BUSINESS WAVES

Quarterly Newsletter of Management and I.T.

Vol. -I, Issue - 2

R. G. KEDIA COLLEGE

Taradevi Girdharilal Sanghi School of Business Management

Bhagwatibai Jagdish Pershad Agarwal PG College of Computer Applications

In this Issue :

Education-Swadeshi to Videshi

Global Biz

GLOBAL FINANCIAL CRISIS

Dr. Prasanna Chandra, Professor, Finance, IIM-B (Formerly)

Dr. Prasanna Chandra

For a quarter of century, beginning in early 1980s, finance enjoyed its golden age. As an *Economist* article put it: "*As Financial globalisation spread capital more widely, markets evolved, businesses were able to finance new ventures, and ordinary people had unprecedented access to borrowing and foreign exchange. Modern finance improved countless lives.*"

But, more recently, something went seriously wrong that led to an unprecedented global financial crisis. It surfaced in the subprime mortgage sector in the US in August 2007 and, following the collapse of Lehman Brothers in September 2008, it snowballed into a global financial crisis. It is widely regarded as the greatest crisis in the history of financial capitalism because of the speed and intensity with which it simultaneously propagated to other countries. Apart from its huge financial cost, its adverse impact on the real economy has been severe. According to IMF, in 2009, the world GDP declined by 0.8 and the world trade volume contracted by 12%.

The crisis has called for re-examining the dominant tenets in macroeconomics. It has challenged in the belief in the self-correcting nature of financial markets and brought to focus the role of finance in economic growth.

Contributory Factors

A confluence of factors seems to have caused the global financial crisis. The major ones are discussed below:

Macro-economic Imbalances : Last decade has witnessed an explosion of macro-economic imbalances in the world, with a very high savings rate in countries like China and very low savings rates in countries like the US. The high savings rate resulted in a fall in the real risk-free interest rate to historically low levels. For example, in 1990 the risk-free index-linked government bonds in UK or US provided 3% real rate. In recent years it fell below 2%, and at times, to about 1%.

The fall in real interest rates has led to rapid growth of credit in some developed countries (which fuelled a property boom) along with a decline in credit standards. It also drove investors to search for improvement in yield, however slight it may be. Any product that appeared to increase yield by 10, 20, or 30 basis points, without adding measurably to risk, seemed attractive.

Unbridled Financial Innovation : The demand for yield enhancement was met by a wave of financial innovation, focused on securitised credit instruments.

Securitisation involves packaging a designated pool of assets (mortgage loans, consumer loans, hire purchase receivables, and so on) and issuing securities which are collateralised by the underlying assets and their associated cash flow streams. Securitisation gained in importance from the early 1980s and was regarded as a major financial innovation that reduced the risk of the banking system as credit risk was transferred to the end investors.

But when the crisis broke, it was realised that most of the holdings of securitised credit instruments were in the books of highly leveraged banks and financial institutions and not in the books of end investors.

Misplaced Reliance on Sophisticated Maths : The expansion of financial sector and the complexity of securitised credit products was accompanied by the development of sophisticated mathematical models for measuring and managing risks. But these models were based on the assumption that the distribution of future prices would be similar to their past distribution. This was indeed a fragile assumption that caused massive damage.

*All human beings, by nature, desire to learn – **Aristotle.***

Explosive Growth in Derivatives : Since the early 1970s financial prices – exchange rates, interest rates, commodity prices, and equity prices – have become more volatile. To cope with these risks corporations and banks resorted to the use of derivatives like options, futures, forwards, and swaps. The market for derivatives grow phenomenally. John Shad, former chairman, Securities Exchange Commission expressed concern about this phenomenon. He said: *"Futures and options are the tail wagging dog. They have escalated the leverage and volatility of the markets to precipitous, unacceptable levels."* Warren Buffett echoed a similar warning *"Charlie and I are of one mind in how we feel about derivatives and the trading activities that go with them: we view them as time bombs, both for the parties that deal in them and the economic system."* Unfortunately, the bulk of the financial community, enamoured of the derivatives revolution, did not appreciate the systemic implications of the explosive growth of derivatives.

Regulatory Laxity: The general euphoria about the contribution of modern finance to economic performance seems to have induced complacency in regulators. For example, in 2004, the Securities Exchange Commission (SEC) exempted the brokerage units of investment banks from a regulation that limited the amount of debt they could take in return for a greater oversight of the investment activities of the banks by the SEC. The SEC merely relied on the firms' own computer models for determining the riskiness of investments. And it hardly did anything to follow up on the risky activities uncovered by its examiners. Thanks to the connivance of the regulators, investment banks could increase their debt equity ratio to such preposterous levels as 30:1.

Flaw in the Business Model of Investment Banks : Investment banks originally started off as brokerage firms and then diversified into underwriting of securities and advisory services. None of these businesses requires huge amounts of capital.

When commissions on their traditional businesses declined, investment banks further diversified into proprietary trading and then to private equity, businesses which require large amounts of capital to be committed to risky and illiquid assets. To finance these risky businesses, they recklessly levered themselves. In August 2008, even after additional equity infusions, Lehman Brothers had a debt-equity ratio of 20:1. With such vulnerability, the acquisition of a property investment company at the height of the property bubble was sufficient to kill Lehman Brothers.

There were serious flaws in the model followed by investment banks. First, their assets were financed in the wholesale markets. If there is uncertainty about the value of the assets, access to funds is cut-off, triggering a collapse. Second, high leverage incentivises managers to take huge risks. If the bets succeed, managers get outsized rewards; if the bets fail, shareholders get screwed up.

Excessive Leverage in European Banks : While Europeans criticised the US investment banks for their casino capitalism, their own banks such as UBS, Credit Suisse, ING, Dexia, and BNP Paribas had debt-equity ratios nearing 50:1. Using the Basel norms, European banks justified their high leverage by arguing that their assets (including much sovereign debt) were of high quality.

Yet the crisis of late 2008 taught some sobering lessons. First, even the highest rated assets can get tainted in a crisis thereby inflicting huge losses on highly leveraged banks. Second, in a panic, even the biggest financial institutions are vulnerable to a run on deposits or panic sales of securities. Third, practices like capital adequacy norms and mark-to-market are pro-cyclical, not anti-cyclical.

Reverse Natural Selection in Finance: In financial services, there is always a temptation to play. This tendency has been heightened with the evolution of financial services from a guild of small partnerships to a joist of gigantic multinational corporations and clashing egos. As Chuck Prince, CEO of Citigroup in 2007, said: *"As long as the music is playing you have got to get up and dance."* A bank of Citi's size cannot sit on the sidelines without inviting criticism from investors and commentators. The perturbing message in Prince's words is that bit by bit boom induces excessive risk taking, thereby causing reverse natural selection.

Some Possible Remedies : The current global financial crisis is deep and has been caused by excesses committed over the past few decades. It calls for a multi-pronged approach which may include the following initiatives.

1. **Replace Dollar with an International Reserve Currency:** The emergence of the US dollar as the de facto global reserve currency has contributed substantially to the topsy-turvy global economic situation. Serious initiatives are required to replace the US dollar with an international reserve currency. Such substitution would transform the global economic architecture the way the fall of the Berlin wall altered the political architecture of the world.

2. **Encourage Greater Savings in the Developing Countries:** Warren Buffett has been arguing for a change in the savings and consumption habits of Americans. Seized of this matter, President Barack Obama seems to be determined to take policy measure to encourage Americans to save and invest more.

3. **Enhance the Capital Requirements of the Banking Sector:** The banking sector should be subjected to a stringent capital regime which entails higher capital than required in the past and some type of counter-cyclical capital regime. This will enable the banking system to absorb and moderate, rather than magnify, the amplitudes of macroeconomic cycles.

4. **Develop Clearing Systems for Derivative Trades:** Several reports have emphasised that there is an unnecessary multiplication of gross exposures in the derivatives market. Hence, there is a need for compression that nets out offsetting bilateral positions.

5. **Introduce Some Form of Product Regulation:** In the last few decades, the regulatory philosophy has been that product regulation has to be avoided as it stifles innovation. It is based on the premise that the market is a better judge than the regulator of whether a product delivers value. However, many people believe that a lot of financial innovation is worthless and even potentially harmful. Perhaps there is a case for introducing regulation on financial products by specifying sensible restrictions such as the maximum loan-to-income ratio.

Editorial

Foreign Universities-Boon or Bane?

***Prof. DVG Krishna*, Director**

India moved closer to a milestone in education towards hosting foreign university campuses, with the Cabinet clearing a long-pending *Foreign Educational Institution (Regulation of Entry and Operation) Bill, 2010*, that the government believes will enhance choices, increase competition, and benchmark quality.

Need for Foreign Universities in India

The need for foreign universities in India and the International Higher Education market is driven by massive demand-supply gap. More than 500,000 students leave India every year to study at universities abroad. According to the National Knowledge Commission, India needs about 1,500 universities (as against about 350 currently) to raise the enrollment numbers from 7% of the population aged 18-25 to developed country averages. To boost higher education, the government plans to fund 30 new Central Universities, 5 new Indian Institutes of Science Education and Research, 8 new Indian Institutes of Technology (IITs), 11 new Indian Institutes of Management (IIMs), and 20 new Indian Institutes of Information Technology (IIITs). The government is also launching a Mission on Vocational Education and Skill Development through which it will open 1,600 new Industrial Training Institutes (ITIs) and Polytechnics, 10,000 new vocational schools and 50,000 new Skill Development Centres. This will ensure that over 10 million students get vocational training annually – a fourfold increase from today's level.

According to ASSOCHAM, allowing foreign universities to set up their campuses in India will help India save up to $7.5 billion (about Rs. 34,500 crores) foreign exchange per year that students spend on studying abroad. Students leaving India for higher education cost the country a foreign exchange outflow of $10 billion p.a., and foreign universities campuses in India could stem this flow by at least 75%. Also, foreign universities in India would prevent brain drain, as large number of Indian students studying abroad opt to work overseas rather than returning home.

Feasibility of the Conditions for Entry

The Bill includes provisions on other stringent norms such as regulation of fees, a minimum corpus of Rs. 50 crores, and a no-objection certificate from the home country's embassy in India. However, the new Bill is silent on issues like reservation of seats for SC/ST candidates and OBCs. This might prove problematic for some institutions as setting up in India involves quotas and requirements, and that universities reserve seats for students from disadvantaged classes and castes.

Under the rules proposed for foreign universities, they will not be allowed to set up franchisees. They will be granted a deemed university status under Section 3 of the University Grants Commission Act, and they will have to ensure that the quality of programmes is on par with the ones offered in their countries.

It remains to be seen how the foreign universities act, as certain provisions in the Bill on reservation, hiring, fee structure, and ban on remittances are big deterrents for foreign universities. Whether foreign universities and the knowledge through science and technology developed for foreign conditions will suit the local conditions is the question to be solved! The key sectors like agricultural development, irrigation, and manufacturing will be operated through foreign knowledge, and will continue our dependence on Developed Block. Therefore, the foreign yolk has to be encompassed with Indianization for self-sustenance.

SOCIAL INEQUALITIES & REGIONAL IMBALANCES

Prof. DVG Krishna, Director, MSS

Indian economy has achieved remarkable growth after the economic reforms of 1991, especially in agriculture, industry, services, external sector, fiscal performance, human development, etc. India has been able to attract the benefits of economic reforms but the fruits of this economic development are not equally distributed among the states. India being a federal nation, state governments are also independent economic and political entities. They also hold the responsibilities and power to design their development models. Social scientists and policy-makers have observed an intense socio-economic disparity across Indian states. Some of the states like Gujarat, Maharashtra, Andhra Pradesh, Tamil Nadu are able to achieve excellent economic and industrial growth rate – even higher than the average growth rate of India! On the other hand, states like Bihar and West Bengal have failed to reach this level, despite having potential resources to grow. Kerala could not attain greater industrialization, but leads in human development, with 100% literacy and highest sex ratio. The issue of regional disparity certainly has not emerged recently.

In a large economy like India, the states are bound to have inequalities in their geographical area, size of population, natural resources, climatic conditions, etc. Historically, India has been observing inter-state variations with regard to socio-economic, political, and geographical aspects. What is more distressful is the widening of inter-state inequality in recent years. Studies reveal that the rich states have grown three times faster than the poor states. The regional imbalance is growing practically in all the indicators like, agriculture, industry, investment, social and human development, environment, fiscal performance, etc. There is now a lot of concern among the policy-makers to reduce this regional imbalance, provide support, and policy guidance to states in the areas where they are lacking through government bodies like Planning Commission and Finance Commission.

One of the reasons for inter-state disparity across major states in India is inequality in agricultural productivity. The better performing states are mostly in Western and Southern regions (like Andhra Pradesh, etc.) of the country, whereas non-performing states are in the Northern and Eastern region. Some of the important reasons for disparities in agriculture output primarily are size of operational holdings, irrigation facilities, cropping intensity, application of new farm technology, High-Yield Variety (HYV) seeds, fertilizers, pesticides, extension services, rural infrastructure, quality of land and rainfall, etc.

There is a need to address the issue of conceptualizing regional disparity, identifying the factors responsible for it, and examining the trend of regional disparity in the economic development of Indian states. The issue of regional disparity in specific sector such as agriculture, industry, human development, etc. also needs adequate attention of the policy-makers. It is not only the economic performance that generates the inequality beyond the economics, there are many factors such as natural resources, historical background, social values and norms, political situations, environmental conditions and many more which make the performance of one state higher or lower as compared to other states. Although the regional disparity, per se, can not be eliminated, it can be reduced. The efforts from the union and state government should aim at eliminating the disparities which exist due to underutilization of the capacity, lack of opportunities, inability to break the vicious circle, etc.

The political solution to the problems arising is to make the weaker regions self-viable on the basis of well-defined investment priorities. In the recent times, we have an economic parallel for investment, i.e., identify the backward areas and develop them into socially and economically viable zones. The regional redistribution of resources is the need of the hour. Reduction in disparities and economic viabilities is the only criterion for sustenance. There are many areas like water, agriculture, industrial development, and environmental protection, which have to be accorded greater share of the GDP to the backward areas. The employment in productive and key sectors followed by transportation and communication sectors will contribute to the development. The National Economic Policy is to strengthen the economy through Public Private Partnership (PPP) to achieve greater sustainable development. Micro level planning is the need of the hour. However, the minds of people at the helms are preoccupied with political weightages than public welfare. Perhaps, it is the need of the hour to think about Balanced and Sustainable growth for further investment. Despite several signals in the economy over the years, the economic imbalances continue to plague the political and social problems. The political and economic appeasement will not solve the nation's problems. More so, a social anarchy will make the people and the society more distressed. The concept of common good for social justice, stressed by Nobel Laureate Prof. A.K. Amartya Sen, Prof. Gautam Mathur, and the 2009 Economics Nobel Prize winner, Eleanor Ostrom, has strengthened the need for rational thinking for better distribution of resources for balanced development. The democratic edifice built upon the basic principle of the greatest good of the greatest number is the bane of Democracy. It is for the present and future generations to protect the foundations for a healthy economy.

Success stories

The Success Journey of Fabindia-Local to Global

Fabindia, the craft-savvy enterprise, is a brand that does not advertise. In fact, it celebrates the success of its copycats. And now, Fabindia is a *Harvard Business School (HBS)* case study. In 1958, John Bissell worked as a consultant for the Ford Foundation to develop India's export potential in emerging textile industry. Bissell discovered a village-based industry with a gamut of skills invisible to the world. Determined to showcase Indian handloom textiles while providing equitable employment to traditional artisans, Bissell established Fabindia in 1960 to blend the best of East-West collaboration.

Market Forerunners

INDIAN AVIATION INDUSTRY – A SNAPSHOT

The India Aviation industry is one of the fastest growing aviation markets in the world, and ninth largest globally. The Airport Authority of India (AAI) manages a total of 136 airports in India, which include 17 international airports, 8 custom airports, 79 domestic airports, 23 civil enclaves, and 9 other airports. India has more than 454 airfields and 1091 registered aircrafts in India. The private airlines today contribute more than 75% share of the domestic aviation market.

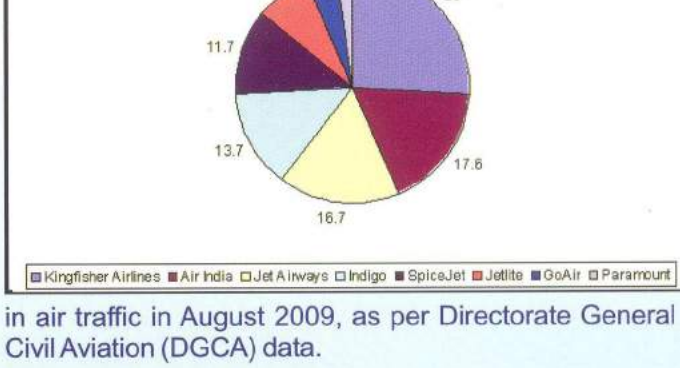
In 2006, the private carriers accounted for about 75% share of the domestic aviation market. Some of the private players include Kingfisher Airlines, Air Deccan, Jet Airways, Indigo, SpiceJet, Paramount, and GoAir. With the liberalization of the Indian aviation sector, the industry has undergone a transformation with 69 foreign airlines from 49 countries flying into India. It is forecast that international passengers will grow up to 50 million by 2015.

INDIAN AVIATION INDUSTRY–CURRENT & PROSPECTIVE GROWTH

The Indian aviation industry has witnessed remarkable growth in recent years. The Indian Civil Aviation industry grew at a compound annual growth rate (CAGR) of 18%, and was worth US$ 5.6 billion in 2008. Airlines recorded a double-digit growth

in air traffic in August 2009, as per Directorate General of Civil Aviation (DGCA) data.

The domestic aviation sector is expected to grow at a rate of 9-10% p.a. to reach a level of 150-180 million passengers by 2020. The number of domestic flights grew by 69% from 2005 to 2008. Domestic airlines flew 3.67 million passengers in August 2009, as against 2.92 million in the corresponding period in 2008•\a rise of 26%. The Centre for Asia Pacific



Be the change you wish to see in the world. ***– Mahatma Gandhi***

Aviation (CAPA) forecasted that domestic traffic will go up by 25% to 30% till 2010, and international traffic growth by 15%, taking the total market to more than 100 million passengers by 2010. By 2020, Indian airports are expected to handle more than 100 million passengers, including 60 million domestic passengers and around 3.4 million tonnes of cargo per annum. The industry witnessed a growth of 12.8% p.a. during the last five years in the international cargo handled at all Indian airports. The airports handled a total of 1020.9 thousand metric tones of international cargo in 2006-07. Moreover, the tourist charter flights to India rose in 2008, with about 686 flights bringing 150,000 tourists. There has also been an increase in non-scheduled operator permits from 66 in 2007 to 99 in 2008.

J R D TATA
Pioneer of Indian Aviation

Indian carriers have 480 aircraft on order for delivery by 2012. Besides this, Kingfisher has also ordered five Airbus A-380 aircraft. India is expecting to add aircraft worth about US$80 billion by 2020. Boeing expects India to buy aircraft worth $35 billion in the next 20 years.

INDIAN AVIATION BOOM TO GENERATE MORE JOBS

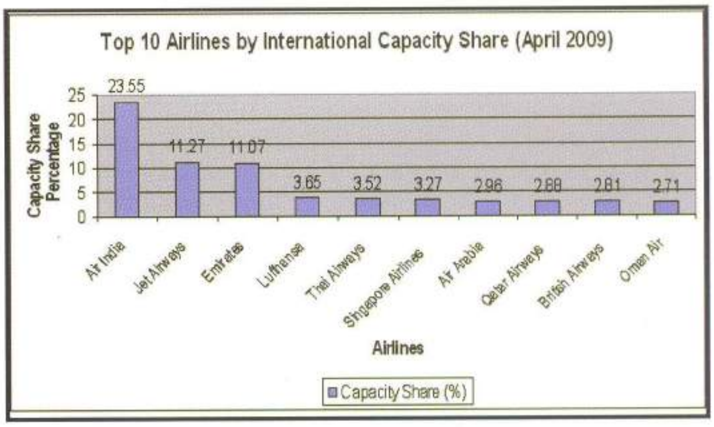
Aviation industry in India is growing at a whopping 25% p.a., creating a large number of jobs. According to a study by Associated Chambers of Commerce and Industry (ASSOCHAM), the boom in the Indian aviation industry is likely to generate about 2.5 lakh jobs by the year 2010 and another 2,00,000 jobs by 2017. With the fleet size expected to reach 612 planes by 2015 from around 391 currently, the Maintenance, Repair, and Overhauls (MROs) are expected to create 6,00,000 jobs within the next 10 years according to Frost and Sullivan (F&S), a research firm.

CHALLENGES FOR INDIAN AVIATION & THE ROAD AHEAD

CHALLENGES FOR INDIAN AVIATION INDUSTRY

The aviation industry worldwide has been passing through rough times since the global recession. Industry net losses for the year ended March 31, 2009 were in the region of USD 1.3 to 1.4 billion. According to International Air Transport Association (IATA) estimates, the combined net losses of airlines globally for 2008 was USD 8.5 billion, with India's contribution to this being significantly higher than the 2% of world air traffic for which it accounts. The market debt of the three major airline groups – Air India, Jet Airways, and Kingfisher Airlines stood at USD 8 billion (as on May 2009) and could reach USD 10 billion by the end of March 2010 (equivalent to up to 1% of India's GDP). The huge interest burden that these carriers have to shell at a time of plummeting revenue is weighing heavily upon them. Rationalisation and consolidation is essential for the health of the Indian aviation industry, as the Indian market is not large enough to support three large full- service carriers operating and competing on similar routes.

The growth in the aviation industry and capacity expansion by carriers has posed major challenges to Indian aviation sector on several quarters. Furthermore, stiff competition and soaring fuel costs are also impacting the industry negatively.



The following are some of the challenges:

- Shortage of trained and skilled workers and talented professionals
- Safety concerns
- Land acquisition
- Plummeting returns and the lack of accompanying capacity
- Poor and inadequate Air Traffic Control (ATC) infrastructure to support growth
- Lack of proper regional connectivity
- Stiff competition
- Burgeoning fuel costs
- Inadequate trunk routes
- Inadequate access to capital
- Inadequate cargo facilities
- Delays in project implementation
- High input costs, including manpower costs.

THE ROAD AHEAD FOR INDIAN AVIATION INDUSTRY

The Indian aviation sector is likely to see clear skies ahead in the years to come. The following are some of the encouraging prospects for the aviation industry;

- Passenger traffic is expected to rise at a CAGR of over 15% in the next 5 years.
- The Vision 2020 statement, announced by the Ministry of Civil Aviation, envisages creating infrastructure to handle 280 million passengers by 2020.
- Investment opportunities of US$ 110 billion envisaged up to 2020, with US$ 80 billion in new aircraft, and US$ 30 billion in development of airport infrastructure.
- Associated areas such as maintenance, repair and overhaul (MRO), and training offer huge investment potential. According to a report by Ernst & Young (E&Y), the MRO category in the aviation sector can absorb up to US$ 120 billion worth of investments by 2020.
- Aerospace major, Boeing, forecasts that the Indian market will require 1,000 commercial jets in the next 20 years, which will represent over 3% of Boeing Commercial Airplanes' forecasted market globally. This makes India a US$ 100 billion market in 20 years.

AVIATION COURSES & CAREERS

TYPES OF AVIATION COURSES IN INDIA

There are many courses and training programs in aviation being offered. Depending on your aptitude and career interests, you can choose a suitable course offered by the Aviation institutes in India. The following is a list of aviation courses offered in India:

*All human beings, by nature, desire to learn – **Aristotle.***

- Aviation Safety Training Instructor Course
- Aeronautical Engineering Course
- Air Traffic Control and Management Course
- Airline Ticketing Course
- Avionics Course
- Flight Attendant Course
- Cargo Management Course
- Flight Deck Crew Course
- Pilot training in Indian Aviation
- Commercial Pilot Training
- Aircraft Maintenance Engineering Course
- Cabin Crew & in-Flight Services
- Air hostess Course


Mr. Vijay Mallya

AVIATION INSTITUTES IN INDIA

A number of institutions in India offer courses in several disciplines of aviation. The following is a list of some of the renowned aviation institutes in India:

- Indian Institute of Aeronautics, Delhi
- Bharat Institute of Aeronautics, Patna
- Indian Institute of Aeronautics Science, Jamshedpur
- Indian Institute of Aeronautical Science, Kolkata
- Hindustan Institute of Aeronautics, Bhopal
- Avalon Aviation Academy, Aptech House

COMPANIES OFFERING AVIATION JOBS

The following is a list of companies in India offering various jobs in the aviation sector:

- Sahara India
- Indian Airlines
- Indian International Airways Ltd.
- Kingfisher Airlines
- Haytrans I Pvt. Ltd.
- Flywell Aviation Pvt. Ltd.
- Deccan Airlines
- Multi Track Air Charters
- SRC Aviation
- Panda Logistics Ltd.
- Hindustan Aeronautics Ltd.
- Bird Group
- Trans Asian Aviation
- Varman Aviation Pvt. Ltd.
- Taneja Aerospace and Aviation Ltd.
- Sam Air Pvt. Ltd.

INTERNATIONAL CIVIL AVIATION UNIVERSITY IN HYDERABAD

Concordia University of Canada has decided to set up a University focused on aviation in India's first aerospace Special Economic Zone (SEZ) in Andhra Pradesh. The campus is expected to come up this year. The foundation stone for the aerospace SEZ was laid at *India Aviation-2008,* India's first conference and exhibition on civil aviation. The proposed International Civil Aviation University (ICAU) will be developed as a 'Centre of Excellence' with sister campuses in Montreal (Canada) and Toulouse (France). The university will serve as a first class centre for training, research, and hosting of global events.

STRATEGIC CHANGE FOR BUSINESS TURNAROUND

By Sarwath Khizrana, Research Fellow, Centre for Organization Development

To win one hundred victories in one hundred battles is not the acme of skills. To subdue the enemy without fighting is the supreme excellence." This quote of Sun Tzu embraces a greater influence on military and business leaders today. Here, subduing the enemy without fighting connotes the Strategy. In today's business, strategic change plays a vital role in saving and growing business. The strategy is a strapping tool on which business depends. It has created sensational impact which also dates back to centuries ago. Using the strategy the companies have stunned the business world by finessing the biggest acquisitions, maintaining competitive edge, remaining competitive, taking plunge in themselves, facing the challenges created by technological innovations, converting threat into opportunity, making business turnaround from a near disaster and becoming the largest manufacturers throughout the globe. The nature of strategy adopted and implemented emerges from a combination of the structure of the organization, the type of resources available, the environment and the strategic objective being pursued.

Establishing a Successful Strategy

In practice, a thorough strategic management process has three main components:

- Strategic Analysis (Analyzing the strengths of businesses)
- Strategic Alternatives (Understanding expectations)
- Strategic Implementation (translate it into organizational action)

The Process begins with devising a strategic plan and performing the environmental (both micro and macro) scan to identify the available opportunities. Michael Porter devised a five-force framework that is useful for micro analysis. The macro-environmental analysis includes political, economic, social and technological factors (PEST Analysis). The internal analysis considers the situation within the firm itself, such as Company, Culture, Organizational structure, and key staff, access to natural and financial resources, operational efficiency/capacity, etc. The internal factors of the firm are the strengths and weaknesses, and the external environmental factors are the opportunities and threats. Such an analysis often is referred to as a SWOT Analysis. After defining the strategic alternatives, effective implementation needs to be translated into more detailed policies that can be understood at the functional level of the organization, often the hardest part. When a strategy has been analyzed and selected, the task is then to translate it into organizational action.

Strategy is about choice, which affects outcomes. Organizations can often survive, do well for periods of time in conditions of relative stability, low environmental turbulence and little competition for resources. The process determines the quality of strategy adopted, its astuteness, its foresightedness, its level of risk and the like.

In all the above cases, strategy unearthed various deep rooted nuclear facets of the companies that had to be taken care of in challenging times and disastrous situations.

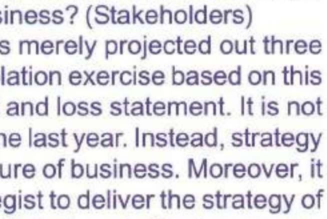
Beware of little expenses; a small leak will sink a great ship. – ***Benjamin Franklin***

- Where is the business trying to get to in the long-term? (Direction)
- Which markets should a business compete in and what kind of activities is involved in such markets? (Markets, Scope)
- How can the business perform better than the competition in those markets? (Advantage)
- What resources (skills, assets, finance, relationships, technical competence, and facilities) are required in order to be able to compete? (Resources)
- What external, environmental factors affect the businesses' ability to compete? (Environment)
- What are the values and expectations of those who have power in and around the business? (Stakeholders)

Strategy is not a set of numbers merely projected out three to five years. It is not an extrapolation exercise based on this year's balance sheet and profit and loss statement. It is not a rationalization of what was done last year. Instead, strategy emphasizes on quality and texture of business. Moreover, it is the responsibility of the strategist to deliver the strategy of an organization in a controlled, efficient, and effective manner during the strategic change period within the context of a wider strategy for the organization.

THE 'ROYAL SPORT' & MURKY DEALS

By K. Sreehari, M.Com, MBA.



The world of sport has been fascinated by a 'Royal game' since the dawn of the 20^{th} century. Great wizards like Don Bradman, Sir Gary Sobers, Wesley Hall, Frank Worrell, and the great C.K. Naidu of India are some of the legendary figures, who had given impetus and respectability to the game of cricket. And, it was always called as a "Royal game," whether played in India or abroad. It was always sportsmanship that was encouraged, and never was the concept of trading involved. However, the world has swayed away by the lure of money, and cricket was no exception. The people are tempted, the media is over-indulged, and the patronage of bigwigs has brought ignominy to this illustrious sport. In the process, the game itself is going to lose the glorious technicalities with which the great personalities are identified. However, tomorrow, cricket will be either to make money or for entertainment, but not for sportsmanship.

Now there's an open discussion of opaque dealings, bribes, public threats, of shady investors, murky dealings, large-scale tax evasion, of franchisees alleging being offered a $50 million bribe to exit, or claiming that a Union Minister warned them to withdraw from the race with serious repercussions. It all leads to much bigger issues than Lalit Modi versus Shashi Tharoor face-off. Though some franchisees are believed to be losing hundreds of millions each year, newer franchisees still shell over Rs.30 billion for two teams that don't exist. Let the sports lovers look for better days for cricket.

TRIBUTES TO C.K. PRAHALAD
THE INVENTOR OF THE 'BOTTOM OF THE PYRAMID'

Management guru and the pride of India, Dr. Coimbatore Krishnarao Prahalad, popularly known as "C.K. Prahalad," the Paul and Ruth McCracken Distinguished University Professor of Strategy, at the Ross School of Business, University of Michigan, US, passed away on April 16, 2010 at the age of 69.

In 2009, Dr. Prahalad was conferred *Padma Bhushan*, third in the hierarchy of civilian awards, by the Government of India. In the same year, he was also named the *'world's most influential business thinker'* on *The Thinkers 50 list*, published by *The Times*.

Dr. Prahalad is known as the creator of management concepts, such as 'Bottom of the Pyramid,' 'dominant logic,' 'strategic intent,' and 'core competencies.' Dr. Prahalad was the leading consultant with the top management companies of the world. His research specialized in corporate strategies and his value-addition to top managements in large, diversified multinational corporations is invaluable.

K.N. RAJ – AN EMINENT ECONOMIST

Kakkadan Nandanath Raj (K.N. Raj), was born on May 13, 1924, in Thrissur, Kerala. An economist and teacher, Raj combined a remarkable twin-career with a lifetime of spotting and nurturing talent, policymaking, institution-building and conscience-keeping for the nation. K.N. Raj made his reputation computing India's balance of payments for the first time for the Reserve Bank of India (RBI), and writing the foreword to the First Five Year Plan document, which he co-authored.

Raj played a major role in the post-Second World War period, when India did not have any foreign aid and needed to plan well to raise its rate of savings. Through meticulous planning, he and his colleagues prepared a 20-year plan of increasing the rate of savings from 5% in 1950-51 to 20% by 1970-71. By the target year, the country had met its projections superbly. The analytical rigour and the methodology used to arrive at conclusions on planning and economic policymaking were the striking factors in Raj's long career. Raj practiced welfare economics and taught not only theory but also its relevance to the real world.

Raj served as economic adviser to Prime Ministers from Nehru to P.V. Narasimha Rao. His greatest contribution to economics is his advice on the tools, materials and the accompaniments that must be put together by an economist before building an edifice. Apart from the cogency, clarity, and the power of his arguments, the striking factor in all his scholarly writings was the emphasis on detailed empirical work, the determination to get the facts right, and to define the underlying institutional and organisational assumptions of the model he was supporting.

I could have made faster cars if only I had the changing technology and management – **Henry Ford.**

Spectrum - Events at Kedia

(1) FDP on "A Strategic Option for Survival and Role of Management Education-2010". (2) Mr. K. Vijayarama Rao, Former CBI Chief Addressing students on Higher Education. (3) Prof. Shekar, Dean, OUCCBM, addressing the students. (4) Mr. Prakash Srimal, Chairman, P.C.S. Securities being felicitated. (5) Dr. G. Srinivas, Southern Regional Officer (UGC), A.P. (6) Prof. G.D. Sharma, Secretary (UGC) Retd., & C. Ramaiah, IIT Expert. (7) Symposium on Union Budget - 2010-11. (8) Mr. Bandaru Dattatreya at Republic Day Function. (9) MOCK-ICET Exam conducted at RG Kedia College.

Institutions run by Marwadi Shiksha Samithi

- Marwadi Hindi Vidyalaya
- Ramnath Gulzarilal Kedia College of Commerce
- D.R. Jindal Jr. College of Commerce
- G. Raghunathmull Singhvee Jain Jr. College of Science
- Syo Narayan Ramcharan Patwari Post Graduate College of Commerce
- R.K. Saboo College of Science
- Parvathi Devi Ramakrishna Dhoot K.G. School
- Harishchandra Gyankumari Heda Model High School
- Taradevi Giridharilal Sanghi College of Business Management (MBA)
- Bhagwatibai Jagdish Pershad Agarwal P.G. College of Computer Applications (MCA)
- Surajmal Sharma P.G. College of Science (Maths)
- Marwadi Shiksha Samithi Law College

Edited and Published by **Prof. D.V.G. Krishna** for and on behalf of MSS Education Society & R. G. Kedia College,
Opp. Chaderghat New Bridge, Kachiguda Station Road, Esamia Bazar, Hyderabad 500 027 (A.P.) Phone : 2473 8939, 2473 8708.
Website : www.mss-rgkedia-edu.in Email : rgkediacollege@yahoo.co.in Fax : 040-24738708.
Printed by Chandraprabha Graphics, 37, Royal Plaza, Sultan Bazar, Hyderabad. Ph. : 66 780 780, 984 99 88 999.