Whereas CO = Cash Outlay, k = risk adjusted rate.

Certainty Equivalent Approach: the certainty equivalent coefficient (α) can be determined as a relationship between the certain cash flows and the uncertain cash flows.

αt = risk free cash flows / risky cash flows

The certainty equivalent coefficient (α)t assumes a value between 0 and 1 and varies inversely with risk. The higher the risk, the lower the (α)t and the lower the risk, the higher the (α)t.

The certainty equivalent coefficient approach can be expressed in the form of equation as follows:

$NPV = \sum \alpha T.NCFt / (1+kf)t$

Where, NCFt = net cash flow

αt = the certainty equivalent coefficient.

kf = risk free rate

Sensitivity Analysis: The sensitivity analysis helps in identifying how sensitive are the various estimated variables of the project. It shows how sensitive is a project's NPV or IRR for a given change in particular variables.

Steps:

1. Identify the variables which can influence the project's NPV or IRR.
2. Define the underlying relationship between variables
3. Analyse the impact of the change in each of the variables on the project's NPV or IRR.

The project's NPV or IRR can be computed under following three assumptions in sensitivity analysis.

1. Pessimistic (i.e. the worst)
2. Expected (i.e. the most likely)
3. Optimistic (i.e. the best)

Scenario Analysis: the another way to examine the risk of investment is to analyse the impact of alternative combination of variables called the scenarios, on the project NPV.

Ex; in the expected scenario, it may be possible to increase the sales volume of 1 lac units to 1.25 lac units. If the company reduces the selling price from Rs. 15 to Rs. 13.50, resorts to aggressive advertisement campaign, thereby increasing unit variable cost to Rs. 7.1 (5% increase) & fixed cost is Rs. 44,000/-

While calculating NPV:

Optimistic: 125000 units at variable cost of 6.75, selling price@16.50 per unit

Pessimistic: 75000 units at variable cost of 7.43, selling price@13.50 per unit

Neutral: 100000 units at variable cost of 7.1, selling price@15 per unit

Simulation analysis: sensitivity analysis and scenario analysis are quite useful to understand the uncertainty of the investment projects, but both the methods do not consider the interaction between variables and also, they do not reflect on the probability of the change in variables.

Monte simulation considers the interaction among variables & probabilities of change in variables & its impact on NPV of cash inflows. In this a computer generated a very large number of scenarios according to the probability distribution of variables.

Steps:

1. Identification of the variables, which influences the cash inflows. (initial investment, market size, fixed cost & variable cost, market growth rate etc.)
2. Specify the formula which relates the variables.
3. Assign the probabilities to each variables.
4. Develop a computer program, that randomly selects 1 value from the probability with each variable & uses these values, to calculate project's NPV.

UNIT III: Merger Strategies, Acquisitions/Takeovers, Joint Ventures, Strategic Alliances (theory only) restructuring - challenge of business sustainability.

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 combine

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. The parts division, in turn, would be guaranteed a steady stream of business.

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
- Under valued 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 share 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 amount 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 depends 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.

Now let us look at the advantages and disadvantages of joint venture

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 join 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.
There are innumerable advantages of joint venture. However, the disadvantages also tag along in the process.

Disadvantages of Joint Venture:

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 provides 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.

Sustainability Challenges in Business

Any corporate sustainability initiative has to balance its impact on three things: people, planet, and profit. This concept is known as the triple bottom line, and it shapes the environmental efforts for many corporations worldwide.

1. Improved environmental sustainability is not valued in internal capital allocation decisions

Companies often lack the internal mechanisms to properly value the benefits of managing environmental sustainability, such as reduced exposure to energy price volatility, water risksand other environmental impacts of operations and supply chains.

2. **The goals of corporate sustainability teams and financial teams are not well-aligned**

Divergent priorities mean that sustainability teams and financial teams often do not effectively engage each other. As a result, sustainability teams are brought into project planning too late to influence project design and cannot make an effective case to financial decisionmakers.

3. Companies lack metrics to account for external environmental costs

Without a clear method to price external costs, such as the risk of climate change to society, companies can't factor these "expenses" into their traditional decision-making. Companies may find they are not fully cognizant of the real costs and risks associated with their investments over time.

4. Environmental factors, such as climate change and water scarcity**, are not being fully integrated into long-term business strategy**

As a result, companies often miss opportunities to improve financial performance through environmental improvements in processes and product lines.

Challenges to Being Sustainable, and How to Overcome Them:

Common barriers businesses face when striving to become more sustainable, along with how to overcome them:

- **Senior Support:**

–Issue: Becoming a sustainable business requires senior-level buy in – and some of your senior team may be more supportive than others.

–Solution: Add sustainability goals into the personal objectives of senior employees to ensure everyone is accountable for successfully driving change.

- **Employee Engagement:**

–Issue: Initiating positive change will have a much greater chance of success if employees feel proud and engaged.

–Solution: Appoint an individual or create a team to be the key instigator(s) to drive positive change in the business. These ambassadors can inspire and secure commitment from the rest of the company. Listen to what motivates your employees: if your employees tell you that volunteering is important to them, encourage it – and organize a company-wide volunteering day, like The Royal Bank of

Canada and TELUS do annually. For CSR initiatives, consider polling employees to see which causes really matter to them.

- **Cost:**

–Issue: Fundamentally, businesses are designed to make money – and introducing sustainability initiatives usually comes at a cost.
–Solution: Seeing cost as a barrier is a short-term view. Sustainability programs can improve the efficiency of a business, which saves costs in the long run. Being sustainable will be received positively by customers, which could enhance the number of referrals or repeat business you receive.

- **Metrics:**

–Issue: Without a regulatory body, it's difficult to determine what to measure. Sustainability initiatives are particularly challenging as they often affect society at a macro-level, which cannot always be quantified.
–Solution: With so many metrics to consider, it's important to determine your objectives upfront. Bring in a consultant to help you decide which changes would make the biggest impact. Write a plan of action, detailing your goals and how you're going to achieve them – and deliver it. Make sure your goals are manageable, with realistic deliverables to be met every six months, to help you stay on target.

- **Suppliers:**

–Issue: Identifying suppliers that match your business needs as well as your sustainable values is time consuming and difficult.
–Solution: Keep the process simple. If you have long-standing relationships with suppliers that potentially have the capabilities to implement positive change in stride with your company then bring the conversation to the table. If they are unable or unwilling to change, spend time finding an organization that is aligned with your goals – you'll benefit in the long term.

- **Consumers Don't Care:**

–Issue: Consumers do not consistently communicate their desire for sustainable products when exercising their purchasing power.
–Solution: Times are changing – and there is a conscious shift in consumer attitudes towards sustainable products. This is especially true in the agriculture and household goods industries. Paul Polman, Chief Executive at Unilever, is changing the status quo through the development of a "Sustainable Living Plan," with the ambition to "improve the lives of the world's citizens and come up with genuine sustainable solutions." Polman is smart: he is boldly driving change before his competitors, and he'll win consumer loyalties as a consequence.

The concept of a sustainable business is still in its infancy and undoubtedly metrics and methodologies for measuring sustainability will become more sophisticated over time. In terms of barriers, you'll inevitably face challenges when introducing change. However any barriers are short-term and can be overcome if you're serious about becoming sustainable.

UNIT 4: Crisis Management – Types, Strategies, Talent Management- triple bottom line approach. (People – social bottom line; Planet – ecological bottom line, Profit – economic bottom line).

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

1. Crisis is a sequence of sudden disturbing events harming the organization.
2. Crisis generally arises on a short notice.
3. 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 so on.
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 behaviors 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.

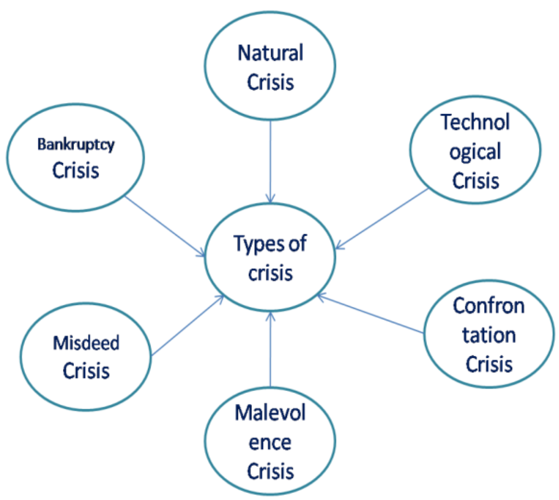
Essential Features of Crisis Management

1. Crisis Management includes activities and processes which help the managers as well as employees to analyze and understand events which might lead to crisis and uncertainty in the organization.
2. Crisis Management enables the managers and employees to respond effectively to changes in the organization culture.
3. It consists of effective coordination amongst the departments to overcome emergency situations.
4. Employees at the time of crisis must communicate effectively with each other and try their level best to overcome tough times. Points to keep in mind during crisis
5. Don’t panic or spread rumours around. Be patient.
6. At the time of crisis the management should be in regular touch with the employees, external clients, stake holders as well as media.
7. Avoid being too rigid. One should adapt well to changes and new situations.

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 so on.
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.

Crisis of Malevolence

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

Crisis of Organizational Misdeeds

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 three 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 Rumors: Tarnish the Spreading false rumors about the organization and brand lead to crisis. Employees must not spread anything which would image of their organization.
Bankruptcy: A crisis also arises when organizations fail to pay its creditors and other parties.Lack of fund leads to crisis.
Crisis Due to Natural Factors: 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

Crisis refers to unplanned events which cause harm to the organization and lead to disturbances and major unrest amongst the employees.

Crisis gives rise to a feeling of fear and threat in the individuals who eventually lose interest and trust in the organization.

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.

Structural Functions Systems Theory

According to structural functions systems theory, communication plays a pivotal role in crisis management. Correct flow of information across all hierarchies is essential. Transparency must be maintained at all levels. Management must effectively communicate with employees and provide them the necessary information at the times of crisis. Ignoring people does not help, instead makes situations worse. Superiors must be in regular touch with subordinates. Leaders must take charge and ask the employees to give their best.

Diffusion of innovation Theory

Diffusion of innovation theory proposed by Everett Rogers, supports the sharing of information during emergency situations. As the name suggests during crisis each employee should think out of the box and come out with something innovative to overcome tough times. One should be ready with an alternate plan. Once an employee comes up with an innovative idea, he must not keep things to himself. Spread the idea amongst all employees and departments. Effective communication is essential to pass on ideas and information in its desired form.

Unequal Human Capital Theory

Unequal human capital theory was proposed by James. According to unequal human capital theory, inequality amongst employees leads to crisis at the workplace. Discrimation on the grounds of caste, job profile as well as salary lead to frustrated employees who eventually play with the brand name, spread baseless rumors and earn a bad name for the organization.

CRISIS MANAGEMENT PLAN

Crisis refers to a sequence of unwanted events leading to major disturbances and uncertainty at the workplace.

Crisis is an unexpected event which not only causes harm to the organization but also triggers a feeling of fear and insecurity amongst the individuals.

Why Crisis Management Plan ?

- Crisis management plan helps the employees to adopt a focused approach during emergency situations.
- Crisis management Plan elaborates the actions to be taken by the management as well as the employees to save organization’s reputation and standing in the industry. It gives a detailed overview of the roles and responsibilities of employees during crisis.
- Individuals representing the crisis management team formulate crisis management plan to reduce the after effects of crisis at the workplace.
- Crisis Management Plan helps the managers and superiors to take quick and relevant actions as per the situation.
- Crisis Management plan protects an organization from inevitable threats and also makes its future secure.
- Such plans reduce instability and uncertainty amongst the employees and help them concentrate on their work.

Characteristics of Crisis Management Plan

- Crisis Management Plan should be made in the presence of all executives. Every member of crisis management team should have a say in the plan. It is important for each one to give his / her valuable inputs and suggestions.
- Crisis Management Plan should take into account all identified problem areas and suggest a possible solution for all of them to help the organization come out of crisis as soon as possible.
- Make sure the plans are realistic and solve the purpose of saving organization's reputation and name.

How to make a crisis management plan ?

- Identify the problem areas and various factors which led to crisis at the workplace.
- Discuss issues and areas of concern amongst yourselves on an open forum for everyone to share their opinion.
- Make sure you have accurate information. Don't depend on guess works and assumptions. Double check your information before submitting the final plan.
- Crisis Management Plan should not only focus on ways to overcome crisis but also on making the processes foolproof to avoid emergency situations in future.

Sequence of sudden unwanted events leading to major disturbances at the workplace is called crisis. Crisis arises on an extremely short notice and triggers a feeling of fear and uncertainty in the employees.

It is essential for the superiors to sense the early signs of crisis and warn the employees against the same. Once a crisis is being detected, employees must quickly jump into action and take quick decisions.

Crisis Management Team

A Crisis Management Team is formed to protect an organization against the adverse effects of crisis. Crisis Management team prepares an organization for inevitable threats.

Organizations form crisis management team to decide on future course of action and devise strategies to help organization come out of difficult times as soon as possible.

Crisis Management Team is formed to respond immediately to warning signals of crisis and execute relevant plans to overcome emergency situations.

Role of Crisis Management Team

Crisis Management team primarily focuses on:

- Detecting the early signs of crisis.
- Identifying the problem areas
- Sit with employees face to face and discuss on the identified areas of concern
- Prepare crisis management plan which works best during emergency situations
- Encourage the employees to face problems with courage, determination and smile. Motivate them not to lose hope and deliver their level best.
- Help the organization come out of tough times and also prepare it for the future.

Crisis Management Team includes:

1. Head of departments
2. Chief executive officer and people closely associated with him
3. Board of directors
4. Media Advisors
5. Human Resource Representatives

The role of Crisis Management Team is to analyze the situation and formulate crisis management plan to save the organization's reputation and standing in the industry.

A Team Leader is appointed to take charge of the situation immediately and encourage the employees to work as a single unit.

The first step is to understand the main areas of concern during emergency situations. Crisis Management Team then works on the various problems and shortcomings which led to crisis at the workplace. The team members must understand where things went wrong and how current processes can be improved and made better for smooth functioning of the organization.

It is important to prioritize the issues. Rank the problems as per their effect on the employees as well as the organization. Know which problems must be resolved immediately and which all can be attended a little later.

A single brain cannot take all decisions alone. Crisis Management Team should sit with rest of the employees on a common platform, discuss prevailing issues, take each other's suggestions and reach to plans acceptable to all.

One of the major roles of the Crisis management team is to stay in touch with external clients as well as media. The team must handle critical situations well.

Develop alternate plans and strategies for the tough times. Make sure you have accurate information. Double check your information before finalizing the plan.

Implement the plans immediately for results. Proper feedback must be taken from time to time.

Crisis Management team helps the organization to take the right step at the right time and help the organization overcome critical situations.

Ways to overcome organizational crisis

Sequence of unwanted events leading to uncertainty at the workplace is called as crisis. Crisis leads to major disturbances at the workplace and creates unrest amongst the employees.

Employees must not lose hope during crisis. It is important for them to face inevitable threats with courage, determination and smile.

Let us go through various ways to overcome crisis:

- Adopt a focused approach. Take initiative and find out where things went wrong. Identify the problem areas and devise appropriate strategies to overcome the same.

- Gather correct and relevant information. One should not depend on mere guess works and assumptions during emergency situations. Double check your information before submitting reports.
- Employees should change their perspective. One should always look at the brighter side of things. Remember life has its own ups and downs. Unnecessary cribbing and complaining does not help at the workplace. Avoid making issues over petty things. Don’t adopt a negative attitude; instead understand the situation and act accordingly.
- Effective communication is essential to overcome crisis in the organization. Information must flow across all departments in its desired form. Employees must be aware of what is happening around them. Individuals should have an easy access to their superior’s cabin to discuss critical issues and seek their suggestions. Superiors must address employees on an open forum during critical situations.
- Roles and responsibilities must be delegated as per the employee’s specialization. Make sure the right person is doing the right job. Employees must be motivated to deliver their level best and focus on the organization’s goals to overcome tough times in the best possible way.
- It is essential to take quick decisions during critical situations. Learn how to take risks. The moment an employee detects the early signs of crisis, it is important for him to act immediately. Escalate issues to your superiors and do inform your co workers as well. Don’t wait for others to take action.
- Be calm and patient. Don’t panic and spread baseless rumours around. Taking unnecessary stress makes situation all the more worse. Remember a calm individual can handle things better. Relax and then decide on the future course of action to overcome crisis. Don’t lash out at others under pressure.
- Discussions are essential during crisis. Sit with fellow workers and discuss issues amongst yourselves to reach to mutually acceptable solutions which would work best at the times of crisis.
- Be loyal to your organization even at the times of crisis. Stick to it during bad times. Don’t just treat your organization as a mere source of earning money. It is important to respect your workplace.
- Review your performance regularly. Be your own critic. Strive hard to achieve your targets within the desired time frame. Don’t work only when your boss is around.
- Avoid unnecessary conflicts and misunderstandings at the workplace. Treat your fellow workers as members of your extended family. Help each other when needed. Employees should not ask for unjustified things. Think from the management’s perspective as well. Avoid criticizing your colleagues.
- Don’t hide at the times of crisis. Come out; interact with external clients as well as media. Do not hesitate to ask for help. Ignoring outsiders worsens the situations.

Managing stress during crisis

Crisis refers to a sequence of unwanted events leading to major disturbances at the workplace.

It triggers a feeling of insecurity and fear amongst the employees.

Crisis causes major harm to the organization and poses a threat to its reputation and brand image.

Let us go through various ways of managing stress during crisis:

- Once a crisis is being detected, employees should immediately jump into action. Do not panic. Getting hyper and nervous never lead to any solution; instead make the situation all the more worse.
- It is essential for the individuals to stay calm at the times of crisis. One should not react over petty issues. Remember a calm and composed individual can take better decisions than a stressed one.
- Help your fellow workers during emergency situations. Dont lash out at others under pressure. Criticizing others at the workplace is just not professional. Try to understand what the other person has to say. Employees find it difficult to think logically under stress.
- One should always look at the brighter sides of things. Adopting a negative attitude goes a long way in increasing stress among individuals. Don't take things to heart. It is best to ignore minor issues.
- Job mismatch and overlapping of duties lead to stress during emergency situations. Roles and responsibilities must be clearly defined as per the specialization of employees during crisis. Everyone should be very clear as to what is expected out of him.
- Make individuals work as a team. Individuals working alone are generally overburdened and eventually more stressed out. Let them work together and share ideas on various topics. Speaking out and discussing issues reduce the stress level at the workplace.
- It is absolutely okay to take short breaks at work even during emergency situations. Human beings are not machines who can start and stop working just at the push of a button. They need time for themselves. Working at a stretch can lead to fatigue and eventually individuals lose interest in work. Short tea and snack breaks are necessary to reduce stress. During these breaks employees get time to interact with each other.
- Make necessary arrangements for individuals working at night. It is important for them to feel comfortable at the workplace. Make sure individuals get dinner on time for them to deliver their level best. There should be proper restrooms and places where employees can take a nap.
- Light music also reduces stress to a large extent. Ensure the office is adequately lit. Dark cabins and suffocated rooms increase stress and lead to a negative ambience at the workplace.
- Encourage necessary motivation programs for the employees to make them face tough times with determination and courage.
- Make sure employees do not feel insecure during emergency situations. It is better to act immediately as per the situation rather than complaining and cribbing. One should never lose hope even in the worst conditions.
- Appreciating the hard work of employees motivates them to perform better every time. Each employee should get his /her due credit. Employees should stay away from blame games and nasty politics. Such activities are considered highly unproductive and lower the morale and self confidence of the employees.
- Employees should be heard. Ignoring individuals results in stress and affects their performance.
- Don't try to do all things together. Adopt a step by step approach. Plan your work well. Managing time effectively also reduces stress.

Role of employees in crisis

The art of managing an emergency situation at the workplace through effective planning and quick action refers to crisis management. An unstable condition which leads to major disturbances at the workplace must be controlled immediately for effective functioning of the organization.

- Employees must be serious about their own work. Review your performance regularly. Don't always wait for your boss to ask for reports. Be your own critic. Strive hard to achieve your targets within the desired time frame. Never adopt a casual attitude at work. An individual must be able to sense the early signs of crisis and warn his fellow workers against the same. Take initiative on your own. Escalate issues immediately to your seniors. Don't wait for others to take action.
- One should not take things lightly. Once a crisis is being detected, employees must immediately jump into action.
- Encourage effective communication during emergency situations. Don't keep things to yourself. Discuss ideas amongst your fellow workers to reach to a plan which would work best at the times of crisis.
- Don't spread baseless rumours about your product and organization. Avoid spreading fake information.
- It is essential for the employees to respect their organization. One should maintain the decorum of the organization. Enter office with a cool mind. Don't unnecessarily fight fault in your coworkers and fight with them. Remember conflicts lead to no solution. It is always better to discuss things face to face and come to a mutually beneficial solution.
- Don't ask for unjustified things. Think from the management's perspective as well. Remember your organization pays you for your hard work and not for spreading negativity around. Employees should never indulge in unproductive activities like boycotts or strikes to get their demands fulfilled. Violence at the workplace is a crime. Neither the management nor the employee benefits out of it. Such activities in turn tarnish the brand name.
- Don't panic. Maintain your calm and decide on the ways to overcome crisis rather than complaining and cribbing. Employees should never get hyper as stress and anxiety lead to more mistakes one might not otherwise commit. Relax and give your best.
- Employees must rely on accurate information. Mere assumptions and guess works create problems and misunderstandings later.
- Think out of the box. Try to come out with innovative ideas and strategies to overcome tough times as soon as possible. Employees must identify the causes of crisis and devise relevant strategies and ways to avoid it.
- Individuals must work as a single unit during emergency situations. Ensure free flow of information across departments. Avoid playing blame games or criticizing others. It only makes situation worse.
- Don't hide, instead come out, interact with stake holders and external parties, and ask for help. One must not avoid media.
- Discrimination on the grounds of caste, status, income, sex and so on is unethical and leads to crisis. Everyone must be treated as one for a peaceful environment at the workplace.

Role of leader/manager in crisis

A sequence of sudden, unplanned and unexpected events leading to instability in the organization and major unrest amongst the individuals is called as crisis.

- One should lead from the front. Show confidence and steadiness. Take complete charge of the situation.
- Managers should have full control on the employees. They should know what is happening around. Any issue neglected in the initial stage might be a major concern later. Problems must be

attended immediately. One should not ignore even minor issues or wait for someone else to take the initiative. Any issue left unattended might lead to crisis and major unrest later.

- One should be alert at the workplace. A leader should be able to feel the early signs of crisis and warn the employees against the negative consequences of the same. It is his duty to take precautionary measures to avoid an emergency situation. A leader should be able to foresee crisis. Such a stage is also called as Signal Detection.
- Leaders must try their level best to prevent crisis. Encourage effective communication at the workplace. Let employees discuss issues amongst themselves and come to the best possible alternative to overcome crisis.
- Ask the employees not to panic at the time of crisis. Encourage them to face the tough times with courage, determination and smile. Make them work as a single unit. It is the duty of the leader to provide a sense of direction to the employees.
- The leaders should interact with the employees more often. Let them feel that you are there for them. Impart necessary crisis management trainings to the employees.
- Planning is essential to avoid emergency situations. Learn to take quick decisions. Make sure everyone at the workplace is well informed about emergency situations.
- Identify the important processes and systems which should keep functioning for the smooth running of the organization. Develop alternate plans with correct and accurate information.
- Don't let negativity creep in the organization. Motivate the employees to believe in themselves and the organization. It is essential to trust each other during such situations. Take strict action against those spreading rumours and trying to tarnish organization's image.
- Don't avoid stakeholders, external parties and most importantly media. Come out, meet them and explain the whole situation. Ignoring people makes things worse. Develop strong partnerships with external parties and ask for help.
- Never lose hope. Be a strong pillar of support for your team members. They should be able to fall back on you.
- Leaders should strive hard to come out of tough times as soon as possible. Learn to take risks. Clarify the roles and responsibilities of the individuals during this time.
- Once the organization is out of crisis, it is the leader's duty to communicate the lessons learnt so that employees do not commit same mistakes again. Work hard and relive your organization's image. Adapt well to changes and new situations.

TALENT MANAGEMENT

What if you could attract your competitor's best employee for few extra bucks? Sounds easier than done! Attracting high-worth individuals from the competitors is not everyone's cup of tea. Targeting them and finally hiring them is the test of your competencies experience, personal traits and brain application. This is where the strategic approach plays an important role. A full-fledged department, precisely Talent Management (a part of HRD), especially dedicated to the purpose is required to recognize, source and poach them. However the process doesn't finish here. It is a never-ending course of action that requires continuous effort. Let's read further to explore and understand the concept.

Talent Management, as the name itself suggests is managing the ability, competency and power of employees within an organization. The concept is not restricted to recruiting the right candidate at the right time but it extends to exploring the hidden and unusual qualities of your employees and developing and nurturing them to get the desired results. Hiring the best talent from the industry may be a big concern for the organizations today but retaining them and most importantly, transitioning them according to the culture of the organization and getting the best out of them is a much bigger concern.

Talent Management in organizations is not just limited to attracting the best people from the industry but it is a continuous process that involves sourcing, hiring, developing, retaining and promoting them while meeting the organization's requirements simultaneously. For instance, if an organization wants the best talent of its competitor to work with it, it needs to attract that person and offer him something that is far beyond his imagination to come and join and then stick to the organization. Only hiring him does not solve the purpose but getting the things done from him is the main task. Therefore, it can be said that talent management is a full-fledged process that not only controls the entry of an employee but also his or her exit.

We all know that it's people who take the organization to the next level. To achieve success in business, the most important thing is to recognize the talent that can accompany you in achieving your goal. Attracting them to work for you and strategically fitting them at a right place in your organization is the next step. It is to be remembered that placing a candidate at a wrong place can multiply your problems regardless of the qualifications, skills, abilities and competency of that person. How brilliant he or she may be, but placing them at a wrong place defeats your sole purpose. The process of talent management is incomplete if you're unable to fit the best talent of the industry at the place where he or she should be.

Some organizations may find the whole process very unethical especially who are at the giving end (who loses their high-worth employee). But in this cut-throat competition where survival is a big question mark, the whole concept sounds fair. Every organization requires the best talent to survive and remain ahead in competition. Talent is the most important factor that drives an organization and takes it to a higher level, and therefore, cannot be compromised at all. It won't be exaggerating saying talent management as a never-ending war for talent!

Talent Management Process

People are, undoubtedly the best resources of an organization. Sourcing the best people from the industry has become the top most priority of the organizations today. In such a competitive scenario, talent management has become the key strategy to identify and filling the skill gap in a company by recruiting the high-worth individuals from the industry. It is a never-ending process that starts from targeting people. The process regulates the entry and exit of talented people in an organization. To sustain and stay ahead in business, talent management can not be ignored. In order to understand the concept better, let us discuss the stages included in talent management process:

- Understanding the Requirement: It is the preparatory stage and plays a crucial role in success of the whole process. The main objective is to determine the requirement of talent. The main activities of this stage are developing job description and job specifications.
- Sourcing the Talent: This is the second stage of talent management process that involves targeting the best talent of the industry. Searching for people according to the requirement is the main activity.
- Attracting the Talent: it is important to attract the talented people to work with you as the whole process revolves around this only. After all the main aim of talent management process is to hire the best people from the industry.

- Recruiting the Talent: The actual process of hiring starts from here. This is the stage when people are invited to join the organization.
- Selecting the Talent: This involves meeting with different people having same or different qualifications and skill sets as mentioned in job description. Candidates who qualify this round are invited to join the organization.
- Training and Development: After recruiting the best people, they are trained and developed to get the desired output.
- Retention: Certainly, it is the sole purpose of talent management process. Hiring them does not serve the purpose completely. Retention depends on various factors such as pay package, job specification, challenges involved in a job, designation, personal development of an employee, recognition, culture and the fit between job and talent.
- Promotion: No one can work in an organization at the same designation with same job responsibilities. Job enrichment plays an important role.
- Competency Mapping: Assessing employees' skills, development, ability and competency is the next step. If required, also focus on behaviour, attitude, knowledge and future possibilities of improvement. It gives you a brief idea if the person is fir for promoting further.
- Performance Appraisal: Measuring the actual performance of an employee is necessary to identify his or her true potential. It is to check whether the person can be loaded with extra responsibilities or not.
- Career Planning: If the individual can handle the work pressure and extra responsibilities well, the management needs to plan his or her career so that he or she feels rewarded. It is good to recognize their efforts to retain them for a longer period of time.
- Succession Planning: Succession planning is all about who will replace whom in near future. The employee who has given his best to the organization and has been serving it for a very long time definitely deserves to hold the top position. Management needs to plan about when and how succession will take place.
- Exit: The process ends when an individual gets retired or is no more a part of the organization.

Talent Management process is very complex and is therefore, very difficult to handle. The sole purpose of the whole process is to place the right person at the right place at the right time. The main issue of concern is to establish a right fit between the job and the individual.

Principles of Talent Management

There are no hard and fast rules for succeeding in execution of management practices, if you ask me. What may work wonders for one organization may ruin another one! For convenience sake however there are certain principles of Talent Management that one should follow or keep in mind.

Principle 1 - Avoid Mismatch Costs

In planning for future manpower requirements, most of the HR professionals prepare a deep bench of candidates or manpower inventory. Many of the people who remain in this bracket start searching for other options and move when they are not raised to a certain position and profile. In such a scenario it is better to keep the bench strength low and hire from outside from time to time to fill gaps. This in no way means only to hire from outside, which leads to a skill deficit and affects the organizational culture.

Such decisions can be taken by thinking about the 'Make or Buy' decision. Perhaps questions like - How accurate is the demand forecast? How long is the talent required? Can we afford to develop? Answers to these questions can better help the talent management to decide on whether to develop or buy talent.

Principle 2 - Reduce the Risk of Being Wrong

In manpower anticipations for future an organization can ill afford to be wrong. It's hard to forecast talent demands for future business needs because of the uncertainty involved. It is therefore very important to attune the career plans with the business plans. A 5 year career plan looks ridiculous along with a 2 year business plan.

Further, long term development and succession plans may end up as a futile exercise if the organization lacks a firm retention strategy.

Principle 3 - Recoup Talent Investments

Developing talent internally pays in the longer run. The best way to recover investments made in talent management is to reduce upfront costs by finding alternative and cheaper talent delivery options. Organizations also require a rethink on their talent retention strategy to improve employee retention.

Another way that has emerged of late in many organizations is sharing development costs with the employees. Many of TATA companies for example sponsor their employees' children education. Similarly lots of organizations use 'promote then develop' programs for their employees where the cost of training and development is shared between the two. One important way to recoup talent investments is spotting the talent early, this reduces the risk. More importantly this identified lot of people needs to be given opportunities before they get it elsewhere.

Principle 4 - Balancing Employee Interests

How much authority should the employees' haves over their own development? There are different models that have been adopted by various corporations globally. There is 'the chess master model', but the flipside in this is that talented employees search for options. Organizations can also make use of the internal mobility programs which are a regular feature of almost all the top organizations.

TRIPLE BOTTOM LINE APPROACH

Triple bottom line (TBL) is a concept which seeks to broaden the focus on the financial bottom line by businesses to include social and environmental responsibilities. A triple bottom line measures a company's degree of social responsibility, its economic value, and its environmental impact.

The phrase was introduced in 1994 by John Elkington and later used in his 1997 book "Cannibals with Forks: The Triple Bottom Line of 21st Century Business." A key challenge with the triple bottom line, according to Elkington, is the difficulty of measuring the social and environmental bottom lines, which necessitates the three separate accounts being evaluated on their own merits.

BREAKING DOWN 'Triple Bottom Line (TBL)'

Normally, a company's bottom line on its income statement is its net income, i.e. its profits. Elkington's triple bottom line (TBL) is intended to advance the goal of sustainability in business practices, in which the focus of companies is extended beyond profits to include social and environmental issues to measure the total cost of doing business. An investment manager, individual investor, or CEO that wants to pursue the triple bottom line (TBL) must consciously consider, in addition to the economic bottom line, the social and environmental areas in making investing and business decisions. Deploying money and other resources, such as human labor, to a project or an investment can either contribute to these three goals or focus on profit at the expense of one or both of the other two. Some of the repercussions that have come about from ignoring the TBL in the name of profits include destruction of the rainforest, exploitation of labor, and damage to the ozone layer.

In effect, TBL is the idea that it is possible to run an organization in a way that not only earns financial profits but also betters people’s lives and helps the planet.The elements of the triple bottom line are referred to as "people, profits and planet."

People + Planet = Social + Environmental Responsibility

It can be challenging to maximize financial returns while also doing the greatest good for the people and the environment. Consider a clothing manufacturer whose best way to maximize profits might be to hire the least expensive labor possible and to dispose of manufacturing waste in the cheapest way possible. The result might be the highest possible profits for the company but miserable working and living conditions for laborers, and damage to the natural environment and the people who live in that environment. In the past, such practices were more socially acceptable, but today, many consumers are willing to pay more for clothing and other products if it means that workers are paid a living wage and the environment is being respected in the production process. Many consumers want companies to be transparent about their practices and to be considerate of all their stakeholders, hence the popularity of the TBL concept that accounts for the full cost of doing business.

People:

Adding the "people" element of social responsibility to corporate bottom lines shifts the focus to the fair treatment of employees and off-site labor, as well as enacting favorable practices in the communities where companies conduct business. For example, Mars' Sustainable Cocoa Initiative requires its cocoa farmers to be certified by fair trade organizations to ensure they follow a code of conduct that includes fair treatment to those providing labor. In exchange for certification, Mars provides productivity technology and buys cocoa at premium prices.

Planet

The bottom line referred to as the "planet" represents the implementation of sustainable practices and the reduction of environmental impact. These measures range in scope from green initiatives such as recycling programs within corporations to companies dedicated to manufacturing products using only sustainable materials. For example, Axion Structural Innovations builds railroad ties and pilings using recycled plastic bottles and industrial waste instead of using standard materials such as wood, steel and cement.

Profits:

The addition of social and environmental responsibilities can have a positive effect on a company's financial bottom line. A Nielsen report released in October 2015 found 73% of millennia's, which represent the largest consumer demographic in U.S. history, were willing to pay more for sustainable goods, an increase of 46% from 2014. The study found 56% of consumers were willing to pay more for products offered by companies committed to social values.

In addition to growing revenues, companies are integrating social and environmental standards with corporate governance policies, which can reduce the chances of brand-damaging events and missteps. In addition to governance benefits, the transformation to a triple bottom line is increasingly seen as a vital factor in building corporate brands and goodwill, which represent 30% of the value of public companies, on average.

Measuring the TBL

The triple bottom line can be difficult to measure because while the issue of profitability is black and white, what constitutes social and environmental responsibility is somewhat subjective. How do you put a dollar value on an oil spill — or on the prevention of one? Is it good enough to pay workers in Bangladesh three times the average local wage if that wage still sounds horrifyingly low to consumers in the United States? How do you measure the cost of child labor? Does it benefit children and their families by allowing them to rise out of poverty, or does it perpetuate poverty by denying children sufficient time to get educated and deprive them of a carefree childhood?

The upside of this lack of standardized measurement is that metrics can be adopted that make the most sense for each organization, project or location. A restaurant could measure and report on how much it reduces its waste by switching to environmentally friendly packaging and serving leftover food to a local homeless shelter that would otherwise be thrown out. A car manufacturer could measure its progress toward producing less-polluting vehicles. A government project to expand public transit could measure how much it reduces highway and surface road congestion.

Other key factors to report on, depending on the organization, might include job creation, employee turnover, fossil fuel consumption, hazardous waste management, percentage of women and minorities employed overall and in management positions, contributions to charity, how employee income and benefits compare with a living wage, and number of employees taking advantage of workplace benefits for pursuing higher education.

Federal, state and local governments as well as nonprofit organizations have also implemented the TBL approach. For example, Grand Rapids, MI, has applied the TBL concept to creating a sustainable local economy through focused efforts related to environmental quality, economic prosperity, and social capital and equity. Indicators used by the city to measure its Triple Bottom Line include alternative fuel usage, traditional fuel consumption, number of air pollution ozone action days, personal *income* per capita, unemployment rate, public transportation ridership, crime statistics, educational attainment, and voter participation.

UNIT V: Issues of VUCA in Product Management – Pricing, Promotion – Distribution, trategic Leadership – Developing core competencies.

ISSUES OF VUCA IN PRODUCT MANAGEMENT:

In most companies, developing new products is a critical component of strategy. Many companies are finding this to be more and more difficult as their environment increases in VUCA. The acronym VUCA stands for Volatility, Uncertainty, Complexity, and Ambiguity. This acronym was created and gained recognition in the strategic planning circles of the US military during the past 15 years. A body of knowledge is being developed around leadership in the VUCA world, with numerous articles and books published in the past few years.

Bob Johansen has proposed a leadership response to the VUCA environment which he titles VUCA Prime. According to Johansen, volatility is countered by vision, uncertainty is countered by understanding, complexity is countered by clarity, and ambiguity is countered by agility. Let’s take a look at each of the elements of VUCA and VUCA Prime as they apply to product development.

Volatility

Volatile is defined as changeable – and often with an explosive or fleeting connotation. Volatile situations are full of surprises. Vision is the recommended leadership response. Developing and articulating a clear vision will assist an organization through the volatility be reducing the disorientation that occurs when a volatile situation unfolds. Even though there is rapid changes happening all around, the vision and direction stay constant; providing a basis for decision-making and action.

Product development involving innovative new technology, or a marketplace that is fast developing with new customers and competitors, can often be volatile. The vision that is needed for the product development team is a clear product line strategy. The strategy that has identified target markets and the characteristics of new products will guide the product development team through the technology, design, and business trade-offs that must be made when volatility strikes. Without a clear product line strategy, the product development team often stalls as they start chasing options and waiting for decisions from stakeholders.

Uncertainty

Uncertain is defined as the state of being unpredictable and indeterminate. There are numerous significant unknowns in the business situation. The environment is novel to the point that past experience cannot be used as the measure for what should be done now. However, in an uncertain environment, there are facts that could be discovered. The recommended response to uncertainty is understanding. This requires investigation, fact-finding, and analysis. Rather than responding in a dogmatic manner using outdated principles, the response is to slow down and learn what is actually happening.

Within the product development environment for innovative new products; there is normally uncertainty with respect to customer needs, product performance, and market response. There are two approaches being used to create understanding within product development methodologies. One approach is to do extensive upfront analysis using tools such as the Quality Function Deployment. The other approach is to create a series of rapid prototypes of a minimally viable product to get "real-world" experience and feedback. I have used both approaches and there are pros and cons for each. The key takeaway for this discussion is that there is work that must be done to gain understanding. And that work needs to be built into the development project plan.

Complexity

Complex is defined as intricate, often complicated, interconnected parts, processes, or organizations. With complexity comes options and opportunities. Some of these options and opportunities are very favourable and some are disastrous. Navigating through the complexity requires numerous decisions. The recommended response to complexity is clarity. Clarity exposes the decision points and the options. Clarity will also often provide a framework for understanding the implications of decisions. Clarity exposes pathways through the complexity.

Product development of new innovative products will often involve complexity on several levels. If the product is a system, there will be multiple components, possibly hardware and software, that must all work together. And research shows that system integration and test is one of the most likely areas of a product development project to overrun both time and money. In addition, there is often organizational complexity. Marketing is developing requirements, engineering is creating designs, quality is establishing test and inspection methodologies, operations is setting up manufacturing and logistics processes and facilities, IT is bringing new databases online and possibly new systems for support. All of these functions must work together and a change in one cascades through all the rest. Establishing a stage-gate product development methodology with defined practices and decisions points will go a long way to creating clarity in product development.

Ambiguity

Ambiguous is defined as obscure, indistinct, and with numerous possible interpretations. Unlike our definition for uncertain where facts are available but are not yet known; in an ambiguous environment there is normally no "right" or "wrong" answer. Instead the answer is always, "it depends." The recommended response to ambiguity is agility. This means that as the fluid situation continues to change, the decisions are revised and updated frequently. Nothing is ever final; it is just the "current state," with the expectation that change will soon be required.

In the global marketplace, industries are separating into those that are ambiguous and those that are rigid. The highly regulated industries have a tendency to be very rigid and those that are not regulated are often ambiguous. But regardless of the industry, the product development environment is ambiguous. It follows that an ambiguous end market will create an ambiguous product development process. As the target for product definition and performance is constantly changing, whatever product is developed will immediately need an upgrade or replacement product. But even in rigid end markets, development is ambiguous. The regulatory environment is often different in different countries or areas, and these regulations are frequently changing. In addition, the regulatory agencies interpretations of regulations are often inconsistent. Regardless of the industry, a rapid pulsing process is needed to determine the current state of the market and industry environment. This must be coupled with a robust change management process for product development. Finally, the product development metrics must be focused on business success or failure of the product, not on time and budget targets for the project.

If you are involved in product development today, you are probably experiencing VUCA. You may reminisce about the "good old days" when things were calm and simple. But don't expect those days to return. Instead embrace an approach to have vision, understanding, clarity and agility.

PRICING STRATEGIES

Pricing is the process whereby a business sets the price at which it will sell its products and services, and may be part of the business's marketing plan. In setting prices, the business will take into account the price at which it could acquire the goods, the manufacturing cost, the market place, competition, market condition, brand, and quality of product

The objectives of pricing should consider:

- The financial goals of the company (i.e. profitability)
- The fit with marketplace realities.
- The extent to which the price supports a product's market positioning and be consistent with the other variables in the marketing mix

Price is influenced by the type of distribution channel used, the type of promotions used, and the quality of the product. Where manufacturing is expensive, distribution is exclusive, and the product is supported by extensive advertising and promotional campaigns, then prices are likely to be higher. Price can act as a substitute for product quality, effective promotions, or an energetic selling effort by distributors in certain markets.

From the marketer's point of view, an efficient price is a price that is very close to the maximum that customers are prepared to pay. In economic terms, it is a price that shifts most of the consumer economic surplus to the producer. A good pricing strategy would be the one which could balance between the price floor (the price below which the organization ends up in losses) and the price ceiling (the price by which the organization experiences a no-demand situation).

Marketers develop an overall pricing strategy that is consistent with the organisation's mission and values. This pricing strategy typically becomes part of the company's overall long -term strategic plan. The strategy is designed to provide broad guidance to price-setters and ensures that the pricing strategy is consistent with other elements of the marketing plan. While the actual price of goods or services may vary in response to different conditions, the broad approach to pricing (i.e., the pricing strategy) remains a constant for the planning outlook period which is typically 3–5 years, but in some industries may be a longer period of 7–10 years.

Broadly, there are six approaches to pricing strategy mentioned in the marketing literature:

Operations-oriented pricing: where the objective is to optimise productive capacity, to achieve operational efficiencies or to match supply and demand through varying prices. In some cases, prices might be set to de-market

Revenue-oriented pricing: (also known as *profit-oriented pricing* or *cost-based pricing*) - where the marketer seeks to maximise the profits (i.e., the surplus income over costs) or simply to cover costs and break even For example, dynamic pricing (also known as yield management is a form of revenue oriented pricing.

Customer-oriented pricing: where the objective is to maximise the number of customers; encourage cross-selling opportunities or to recognise different levels in the customer's ability to p

Value-based pricing: (also known as *image-based pricing*) occurs where the company uses prices to signal market value or associates price with the desired value position in the mind of the buyer. The aim of value-based pricing is to reinforce the overall positioning strategy e.g. premium pricing posture to pursue or maintain a luxury image

Relationship-oriented pricing: where the marketer sets prices in order to build or maintain relationships with existing or potential customers

Socially-oriented pricing: Where the objective is to encourage or discourage specific social attitudes and behaviours. e.g. high tariffs on tobacco to discourage smoking.

PROMOTION

In marketing, **promotion** is advertising a product or brand, generating sales, and creating brand loyalty. It is one of the four basic elements of the market mix, which includes the four P's: price, product, promotion, and place.

Promotion is also defined as one of five pieces in the promotional mix or promotional plan. These are personal selling, advertising, sales promotion, direct marketing, and publicity. A promotional mix specifies how much attention to pay to each of the five factors, and how much money to budget.

Promotion covers the methods of communication that a marketer uses to provide information about it's product. Information can be both verbal and visual.

TYPES OF PROMOTION

In a physical environment

Promotions can be held in physical environments at special events such as concerts, festivals, trade shows, and in the field, such as in grocery or department stores. Interactions in the field allow immediate purchases. The purchase of a product can be incentive with discounts (i.e., coupons), free items, or a contest. This method is used to increase the sales of a given product. Interactions between the brand and the customer are performed by a brand ambassador or promotional model that represents the product in physical environments. Brand ambassadors or promotional models are hired by a marketing company, which in turn is booked by the brand to represent the product or service. Person-to-person interaction, as opposed to media-to-person involvement, establishes connections that add another dimension to promotion. Building a community through promoting goods and services can lead to brand loyalty.

Traditional media

Examples of traditional media include print media such as newspapers and magazines, electronic media such as radio and television, and outdoor media such as banner or billboard advertisements. Each of these platforms provides ways for brands to reach consumers with advertisements.

'Digital media'

Digital media, which includes Internet, social networking and social media sites, is a modern way for brands to interact with consumers as it releases news, information and advertising from the technological limits of print and broadcast infrastructures. Digital media is currently the most effective way for brands to reach their consumers on a daily basis. Over 2.7 billion people are online globally, which is about 40% of the world's population. 67% of all Internet users globally use social media

Mass communication has led to modern marketing strategies to continue focusing on brand awareness, large distributions and heavy promotions. The fast-paced environment of digital media presents new methods for promotion to utilize new tools now available through technology. With the rise of technological advances, promotions can be done outside of local contexts and across geographic borders to reach a greater number of potential consumers. The goal of a promotion is then to reach the most people possible in a time efficient and a cost efficient manner.

Social media, as a modern marketing tool, offers opportunities to reach larger audiences in an interactive way. These interactions allow for conversation rather than simply educating the customer. Facebook, Snapchat, Instagram, Twitter, Pinterest, Google Plus, Tumblr, as well as alternate audio and media sites like SoundCloud and Mixcloud allow users to interact and promote music online with little to no cost. You can purchase and buy ad space as well as potential customer interactions stores as Likes, Followers, and clicks to your page with the use of third parties. As a participatory media culture, social media platforms or social networking sites are forms of mass communication that, through media technologies, allow large amounts of product and distribution of content to reach the largest audience possible. However, there are downsides to virtual promotions as severs, systems, and websites may crash, fail, or become overloaded with information. You also can stand risk of losing uploaded information and storage and at a use can also be effected by a number of outside variables.

Brands can explore different strategies to keep consumers engaged. One popular tool is branded entertainment, or creating

important for brands to utilize personalization in their ads, without making the consumer feel vulnerable or that their privacy has been betrayed.

STRATEGIC LEADER SHIP

Strategic Leadership is the ability of influencing others to voluntarily make decisions that enhance the prospects for the organization's long-term success while maintaining long-term financial stability. Different leadership approaches impact the vision and direction of growth and the potential success of an organization. To successfully deal with change, all executives need the skills and tools for both strategy formulation and implementation. Managing change and ambiguity requires strategic leaders who not only provide a sense of direction, but who can also build ownership and alignment within their workgroups to implement change.

1. **Distribute responsibility.** Strategic leaders gain their skill through practice, and practice requires a fair amount of autonomy. Top leaders should push power downward, across the organization, empowering people at all levels to make decisions. Distribution of responsibility gives potential strategic leaders the opportunity to see what happens when they take risks. It also increases the collective intelligence, adaptability, and resilience of the organization over time, by harnessing the wisdom of those outside the traditional decision-making hierarchy.

2. **Be honest and open about information.** The management structure traditionally adopted by large organizations evolved from the military, and was specifically designed to limit the flow of information. In this model, information truly equals power. The trouble is, when information is released to specific individuals only on a need-to-know basis, people have to make decisions in the dark. They do not know what factors are significant to the strategy of the enterprise; they have to guess. And it can be hard to guess right when you are not encouraged to understand the bigger picture or to question information that comes your way. Moreover, when people lack information, it undermines their confidence in challenging a leader or proposing an idea that differs from that of their leader.

3. Create multiple paths for raising and testing ideas. Developing and presenting ideas is a key skill for strategic leaders. Even more important is the ability to connect their ideas to the way the enterprise creates value. By setting up ways for people to bring their innovative thinking to the surface, you can help them learn to make the most of their own creativity.
This approach clearly differs from that of traditional cultures, in which the common channel for new ideas is limited to an individual's direct manager. The manager may not appreciate the value in the idea, may block it from going forward and stifle the innovator's enthusiasm. Of course, it can also be counterproductive to allow people to raise ideas indiscriminately without paying much attention to their development. So many ideas, in so many repetitive forms, might then come to the surface that it would be nearly impossible to sort through them. The best opportunities could be lost in the clutter.

4.Make it safe to fail. You must enshrine acceptance of failure — and willingness to admit failure early — in the practices and processes of the company, including the appraisal and promotion processes. For example, return-on-investment calculations need to assess results in a way that reflects the agreed-upon objectives, which may have been deliberately designed to include risk. Strategic leaders cannot learn only from efforts that succeed; they need to recognize the types of failures that turn into successes. They also need to learn how to manage the tensions associated with uncertainty, and how to recover from failure to try new ventures again.

5. Provide access to other strategists. The first step is to find them. Strategic leaders may not be fully aware themselves that they are distinctive. But others on their team, and their bosses, tend to recognize their unique talents. They may use phrases like "she just gets it," "he always knows the right question to ask," or "she never lets us get away with thinking and operating in silos" to describe them. A good way to learn about candidates is to ask, "Who are the people who really seem to understand what the organization needs — and how to help it get there?" These may be people who aren't traditionally popular; their predisposition to question, challenge, and disrupt the status quo can unsettle people, particularly people at the same level.

6. Develop opportunities for experience-based learning. The vast majority of professional leadership development is informative as opposed to experiential. Classroom-based training is, after all, typically easier and less expensive to implement; it's evidence of short-term thinking, rather than long-term investment in the leadership pipeline. Although traditional leadership training can develop good managerial skills, strategists need experience to live up to their potential.

7. Hire for transformation. Hiring decisions should be based on careful considerations of capabilities and experiences, and should aim for diversity to overcome the natural tendency of managers to select people much like themselves.

Test how applicants react to specific, real-life situations; do substantive research into how they performed in previous organizations; and conduct interviews that delve deeper than usual into their psyche and abilities, to test their empathy, their skill in reframing problems, and their agility in considering big-picture questions as well as analytical data.

8. Bring your whole self to work. Strategic leaders understand that to tackle the most demanding situations and problems, they need to draw on everything they have learned in their lives. They want to tap into their full set of capabilities, interests, experiences, and passions to come up with innovative solutions. And they don't want to waste their time in situations (or with organizations) that doesn't align with their values.

9. Find time to reflect. Strategic leaders are skilled in what organizational theorists Chris Argyris and Donald Schön call "double-loop learning." Single-loop learning involves thinking in depth about a situation and the problems inherent in it. Double-loop learning involves studying your own thinking about the situation — the biases and assumptions you have, and the "undiscussables" that are too difficult to raise.

10. Recognize leadership development as an ongoing practice. Strategists has the humility and intelligence to realize that their learning and development is never done, however experienced they may be. They admit that they are vulnerable and don't have all the answers. This characteristic has the added benefit of allowing other people to be the expert in some circumstances. In that way, strategic leaders make it easy for others to share ideas by encouraging new ways of thinking and explicitly asking for advice.

Core competencies:

A **core competency** is a concept in management theory introduced by C. K. Prahalad and Gary Hamel. It can be defined as "a harmonized combination of multiple resources and skills that distinguish a firm in the marketplace".

Core competencies fulfill three criteria:

1. Provides potential access to a wide variety of markets.

2. Should make a significant contribution to the perceived customer benefits of the end product.
3. Difficult to imitate by competitors.

For example, a company's core competencies may include precision mechanics, fine optics, and micro-electronics. These help it build cameras, but may also be useful in making other products that require these competencies.