Strategic Management â€“ The Competitive Edge

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Lecture 08

Director, powers

In the last class, we discussed the 7S matrix. When discussing the 7S matrix, we looked at the relationship between the Ss and said the application of the 7S matrix to an organization tells whether the time is ripe for change in the organization. Of the 7S's strategy and structure is referred to as the hardware and the remaining 5S's are referred to as the software of the matrix.

So, if you really look at the present-day Indian context you find that most of the organizations especially in the IT, electronics and also the manufacturing sectors have made it a point to look at 7S framework. These are some of the developments that have taken place in this LPG era that is the liberalization, privatization and globalization era.

We were forced into liberalisation as most of you might be knowing. So, in the 90s the foreign exchange reserves had dwindled to a very dangerous low and in order to tide over that, we had to pledge the gold and that was a time when this liberalization process was in a way forced on the government. So, the government started liberalization process in 91.

So, afterwards, many changes have taken place; we are into this globalization more or less whole hog from 2000. And in the last 8 years, the country has really made extraordinary strides in indigenous manufacturing and development. So, that brings you to one aspect of what is happening around the globe and try to look at how we are really in a position to adjust or proactively take decisions.

If you look at the 21st century, nations are forming trading associations. Why are they forming trading associations? It makes trading within regions easy, but between regions difficult. Examples of trading associations are the EU, the NAFTA (North American Free Trading Association), MERCOSUR consisting of Argentina, Brazil, Paraguay, Uruguay, then the ASEAN Asian countries.

So, what is the role of the Indian companies in this scenario? So, an Indian firm has to decide whether it will be better to be a regional player or a global competitor. If you look at the present day Indian firms, most of them want to become global competitors. They want to get associated with these different trading associations, whether it is the EU or the NAFTA or whatever.

So, they want to make their presence felt in the community of the world nations. This is what you are seeing over the last 8 to 10 years. They have made a real dent in the world market. So, if you look at the world now, it consists of 3 dominant trading blocs one is Europe, second is Asia, third is Americas.

So, an Indian firm will need to have meaningful manufacturing and trading activities in every trading bloc. So, this is what you are seeing with respect to many of the present today Indian firms. Now, what has this globalization done? It creates opportunities but also threats to companies not able to adapt quickly. This has been the problem with most of the public sector undertakings.

So, if you really see many of the public sector undertakings have gone into oblivion after globalization. Examples actually galore HMT has gone into oblivion. The mission statement of HMT used to say time keepers to the nation. So, globalization, has almost sunk HMT.

So, competition really put HMT on the backburner. Watches division really has gone into oblivion, the lamps division again gone. So, many subsidiaries of HMT were there one of them was by the name Praga tools in Hyderabad, gone. So, these are the types of things which globalization can do, if a company is not proactive.

So, many public sector industries have are facing this. Now, if you look at the COVID scenario, that is 2019 onwards, the Peenya industrial estate in Bangalore, nearly 50 percent of the MSMEs were forced to close shop because of so many problems starting from working capital to raw material to manpower etc.

Added to globalization, this pandemic created more problems for the survival of many of the Indian industries but some of them did survive and are doing well. While HMT could not survive in this, a smaller company like ACE industries, is doing well in the global market. And one has to really analyse why HMT could not do well.

If you really look at how strategic management works, it looks at dissemination of information. So, many people have access to this information. There must be some way of ensuring that a person gets the information that he requires only, not all other information not concerned with him or his division, unless of course, it is absolutely necessary.

So, what is this globalization doing- increasing pressure on organizations for quick response to change in conditions; may make it difficult to engage in planning mode. So, kindly note that even with its faults may have to go in for Entrepreneurial mode. So, in Mintzberg Models of decision making, we looked at the Entrepreneurial mode- a strong powerful person takes the decisions in an organization- will it always work,there were so, many sceptics saying that, is not the best type of decision making; because of fast changes taking place, many times you may have to skip many of these processes. So, even with its faults, organizations may have to go in for Entrepreneurial mode of decision making. So, this is the way the world is moving towards in the present-day setup.

With this background, let us now look at one important component - the board of directors of a company. I would refer you to the book by M S Ramaiya,Guide to the Companies Act,1998, published by Wadhwa & Co, Nagpur, on this; it gives the different sections, which are very useful.

BoD stands for the Board of Directors. What does the Board of Directors do? The Board of Directors oversees the running of the enterprise by the Chief Executive. It is the chief executive who has to run the company. But the Board of Directors provides him the direction to run the company. Individually a director on the board of directors may not have great powers; but the collective body of the board of directors has superior total power over the chief executive because it can always direct him to take this decision or this course of action. So, when it comes from the board of directors, the chief executive has to follow;it implies that it is a direction given by the board of directors and has to be followed in Letter and Spirit.

So, this happens in almost all organizations throughout the world, including educational organizations. There are several bodies even in educational institutions. Even in a hallowed place like the Indian Institute of Science, there is Senate, Council and Court. Senate also gives suggestions to the Director. Similarly, the court also provides suggestions to the Director for smooth functioning of the Institute, though the Director is responsible for running the institute.

2 sections of Companies Act are very important for functioning of BoD (Board of Directors); 1. section 292: It goves powers to makes call on shareholders in respect of money unpaid on their shares. Suppose you are a shareholder of the company you are allotted shares and you have not fully paid up the share amount- through this section 292 companies make a call to pay up the amount.

Issue debentures. So, these debentures sometimes are secured debentures; means the company tells the debenture holder it owes him this money that is 1000 rupees debenture the company says it owes him 1000 rupees, the company also promises interest or whatever in different forms. So, it is generally more than the bank rate of interest

In fact debentures are issued to borrow money from the public. Why will the public be interested in putting money into your company or any company- first,the person who is putting the money thinks that the money will be safe. Second, he thinks that he is likely to get a higher rate of interest compared to the bank. Then, the next power, which this section 292 gives to the BoDs is to invest funds of the company.

So, Chief Executive himself cannot invest funds on the company beyond a particular point; he cannot take any financial decisions on his own. So, he has to go to the BoD and and take its nod.The last point in Section 292 is to make loans; even to raise loans from the market, the BoD has to agree. This is about section 292. There is one more section which is again very important, that is section 293 which we will look at in the next session. Thank you