UNIT 14: FUNCTIONAL AND OPERATIONAL IMPLEMENTATION

UNIT STRUCTURE:

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14.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- explain functional policy, strategy and plans.
- describe marketing policies and plans.
- explain production and operations policies and plans.
- describe human resource policies and plans
- explain information technology policies and plans

14.2 INTRODUCTION

This is the fourteenth unit of the course. In this unit we will discuss different functional policies and plans such as marketing, production, Human resource and Information technologies policies and plans in detail. A functional strategy is the short-term tactic for a key functional area within a company. Such strategies clarify impressive strategy by providing more

specific details about how key functional areas are to be managed in the near future.

14.3 FUNCTIONAL STRATEGIES

Functional strategies must be developed in the key areas of marketing, finance, production / operations, R&D and personnel. They must be consistent with long-term objectives and grand strategy. Functional strategies help in implementation of grand strategy by organizing and activating specific subunits of the company (marketing, finance, production, etc.) to pursue the business strategy in daily activities. In a sense, functional strategies convert thought into action designed to accomplish specific annual objectives. For every major subunit of a company, functional strategies identify and coordinate actions that support the grand strategy and improve the likelihood of accomplishing annual objectives. To better understand the role of functional strategies within the strategic management process, they must be differentiated from grand strategies.

14.4 FUNCTIONAL POLICIES AND PLANS

Effective implementation of strategies is crucial for the accomplishment of strategic management. Proper strategy implementation requires sound functional policies and plans. The number of functional areas in which policies and plans are prepared depends on the nature and size of the organization. In a small organization, only a few functional policies and plans are needed. But in a large organization, a large number of functional policies and plans are prepared.

A functional policy is a board guideline indicating the criteria that a functional manager should use in making decisions in his functional area .A functional plan is a list of activities to be performed during the plan period. Functional policies and plans are prepared by various functional heads within the framework of guidelines provided by higher authorities. These guidelines are developed to make sure that functional policies and plans are in tune with business and corporate strategies. Functional policies and plans help strategy implementation in the following way:

i. Top management can guarantee that strategic decisions are implemented by all parts of the organization.
ii. Financial policies and plans identify how things are to be done and limit direction for managerial action.
iii. Functional mangers can handle similar situations in different functional areas in the consistent manner.
iv. Coordination among different function is guaranteed.
v. Functional policies and plan serve as bases for controlling activities in different functional areas.

14.5 FINANCIAL POLICIES AND PLANS

Financial policies and plans are concerned with raising, usage and management of funds for business operations. The three aspects are interrelated and interdependent. For example, the company's ability to raise funds will control the amount of funds and their usage. Policies and plans are formulated to ensure that strategies are implemented effectively.

- **Sources of Funds:** Policies and plans concerning sources of funds determine how and from where funds will be raised for strategy implementation. Funds are needed for both long term and short term. There are two board sources of funds – equity and debt. Equity shares, preference shares and retained earnings provide equity funds. Debentures and borrowings are sources of debt. Policies and plans concerning sources of funds relate to capital structure, procurement of funds, and relationships with leaders.

  Companies differ in their approach to sources of funds. Some of them depend primarily on internal financing while others rely more on external borrowings. In other words, debt equity ratios vary from one company to another. Indian companies raised funds from Indian sources before 149914. Since liberalization, many of them raise funds through American Depository Receipts (ARDs), Global Depository Receipts (GDRs), Foreign Institutional Investors (FIIs),

foreign private equity funds, foreign venture capitalists and other foreign sources.

- **Usage of Funds:** Judicious use of funds is necessary for strategy implementation. A company can distribute funds between fixed assets and current assets depending on its needs. **Investment in fixed assets** may be (*a*) to obtain new fixed asset for expansion and growth, and (*b*) to substitute the existing fixed assets. Investment in fixed assets has long term implications because these assets create benefits over the long period. These benefits or returns must be more than the cost of capital. In order to optimize investment in fixed assets, a company can take the following steps:

  (i) *Choice of appropriate technology* – The latest of fully automated technology may involve huge investment resulting in high interest cost. Cost minimization as well as technical factors should be considered in choosing technology.

  (ii) *Proper mix of various fixed assets* –Assets critical for project implementation need to be given priority over the supporting assets. For example, township can be developed after the project starts generating profits. During the carrying out of project houses for employees working on the project can be taken on rent.

  (iii) *Efficient project implementation* – Efficient project implementation helps to reduce investment. Reliance Industries is known for implementing large projects without time and cost overruns.

  Investment in current asset is known as working capital. Volume of operations, type of technology, manufacturing cycle, seasonal and cyclical fluctuations, etc. are in working capital without affecting operations are as follows:

  (a) Maintain inventory at proper level.

(b) Rationalize credit policy so as to match debtors and trade creditors.

(c) Keep cash and bank balance at right-levels by investing surplus funds.

- **Management of Funds:** Sound funds management plays a significant role in strategy implementation through conservation and optimum utilization of funds. In the management of funds, policies and plans are developed for accounting and budgeting credit and risk management, cost reduction and control, tax planning, etc. severe cost control helps to improve a company's financial health. Sound cash management is no longer merely timely collection of receivables and disbursement of payment. Companies now outsource cash management to banks to make certain effective management of cash flows and to earn higher interest. Risks arising from technology and environment require more robust internal audit and control systems.

  Management of earnings is a critical decision. Dividend policy involves allocation of earning between dividend distribution and reinvestment in business. Company's future needs for funds, expectations of shareholders, legal constraints, and etc. influence dividend policy. Some companies reinvest a foremost portion of their earnings in the form of dividends. Firms pursuing expansion/growth strategies are likely to desire reinvestment of earnings.

  Sometimes, the priorities of top management may be in conflict with those of shareholders and lenders. Strategists must resolve this conflict and develop a consensus on financial policies and plans.

14.6 MARKETING POLICIES AND PLANS

14.6.1 Marketing Mix

The marketing mix is the set of marketing variables for obtaining good response from the target market. It includes everything that the firm can do for enhancing the demand. These variables are also known

as 4Ps. The 4Ps stand for product, price, place and promotion. The 4Ps are from the marketer's angle. But when translated to buyers they may be termed as 4Cs. Product may be referred as customer solution, price as customer cost, place as convenience and promotion as communication. The 4Ps are discussed as follows-

- **Products**: - It stands for the goods or services or both which the company offers in the market. Strategies are needed for managing the existing products and for establishing the new ones. Products and markets are both dynamic in nature. Customer demand of the products is also dynamic some products have consistent customer demand while some have very short life of demand. There are differential products like industrial products, consumer Notes of formulation of Functional Strategies products, luxury products, durable or perishable products etc. Products can be differentiated on the basis of size, shape, colour, packaging, brand name, service and so on. Organizations are tried to hammer into customer's mind that their products are different from others. It does not matter whether the differentiate is real or imaginary. Organization done the differentiation through creating brand name of its products because through it a customer knows products and organization behind it.

- **Price**:- It stand for the amount of money that the customers have to pay to obtain the products. The price of the products is affected its demand, quality, reliability, safety, competition it faces, the desired profit and so on. In the industry there are two organizations one which has low cost products and one which has high cost products. Basically organizations are adopting cost plus margin method where the margin is referred as profit. The margin is added into cost for deciding the price of the products. Three matters are kept in mind when organization is decide the price of its products those are— (a) Making the products acceptable to the customers (b) Producing reasonable margin over the products (c) Achieving the markets that help in developing market share. At the initial stage of the products the price is kept low to attract

more customers towards it when the most of the customers are price sensitive.

- **Place**: - It stands for activities that make the products available to customers. One of the most important marketing decisions is to choosing the most appropriate marketing channel. Marketing channels are able to distribute the products within the reasonable time to customers at very low cost to the Notes of formulation of Functional Strategies organization. Strategies applicable to middleman like distributors and retailers must be design properly.
- **Promotion**: - It stands for activities that describe the merits and demerits ofthe products to customers. There are four major methods of promotion which are as follow:

a. Personal Selling: - It is the oldest method of promotion. It involves fact to face interaction with customers and make available high degree of personal attention to them. In it oral communication is made with buyers with the intention of making a sale. It undergoes of very high cost as salary of personnel is very high. So in the present era this is not the cost effective method to catch the attention of more customers.

b. Advertising: - It is non personal and highly flexible method. The media for advertising are pamphlets, brochures, news papers, hoardings, display boards, radio, television and internet. Choice of appropriate media is very important for effectiveness of the message. The media may be local, regional and national. Advertising is maybe best method of promotion but its effectiveness in respect to the expenditure can't be directly measured.

c. Publicity: - It is also non-personal form of promotion. However no payment is need to be given to media for the advertisement. It is a communication of products, brand or business by giving the information about it in the media without paying for the time. So it is the best way to reaching to the customers at negligible cost.

d. Sales Promotions: - All other activities that the organization is done for promotion except above three are covered here in sales promotions. Activities like discount, money refund, installments, exhibition and fairs are covered in it. Sales promotions are done periodically may help in obtaining large market share.

- **People**: - All human actors who play a role in market offering and thus influence the perception of the buyers.
- **Physical Evidence**: - The environment in which the products are delivered and where the firms and customers are interact.
- **Process:** - The actual procedures and flow of activities by which the products or services are delivered.

14.6.2 Marketing strategy and techniques

Some of the major marketing strategies and techniques are as follows-

- **Social Marketing:** It refers to the design, implementation and control of programs to increase the acceptability of social ideas or practice among customers.
- **Augmented Marketing:** It refers to deliberate efforts to get better marketing returns through additional means. It includes providing additional services and benefits like movies on demand, on line computer repairing service etc. Such type of services attracts customers to purchase the products or services.
- **Direct Marketing:** It refers as marketing through advertising media that interact directly with the customers.
- **Relationship Marketing:** It is the process of creating, maintaining and enhancing strong relationship with customers and other stakeholders. So it will go long way in building relationship.
- **Service Marketing:** It refers applying the concepts, techniques and tools of marketing to service. Service is any activity or benefit that one party can offer to another that is intangible and non perishing.

- **Person Marketing:** - It includes activities undertaken to create, maintain orchange attitudes or behaviours towards particular people. You example, politicians, sport stars, film stars, professionals to get votes or promote their career and income.
- **Organization Marketing:** It includes activities to create, maintain or change attitudes or behaviours of audience towards an organization.
- **Place Marketing:** It includes activities to create, maintain or change attitudes or behaviours towards a different places like business site marketing, tourism marketing.
- **Enlightened Marketing:** It helps a company to support the best long term performance of the marketing system. It is based on five principles

  (i) Customer oriented marketing

  (ii) innovative marketing

  (iii) value marketing

  (iv) sense-of-mission marketing

  (v) Societal marketing.
- **Differential Marketing:** A strategy in which a firm decide to target certainmarket segments and design separately for each. It can be achieved through variation in size, shape, colour, brand name and so on.
- **Synchro Marketing:** When the demand of the product is irregular causing idle capacity and over worked capacity, it can be use to find the ways to alter the pattern of demand so that it is equally with pattern of supply.
- **De - marketing:** It is the strategy to reduce demand temporarily or permanently the aim is not to destroy demand but only to reduce or shift it. This strategy is adopted when demand is too much to handle. Here it can be applied to regulate demand.

14.7 PRODUCTION/OPERATIONS POLICIES AND PLANS

Production or operations function is concerned with the transformation of inputs into outputs. Materials, equipment, information and talent are main inputs, which are converted into goods and services. The main objectives are to produce the required quantity and quality at the right time and at the lowest possible cost. Policies and plans are formulated with respect to production system, operations planning and control, research and development and modernization.

Production System: The production system involves decisions relating to location, layout, capacity, work system, degree of automation, product/ service design, degree of vertical integration. These decisions are critic and type of R &D activities. The item is for the organization

(a) Need to ensure regular supply

(b) Organization's financial and managerial capabilities

(c) Government policy e.g. Reservation of some items for production in the small-scale sector.

For those items which are to be bought, the organization has to decide the criteria for selection of vendors and the number of vendors. Maruti Suzuki could achieve cost and quality advantages due to its vendor development policy.

- **Operations planning and Control**: The twin objectives of operations planning and control and optimum utilization of resources and efficient management of day-to-day operation. Aggregate production planning, materials supply, cost and supply, cost and quality of output inventory management, repair and maintenance of plant and machinery are the key issues in operations planning and control. Focused differentiation, high quality is some of the policies which companies use to achieve competitive advantage.

- **Research and development(R&D**): Activities undertaken to introduce new products to improve existing products, to absorb new technology,etc. are the sphere of R&D Policy decisions in the area of R & D relate to R & D spending and the type of R & D activities. The resource allocation for R & D depends on nature of organization type of R &D activity should be taken nature of industries firms operating pharma and such other industries for rapid changes in product are necessary spend more on R & D. Foreign multi nationals are increasing setting their R &D facilities due to low cost engineering and technical skills. Several companies have used R &D as a source of competitive advantage to help in implementation of product development & diversification strategies. Firms which do not have their centers collaborate with research agencies
- **Modernisation**: Modernization strategy involves up gradation of plants and machinery so as to reduce cost per unit and include product quality the organization deals in competitive advantage by serving customers better TATA steel became a lowest cost steel producer using its modernization programming.

14.8 HUMAN RESOURCE POLICIES AND PLAN

It is the people who invent and implement strategies in the post – liberalization era human resource management as undergone significant changes companies are now allying their human resource policies and plans with their corporate and business strategies they are outsourcing operational or administrative duty in human resource management so as to spotlight on strategic aspects for e.g. HUL outsource routine human resource functions from an Accenture. Involvement of top management in HR, setting up training and development centers alignment of performance and appraisals system with business goals are some of the initiative companies have undertaken in area of human resource management.

Human resource policies and plans are needed ease respect of procurement, development, appraisals, rewards and industrial relations.

- **Procurement:** The main activities involved in procurement of the right talent are man, power planning, recruitment and selection. Right selection is essential for efficient working and success full strategy implementation. Firms use multiple sources and techniques to match new hires with their corporate culture.

- **Development**: rapid change, technology and increasing complexities of job require continuous training and development of people therefore, companies use both in house and outside facilities to train their Staff. Organizations has built up strategic competition to its management development system

- **Appraisal**: Performance evaluation systems have become more transparent. The focus is now more on grooming people for higher responsibilities. Continuous monitoring is replacing the traditional once-a-year appraisal. There is a closer link between performance and rewards.

- **Retention**: Retaining talent has emerged as a major challenge owing to high attrition rates especially in information technology sector. HCL Technologies adopted the employee first policy to engage and retain high quality employees.

- **Industrial Relations**: Policies and plans concerning industrial relations are developed to secure mutual understanding and cooperation between management and worker, to avoid industrial conflicts, to increase productivity and to overcome resistance to change. Companies use several mechanisms such as grievance redressal system, suggestion scheme, joint consultation, worker participation in management, collective bargaining, open door policy, etc. to develop and maintain cordial relations with workers and their unions. Improvement in working conditions, better pay scales, involvement of families in company programs, better training and career advancement opportunities, medical and other welfare facilities are some of the features of industrial relations system.

14.9 INFORMATION MANAGEMENT PLANS AND POLICIES

Information capability factors relate to the design and management of the flow of information within and outside an organization. The development of information technology helped the organization derive benefit that is typically present in the organization. Information management is being viewed as a distinct functional area within organization that if managed properly can augment their capability to develop strategic advantage.

These are the different factors within information management system plays an important role in strategic management.

- **Acquisition and retention of Information:**Plans and policies with regards to the processing and synthesis of information deals with the factors such as sources, quantity,quality, retention capacity, and security of information.
- **Processing and Synthesis of Information**: The processing and synthesis of information plan and policies deal with factors such as data base management, computer system, software capability and the ability to synthesis information.
- **Retrieval and usage of Information:** The retrieval and usage of information deals with the actors such s availability and appropriateness of information formats and the capacity to assimilateand use information. Information retrieval in organization can be done at various levels.
- **Integrative, Supportive and Systematic Factors** : The last set of factors deals with the integrative, systematic, and support factors, such as the availability of IT infrastructure, its relevance and compatibility to organizational needs, up gradation of facilities, willingness to invest in state – of – the art system , availability of computer professionals and top management support.



CHECK YOUR PROGRESS

Q1. Define functional policy.

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Q2. What is management of fund?

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Q3: What is modernization strategy?

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14.10 LET US SUM UP

In this unit we have discussed the following:

- A functional policy is a board guideline indicating the criteria that a functional manager should use in making decisions in his functional area .A functional plan is a list of activities to be performed during the plan period. Functional policies and plans are prepared by various functional heads within the framework of guidelines provided by higher authorities.
- Financial policies and plans are concerned with raising, usage and management of funds for business operations.
- The marketing mix is the set of marketing variables for obtaining good response from the target market. It includes everything that the firm can do for enhancing the demand.
- Production or operations function is concerned with the transformation of inputs into outputs. Materials, equipment, information and talent are main inputs, which are converted into goods and services. The main objectives are to produce the required

quantity and quality at the right time and at the lowest possible cost. Policies and plans are formulated with respect to production system, operations planning and control, research and development and modernization.

- Human resource policies and plans are needed ease respect of procurement, development, appraisals, rewards and industrial relations.
- Information capability factors relate to the design and management of the flow of information within and outside an organization. Information management is being viewed as a distinct functional area within organization that if managed properly can augment their capability to develop strategic advantage.



14.11 FURTHER READING

1. Cherunilam Francis (2015), Business Policy and Strategic Management, Himalaya Publication House , New Delhi
2. C Appa Rao, B Parvathiswara Rao, K Sivaramakrishna (2008); Strategic Management and Business Policy, Excel Books, Nerw Delhi
3. Tandon A (2010); Business Policy and Strategic Management; Anmol Publications Pvt.Ltd.
4. Rao Subba ;Business Policy and Strategic Management: Text and Cases; Himalaya Publication House , New Delhi



14.12 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: A functional policy is a board guideline indicating the criteria that a functional manager should use in making decisions in his functional area .

Ans. to Q. No. 2: . In the management of funds, policies and plans are developed for accounting and budgeting credit and risk management, cost reduction and control, tax planning, etc. severe cost control helps to improve a company's financial health.

Ans. to Q. No. 3: Modernization strategy involves up gradation of plants and machinery so as to reduce cost per unit and include product quality the organization deals in competitive advantage by serving customers better TATA steel became a lowest cost steel producer using its modernization programming.



14.13 MODEL QUESTIONS

Q.1: Write a brief note on functional Policies and plans.

Q2: Write a brief note on financial Policies and plans.

Q3: Write a brief note on marketing Policies and plans.

Q4: Write a brief note on human resource Policies and plans.

Q5: Write a brief note on information management Policies and plans.

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