CHAPTER II

KNOWLEDGE POOL AND RESEARCH METHODOLOGY
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METHODOLOGY

MACRO ECONOMIC ENVIRONMENT AND CEMENT INDUSTRY:

Indian economy has been witnessing a phenomenal growth since the last decade. After seeming a growth rate in excess of 9 percent for the last three years, it is still holding its ground in the most of the midst of the cement global financial crisis.

Despite the global slow down, the Indian economy is estimated to have grown at close to 9.67 percent in 2008–09. The Confederation of Indian Industry (CII) the G.D.P. growth at 6 percent in 2009–10. This scenario factors is sectoral growth rates of 2.8–3 percent, 5–5.5 percent and 7.5–8 percent respectively for agriculture, industry and services.

A number of leading indicators, such as increase in hiring, freight movement at major posts and encouraging data from a number of key manufacturing segments, such as steel and cement, indicate that the downturn has bottomed out and
high light the Indian Economy’s resilience. Recent indicators from leading indices, such as Nomura’s Composite Leading Index (CLI) UBS Lead Economic Indicator (LEI) and ABN Amro’s Purchasing Mangers’ Index (PMI), too bear out this optimism in the Indian Economy.

According to the Asian Development Bank’s (ADB) ‘Asia Capital Markets Monitor report, the Indian equity market has emerged as the third biggest after China and Hong Kong the emerging Asian region, with a market capitalization of nearly US $ 600 billion. As per the report, the Combined Market Capitalization of all the equity markets in the emerging Asia region stood at US $ 5,720 billion at end of March 2009.

According to crisel research estimates, Indian Roadways is among the eight infrastructure sectors expected to draw more than US$ 337.49 billion investment in India between 2007–12. The report further forecasts that during the specified period, Indian Roadways likely to grow at an amazing 100 percent. For the roads and bridges sector, the Eleventh Five year plan envisages a total investment of approximately US $ 78.5 billion over the five year period starting from 2007–08.
As part of a larger plan to improve the country's infrastructure, the Government has given the road to road projects, which will be built in public–private partnership at an estimated cost of US$ 2.48 billion. The projects are aimed at four-lamine of national highways in eight states.

THE NATURE OF THE PROBLEM:

The idea for this study was mooted in the context of all pervasive sickness in the Indian industry. However, the value of strategic management is not restricted merely to prevention of sickness/failure. In fact, strategic management has positive value and is necessary for organizational survival and growth. Our presumption is that tragedy could be averted if perhaps strategic management were practiced. If we fail we have either not planned well or we are not adequately equipped to meet the ambitious goals or some sudden change has occurred in internal and external environment which we could not provide for. Sometimes, no doubt, certain things happen which are beyond our control, but such happenings are rare occurrences. Even in such situations, surprisingly human response varies from firm to firm and in the process, some firms succeed, some firms just scrap through and others
fall. Barring virtual impossibility of prediction of natural calamity like earthquake in Maharashtra on September 30, 1993, most human endeavours can be planned, anticipated, provided for, or even thought of through what we call as contingency planning in 'what . . . if situation.

As this term has such serious implications, some people use the term 'strategy' in a military sense. For a businessman keeping his unit in existence in nothing short of what fighting a war successfully for a general is. However, an important difference exists. War is rare and occasional, generally not a continuous phenomenon for long, though fighting machine has to be kept in ever readiness, whereas business is a continuing activity and effort is not only to keep it running but also make it grow. So even if we use the term 'strategy' or 'strategic' in the military sense, there is always the need for a winning strategy in business as any complacency anywhere may cause collapse. Therefore, 'strategy' or 'strategic' instead of being something occasional or one time event acquires connotation of being continuous in business. Hence, strategic management should be looked at as the process of managing strategy, i.e., the strategists
giving their business a direction to achieve its goals and even undertaking revision of its goals if the situation so warrants. Strategic management in this sense will encompass the whole process of formulation, implementation and evaluation of strategy, where strategy is a unified, comprehensive and integrated set of activities or plans designed to achieve the goals of business. And as the strategy for fighting a war by the military is prepared in the highest echelons, a business strategy also ultimately emanates from the top level, though, perhaps, all managerial levels contribute to it in some way.

There are two fundamentally different ways for people to engage in strategic management. Leave aside those who wish to face a problem at the spur of a moment as it comes. Such people do not give much thought to the consequences of their actions and when something goes wrong, they blame their fate. We are here concerned with people who think and act on the basis of what they think. They try to peep into the future and prepare for meeting needs of the future. Such people who plan follow broadly two approaches viz., intuitive-anticipatory or strategic management. The intuitive-anticipatory approach is done in the brain of a person, which
generally does not result in a written set of plans. It has a comparatively short time horizon, is based upon the past experience, “gut” feeling, judgement, and the reflective thinking of a person. The Indian businessmen are credited or discredited for this approach. We cannot belittle the importance of this approach as some people have extraordinary capabilities in intuitive devising brilliant strategies. But such persons are an exception and organizations will not remain alive waiting for the appearance of such genius. This approach is often in vogue in small-sized organizations. Perhaps that explains their mortality rate as well.

Large organizations employ many people who have defined roles to play. Information and decisions are often recorded and documented therein. Policy manuals exist and organizations are independent of individuals. Such organizations engage themselves in this mind stretching exercise of strategic-management which often has written plans and there is participation of a large number of managers. The objective is to prepare the organization to meet any eventuality. However, in most of the cases, the
second approach does not operate in exclusion of the first. Both approaches complement and supplement each other.

It is often alleged that the Indian businessman follows the rule of thumb methods, is intuitive, relies primarily on instinct and gut feeling and looks for immediate gains. His data-gathering processes, tools and techniques of analysis are crude and lack sophistication. Consequently, his visions are limited and cannot see beyond the narrow confines of the immediate environment. His decisions are, therefore, more temperamental than calculating, more short than long-term oriented inducing him to make a hay while the sun shines and leaving the unit high and dry in the spells of drought. That is, in essence, the Indian businessmen do not practice strategic management. With the result, the proportion of sick and failing units has been very high and is growing at an alarming rate. The incidence of sickness is pervading Indian industry and seeping into its bones.

These observations have two implications, one is that strategic management is necessarily useful and to a considerable degree enhances the effectiveness of an enterprise. Another is that there is an urgent need for
knowing the prevailing strategic-management practices in Indian organizations to develop a relationship between practice and performance. There is a lot of literature to suggest the utility or usefulness of strategic management, though there are some dissenting opinions also. This means that the performance of a firm depends upon its strategic management. Performance of a firm is the ultimate outcome of its activities, which are incessantly being influenced by the variables inside and outside the organization and management of this set of activities in a dynamic state has been designated by us as the strategic management.

**REVIEW OF EXISTING LITERATURE:**

It may be pointed out here that the writings in India in this field are scanty and the exercise in empiricism is totally lacking. The present state of research in India can be partly attributed to the fact that strategic management is still emerging as a systematized body of knowledge and partly to the difficulty in collection of information from business firms owing to lack of appreciation of such a research by them. Most studies on the subject have been conducted in the United States and on large firms. Most of them have brought out the
usefulness of strategic-management, but there are dissenting opinions also. However, dissent does not mean the rejection of its utility or relevance, rather pointing out the need for better or proper strategic-management, advocating more sophisticated formal strategic-management instead of an informal one. We present here a bird's eye-view of a few important studies.

**The Ansoff Study:**

This study involved 93 companies that made significant strategic decisions regarding acquisitions during 1946–65. Companies that used a strategic management approach in planning acquisitions were more successful than those that did not. Companies using strategic management outperformed those that did not on many financial and sales measures. In addition to performing more successfully, the strategic management users were able to better predict the outcome of their planning activities.

**The Burt Study:**

Burt studied 14 Australian retail firms which had at least five or more outlets and sales in excess of $1.0 million.
He found that the more the firm used formal strategic management, and the higher the quality of planning, the more successful the firm had been.

**The Eastlack and McDonald Study:**

This study concluded that the CEOs who used strategic management concepts headed companies with the fastest growth rates. These researchers studied 211 companies, of which 105 were among the Fortune 500.

**The Hegarty Study:**

Hegarty studied 46 firms in Fortune’s second 500 companies from 1970 to 1973. He found that the more directly the firm linked its objectives to strategies and thus formalized its strategic management process, the more the firm prospered financially.

**The Herold Study:**

Herold observed the performance of Thune and House’s pairs of companies in the drug and chemical industries for 4 years after their study was completed. In those 4 years, the companies with formal strategic management continued to out
perform the non-planners. In fact, the planners increased the margin of performance improvement over the non-planners.

*The Karger and Malik Study:*

They examined 273 companies in the chemical, drug, electronics and machinery industries. In general, they found that firms using strategic management methods outperformed those that did not as shown by financial performance measurements. The performance differences were significant for the chemical and machinery industries and positive for the drug and electronics industries.

*The PIMS Study (Profit Impact of Marketing Strategy):*

Schoeffler, Buzzell, and Heany reported on a study of 57 firms involved in 620 different lines of businesses. The PIMS model studied the relationship between many corporate strategic activity variables and profitability. They concluded that appropriate use of strategic management can result in increased profitability.

*The Rue and Fulmer Study:*

Rue and Fulmer examined strategic management practices in 386 companies over a 3 years period.
Manufacturing firms which practiced strategic management were more successful than those which did not. This was especially true in larger firms. The differences were not as pronounced in service industries, but the planners among this sub-sample had not been involved in formal planning as long as those in the manufacturing firms.

The Stagner Study:

Stagner studied 217 top executives in 109 American firms. He found that where strategic management took place using a top management committee, the firms had the largest profit as a percentage of capital. Where meeting involved a discussion of strategy among all top executives, where they carefully considered the decisions with regard to cost and profit, and where they kept a record of the decisions, the firms had the largest profit as a percentage of sales.

The Stanford Research Institute Study:

This study examined 210 firms with above average growth rates in sales and earnings and compared these firms to 169 with below average growth rates. Firms that used strategic planning outperformed those that did not.
The Thune and House Study:

These researchers studied 18 matched pairs of medium to large-sized companies in the petroleum, food, drug, steel, chemical, and machinery industries. One firm of about the same size and growth rate did not use strategic management, the other did. Thune and House observed the results before the one firm instituted strategic management and for 7 years after the one company in each pair initiated strategic management. They found that the firms; which had formal strategic management significantly outperformed their own past results and those of the non-planners on most measures of success such as return on equity, earning per share growth, return on investments. On no measure of success did the planners underperform the non-planners.

The Wood and LaForge Study:

They studied more than 80 large U.S. banks. On the basis of financial performance measures, it was found that the banks using comprehensive long-range planning significantly outperformed those that had no formal planning system.

There is some research evidence available for use of strategic management even in small firms. Robinson focused
on outsider-based strategic planning's (OBSP) influence on small businesses' effectiveness. The study compared the effectiveness of 101 small firms that engaged in OBSP (in-depth consulting assistance) and two control groups that did not engage in OBSP. The results of this study support the idea that small business benefits from strategic planning. For 101 sample firms, both sales and net profit before taxes increased substantially.

Shuman, Shaw and Sussman conducted a study of the strategic planning practices of the 500 fastest growing privately held smaller companies in the United State ranked according to percentage sales increase from 1978 to 1982. Their general findings suggest growing use of formal business plan in firms once in operation, the planning processes becoming more formal, structured, and participatory, the CEOs preferring an active and strong involvement in strategic planning rather than delegating the responsibility to other members of management, the strategic planning activity tending to be primarily concerned with the short-run, updated regularly, and operationally-oriented.
One of the earliest studies on small business planning was one by Najjar. For a sample of 94 manufacturing firms, he found a positive relationship between perceived benefits of planning and managerial behaviour in setting and establishing goals and plans, then adhering to them. Ackelsberg and Arlow's examination of the performance of 135 small businesses revealed that, in general, planners outperformed non-planners. The specific relationship depended on the type of business and the nature of their planning activities. A discordant note has however been sounded by a study of Grinyer and Norburn and another by Kudla suggesting that they have found no basis for the belief that formal corporate planning is generally associated with high financial performance. Similarly, studies of small firms by Kallman and Shuman did not find a meaningful relationship between planning and economic performance for different reasons. It is true that at times, environmental factors are so strong that they sweep a small firm off the ground and a large firm is irretrievably shaken. In such an eventuality, the implementation of chosen strategy becomes an impossibility. The best laid plane are thwarted and reduced to a bundle of
waste paper. However, no one can be oblivious of the fact that strategic and systematic analysis and communication of information should result in better, more informed, and more rational decisions by strategists. Strategic management is one of the factors that can foster better organizational performance. When these studies are also closely examined, they seem to make a case for better formal strategic management, not informal or no strategic management.

Presuming that strategic management is useful for all kinds of firms and to operationalise the achievement of objectives that we have set out for ourselves, it is hypothesized:

1. Firms which engage themselves in strategic management perform better than those which do not.

2. In a given period, a larger proportion of firms which engage themselves in strategic management survives as against those which do not.

Some people content that strategic management is practiced only in large firms and not in small firms. Small firms, according to them, are more entrepreneurial and intuitive. Their horizons basically because of limited resources
at their disposal are short and therefore, a small firm cannot engage in long-term planning as it can ill-afford independent or full-time strategists. Our contention is that firms, both large and small, within their own limitations, are endeavouring together more and more information. If because of resource constraints, small firms cannot enjoy the advantage of more information to the extent large firms can, small firms enjoy the advantage of flexibility of quick adaptation to the environmental situation. Then, there is a basic question: what is the concept of ‘large’ or ‘small’? Something what we call large in India is just small by the U.S. standards. As most studies have been conducted in the U.S. and other developed countries on large firms, the utility of strategic management may seem questionable in the Indian context. However, our contention is that strategic management is useful anywhere any time regardless of size of the firm or societal context. This analysis should prove all the more interesting as there is scarcely any research on strategic management in India and little research exists even in the U.S. on small firms. Therefore, it is hypothesized:
3. Small firms engaging in strategic management are more effective than similar firms that do not.

4. Among small-sized firms, firms which engage in strategic management survive longer than firms which do not.

Strategic management, as aforesaid, should prove useful for all firms irrespective of size and nature of industry. However, environment for some industries is changing faster than for others. Strategic management enables a firm’s top executives to anticipate change and provide direction and control for the enterprise, thereby reducing risk and taking advantage of new opportunities. There is some research evidence to suggest that in unstable environments successful performance means quick decisions not many a time integrated into an overall strategy, but effective performance in stable environments is associated with a comprehensive strategic management process. Karger and Malik brought out that firms using strategic management methods outperformed those that did not, but the performance differences were significant for the chemical and machinery industries and positive for the drug and electronics industries. The
implication is that strategic management affects corporate performance differently in different industries. It is hypothesized:

5. The relationship between strategic management and corporate performance varies from industry to industry.

If strategic management is useful, which strategy should a firm pursue? Our contention is that growth in the same line, if stage in the product life cycle permits, should enable a firm to reap benefits of experience curve and a new product makes new demands, at times, making the whole situation unmanageable. Some research studies are also pointers in the same direction. They have brought out that the related diversifiers outperform unrelated diversifiers, as it helps to exploit core skills to gain advantages of synergies. Based on this logic, firms growing in the same line should do still better. It is, therefore, hypothesized:

6. Growth firms perform better than related diversification firms.

7. Related diversification firms perform better than unrelated diversification firms.
It is accepted at all hands that the experience of entrepreneurs/managers helps a firm in several ways viz., choice of industry, location, strategy and ultimately in management of firm. If experience offers some advantage, then firms of experienced promoters/managers should perform better than firms of not so experienced once. There are some firms incorporated in India promoted/controlled by foreign groups which are world leaders in their chosen fields. But their operation is to some extent inhibited by the regulations and policies of the host country. Besides, unfamiliarity with local customs, traditions and values will have its moderating influence on their performance. Still foreign firms being world leaders and having experience of operating even hostile cultures are likely to do better than local firms. Among local firms, some firms are promoted/controlled by business groups (a cluster of firms under the same management) which have long experience of business. These group firms should be better than non–group firms. Hence, it is hypothesized:

8. Foreign firms perform better than local firms.

9. Group firms perform better than non–group firms.
Significance of the Study and its Relevance to the Present Day Problems

This research is likely to be useful in more than one way. First of all, this pioneering study unreveals the mysteries of strategic management practices prevailing in the Indian companies. It is undeniably true that strategic management is still at a nascent stage in the Indian corporate sector, the study conclusively proves the utility of strategic management even in the Indian firms which by the US standards are small. What is more important is that the study provides lessons to the Indian corporate planners and strategists to help them make their firms survive and grow by identifying the distinguishing characteristics of successful and not so successful firms in terms of strategic management practices followed by them.

Statement of the Problem:

It may be stated that idea for the Present study mooted in mind because industry is fast growing, but it has an immense potential to tap cement markets of countries in the Middle East and South East Asia due to its strengths of locational advantage, large-scale lime Stone and coal
deposits, adequate cement capacity production with latest technology. In fact, Strategic-management has positive value and is necessary for organizational survival and growth. The study Pre-supposes that strategic-management is helpful in improving performance and market share of cement companies in India. The present state of research in India can be partly attributed to the fact that strategic management is still emerging as a systematized body of knowledge and market strategy is an important tool, to improve market share and profitability of cement industry. Most studies on the subject have been conducted in the United State, most of them have brought the usefulness of strategic management.

**OBJECTIVE OF THE STUDY:**

Present study is to test the role of marketing strategy that enables a company's top executives to anticipate change and provide direction and control for the company. The study shall enable to test significance for the following purposes:

- To assess competitive strength and Policies,
- To test expansion into new markets, enhance margins and deliver superior over all value to this customer.
• To develop strong customer-relationship and extensive marketing network.
• To design business strategies to combat perceived threats,
• To assist top marketing executives in formulating corporate philosophy.
• To assist managers in formulation marketing strategies, functional strategies and regional Strategies.

**HYPOTHESIS OF THE STUDY:**

The Present study will be based on the following presumptions:

**H1:** The companies, which engage themselves in marketing strategy Philosophy perform better than those, which do not.

**H2:** In a given period, a larger proposition of companies which engage themselves in strategic management survives as against those which donot.

**H3:** The relationship between strategic-management and corporate performance varies from company to company.

**H4:** Growth companies perform better than related diversification companies.
H5: Marketing decisions can be improved in the light of environmental study.

RESEARCH METHODOLOGY:

Research methodology is a technique, which provides the building structure to carry out research in various areas, the researcher shall follow following procedure:

✓ Research Design: The proposed study will be exploratory in nature and a sample of top 10 companies, have been selected, which may be given as below:

  - ACC is the largest Player with a capacity of 18.64 mtpa.
  - Ultra Tech. cem Cohhd: Now occupies the second slot with capacity of 17 mtpa.
  - The Gujarat Ambuja group has emerged as the third largest player with a capacity of 14.86 mtpa.
  - Grasim ranks fourth with a capacity of 14.12 mtpa.
  - Other leading players include-India cements, Jaypee group, Century Textiles, Madras Cements, Lafarge and Birla group.

✓ Area of the Study: The study shall be conducted in above top ten cement companies, with the help of detailed
questionnaire and Personal interview of the marketing executives, to understand marketing policy and strategies of these companies.

✓ **Period of Enquiry:** The proposed research work will be conducted at micro level for which the study period will be for the year 2002 to 2009 or till the submission of the study.

✓ **Collection of Data and Analysis:** The study will be based on both Primary and secondary data. Primary data shall be collected through a detailed questionnaire and personal interviews, but secondary data will be obtained from the records of the sample companies.

✓ **Tabulation:** Analysis and Interpretation of data and information: Collected data shall be logically arranged in the form of tables, which will be analyzed using appropriate statistical and mathematical devices. These data shall be used to test hypothesis, to achieve objectives of the study.

✓ **Statistical Tools to be used:** The study shall consider market strategy and strategic management as independent variables in cement Industry and Corporate performance as dependent variables.