

Describe the strategic alternatives given  
business essay



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We are shivering in our paints, as we grope against new competition from firms from USA and Korea. – A very senior L&T executive to the author at a Management Development Programme at IIM (Ahmedabad) in 1993 The competition we have faced till now is nothing is compared to what lies in store for us. Till now, the period (post-liberalisation) was one of learning and assessment for the big global competitors

– Sudhakar Divokar Kulkarni, CEO. to the case author in April 1997.

In 1997 Larsen and Tubro (L&T), one of the largest engineering companies in India (and one of the top five private sector companies) posted yet again a growth rate of over 20 per cent. This happened for the fourth consecutive year despite acute liquidity crisis in the market, political instability, and uncertainty about execution of power projects of foreign companies (e. g. Enron), and so on. Since last few years, L&T was becoming a lesson for companies worldwide in managing explosive growth and developing internal capabilities on a continuous basis. Simultaneously, it was setting new challenges for the academics in defining core competencies and core capabilities. An independent survey named L&T to be one of the best managed companies in Asia and another by Business Today, showed that the company was one of the most transparent and a leader on the issue of corporate governance. During 1995-96 and 1996-97, the company achieved an incredible growth in sales of nearly Rs. 1, 000 crore per annum over the previous years, crossing the landmark turnover of Rs. 5, 000 crore in the process.

## **The Evolution**

L & T was set up in 1938 as a partnership trading firm by two Danish engineers, Henning Holck Larsen and Soren kristian Toubro, who had quit their jobs. In 1946, it became a private limited company and by 1950 reached the status of a public limited company. Table 1 gives the evolutionary picture in brief. L&T presently has a shareholder base of nearly 1 million and employee strength of over 24, 000 As a company, this multi-dimensional engineering giant is actually the nucleus of a group of companies involved in building complexes, worksheets, offices and service outlets at different locations all over India and abroad. Over the years, L&T has acquired a commendable reputation for capabilities for executing engineering related projects.

### **Table 1 L&T Business History: The Milestones**

1938 - Incorporation as a partnership firm

1946 - Incorporation as a Private Ltd Co.

1950 - L&T goes public Powai Works set up

1961 - Audco India incorporated for manufacturing valves

1962 - Retirement of Soren Toubro; EWAC Ltd. set up for manufacture of welding alloys

1963 - TENGL founded to manufacture crawler undercarriage parts for caterpillars

1969 - Agency business abolished, formation of L&T Bottle Closure division

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1971 - L&T McNeil set up for manufacturing Presses for tyre industry

1974 - Management Organization Structure and Management Planning and Control System introduced

L&T Bangalore Works commences production of hydraulic excavators

1978 - Larsen retires. L&T Faridabad commences production of switchgear

1982 - ECC merged with L&T; L&T enters shipping business with two ships

1983 - L&T enters cement manufacturing with Awarpur plant commencing production

1987 - L&T enters computer hardware with floppy discs and printers; L&T Gould for electronic test and measured instruments

1988 - Cement capacity enhanced to 2.2 m tons per annum

1989 - 90 L&T under DH Ambani (as chairman)

1990 - 93 - Repeated takeover attempts by RIL

1993 - 95 Series of strategic alliances and tie-ups resulting in formation of L&T-Niro, L&T-Chiyoda, L&T Sargent & Lund9, L&T Finance, and so on.

## **The Takeover Attempt**

During 1991 - 93, as the country progressed towards liberalisation, the company just emerged from a not-so-welcome takeover threat from the powerful Ambanis of Reliance. The Ambanis were themselves embarking upon massive expansion in chemicals and petrochemicals business, and L&T

would have provided a real and logical synergy in terms of executing turnkey projects for construction, engineering, supplying machinery and of course, offering suppliers credit (to the tune of Rs. 1. 000 crore). Through protracted investigation and litigation (in which the Reliance Industries Ltd. was found to have collected forged proxies), the company somehow remained in the hands of 'professionals'. The big question mark as posed by an article in the Economic and Political weekly was "Where does L&T go from where it has reached now?"

However, it was obvious that a total new mindset and working culture would be required if L&T was to grow and remain competitive. In 1993 94, the company started adopting the principles of Total Quality Management (TQM) by becoming customer focused, reducing the costs and wastage, and adding value at all stages for maximising customer satisfaction.

In 1994, Mr. S. D. Kulkarni took over as the CEO of L&T and confidently promised that the company would reach its mission of being a Rs. 10, 000 crore (\$3 bn.) - company by the end of the century. He also declared that the company would strive to maintain and develop leadership positions in all its businesses or else it will quit. Simultaneously, zero retrenchment was promised. The philosophy of TQM was embraced with added emphasis on 'customer delight', that is, delivering more value than expected by the customer.

## **Vision, Core Values, and TQM**

Infrastructure - being a key bottleneck for Indian industry - was identified as the engine of Growth for the company's ambitious plans. But before that, the

company needed an ambition statement, which every employee could own and share. A massive companywide exercise for finding out what the company stood for and what its core values were was embarked upon. The emergent statement though not sounding much different from several other organisations vision, however, came to be owned and understood by almost every employee because of the process of identifying the mission and peoples involvement. The key elements of L&Ts vision f focussed towards a world class company dedicated to:

excellence and professionalism

customer delight through service

entrepreneurial leadership and creation of an organisation that is on the path of continuously learning by fostering teamwork, trust, and care

Community service and environmental protection.

## **Core Competencies**

According to a senior executive, today the core competence of L&T lies in its ability to synthesise, integrate and harmonise its diverse world-class engineering, manufacturing, procurement, construction and fabrication skills around turnkey projects (in core economic sectors) and people. This is made possible through a world class vendor base and quality technological alliances, excellent IT infrastructure (CAD,/CAM systems, PMIS etc.) sophisticated fabrication facilities for plant and machinery in the core sector.

## **Business Leadership**

L&T holds a leadership position in India in most of the areas in which it operates. The first company to introduce hydraulic excavators in the country, it still maintains its leadership status in this and in the vibratory compactor segments. L&T's switchgear products enjoy a dominant position in Indian as well as the international markets. It continues to be a leader in the manufacture of Z-Line petrol pumps and its cement is considered to be of high quality. L&T has pioneered the manufacture and supply of critical nuclear reactors and space vehicles hardware in the country. It has to its credit many firsts in the Indian industry - from the indigenously manufactured hydrocracker reactor, naphtha - run power plants, the world's largest curing press, to the first vertical dairy in the country and so on.

With the Project and Construction business in the country growing at a fast pace and expected to continue to do so with the country's emphasis on infrastructure, both L&T ECC (Construction Group) and L&T's Projects (EPC) businesses are being treated as thrust areas. The ECC construction group has been responsible for construction landmarks both in India and abroad, for instance, the Bahai house of worship in Delhi, an international airport terminal in Abu Dhabi, bridges in Malaysia, hotels in Uzbekistan, and so on. Its major projects have been building of cement plants for Grasim Industries, Gujarat Ambuja Cements, and ACC Ltd., construction of bridges and railway tunnels for the Konkan Railway project. In projects business, L&T EPC group successfully executed orders from ONCC (for piping and oil platforms), Tata Chemicals {for captive co generation power plant) and Gandhinagar Dairy. In

shipping and international business too, the company has made significant progress to become one of the leading players in their line of business.

L&T has a long and enviable record of high-tech fabrication. The workshops in Powai with CNC precision machines house large-size precision fabrication facilities. Its major heavy engineering complex at Hazira also caters to such needs. L&T's units and its links with globally reputed organisations have contributed much in developing manufacturing excellence.

## **Decision-making at L&T**

Over the years, the company has implemented its vision through various approaches. Foremost is the emphasis on empowerment, teamwork, and continuous training of employees. In terms of structure, the company has decentralised decision-making, and according to Mr. Kulkarni, CEO, the concept of Strategic Business Units (SBUs) is being actively encouraged. The company is decentralised for all practical purposes. Budgets and allocations are made at the beginning of the year and SBUs undertake the responsibility for achieving the targets. Only in major decisions involving capacity augmentation, business divestment, diversification, and so on does the CEO personally involve himself. According to Mr. Kulkarni, “ only through empowerment and decentralised decision making can a highly diversified company like L&T be managed”. For example, though the decision to divest the Dot Matrix Printers (DMPs) business was first proposed by the concerned department, yet the decision was taken at the MD/Board level as it agreed that product and technological obsolescence and synergy of DMPs with other businesses was indeed low.



## **The Culture of TQM**

The TQM journey, initiated in 1993, has now taken firm roots in L&T. The efforts put in training a large number of employees has resulted in the launch of many quality improvement initiatives. A large number of employees have participated in continuous improvement (Kaizen) and small group activities. Several cross-functional teams regularly function in the areas of manufacturing, design, marketing and services. L&T has created an environment for increased empowerment to further improve customer services. The TQM Awareness Programmes have also been extended to the stockists and vendors to achieve improvement in the operations and customer service. L&T strongly believe in the concept of internal customers. With TQM knowledge spreading widely inside the company, employees have realised that everybody in every department is a supplier to somebody in the organisation if not directly to an outside customer. One employee says, “ even though it is difficult to oblige everybody, I believe that we should go a step forward to understand the real requirements of the customer, which he himself may not be fully aware of, and delight the customer through total quality and service. Such an attitude should be our guiding force”. A value strongly sought to be inculcated in the employees is that people can confront competition better by moving from a product-oriented philosophy to a customer-oriented philosophy. For this, employees are being trained in multi skills, including quality transactions and market engineering, besides product engineering.

With people being regarded as the ‘ prime movers’, a strong HRD culture pervades the organisation’s personnel policies, and HRD systems are

designed to sustain motivation, encourage learning, and achieve higher levels of quality and productivity through job involvement. The embracing of TQM philosophy, and implementation of ISO 9000 systems by almost all divisions has led people to work towards common goals with a customer oriented approach.

## **Social Commitments**

**Corporate Citizenship** The Mumbai Chamber presented the Good Corporate Citizen Award for the year 1994 -95 to Larsen and Toubro Limited for its contribution to Larsen and Toubro Limited for its contribution to the corporate world, but more importantly for its conspicuous achievements in improving the quality of life in the community.

## **Award for most Outstanding Concrete Structure**

The ECC Division of L&T received the ICI-Mc-Bauchemie Award presented by The Indian Concrete Institute for the most outstanding concrete structure for the year 1995 - 96 for Sree Kanteerava Indoor Sports Complex in Bangalore. The structure is considered to be an engineering marvel. The citation for the award reads ' Sree Kanteerava Indoor Sports Complex is designed in the shape of an ellipse using 120 ' V' shaped precast folded plate elements. Each element is 43 m long and weighs 55. t. The thickness of the plate is just 40 mm, but strengthened by ribs throughout its length. Since the folded plate springs from the ring beam along the outer periphery and connected by the compression ring at the crown, the entire roof is self supporting, providing an unobstructed column-free space of 119 m x 91 m with a playing arena of 65 m x 45 m in the centre.'

Environment Upgradation L&T has been showing its commitment towards corporate citizenship. As one goes around the works and offices of L&T, one experiences a soothing and refreshing ambience because of the rich foliage and delightful floral blooms around these structures. L&T has undertaken extensive tree plantation programme. Over three lakh trees were planted in and around the factory in 1993-94 under the programme ' Trees for Life. The villagers have been given grafted saplings of fruit-bearing trees and encouraged to plant them. The success of this ongoing effort led to L&T being selected by the Government of Maharashtra for the prestigious Vanashree Award in 1990.

Contribution to Academics L&T set up L&T Institute of Technology, a polytechnic in Mumbai. In a short period, it has come to be widely regarded as one of the best training institutions of its kind in the country, particularly for the full-fledged workshops and laboratories that provide a strong practical orientation to theoretical inputs. There is a good demand in engineering companies for the students passing out from this Institute. L&T also contribute financially towards Upgradation of facilities in several polytechnics. It regularly interfaces with academic institutions to promote quality education and has established research chairs for faculty in several institutions including IIM, Ahmedabad. Within the company, one of the most invaluable and lasting investments made by L&T is the establishment of a Management Development Programme Centre at Lonavala (near Mumbai). According to Mr. CM Srivastava, Joint General Manager (JGM) (HRD), the management development centre has been visualized as a ' temple of learning where people would come with the sole purpose of

enhancing knowledge, learning through experience, self-study, and introspection. The emphasis, therefore, is on providing an ambience for learning rather than training'. The centre has modern learning facilities like computer-added packages, a library, and outdoor training facilities.

## **Manufacturing Facilities**

Some important manufacturing facilities of L&T are shown in Table 2. Table 2

Important Manufacturing Facilities of L&T

### **Location**

#### **Product/Plants**

Powai, Madh (Maharashtra)

Plant and heavy equipment switchgears, Petrol pumps, Bothell closures, control and automation, welding alloys, undercarriage components

Thane (Maharashtra)

Electronics and Inputs for undercarriage components

Awarpur (Maharashtra)

Cement

Nashik (Maharashtra)

Light-weight glass containers

Faridabad (Haryana)

switchgears

Ankleshwar (Orissa)

Welding Alloys

Kansbajal (Orissa)

Plant and equipment for steel paper and pulp, material handling and mineral processing industry

Mysore (karnataka)

Medical electronic equipment computer peripherals, telecommunications, test and measuring instruments

Bangalore (Karnataka)

Earth-moving and construction equipment, hydraulic equipment and diesel engines, Gen. Sets

Hazira (MP)

Heavy equipment's

Hirmi (MP)

Cement manufacturing unit

Chennai (TN)

Valves, rubber and plastic processing machinery

Kandla (Gujarat)

Export oriented fabrication

Pondicherry

Transmission towers

Kalol (Gujarat)

Export footwear

Jharsuguda (Orissa)

Cement grinding unit

## **The Future**

The financial results of L&T for the year 1996 - 97 are not too encouraging as far as profits are concerned. The company has reported profits of Rs. 410 crore against the previous years profit of Rs. 390 crore, thereby achieving a slim growth of five percent. However, the turnover has recorded a sharp jump from Rs. 4249 crore to Rs. 5304 crore. From another perspective, the performance has been commendable considering the slump and intense competition in the cement industry and performance of other competitors during the period. L&T is firmly consolidating itself in four major business areas engineering, construction cement, and equipment manufacture, Presently, cement accounts for 15 per cent of the total revenue. It has embarked on a major expansion programme that will double the capacity to 12 m tons per annum, which will make it the largest cement manufacturer in India. A Euro-issue of \$135 million has been planned to fund this expansion. Having defined EPC as a thrust business for the future, it will be relevant to

take a look into the competitive structure of the EPC business. In the domestic business, L&T has a handful of competitors among whom BHEL, Punj and Lloyd, and RITES are the major ones. The peculiar nature of EPC business is that it is not a sector specific industry. The core infrastructure activities such as power, telecom, and roads will become key focus areas for the country. Most players in this industry have specific competencies which cater to specialised areas, L&T is perhaps the only company which competes in almost every sector by virtue of its diversified technical competence and expertise. L&T's EPC business takes the form of competitive bidding for executing projects from start to finish for third parties, part execution of projects as sub contractors to other bidders, and autonomous bidding for setting up its own projects in the core sectors.

In the global EPC business, however the company faces stiff competition from the global construction and engineering giants like Hyundai, Saipern, Mcdermoft, Caterpillar, to name a few. In such a highly competitive environment with technology being a handicap (that most Indian companies suffer from), the logical step is to enter into strategic and technological alliances. Most Indian EPC players follow this route and L&T is no exception. Some of its alliances are with its competitors, for instance, Caterpillar, Marubeni. Like most Indian EPC players going global, L&T s overseas EPC operations are concentrated in the developing and developed countries of South-and Middle-East Asia such as Thailand and Malaysia, Vietnam, Burma, Bangladesh, Sri Lanka, and Gulf countries like Qatar, Saudi Arabia. Bahrain, Oman, and so on.

Though L&T has attained impressive achievements, the productivity of several businesses are alarmingly low on the international benchmark level. In an environment of high interest rates and tight liquidity position, the efficient management of working capital will form the key to future L&T successes. Some of the areas of concern for L&T in the short-term would be: the need to attain faster delivery standards, customer satisfaction, continuous cost reduction, productivity improvement and operating with low working capital, and aiming at least to be a regional player of repute and recognition.

### **Questions:**

- (a) Carry out a SWOT Analysis of L&T.
  
- (b) Explain the Decision-making process at L&T and how does it contribute to performance of the company.
  
- (c) What are the various strategies that you recommend for L&T's EPC division in domestic and foreign markets?

## **Paper-2**

### **Section-A**

1. ' Strategy includes the determination and evaluation of alternative paths to an already established mission or objective and eventually, choice of the alternatives to be adopted.' Explain the statement underlining the process of strategy formulation.



2. Technological factors represent major opportunities and threats, which must be taken into account while formulating strategies. Discuss. How can a firm build a sustainable technology based competitive advantage?
3. The low-cost leadership strategy at times enables the firm to defend itself against each of five competitive forces. Explain.
4. Briefly explain the factors which contribute towards the success of a strategic alliance. Illustrate with a recent example of strategic alliance.
5. Explain any three methods/techniques used in strategic control systems, giving examples.

## **SECTION B**

6. Read the case carefully and answer the questions at the end.

### **Rupbani Beverage Limited**

Rupbani Beverage Limited entered the Indian wine industry in 1975 by acquiring the Mastana Wine Company of Shimla and two other smaller wine companies at Kalka for Rs. 50 lakh. Despite hostility expressed by other wine makers and predictions that Rupbani would very soon fail as other outsiders such as Parminder Wine Company had, the entry succeeded. Rupbani Limited performed the unheard of feat of establishing a volume of 30 lakh cases within two years and taking the market share away from premium brands such as the National Wine Company of Bombay, Pearl Drink Limited of Pune and Syndicate Cola Limited of Madras.

Rupbani advertised heavily and incurred Rs. 10 lakh in one year and standardised the taste of its wines with considerable success. It also invested Rs. 48 lakh in a large, new winery at Ahmedabad. A Rupbani Executive said, " By 1995, consumption of wine in India will be a liter per capita, compared with half a liter today."

The industry reacted to Rupbani's presence by doubling and tripling advertising expenditure. ABC and Company began a costly campaign to market premium and varied wines while reducing marketing emphasis on its cheap wines such as Nahan Drinks and the Gola Beverage. ABC maintained its 25 percent market share but had to resort to some heavy price discounting to do so.

In 1982 Pearl Drinks formed a special wine unit to combine efforts for all its brands. Mr. Sailesh Kumar former Vice President of the National Wine Company had directed a project to coordinate Pearl's world-wide wine business and develop a world wide strategy. The new unit was, in fact, a result of his work.

In 1983, wine consumption changed from growth at a rate of 5 per cent to no growth. The government also lifted the ban on imports of wine. This presented an even greater challenge because imported wines were cheaper as well as superior in quality.

In 1984 Mr. Ranganathan took over as Managing Director of Rupbani. He reviewed the recent performance of the company and its competitive position. He noted that the company was losing its hold over the market and it was not getting the return as expected. He also found that the company's  
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performance in the syrup business was excellent. He, therefore, thought of selling out the wine business to Pearl Drinks. He convened an executive meeting and apprised the executives of his proposal. He also informed them that Pearl Drinks had offered the company to recapture its investment in the wine business which was about Rs. one crore. Mr. Arun Mehta, General Manager, observed that Rupbani was in and out in the past six years and has joined different organisations in trying the wine business. The finance Manager, M. Subhash Ghai said, "The return on assets in the wine business is not the 30 to 35 per cent, which Rupbani is used to getting in the syrup business. Gaining share and trying to compete with ABC and Company left Rupbani with, eventually, the number two position in the wine industry with profits of Rs. 60 lakh on Rs. 220 lakh in sales. The stockholders wanted immediate return and hence, the company could not afford to make long-term investments necessary to popularise the brands. Had they stayed for five more years, they would have been a key leader in a large and profitable industry."

Pearl Drinks immediately went from the sixth position in the industry to a strong second place with an 11 per cent market share. The Chairman of Pearl Drinks stated: "We believe you can make money in this business in two ways — remain a small boutique winery or become large and achieve economies of scale."

Mr. Harish, Marketing Manager of Rupbani said, "It is no use selling out our business to Pearl Drink and get back what we have invested. We can compete with our competitors successfully and improve our market share if we manufacture wines of varying qualities to suit the varied preferences and

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pockets of diverse sections of society. We should also offer price discounts to attract the consumers. There should be wide publicity of our brands throughout the country.”

### **Questions:**

- (a) Perform SWOT analysis of Rupbani.
  
- (b) In the light of opportunities and threats of Rupbani Beverage and its strengths and weaknesses, what strategy should it formulate to improve its performance and strengthen its competitive position?
  
- (c) Should Rupbani spend on advertising in line with its competitors? Discuss.
  
- (d) What other strategies would you suggest for Rupbani for increasing their share of the market?

## **Paper-3**

### **Section-A**

1. Explain the various steps involved in Strategic Management process in a single business firm.
  
2. Explain the following:
  - (a) Types of resources
  
  - (b) Strategic importance of resources
  
3. Discuss the importance of differentiation strategy in the present competitive environment. Explain taking into consideration its advantages and disadvantages.

4. Every strategic alliance incurs certain costs and comes with a set of risks.

Explain any five costs/risks of entering into a strategic alliance.

5. Corporate culture plays an important role in the success of an

organization. Explain giving suitable example.

## **SECTION B**

### **NEECO LIMITED**

At the end of the recent five-year plan, it was estimated that there would be a considerable demand in the manufacturing capacity of power transformers in the country. It was further projected that the gap between demand and the manufacturing capacity would be even larger in the subsequent plans. Thus, anticipating the country's demand in future, Neeco Limited decided to set up a new unit for manufacturing transformers. This was in addition to the manufacturing capacity already built up at one of the existing factories.

### **Formal Planning Process**

Formal planning was introduced in the very first year of the commencement of activities at the new unit. The planning process at Neeco Limited included the setting up of broad objectives and the preparation of the three-year forecast. In a letter addressed to departmental heads, the General Manager, Mr. S. K. Patel said, " The time has come to put down on paper the objectives and goals of our organisation and to develop a proper framework whereby we can take a more systematic look at the future we are heading for. This, I believe, can be achieved by involvement and cooperation of all the departmental heads in putting into practice a culture of planning." The responsibility for developing a three-year plan was entrusted to the planning

cell, which reported directly to the General Manager. There was a separate controller's office, which looked after budget preparation and the subsequent monitoring of actual performance.

## **Goal Setting**

Process Planning began each year in the month of April with the establishment of goals by the top management. The top management group consisted of the General Manager and his various functional heads. The goals were set both in qualitative as well as quantitative terms. The quantitative goals were in terms of growth in sales and profits. Commenting on the quantitative goals, Mr. Patel observed that: " Profit is the primary goal".

The planning cell, after collecting all the information, consolidated and integrated the data and prepared operating results and cash flow projections for the three-year period.

Exhibit-I

NEECO LIMITED

## **Date**

### **Steps in planning**

1st Week of April

Planning call sends relevant formats to departmental heads, with detailed explanations.

4th Week of April

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By the fourth week, the various departmental send the formats back to the planning cell, duly filled.

1st Week of May

Planning officer compiles all the data and puts it in an integrated form.

2nd Week of May

The first draft of the plan is discussed in a management group meeting, wherein several suggestions emerge and the draft is thoroughly revised by resolving the conflicting objectives of various departments.

1st Week of June

The final draft of the plan is ready and is sent to corporate headquarters.

## **(b) Responsibility for Plan Preparation**

Segment of the Plan

Responsibility

Sale Plan (Order Book Position)

Manager Marketing

Production Plan

Manager (Production)

Materials Plan

Materials Manager

Manpower Plan

Personnel Manager

Township Development Plan

Manager (Projects)

Plan and Final Plan Document

Planning Officer

Before finalising the plans as prepared by the various functional/department heads, a detailed discussion was held. During these discussion was held. During these discussions various departmental heads explained the basis of their respective plans. The final plan was arrived after resolving the conflicting objectives of various departments.

### **The Planning-Budgeting Linkage**

Immediately after the plan was approved by the Management Group, the process of preparing a detailed budget for the next year was initiated. The three-year plan set out the broad objectives for the first year and projections for the next two years. A detailed exercise had already been conducted in preparing the broad objectives, which served as a basis for the preparation of a detailed budget for the ensuing year. Thus the first year of the plan document, with necessary modifications, became the budget for the next year. The three - year plan document and the budget were, therefore,



closely inter-related. It was said that the preparation of a three - year plan was, in a way, a process of creating an organisational climate for a rigorous and time consuming process of budgeting.

## **Reactions of Executives**