Uttarakhand Open University, Haldwani

BBA(N)-504

School of Management Studies and Commerce



Business Policy and Strategic Management

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Business Policy and Strategic Management

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Course Objective: The objective of the course is to provide the students the conceptual understanding of strategy, its formulation and implementation as an important aspect of modern business organization.

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Suggested Readings:

1. Charles W.L.Hill & Gareth R.Jones – 'Strategic Management Theory, An Integrated approach' – Houghton Miflin Company, Princeton New Jersey, All India Publisher and Distributors, Chennai, 1998.
2. Thomas L. Wheelen, J.David Hunger – 'Strategic Management' Addison Wesley Longman Singapore Pvt., Ltd., 6th Edition, 2000.
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Block I
Introduction to Business Policy and Strategic Management

UNIT 1 INTRODUCTION TO BUSINESS POLICY

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1.1 INTRODUCTION

Businesses are increasingly finding themselves in a fast-changing environment due factors such as globalisation, newer emerging technologies, socio-demographic changes in the employee and customer profiles, volatile political scenario etc. Traditional outlook towards planned policy making design no longer holds validity. Thus, courses earlier focussed on teaching business policy in isolation have been incorporated as a integrated part of strategic management programs.

In this unit, the concept of business policy will be introduced. Business policy and strategy though distinct concepts are also inter-linked in some areas. They are the twin pillars which enable organisations to survive and grow in a competitive and demanding environment. Thus, the understanding of business policy in the context of strategic management is important.

Business policy essentially is a set of guidelines which is internal to an organisation and defines the decision making process and procedures of the organisation. It is a blueprint defined by the top management which is executed by the levels below for a smooth day-to-day functioning of the business.

1.2 OBJECTIVES

After reading this unit you will be able to:

- Understand the concepts of Business Policy and Strategy.
- Describe the features of Business Policy.
- Understand the difference between procedures and business policy, strategy.
- Know the different types of policies and their impact on organisations.
- Understand how to frame business policies.
- How to implement policies in organisation.

1.3 DEFINITION OF BUSINESS POLICY

Every organisation big or small has its own way of doing things. Some businesses are characterised by the leader or owner making all decisions for the business. This is largely prevalent in small business enterprises. However, when organisations grow in size, often decision making needs to be delegated to other levels. Top management needs to focus on strategic management rather than day-to-day operations. This is where a good set of policies are critical for daily functioning of the organisation.

Policies in general are statements which guide actions, decision-making and thinking in the organisation. While there are multiple definitions of business policy formulated by strategy experts, some popular ones are given below:

> *"The study of the function and responsibilities of senior management, the crucial problems that affect success in the total enterprise, and the decisions that determine the direction of the organisation and shape its future." Christensen, Steiner and others*

> *"Policy refers to goal-directed decisions and actions in which capabilities and resources are matched with the opportunities and threats in the environment. Policy and Strategy are consistent stream of decisions and actions to deal with the environment." Henry Mintzberb.*

"Business Policy basically deals with decisions regarding the future of an ongoing enterprise. Such policy decisions are taken at the top level after carefully evaluating the organisational strengths and weaknesses in relation to its environment." R. E. Thomas

Thus, Business Policy is a set of guidelines used by the middle and lower management to allocate resources, resolve issues and problems within a pre-determined sphere of decision making without consulting top management. It defines the scope, limits and the conditions under which the subordinates can independently take decisions of day-to-day routine activities. Managerial action is governed by policies laid down by the top management.

1.4 FEATURES OF BUSINES POLICY

The features of business policy given below will further clarify the concept and understanding of corporate policy.

Generalised statements – Policies are guiding principles which incorporate management thinking and organisational objectives. Thus, they contain generalised qualitative statements of intent and action. This ensures a wide scope of applicability and flexibility for adapting to multiple scenarios.

Long-term outlook – Policies unlike strategies don't have timelines or time limits of validity. They are ongoing documents which stay relevant unless modified. This in important in providing stability to business.

Aligned to goals and objectives – Business policies originate at the strategic level as a means to fulfil organisational goals and objectives. They need to flow in that top-down manner through the organisation.

Multi-level existence – Evident from the above, policies flow and exist across multiple levels in the organisation. Each policy is typically tagged to its parent policy to ensure traceability and alignment across top management, middle management and lower management levels.

Decision making for routine and repetitive functions – Unlike strategy which handles new unanswered challenges for the organisation, the underlying purpose of a policy is delegating decision making and smooth functioning of the routine operations of the organisation.

Positive orientation – Business policy is a guide for managerial action. It thus has a positive orientation of what needs to be done. In most cases it sets a affirmative tone with the employees and other users. In some sense the policy wording echoes the corporate culture and values which are meant to inspire managers.

Non-repeatability - Policies due to the fact that they exist at multiple levels of the business are meant to delegate power and authority. Thus, they need to avoid repeated

handling of scenarios and prescribed action. This only creates confusion among the employees.

1.5 BUSINESS POLICY AND STRATEGY

Business policy and strategy are used inter-changeably many times, but they are 2 distinct concepts and need to be understood accordingly. There is a group of management experts who treat policy and strategy as synonymous. For example, William Glueck defines business policy as "management policy is long range planning. For all practical purposes, management policy, long range planning and strategic management mean the same thing". This view can be justified in the earlier days when strategy was largely an inward looking process in itself. Businesses were localised in terms of their markets, resourcing, legal and political environment and impacted communities. Management institutes would have courses on business policy where strategic management would be covered.

This view and the discipline of strategic management has undergone a massive change in the recent times. Increased globalisation, coupled with technological, social and political factors operating at multiple levels have moved strategy to the external realm. Business Policy is an outcome of the study of the top management functioning and decision-making to enable the lower management successfully manage and operate routine/repetitive functions. While strategy as you may have learned in the earlier units is a forward looking roadmap for the organisation which incorporates both external and internal factors in helping the organisation realise its vision, goals and objectives. While effective and quick decision-making is a key tool in strategic management, strategy encompasses other outward looking and growth oriented aspects like handling opportunities and threats, identifying and monetising trends, organisation performance management etc.

Another view of policy positions it as a process of implementing strategy guided by Robert Mudric definition of policy as "A policy establishes guidelines and limits for discretionary action by individuals responsible for implementing the overall plan.". This view of business policy restricts its scope to the operational level bordering on treating it equivalent to processes and procedures. As discussed, earlier policies exist at all levels including strategic levels.

The key differentiating features of policy and strategy are summarised in the table below:

Business Policy	**Strategy**
Business policy concerns itself with organizational activities which are routine and repetitive in nature	Strategy concerns itself with those aspects of the organization health which the organisation maynot have faced before.
Policy is formulated by the top management and operationalized by the middle/lower management	Strategy formulation is primarily done by the middle management and formalised by top management
Policy is an operating document of the principles, scenarios and actions	Strategy is a roadmap to maximise opportunities and minimize threats.
Policy is an inward-looking document	Strategy is all encompassing, and it incorporates environmental factors, opportunities and threats in its formulation
Business policy seeks to provide a generalized approach to problem solving	Strategy is a methodology to achieve organizational goals
Business policy does not have expiry dates or time limits	Timelines are an integral part of strategy
Business policy is a delegation of authority and power in the structured manner	Strategic decision-making being critical and dynamic in nature needs constant oversight of top management.
Policies are statements incorporating thoughts and principles to enable decision-making	Strategies are action-oriented

The table above clearly differentiates business policy from strategy and yet business policy and strategy are also inter-linked as depicted in the figure below:

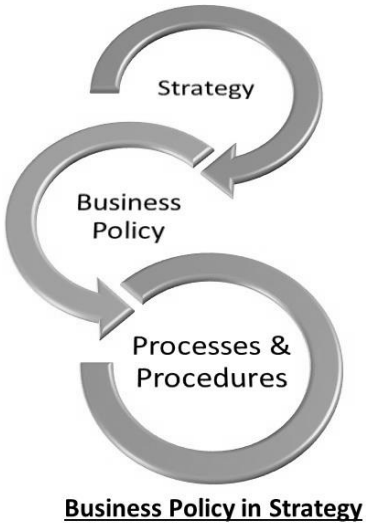


Fig 1.1 Business Policy in Strategy

Business policy imbibes elements of strategy and is an important tool in operationalising strategy. Strategy provides the following inputs to business policy:

- A framework for operational planning
- A direction and prioritisation to organisation's activities
- Authority and accountabilities of achieving objectives in the set timelines
- Ensures optimal deployment and utilisation of organisation's resources
- Alignment of people, processes and practices to overall strategic direction thus increasing organisation effectiveness
- Guiding reference point for ongoing decision making

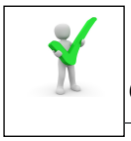
A comprehensive business policy totally aligned towards a well-thought out strategy can help the organisation achieve its goals and objectives.

1.6 POLICIES & PROCEDURES

Business policies though created by the top management, the policy development and implementation process can either be top-down or bottom-up approach. In a top-down approach as the name suggests that the policy is formulated and decided at the top and pushed to the lower level for execution. The advantage of this approach is that the policy alignment to strategy can be ensured. However, since it is essentially a new entity at the lower level, it requires a longer time to implement.

The second approach, the bottom-up approach, as the name suggests originates from the operational level of the organisation. It is more inclusive and grounded in operational reality but lacks support and strategic alignment of the top management.

Policies are high-level documents which transmit the management strategy to the operational level. Polices further guide the documentation of low-level detailed processes and procedures. Thus, procedures can be understood as step-wise instructions which inherit the spirit of the guiding policy. Since procedures are detailed instructions for undertaking a certain activity, they are specific to the context, technology, environment, user etc. Any change in even one of these factors will require an update of the procedures. Thus, procedures can be deemed as more dynamic as compared to policies. For example, the Recruitment policy of an organisation may prescribe lateral recruitment of experience professionals in case of specific project requirements. A procedure would entail how exactly will the recruitment team go about sourcing these lateral hires.



Check Your Progress-A

Q1. Define Business Policy?

Q2. Explain the difference between strategy and policy?

Q3. Explain the key features of business policy?

1.7 TYPES OF BUSINESS POLICIES

In the earlier sections we have seen what constitutes a good business policy. Policies while incorporating the business goals and top management thinking also need to be compliant to the laws and regulations. In fact, some policies are created exclusively due to the regulatory requirements. Examples of these would be Privacy policy, Whistle-blower policy, Policy on Prevention of Sexual harassment etc. Another type of business policy could stem from customer or market requirements in the form of quality & audit policies, sustainability policies etc. A popular approach to classifying policies is based on functional areas as stated above. Some of the common types of policies in organisations based on functional areas are shown in the figure below:

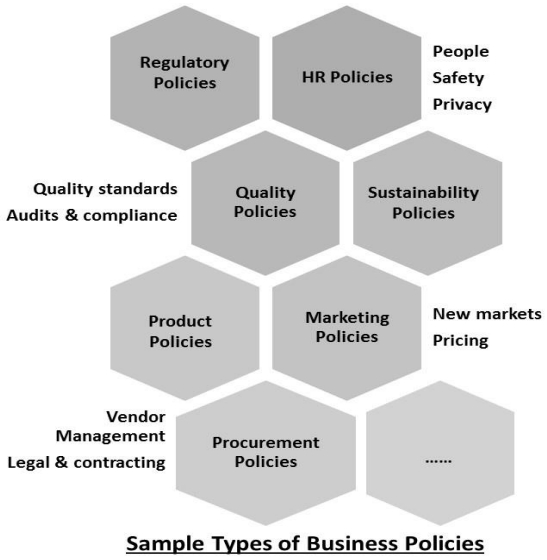


Fig 1.2 Sample Types of Business Policies

Policies can be termed as operations manuals, handbooks, standard operating procedures, guidelines etc. Another way to categories policies is by their intent:

- Regulatory – Bulk of the policies as discussed above fall in this bucket. These policies ensure that organization functioning is in accordance with the regulatory requirements

and local laws. Some organizations go beyond the basic legal requirements in framing their policies. For example, Policy for Prevention of Sexual Harassment

- Advisory – These are policies which prescribe certain way of functioning or certain behavior from employees. These policies advise acceptable standards and also advise consequences thereof. For example, social media policy
- Informative – These are designed primarily for information dissemination. These policies typically cover processes such as customer complaints redressal policy etc.

Based on the level at which the policy operates a policy can be categorized as Major or Minor. Major policies are those policies which are formulated by the top management to cover overall corporate objectives, structure, resourcing and other strategic areas. Senior management operations and procedures are also covered in major policies. Minor policies as the name suggests are at a lower operational level. Often, they are formulated at the department or unit level and are normally part of some major policy. Day to day operations of the organization are governed by the minor policies and effective implementation of these rollup to the effectiveness of the major policies as well.

In a similar way policy from a hierarchical perspective, policies can be tagged as parent or child policies. Following a top-down approach, child policies refer to the parent policy in intent and guidance but operate at a lower level of hierarchy. This hierarchy of policies helps aligning all corporate policies and trace them back to organizational objectives, structure and strategy.

There are many other ways to classify policy, only some key types have been discussed in this unit. Students are advised to go through the suggested readings to gain an understanding of other types of classifications.

1.7.1 IMPACT OF POLICY TYPES ON THE ORGANISATION

We have seen that different business policies can be created at different levels for different purposes. Hence these policies impact the organization and its stakeholders in many different ways. For examples policies such as safety, privacy, health etc. can foster positive work environments in companies. HR policies like compensation, performance management, rewards and recognition can create a talented and motivated workforce. Similarly, policies like customer engagement, quality management impact the overall customer experience for the product or service. Some policies like ethics, whistle-blower policy, social responsibility create a positive brand image of the organization.

Clearly laid out policies also set clear expectations from a variety of players. Employees for instance will know the dos and don’ts in a variety of situations. Similarly, customers will also know what to expect from the business in terms of quality, price, delivery etc. This in turn shapes the organizational culture. A word of caution here though, a policy is only as good as

its implementation. Thus, we see many organizations with fancy policies but poor implementation of those policies. These organizations flounder in the long-run and some may even collapse due to even one significant adverse event.

Thus, we can see the importance of business policies in impacting a range of organization parameters from legal to employees to brand to customers. Backward linkage of the policy to the organizational goals can also be seen from the above. Transparency and consistent approach while formulating the policy also creates an element of fairness among key stakeholders like employees, customers, vendors. In the next section we will understand the process of formulating good business policies.

1.8 FORMULATING BUSINESS POLICIES

Business policies are an integration of knowledge in management areas with a complex overlay of inter-linkages within the organisation to provide a generalised approach to decision-making and problem solving. While the business policy output incorporates the features as discussed above itself may look like a simple manual or document, its formulation is an arduous task in itself. Policy formulation is a democratic exercise which incorporates the views and opinions of people with the knowledge and experience of the organisation. Before we address the steps involved in formulating business policies let us recap on the basic aspects which the policy should cover:

1. It should incorporate a future approach which the organisation should adopt towards realising its goals and objectives
2. The policy should be able to mould the character and identity of the organisation via its content.
3. It should be able to comprehensively address the roles and responsibilities of the top management both for current and future challenges which the organisation may face.
4. Policies should also incorporate the element of resource mobilisation towards achievement of organisational goals.

Thus, business policies are framed as rules, procedures and guidelines to address the above aspects in providing an aid to decision-making while not in itself providing decisions. It should simply provide the limits, boundaries and direction for managerial action.

Policy formulation process goes through the following steps:

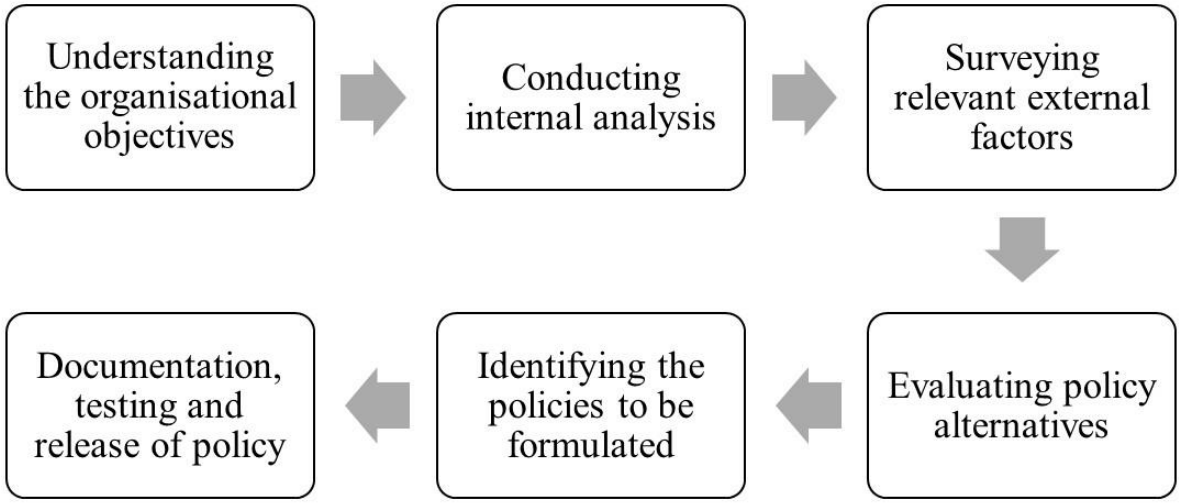


Fig1.3 Policy Formulation Process

1. Understanding organisational objectives – As discussed at the outset, many startups and small businesses may not have any defined business policies as the owner/leader is practically doing all the thinking and taking all decisions. However, as the company grows the need for policies crops up to streamline and grow operations or from a regulatory or customer requirement. Thus, organization objectives form an important start point for policy formulation. It also ensures alignment of the policies subsequently to the business goals.
2. Conducting internal analysis – Since policy is primarily an inward document which integrates an organisation's knowledge, experience, values and culture the process of internal analysis is the most critical step in policy formulation. Internal environment of an organisation typically comprises its structure, employees, resources, values etc. These are what make the organisation distinct and makes the organisational policies unique to the organisational context.
3. Surveying relevant external factors – While it has been said multiple times that policies are primarily inward looking, external factors do influence policies directly or indirectly via strategy. Regulatory factors, legal requirements, market practices, societal forces are all parameters which have a bearing on an organisation's business policy. While the organisation has little control over external factors, it is important to incorporate their effect in the formulation of the policy itself.

4. Evaluating policy alternatives – After doing the analysis the context under which the policy is to be formulated is set in terms of the strengths, weaknesses, culture, values and any external drivers. Policy options emerge based on the above augmented by past experiences or best practices. These policy options are evaluated, based on their contribution to the organisation objectives like profitability, growth, productivity etc. Feasibility and ease of implementation are additional criteria on which policy alternatives are evaluated.
5. Identifying policies to be formulated - From the various policy alternatives choosing the most appropriate policies is the next step in the process. This creates a list of policies to be formulated for example:
   a) Business policies – sales and marketing, operations, materials, servicing etc.
   b) People policies – labour, HR, recruitment, health and safety etc.
   c) Regulatory – audit & compliance, security, privacy, anti-discrimination etc.
   d) Strategic – innovation, customer experience, ethics & sustainability etc.
6. Documentation, testing and release of policies - Some of the policies listed could be standard policies which are adopted across all companies in the industry. Such policy templates are normally available and can simply be validated and customized to the specific company context. However, there will be a number of policies which be so unique that they will need to be created ground up simply because these policies incorporate the specific company context, culture and strategic vision. Majority of the policies however will be a combination of both the above categories i.e. unique to the company while adhering to normal business practices or regulatory requirements.

1.8.1 COMPONENTS OF BUSINESS POLICY DOCUMENT

By now you will know that business policy defines rules and boundaries for managerial action, while not actually giving the decision. Hence it normally starts with a mission-statement like rule which sets out the objective of the policy. The other components of the policy would typically be:

a. Title – The title of the policy is a meaningful phrase which will clearly indicate what the policy is about.
b. Policy – This contains the actual text of the policy
c. Purpose – Purpose of the policy lays out the need for the policy
d. Scope – Applicability of the policy defines its scope
e. Responsibilities – Who does what in the different scenarios is covered under the responsibilities section
f. Definitions – Some terms of the policy may need to be defined in unambiguous terms so that everyone has the same understanding of them

g. Special cases/deviations – Any exception or special cases which can be anticipated or maynot be anticipated get handled in this section

h. References – Is this policy linked to any other policy or refers other organizational documents

i. Owner of the policy – Who is the functional owner of the policy document?

Each policy is different in its content and may incorporate some extra elements depending on the policy being formulated. For example, policies relating to quality standards could contain metrics, KPIs, standards etc.

However, in general if the above areas/questions have been answered then the policy is more or less ready. It is a normal practice to look at available templates before starting the process of policy formulation and leverage any resources available which can shorten the process overall. The policy itself is a configurable document and goes under configuration management process for document storage and release. Policy formulation is a iterative process, each step feeds into the next step. A failure at any step loops the process back to the previous step for revaluation.

1.8.2 CHECKLIST FOR GOOD BUSINESS POLICY

Having understood the importance and purpose of business policy, it is evident that a well-written, clear and crisp business policy is an important tool for the smooth-running of routine business operations as well as a cohesive operating environment which is aligned to the top management thinking. Every organisation typically has multiple types of policies however; a good policy is governed by the following key features:

1. Specific – A good policy should be precise and specific in content. Generalised policies will be inconsistently implemented.
2. Clear – It should be defined unambiguously and should not be left open to interpretation. Too much use of jargons, abbreviations should be typically avoided.
3. Uniform – The policy should be reliable and uniform in its handling of aspects across all levels of the organisation. This also lends credibility to the policy and its acceptance by the organisation employees.
4. Appropriate and suitable – Needless to say the policy should be appropriate to the organisation's goal, else it is superfluous.
5. Simple – It should be written in simple, easy-to-understand language which is comprehended by the larger organisation
6. Inclusive – The policy should be inclusive of all possible scenarios and outcomes. It should have a wide-scope for it to be used by all within the organisation

7. Stable and flexible – The policy should be stable and not subject to frequent alterations; however, it should be flexible in operation so that managers can use it in multiple scenarios without referring to top management.

   A well-crafted business policy guided by the above features will enable business to be governed effectively and grow strategically in a dynamic environment.

1.9 IMPLEMENTING BUSINESS POLICIES IN FIRMS

A law is as good as its implementation. This old adage holds true not only of law but business policy as well. Very often we come across organisations with a large number of good policies, but barely able to keep afloat. This is often due to the inadequate implementation of the policies formulated. As is true with most implementation activities, it has to be a systematic, consistent and persistent effort.

Policy implementation starts with awareness building. Every policy has a stakeholder ecosystem for whom the policy is relevant. This set of stakeholders need to be made aware of the policy, its contents and of any changes or modifications subsequently. Most common stakeholder of a policy is an employee. So, employees undertaking the role of marketing should be aware of the relevant marketing policies, vendor manager needs to be aware of procurement policies etc. Business leaders need to train employees of relevant policies and its amendments from time to time. They also need make these policies available subsequently for reference and feedback.

Policies relating to compliance or safety are more broad-based and maybe applicable to all employees in the organization. Many organizations include these sessions as part of induction for new joinees. Some organizations also need their employees to revalidate their awareness and understanding of the latest policies on a regular basis. This is a good practice as it forces employees to stay current and updated of the business policy.

The next important step in implementation of the policy is the governance of its compliance. A good policy is seamlessly integrated into the processes and procedures of the function such that compliance is not an extra effort. This can easily be done digitally these days with most processes already digitized in companies. Violations of the policy in most such cases would be minimal or none. However, every policy has its exception cases which cannot be anticipated and/or handled at the time of formulation of the policy. Such cases are typically routed separately and hence could be ripe for violations.

Whatever be the cause or type, violations to business policy need to be dealt appropriately and uniformly by the top management. This is important to convey a consistency, seriousness and fairness about the policy, its implementations and repercussions if any. Employee expectations are set accordingly, and they will feel more confused incase of inconsistent handling of policy violations.

Many policies are exclusively documented to handle cases of violations. Management has 'zero tolerance' policy in many cases like prevention of sexual harassment, ethical conduct, privacy etc. This means that even a small violation of such policies will invite punitive or disciplinary action against the violator. Other smaller violations could be handled in milder ways with warnings or retraining.

Business policy formulation, implementation and compliance are serious activities to be undertaken by any organization. It not only impacts the softer aspects of the organization working, but also safeguards the organization from legal challenges and brings the organization closer to achieving the strategic objectives and goals.

1.10 POLICY EVALUATION & CONTROL

As discussed, earlier policies don't come with an expiry date or a timeline. Theoretically they exist in perpetuity unless amended or revoked. Strategic management process calls for a periodic evaluation of the strategic plan, monitoring of its performance and course corrections wherever required. Similarly, policies review, monitoring and control needs to be a planned activity done at periodic intervals.

Different policies need to be reviewed at different intervals based on their criticality, speed of change and complexity. For example, a policy on quality standards need not be as frequently reviewed as policy on product innovation. HR and people policies are dynamic by nature and need constant reviews. Some review can be triggered by an external event, such as a change in regulation.

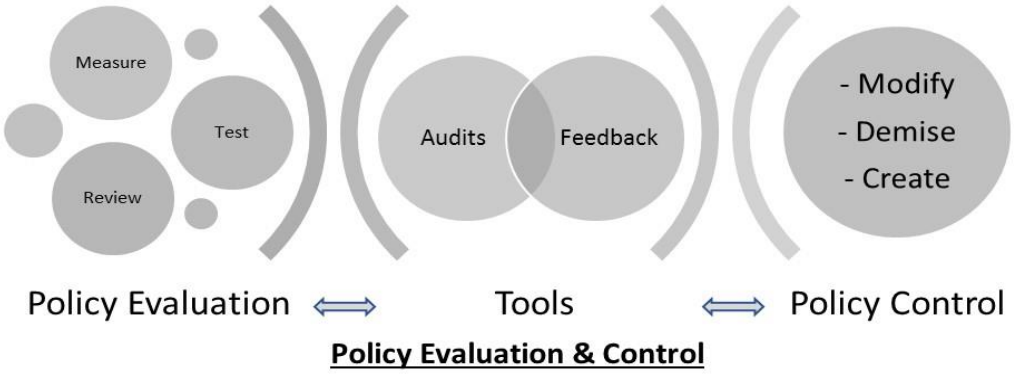


Fig 1.4 Policy Evaluation and Control

Thus, policy evaluation can be defined as the measurement, testing and review of the effective implementation of a business policy to achieve the target objectives. Evaluation process consists of the following 3 aspects:

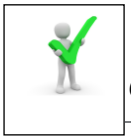
1. Appropriateness – Relevance of the policy to the changing organization or to different external factors needs to be evaluated. It's alignment to the overall strategic plan needs to be ensured at all times.
2. Consistency – Policy should show consistency in achieving the desired objectives.
3. Feasibility – This refers to the ease and effectiveness of implementation of the policy. Feedback loops from users of the policy are an important tool in evaluating the feasibility of the policy.

Policy evaluation is followed by the control process which essentially triggers corrective action in the key change areas identified in the evaluation process. Control measure could be either to modify the policy or to demise the current policy or to create a new policy. It could also be a combination of any of the alternatives mentioned above.

Audits and feedback loops are some of the tools which are used in the policy evaluation and control process. Both are complementary to each other, while audit is a mandatory activity, feedback is voluntary. The effectiveness of both the tools is dependent on the culture and workplace environment in the organization.

Audits of policies and procedures include a review of the documents and a validation of reality complying with the intention. A gap between what is laid down in the policy with the reality indicates that the specific scenario could be missing in the policy, or its could be difficult to follow or a failure at the hands of the employee either intentionally or due to ignorance.

Business today exists in a every changing environment with varying degrees of volatility; thus change is part of the new normal in every business process. Policy evaluation is a subset of strategic evaluation process. Even though business policy operates at an operational level it is still a strategic document and it is important to remember the inter-linkage between business policy and strategy earlier in the unit.



Check Your Progress-B

Q1. Give examples of impact of types of policy on organization.

Q2. Name the steps involved in formulating business policy?

Q3. Fill in the Blanks with appropriate word or words.

a) …… is a detailed set of instructions for undertaking an activity

b) Policy is as good as its ……..

c) Two components of a policy document are …… and …….

d) Policies where even a minor violation invites disciplinary action are often called …….

e) …… and …… are tools typically used in policy evaluation and control

f) Policies typically thought by and framed by top management and pushed to the lower management follow the …… approach to policy development.

g) ……. is typically an inward looking document while …….. is typically both inward and outward looking.

Q4. State whether True or False.

a) Policy concerns itself with routine and repetitive functions of an organization

b) Strategies need not be reviewed periodically while policies need to be reviewed periodically

c) Audits of policies and procedures reveal gaps in policy implementation

d) Violations to policies should be decided by the management on a case to case basis

e) Policies and strategy are 2 independent processes in an organisation.

1.11 SUMMARY

Business Policy is a set of rules, principles and guidelines which delegate decision making and resource mobilisation to lower levels. It deals with routine, operational functioning of an organization. Business policies are general statements with a positive tonality created in alignment with the goals and objectives with a long-term validity. They are hierarchical in nature stemming from top management to the middle and lower management. Good policies are simple, specific, stable, unambiguous, comprehensive and uniformly applicable across the organisation. It is distinct from strategy in many ways and yet inter-linked with strategy in many other aspects. Strategy is largely a forward-looking roadmap to achieve organizational goals and objectives while incorporating both internal and external factors. Many views in the past have equated corporate policy to strategy or strategic implementation. This is a rather archaic and restrictive view of the scope, intent and impact of business policies. Processes and procedures are the next level of detailed instructions which flow from policies at the operational level. Further, depending on the size and complexity of operations there are multiple types of policies which exist at multiple levels of an organization. Policies also impact the organizational climate, culture and image of the organization. Formulation of policies is a complex task requiring knowledge, experience and expertise in the domain of policy making. Policies which incorporate general views and opinions of affected people tend to be better accepted in the organization. Business policy is a strategic tool which provides a structured way of operationalizing management intent and achieving organizational goals. At the end of the day each activity undertaken by every employee of the company contributes positively or negatively to the company. Policies are guides which direct these activities

every day across all levels of the organization. A good or bad policy can be one of the most critical reasons for the organization fulfilling its goal or not.



1.12 GLOSSARY

Business Policy - set of guidelines used by the middle and lower management to allocate resources, resolve issues and problems within a pre-determined sphere of decision making without consulting top management

Strategy - forward looking roadmap for the organisation which incorporates both external and internal factors in helping the organisation realise its vision, goals and objectives

Procedures – a detailed set of instructions for undertaking a certain activity

Policy Evaluation – process of measurement, testing and review of the effective implementation of a business policy to achieve the target objectives

Advisory policies – Policies which prescribe certain way of functioning or certain behavior and advise consequences thereof

Informative policies – Policies designed primarily for information dissemination

Ethics policy – A policy which specifies how employees are expected to behave while working for the organisation.

Whistle-blower – An individual who reports unethical, questionable actions of other individuals in the organisation or practices of the organisation itself.

Management responsibilities – Top management tasks which are accomplished with and via others in the organisation and which help in meeting corporate objectives.



1.13ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –B

Q3. Fill in the Blanks with appropriate word or words.

a) procedure

b) implementation

c) any 2 components from those listed in section

d) zero-tolerance policy

e) audit and feedback

f) top-down

g) policy, strategy

Q4. State whether True or False.

a) True

b) False, both strategy and policies need to be reviewed periodically

c) True

d) False, violations to policies should be handled consistently and uniformly by top management

e) False, Policies and strategy are inter-linked processes



1.14 REFERENCES

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Examples of Business Policies

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1.15 SUGGESTED READINGS

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1.16 TERMINAL QUESTIONS

Q1. What do you mean by business policy? What is the relationship between business policy and strategy?

Q2. Discuss the features of an effective business policy.

Q3. What are the various types of business policies? Explain with examples of each type

Q4. Describe the importance of business policy to the organisation? What is the influence of a well formulated business policy internally and externally?

Q5. 'Policy is as good as its implementation' Comment on this statement. Also explain the role of policy evaluation and control in policy development and implementation process.

Q6. Design a HR policy on any of the following topics in 1000 words. You may follow the template provided in the study material or design your own template.

i. Performance management policy
ii. Leave policy
iii. Recruitment policy
iv. Ethics

1.17ACTIVITY

1. Select a small business in your neighborhood. Interact with owner/employees of the small business with a view to create one policy for them. The policy could be a simple one like leave policy or social media policy. Incorporate your learnings from the unit to create the policy.

Activity: Select the same policy of 2 different organizations and compare and contrast the features of both policies in light of the learnings from this unit.

Activity: Study a company's social media policy available in the public domain, identify its components and analyze it with respect to the features of a good policy.

UNIT 2UNDERSTANDING STRATEGY AND STRATEGIC MANAGEMENT

2.1 Introduction

2.2 Objectives

2.3 The Concept of Strategy

2.4 Nature of Strategy

2.5 Levels of Strategy

2.6 Understanding Strategic Management

2.7 Need and Importance of Strategic Management

2.8 Strategic Management Process

2.9 Summary

2.10 Glossary

2.11 Answer to Check Your Progress

2.12 Reference/ Bibliography

2.13 Suggested Readings

2.14 Terminal & Model Questions

2.1 INTRODUCTION

In the previous unit you learnt about the Business Policy and its historical development. You learnt about the elements and process of Business Policy, scope of Business Policy and factors determining business policy. This unit will introduce you about strategy and importance of strategic management.

Strategic Management becomes environment necessitating due to economic changes. There are many economic changes that had necessitating effect on strategic management. Growing size and complexity of modern organisations, globalisation of business, knowledge and information revolution, growing pace of innovation, changes in concept of employees, business and work are the few factors that has necessitated and facilitated Strategic Management. Strategic Management has not been an overnight development. Even through the transition from business policy to strategic management, strategic management has passed through the logical stages of growth over period of time.

2.2 OBJECTIVES

After reading this unit you will be able to;

- Understand the concept of strategy and strategic management.
- Define the meaning of strategy.
- Describe the need for strategic management.
- Outline the process of strategic management.
- Subdivide the level at which strategy operates.

2.3 THE CONCEPT OF STRATEGY

Understanding the concept of strategy is important to understand the need and importance of Strategic Management. In the present scenario, corporate world is characterised by the ever-changing markets, needs, desires, technologies, competitors and products. In such a situation it is important to gain sustainable competitive advantage in every aspect of the working of an enterprise. Therefore, companies and firms have to take unending steps for gaining competitive advantage and viable competitive positions. These unending steps are not limited to operational aspects of a company rather it hinges more on the building competitively valuable expertise and capabilities rooted in systems of activities that are difficult to attain by rival firms.

Strategy is a term that comes from the Greek word that is strategia, meaning "generalship." In the military, strategy often refers to manoeuvring troops into position before the enemy is actually engaged. Thus, it specifies the military formations of troops cleverly by the generals and employing them for a cause, finding out the best course of action and forcing on the successful execution by the troops. Further, the generalship also focuses on the substituting resources, crafting operational and short term plans for supporting the execution by the troops.

As per Oxford Dictionary, the term strategy means the art of planning and directing overall military operations and movements in a war or battle.

The term ‘Strategy’ included several aspects of skills and tactics, siegecraft, logistics etc., . Further, the term was prevalently used in the 6th century C.E. in East Roman terminology, and was later translated into Western vernacular languages in the 18th century. From then until the 20th century, the word "strategy" came to denote "a comprehensive way to try to pursue political ends, including the threat or actual use of force, in a dialectic of wills" in a military conflict, in which both adversaries interact.

Etymologically, the term has taken as “art of a general," from French stratégie (18c.) and directly from Greek strategia "office or command of a general," and from strategos "general, commander of an army" . Stratos derives meaning as multitude, army, expedition, encamped army. Thus, somewhere, it refers to leading troops in the battle.

Applying these concepts in our business world, strategy involves strategic thinking, planning and execution that tries to trump in terms of competitive advantage and profitability by focussing on all the aspects of business from products, production capacities, resource allocation to market's needs, technology, logistics and returns. Strategy is thinking ahead and to be looking around and from corners. By deploying strategies and employing tactics, an organisation can successfully bridge the gap between means and ends.

You now have learnt the origin of the term strategy; now let us discuss what it means:

Various Definitions of Strategy

Kenneth Andrews presents this lengthy definition of strategy in his book, 'The Concept of Corporate Strategy' as "Corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers, and communities."

In Top Management Strategy, Benjamin Tregoe and John Zimmerman, of Kepner-Tregoe, Inc., define strategy as "the framework which guides those choices that determine the nature and direction of an organization."

McKinsey's original definition of strategy is "an integrated set of actions designed to create a sustainable advantage over competitors".

Alfred Chandler (1962) defines strategy as "the determination of the basic long-term goals and objectives of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals".

Igor Ansoff (1965) explained the concept of strategy as "The common thread among the organisation's activities and product-markets…. that defines the essential nature of business that the organisation was or planned to be in future. Later in the year 1984, Ansoff narrated strategy differently as a set of decision –making rules for the guidance of organizational behavior"

Henry MintzBerg (1987) defines strategy as "a pattern in a stream of decisions and actions". He also narrated about intended and emergent strategies. He explained that intended strategies as those which are intentionally developed by managers, however emergent strategies emerges over the period of time.

According Glueck, "Strategy is the unified, comprehensive and integrated plan that relates the strategic advantage of the firm to the challenges of the environment and is designed to ensure that basic objectives of the enterprise are achieved through proper implementation process".

Thompson, Strickland, Gamble and Jain defines Strategy as "the competitive moves and business approaches that managers are employing to grow the business, attract and please customers, compete successfully , conduct operations , and achieve the targeted levels of organisational performance".

Peter Drucker defines strategy as "planning for foreseeable eventualities as also, perhaps more importantly for those impossible contingencies of which the firm has no prior knowledge".

Michael Porter explains strategy as "Creation of a unique and valued position involving a different set of activities. The company that is strategically positioned performs different activities from rivals or performs similar activities in different ways". He opines that the core of general management is strategy, which he elaborates as: "….. developing and communicating the company's unique position, making trade-offs, and forging fit among activities".

Steiner and Milner described strategy as the forging of company missions, setting objectives for the organisation in light of external and internal forces, formulating specific policies and strategies to achieve objectives, and ensuring their proper implementation so that the basic purposes and objectives of the or organisation will be achieved.

Argyris (1985) assesses strategy as reflection to the external forces, "Strategy formulation and implementation include identifying opportunities and threats in the organization's environment, evaluating the strengths and weaknesses of the organization, designing structures, defining roles, hiring appropriate people, and developing appropriate rewards to keep those people motivated to make contributions".

Another definition is given by Schendel and Hatten "as the basic goals and objectives of the organisation, the major programmes of action chosen to reach these goals and objectives, and the major pattern of resource allocation used to relate the organisation to its environment".

Indian management educators and gurus have also well-defined strategy in a comprehensive way;

Prahalad and Hamel(1993) Strategy is more than just fit and allocation of resources. It is stretch and leveraging of resources.

Subba Rao defines strategy as planned or emergent course of action that is expected to contribute to the achievement of organisational goals.

Srivastava and Verma explain strategy as "a reflection of the attitudes and beliefs of those who are most influential in the organisation. Whether a company intends to expand or is concerned with consolidation and where the boundaries are drawn for a company's activities reflect much about the values and attitudes of managers engaged in strategy making and executing."

Collectively these definitions explain the concept of strategy as an overarching plan that defines the directions, extent, pace and growth to an organisation.

By analysing these definitions conjointly, you can explain strategy in the following ways;

- Strategy is a plan that determines the long-term goals and objectives of an enterprise.
- Strategy identifies objectives, purposes, or goals, and help in architecting main policies and plans for achieving those goals and objectives.
- Strategy guides economic choices that state the nature and vector of an organisation in a long-run.
- Strategy is an integrated set of actions that helps in gaining sustainable competitive advantage.
- Strategy is the unified, comprehensive and integrated plan that relates the strategic advantage of the firm in context to the environment.
- Strategy intends to create a unique and valued position involving a different set of activities and tries to make trade-offs in the resource allocation in these set of activities and tries to leverage strategic fit.
- Strategy is a common thread that unites all organisation activities, departments, resources, policies, goals and objectives for achieving a desired future state.
- Strategy provides desired course of action that requires apt resource allocation necessary for long term goals.

2.4 NATURE OF STRATEGY

The strategy is a general program of action and deployment of resources and emphasizes on the determination of steps for attaining the organisational objectives, setting priorities and allocation of resources in context to ever-changing environment. Thus, on the basis of the above definitions you may identify the nature of strategy in a distinguished way;

- Strategy tries to match the resources, capabilities and core competence areas of an organisation with the goals, products and markets for achieving competitive edge over rival firms.
- Strategy lies on foresightedness with a long range view for combating situations which have not arisen before in the past. The time span of strategy is generally long range which visualises an organisation after 5 to 10 years hence. However, strategic planning should consider foreseeable future and should not be dogmatic for the time horizon.
- Strategy helps in establishing equilibrium *vis-a-vis* environment which caters to both external and internal Environment. Strategy tries to blend the strengths and weaknesses which are internal to the company with the host of external factors which demarcates opportunities and threats.
- Strategy is influenced by values, expectations, attitude, philosophy and moral principles of the people sitting at the helm of affairs. Strategy is crafted by the top

level managers or by the executives at the highest level with the holistic perspective and information to plan for the organisation as a whole.

- Strategy also determines the vector or directions of a firm for both within and across industry's boundaries which a firm proposes to pursue with an objective of maximizing sales.
- Strategy in itself defines its norms and systems for its efficient adoption and successful execution in an enterprise. It also explains the actions and moves in the marketplace that helps in building competitive edge over other competitors.
- Strategy is dynamic and is not restricted to single-use plan. It is crafted using detailed environmental scanning of the highly volatile environments.
- Strategy grooms the capabilities used to respond to various demands and opportunities that exist in dynamic and uncertain competitive environment. It involves with coping with uncertainty and risk.
- Strategies are proactive as well reactive, where proactive actions are adopted to raise the company's performance and intend to secure a competitive edge and reactive actions are taken to combat unanticipated and unexpected markets conditions.

2.5 LEVELS OF STRATEGY

In the previous section, we learnt about the meaning and nature of strategy. You also learnt from the various definitions that overall strategy is all about collection of strategic plans, initiatives and actions that ushers competitive advantage to a firm synergistically across the various operations of a firm. Now, in this part of the unit you will learn about the different levels at which strategy can be formulated and executed. Since, operations of a company are varied and diverse, therefore strategies are formulated at various levels, and these are corporate level, business level, functional level and operational level.

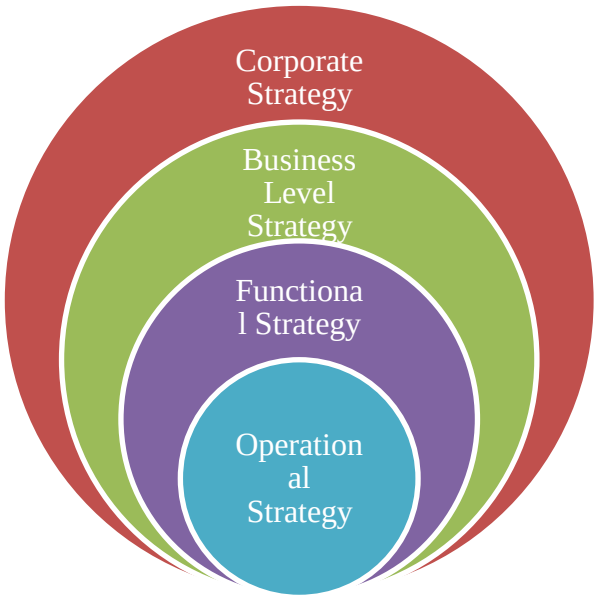


Fig 2.1Levels of Strategy

The nature of strategy at these levels is discussed as under;

The Corporate Level Strategy is the organization strategy at the highest level concerned with the organization as a whole. These are crafted and architected by senior corporate executives for establishing business positions in different industries and tries to utilize cross-business synergies of different line of businesses that are operated by the company. These strategies are external oriented because here, you have to maintain equilibrium *vis-à-vis* environment. Thus, corporate level strategy is the overall game plan (though strategy is far ahead than game plan) or plan of actions for various Strategic Business Units in alignment with the objectives, allocation of resources and coordination for gaining competitive advantage over competitors.

As per Hitt, Ireland and Hoskisson, Corporate –level strategy specifies actions the firm takes to gain competitive advantage by selecting and managing a group of different businesses competing in several industries and product markets.

The following are the key questions addressed by the corporate level strategy, these are;

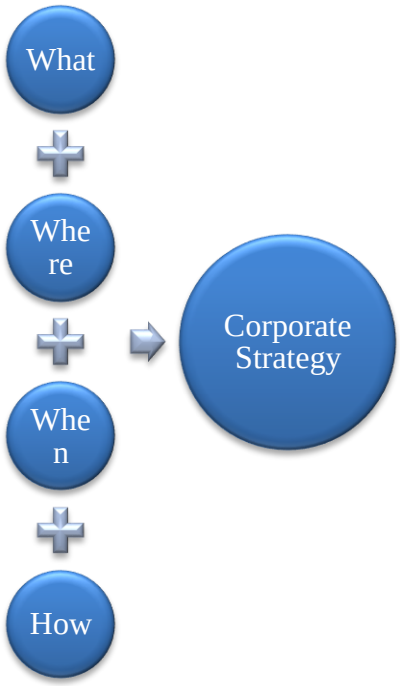


Fig 2.2: Questions addressed by Corporate Strategy

Corporate Level Strategies includes Mergers, Joint Ventures, Takeovers, Vertical and Horizontal Integration, Expansion, Diversification and global penetration. These strategies impact not only the people who sit at the helm of affairs but also affect the strategies and tactics at business and functional level.

Business Level Strategy- Business Level Strategies are concerned with grooming organizational competitive capacity. These strategies are concerned with the plans and action pertaining to successful performance in one specific business or single line of business. These are primarily concerned with the managing SBUs that aim to combat competition by developing strong capabilities for strengthening market position and market share thereby gaining competitive advantage. The basic objective of these strategies is to provide the market with right goods of right quality at right time and at right place. Business levels strategies takes decisions about the Strategic Business Units under different Strategic Business Areas. Strategic Business Unit is a part of a business that is considered as separate for strategic purpose. In SBUs, activities of corporate are divided on some logical basis like nature of product, terrestrial basis, profit basis etc. They are termed to the units which are producing identifiable, differentiative products which compete with similar products elsewhere. They are also defined as independent profit centre. They are internal oriented and generally focuses on cost leadership, product differentiation and segmental focus. Such strategies are concerned with how to remain competitive in a particular business. Cost leadership is all about keeping ahead of competitors that are deciding prices and features that others follow. This can be done by improving efficiency and reducing cost. Product differentiation focuses on establishing the product as different in terms of its unique features. This differentiation can be crafted in terms of quality image, brand image, technological image, customers' service, availability and reach. Segmental focus is identifying segment of the market and try to follow them, for example dividing class of customers in terms of age, gender, region etc.

Goal congruency is the main facet to be taken care off at this level as it influenced by managerial style, beliefs, values, ethics, and behavior. Therefore, managerial capabilities, organizational responsibilities, and administrative systems should be aligned with corporate values and functional conduct.

Functional Level Strategies are strategies which are related to specific function. These are applicable to production, operations, marketing, finance, human resource, IT, research and development, knowledge management etc. These are crafted by functional heads for specific functions, business processes or key activities. These aim at strengthening business unit competencies and capabilities in performing specific functions, allocating resources within functional units and establishing coordination for achieving corporate level objectives.

Operational Level Strategy- Operational level strategy is concern with action and plan for key operating units like plants, geographic units, districts etc. and deals with operating activities like developing plant's policy, developing sales plan, demarcating Break Even Volume, recruitment and selection policy of employees and the like.

They are at departmental level and set periodic short-term targets for accomplishment. These are at the lowest level in the hierarchy but they provide completeness to functional and business level strategies.



Fig 2.3 Corporate Strategy

Point of Difference	Corporate Level Strategy	Business Level Strategy	Functional Level Strategy	Operational level Strategy
Purpose	Achieving Mission	Achieving origination's objectives	Support in achieving objectives of SBUs	Achieving Plant's objectives
Nature of Activities	Conceptual	Conceptual but related to Strategic Business Unit	Functional	Operational
Impact	Pervasive to the entire organization.	Strategic Business Units	Functional Units	Key Operating Units
Risk	Very High	High	Moderate	Low
Time Frame	Long term	Intermediate; Medium to	Short to long term	Short to medium

		long term		term
Profit	Large	Moderate	Low	Low
Cost	High Cost	Moderate	Low	Low
Key Question Addressed	"Why we exist"? "What businesses are we in? What businesses should we be in? What can we offer to the society?	How do we support the corporate strategy? How do we compete in a specific business arena?	How do we support the business level strategy?	How do we support the functional level strategy?
Leadership	Executive or advisory boards and top management.	Strategic Business Units Managers or Divisional Managers	Functional Heads	Front line managers/ Operating level managers

Strategy – Vector= Fiasco

Strategy+ Desired Implementation+ Desired Results= Success



Check Your Progress-A

Q1. What do you mean by the term 'Strategy'?

Q2. What are the key differences between Corporate and Functional level Strategy?

Q3. What do you mean by Operational Strategy?

Q4. Fill in the Blanks with appropriate word or words.

a) _____ are means to attain ends.
b) _____ are concerned with grooming organizational competitive capacity.
c) _____ is influenced by values, expectations, attitude, philosophy and moral principles of the people sitting at the helm of affairs.
d) Strategy is a term that comes from the Greek word that is_____

Q5. State True or False.

a) The purpose of the strategy is to define the nature of relationship between a firm and its environment.
b) Organisation should adopt such strategies that would optimise organisation resources in the long as well as in short term.

2.6 UNDERSTANDING STRATEGIC MANAGEMENT

Strategic Management is that part of management which is related to the working of an organization as a whole and therefore concerned with chalking and implementing right and effective strategic decisions at the right time in the right perspective and at the right place. This highlights two components of strategic management;

a) Chalking and making right strategic decisions at the right time.
b) Implementing them at right time.

Thus, strategic management involves strategic decision making and strategic actions that leads to wide and multifarious consequences with a long time perspective and accordingly optimum utilization of critical and crucial resources towards perceived opportunities and

threats in the wake of changing environment. Thus, strategic management is a dynamic social process in which intellectual and creative process is embedded.

Glueck(1984) defines Strategic Management as "a stream of decisions and actions which leads to the development of an effective strategy or strategies to help achieve corporate objectives".

Wheelen , Hunger and Rangarajan (2007) ,"Strategic management is that set of managerial decisions and actions that determines the long-run performance of a corporation. It includes environmental scanning (both external and internal), stagey formulation (strategic or long range planning), strategy implementation, and evaluation and control."

Hofer and others (1984) consider strategic management as "the process which deals with the fundamental organizational renewal and growth with the expansion of strategies, structures, and schemes essential to achieve such renewal and growth, and with the organizational systems needed to effectively manage the strategy formulation and implementation processes".

According to Dess et al. (2004), "strategic management consists of the analysis, decisions and actions an organization undertakes in order to create and sustain competitive advantage".

As per Juach, Gupta and Glueck (2005) "Strategic Management is a stream of decisions and actions which leads to the development of an effective strategy or strategies to help achieve corporate objectives. The Strategic management process is the way in which strategists determine objectives and make strategic decisions".

Strategic management is defined as the set of decisions and actions resulting in the formulation and implementation of strategies designed to achieve the objectives of the organization (John A. Pearce II and Richard B. Robinson, Jr.).

Strategic management is the process of examining both present and future environments, formulating the organization's objectives, and making, implementing, and controlling decisions focused on achieving these objectives in the present and future environments (Garry D. Smith, Danny R. Arnold, Bobby G. Bizzell).

Strategic Management is a continuous process that involves attempts to match or fit the organization with its changing environment in the most advantageous way possible (Lester A. Digman).

David (2003) defines strategic management as "the art and science of formulating, implementing and evaluating cross-functional decisions that enable an organization to achieve its objectives.

Mathur (2005) comprehensively explained strategic management as the set of decisions and actions mangers take, which determines the outcome of the firm's performance. To take correct decisions and actions base on those decisions, the managers must study the general and competitive environment and match their core competencies with opportunities thrown open by that environment and work to develop their strengths and remove weaknesses.

Collectively from the above definitions it may be inferred that strategic management encompasses managerial decisions and actions thereof that determines the long term sustainability performance and success of an enterprise. Though strategic management has been defined by different authors, however, the common elements of strategic management are mentioned as under ;

a) Strategic Management blends strategic planning and strategic thinking.
b) Strategic Management incorporates not only strategic thinking but also focuses on strategic execution.
c) Strategic Management involves top level management and executives as well all line managers.
d) Strategic Management is concerned with environment and tries to establish strategic fit between environment and business.
e) Strategic Management is all about development of an effective strategy or strategies to help achieve corporate objectives.
f) Strategic Management is vital because of the changes in environment and has emerged as an environmental necessity.
g) Strategic Management is a continuous and unending process.
h) Strategic Management integrates all functional areas of management.
i) Strategic Management is the means to achieve the objectives and goals of the organization.
j) Strategic management provides overall direction and success map for the firm.
k) Strategic Management is about allocating resources for achieving desired objectives.

2.7 NEED AND IMPORTANCE OF STRATEGIC MANAGEMENT

There had never been greater need for strategic management in India than since 1991. Indian economic environment faced drastic changes due to the new economic policy that opened a world of liberalization, privatization and globalization. This has helped in recovering

economy from declining pace of economic development, growing industrial sickness and adverse balance of payments. However, with the expansion of market and technological revolution, not only modern organizations are assuming gigantic size, but their operations are also becoming more and more complex. Further, with increase in international operations of business and industry, the ecopolitical boundaries have crumbled. In such a scenario, it is important for a firm to stay competitive and earn above average returns . (Krishna and Rao, 2003) and Hoskinson, Hitt, Ireland and Harrison (2008).

Accordingly, there is no choice but to improve the performance in all factors and this is not possible without strategic thinking and without having holistic perspective that includes marketing decisions, financial decisions, R & D decisions, decisions relating to Production and decisions relating to Management Information Systems. Since, Strategic Management provide the common thread for uniting all these activities, therefore this give pressing requirement for adopting strategic management in the present context. With this discussion, the following benefits can be assessed;

i. Strategic Management helps an organization to become proactive in a changing global world. This approach is adopted by managers in anticipation of certain forecast or insight.
ii. Strategic Management helps in meeting organisational needs and act as a cushion in attaining equilibrium *vis-a-vis* environmental changes.
iii. Strategic Management assist organisation in making effective strategies that help them in achieving corporate objectives.
iv. It helps in logically, systematically and rationally assessing future problems and opportunities' that might come as roadblocks in achieving corporate objectives.
v. Strategic Management helps in combating cut throat competition with strategic, rational and futuristic moves.
vi. Strategic Management helps in steering direction to the organization by integrating individual efforts to overall efforts.
vii. Strategic Management helps in laying standards or yardsticks or benchmarks for the company against which performance can be measured.
viii. It also assists in classifying and developing organization's everlasting capabilities and gaining competitive advantages that helps in long term survival and growth in a competitive business environment.
ix. Strategic Management helps in exploring and conquering opportunities and minimizing threats for achieving an optimum level of efficiency.
x. Strategic Management helps in establishing sound communication and information system within an organization. Further, it brings harmony in all the activities that provides unity in conception and action at all hierarchical levels within the company.

xi. Strategic Management helps in aligning organizational culture to strategic effectiveness. When a company's present work climate promotes attitudes and behaviors that are grounded-up with first rate execution, its culture functions as a valuable ally in the strategy execution process.(Thompson ,Strickland, Gamble and Jain)

xii. Strategic Management also assists in developing core competencies and competitive capabilities that are very difficult or costly for rivals to overpower, thus pushing company for operating excellence.

xiii. Strategic Management helps in improving financial scorecard of a an organization in the long run as it helps in strengthening market position and helps in increasing its competiveness.

xiv. It helps in marshalling resources appropriately and effectively and edify companies in moving closer to their value chain as effectively and efficiently with the least deviations.

xv. Strategic Management helps in competing in different country markets and supports in securing competitive advantage in International domain.

Thus, strategic management helps companies in crafting plans, policies and actions so that they can easily combat fierce competition and turbulent changes happening in the business world. After knowing the need and importance of strategic management, let us learn the process of strategic management in detail.

2.8 STRATEGIC MANAGEMENT PROCESS

Strategic management process is performed in the time frame which is inversely related to speed of change. Greater the speed of change lesser would be the time frame. Process is the set of sub sequential steps that are taken to perform a certain function. It is a continuous process and therefore, it is performed in a circular manner. Late Apple Founder Steve Founder realized the importance of strategic management for sustaining in the business world and considered strategic management as the process that require careful understanding and screening of changing paradigm in the business world and how these changes in the environment influences a firm in chalking out decisions and managing possible actions thereafter.

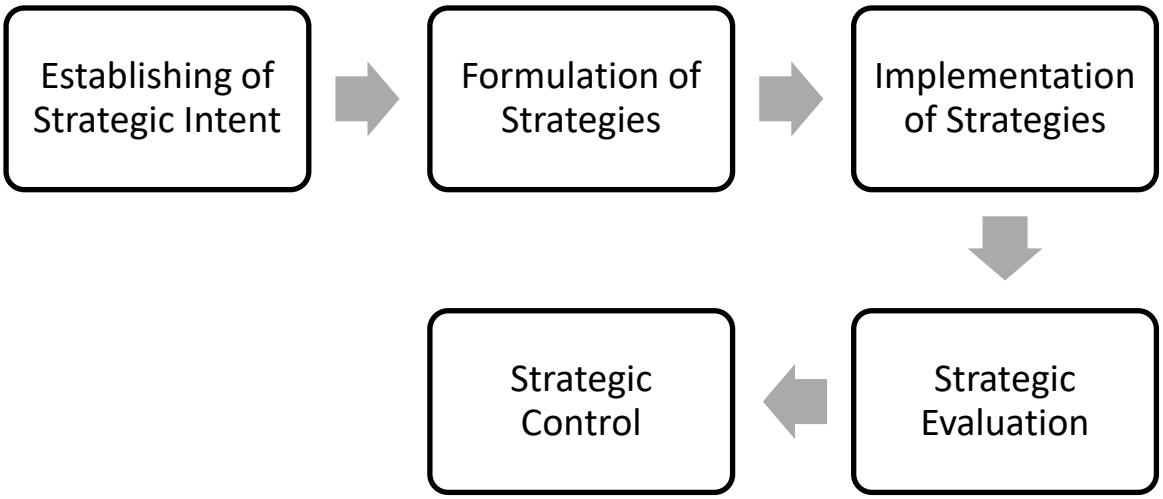


Fig 2.4 Process of Strategic Management

The process includes analyses of present status, imagination of future prospects, setting future course of action, putting strategy to work and then evaluating the strategy. These aspects of strategy formulation and implementation vary from company to company and even vary from industry to industry. Diverse companies in terms of product portfolio, geographical spread and operations, structures and ramified technological support adopt systematic and detailed strategic management models, however smaller or single business company may have simple model of strategic management formulation and execution. Even with such an avidity, the following are the common phases of strategic management;

1) Establishing the strategic intent
2) Formulation of Strategy
3) Implementation of Strategy
4) Strategic Evaluation and control.

Kazmi mentioned that different phases of strategic management may not be clearly differentiable from each other. It is better to coin the term phase rather than steps to signify that the different phases, at the interface, may exist simultaneously, and that the strategic activities gradually emerge in one phase to merge into the following phase.

However, the above phases may be breaks down into following

1. Establishment of Strategic Intent
2. Environmental Appraisal
3. Formulation of Strategies

4. Implementation of strategies
5. Evaluation of strategies
6. Strategic Control

The first phase is about setting of strategic intent, which specifies vision of a company, crafting mission that gives an idea as to how company wants to present itself to the stakeholders and society at large. The two basic questions addressed in this phase are;

- What business are we in?
- What are we in business?

In this phase, company defines mission and the scope of business activities that the firm will follow. The company shall also define the nature of the business and provide a framework or benchmarks or standards for analysis, finding strategic gaps, choice, implementation and evaluation process. When mission, business definition in terms products, activities or functions and markets along with objectives are formulated then it lays foundation for crafting future plans of the organization. Mission is *raison d'etre* for the existence, it defines the role of an organization in a society. Objectives are specific targets which an organization perceives to be achievable expressed in quantitative term. Company needs to set objectives in terms of sales, market shares, cost, product innovation, ROI for the time frame under the framework of past and present status. The strategic intent needs to be communicated effectively from top executives to lower level managers so that all the efforts are aligned in the same direction.

The second phase deals with the environmental appraisal which gives an idea of challenges and opportunities existing in an environment. The organization has to capitalize on strengths and have to cut down its weaknesses. Accordingly, Environment Scanning or Appraisal refers to a process of collecting, scrutinizing and providing information for strategic purposes. Since environment is highly complex, dynamic and multidimensional, therefore external environment needs to be assessed in wake on internal environment and capabilities. It helps in analyzing the internal and external factors influencing an organization. After executing the environmental analysis process, management should evaluate it on a continuous basis and should also strive to improve it.

The third phase deals with formulating strategies for an organisation after choosing the appropriate course of actions for achieving its goals and objectives. It invokes strategic analysis and choice which assist in chalking out the plans and policies from the various alternatives that are available for the firm.

The fourth phase is implementing strategies that have been formulated in the previous phase. The strategies so crafted and picked are executed and implemented effectively and efficiently. The central idea is converting the strategic plans into actions in a prolific manner and this requires initiatives from the end of managers for steering changes, motivating staff,

strengthening core competencies and capabilities, nurturing positive organisation culture, and building sound intellectual base.

- The key questions to be addressed in this phase are;
- What can I do for executing strategic plan?
- What internal changes are required for executing strategic plan in a desired way?
- Are there new entries in the marketplace to pose a competitive threat?

Effective implementation of strategy is as important as crafting strategy; therefore it requires series of action from strategy articulation to strategy engagement. Strategic implementation is considered successful if the things goes as it has been planned and company is able to achieve strategic and financial targets and thereby accomplishes organisation's strategic vision and mission.

The fifth phase is evaluating strategies in context to internal and external factors, measuring performance against the yardsticks and finding strategy gap. A strategy gap is the gap between the current performance and desired performance which is expressed in terms of mission, objectives and goals. The key questions to be addressed are;

- Are the decisions being made consistent with policy?
- Are short term and long term goals and targets being met?

The evaluation process is important to hinge on success. An organisation need to continuously evaluate its strategies on the basis of the way it was implemented and the outcomes that were planned, for the ongoing success. The company should monitor the road map of the success as defined in the strategic plan. The key questions addressed during evaluation are;

- Has the organization been successful in translating their strategy into actionable steps?
- Are decision made were appropriate for the strategic policy?
- Are events in environment is happening as projected?

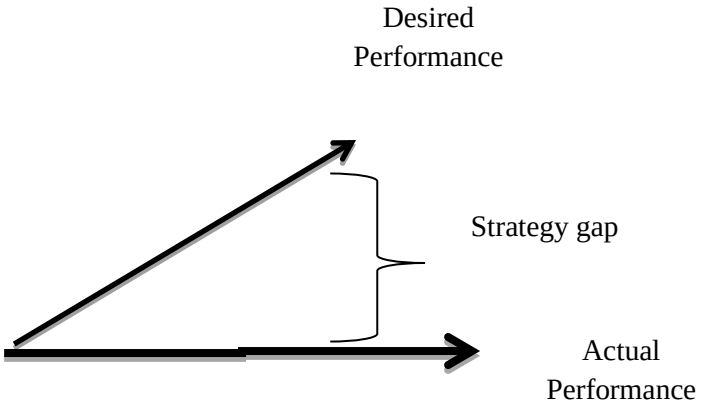
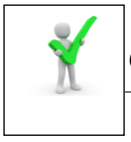


Fig 2.5 Strategy Gap

The main objective of evaluation and control is to assess the effectiveness of strategy in achieving organisational objectives. It ensures that the company is accomplishing what has been set out to achieve. It makes comparison of performance attained with the desired results and provides the feedback necessary for management to evaluate results and take corrective actions. Thus, it contributes in exploring Key Result Areas and Key Performance Areas in consistent manner.

You will come to know about the steps and procedure of strategic evaluation control and strategic audit later in detail in Unit XVII and XVIII.



Check Your Progress- B

Q1. Explain the relevance of strategic management in the present scenario.

Q2. What are the main steps in strategic management process?

Q4. Fill in the blanks

a) The main objective of _____ is to assess the effectiveness of strategy in achieving organisational objectives.
b) _____ helps in competing in different country markets and supports in securing competitive advantage in an international domain.

2.9 SUMMARY

In this unit you learnt about the need and importance of strategic management. You came to know about the concept of strategy and its nature. Further you also learnt about the process of strategic management.

You learnt that strategic management is that part of management which is related to the working of the organization as a whole and is concerned with chalking and implementing right strategic decisions at the right place and at the right time. Strategic Management is about decision making pertaining to the activities in the organization which have wide ramifications, have long time perspective and use critical resources towards perceived opportunities or threats in changing environment. In nutshell, strategic management is a dynamic social process in which an intellectual process is embedded.



2.10 GLOSSARY

Strategy: Strategy involves strategic thinking, planning and execution that try to trump in terms of competitive advantage and profitability by focussing on all the aspects of business including products, production capacities, resource allocation, market's needs, technology, logistics and returns.

Business Level Strategies- Business Level Strategies are concerned with grooming organizational competitive capacity. These strategies are concerned with the plans and actions pertaining to successful performance in one's specific business or single line of business.

Corporate Level Strategies- Corporate Level Strategies includes Mergers, Joint Ventures, Takeovers, Vertical and Horizontal Integration, Expansion, Diversification and Global Penetration.

Functional Level Strategies- Functional Level Strategies are strategies which are related to specific function or operation. These are applicable to production, operations, marketing, finance, human resource, IT, research and development, knowledge management etc.

Operational level strategy -Operational level strategy is concern with actions and plans for key operating units like plants, geographic units, districts etc. and deals with operating activities of an enterprise.



2.11 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

Q4.

a) Strategic Decisions
b) Business Level Strategies
c) Strategy
d) strategia, meaning "generalship.

Q5.

a) True
b) True

Check Your Progress –B

Q4.

a) evaluation and control
b) Strategic Management



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2.14 TERMINAL QUESTIONS

Q1. What are the elements in strategic management process? Also discuss the steps involved in the strategic management process.

Q2. Discuss in detail the Corporate-Level, Business Level and Functional level Strategies.

Q3. Select an organization of your choice and analyse how strategy has been useful for the organization to build its competitive advantage.

Q5. What do you mean by strategy? Explain its main characteristics.

Q6. What are the various levels of strategy? Do you think that various levels of strategy are interacting?

Q7. Explain the various phases of strategic management process.

UNIT 3 STRATEGIC INTENT

3.1 Introduction

3.2 Objectives

3.3 Concept of Strategic Intent

3.4 Hierarchy of Strategic Intent

3.5 Stretch, Leverage and Strategic Fit

3.6 Determination of Strategic Intent

3.7 Limitations of Strategic Intent

3.8 Statement of Firm's Strategic Intent

3.9 Summary

3.10 Glossary

3.11 Answer to Check Your Progress

3.12 Reference/ Bibliography

3.13 Suggested Readings

3.14 Terminal & Model Questions

3.1 INTRODUCTION

Successful strategic management in producing an intended result starts with the organization distinctly pronouncing its vision for the future. The notion of strategic intent, made accessible to the general public by Gary Hamel and C.K.Prahlad, alludes to the purpose of the organization and the objectives it desires to follow. The strategic intent of the firm constitutes the organization's belief about its future state. The purpose the organization desires to chase differs from being really broad and long term to being narrow with concentration on the short term.

It must be recognized that accomplishing the narrow intentions is an essential state for accomplishing the broader intentions. Therefore, there must be a cautious alignment between these different levels of intentions.

Therefore, it is the broader intentions that explain the specific short term intentions that the enterprise needs to win over to arrive at the long term intent. For putting into use the longer-term intentions also facilitates the guidelines and criteria that are used by the firm to assess their movement towards the accomplishment of the firm's long term objective.

3.2 OBJECTIVES

After studying this module, you shall be able to;

- Know the Hierarchy of strategic intent
- Understand Determination of strategic intent
- Comprehend the limitations of strategic intent
- Know the statement of firm's strategic intent

3.3 CONCEPT OF STRATEGIC INTENT

Gary Hamel and C.K. Prahalad, described strategic intent as a major force in management. Hamel and Prahalad argued that Western companies focus on trimming their ambitions to match resources and, as a result, search only for advantages they can sustain. By contrast, Japanese corporations leverage resources by accelerating the pace of organizational learning and try to attain seemingly impossible goals. These firms promote the want to be successful among their employees and continue to remain by extending the vision of global leadership. This way Canon attempted to defeat Xerox and Komatsu began to surround Caterpillar.

This strategic intent usually contains extended targets, which compel companies strive to gain in innovative ways. Japanese companies apply four techniques for constructing levels of advantage, looking for loose bricks transforming the terms of engagement, and striving to gain through collaboration.

A small number of Western companies have desirable past achievements as the moves of new global competitors. The explanation lies in the way most companies arrived at competitor analysis. Usually, competitor analysis concentrates on the current resources in terms of human, technical, and financial resources of current competitors. The only companies viewed as a threat are those with the resources to gradually wear away margins and market share in the next planning period. The ability to find quick and intelligent ways to overcome difficulties, the pace at which new competitive advantages are being constructed, seldom enters in.

Companies that have moved a position of global leadership in the past 20 years in every case began with ambitions that were in wrong relation to their resources and capabilities. But they generated an idea that continually occupied with winning at all levels of the organization and then continued with that idea over the 10- to 20-year search for global leadership. Hamel and Prahlad named it as "strategic intent."

Thus, strategic intent denotes a compelling statement about the destination an organization is going that clearly in an expressed manner carries a sense of what that organization desires to accomplish in the long period. Strategic intent answers the question: "What exactly are we trying to accomplish?"

The strategic intent can provide a sense of direction, sense of discovery and sense of destiny

Strategic intent can furnish a **sense of direction**, a specific viewpoint about the long-term market or competitive position the organization expects to grow and fill the space.

Strategic intent can provide a **sense of discovery** in that it survives in difficult circumstances to the organization's members the assurance of learning about other organizations operating in the same market, embracing their best practices and keeping away from unsuspected difficulty.

Strategic intent may be able to make available a **faculty of destiny**, a worth the time goal around which strength and vitality can be concentrated across the organizations.

Strategic intent visualizes a position of desired leadership and sets up the standard the organization will apply to design the path of its progress. Also the strategic intent is greater than simply unrestricted ambition. The concept also holds within an engaging management process that envelopes concentrating the organization's notice on the spirit of winning, encouraging people by conveying the worth of the target, leaving space for individual and team contributions, continuing enthusiasm by providing new operational explanation as circumstances change, and applying intent on every occasion to guide resource allocations.

1. Strategic intent takes into possession the essence of winning. For Coca-Cola, strategic intent has been to make a Coke within "arm's reach" of every consumer of the world.
2. Strategic intent is firmly fixed over time. In contest for global leadership, one of the most evaluative piece of work is to extend the organization's notice space. Strategic intent furnishes regularity to short-term action, while quitting space for reinterpretation as fresh opportunities arise.
3. Strategic intent fixes a target that requires personal effort and commitment. In a company that supports a strategic intent top management converses in terms of global market leadership. Strategic intent provides employees the single goal worthy of commitment

   To accomplish a strategic intent, a company should normally overreact on larger, financed better competitors. This involves cautiously controlling competitive commitments so that the wasteful overuse of scarce resources is prevented. Managers cannot accomplish that just by making additional advancements to the technology and business practices of the competitors. Instead, they must devise novel ways to enter the market, building advantage, and competitive activities involving conflict. For stylish competitors, the goal is innovation to combat competition. This involves containing competitive risks within manageable proportions.

3.4 HIERARCHY OF STRATEGIC INTENT

The distinct relationship between the long-term and short term intentions is depicted in the form of hierarchy of strategic intent. In this way strategic intent provides the framework within which firms would operate, adopt a predetermined direction, and attempt to achieve their goals. The concept of strategic intent denotes that managers should set ambitious goals and stretch a company. Fig.3.1 presents the hierarchy of strategic intent.



Fig.3.1 Hierarch of Strategic intent

3.4.1 VISION

The vision of the organization alludes to the comprehensive category of long-term intentions that the organization desires to chase. It is wide, all inclusive, and involving characteristic of futurism. It is the general impression that an organization presents to the public. It reflects the ambitions, the dream, the organization carries for its future time; a mental image of the future state. It might, therefore, be strenuous for the organization to really accomplish its vision in the long-term, however it furnishes a course along which the organization moves and energy to work towards it. (Vipin Gupta, 2005).

Frequently, the vision in a company's mission statement conveys the company's strategic intent. For example Weyerhaeuser's vision expressed in its mission statement, states to be ,"the best forest products company in the world", is the company's strategic intent. Philips Morris' vision or its strategic intent is to be" the most successful consumer packaged goods company in the world". Both the companies have conceptualized ambitious visions possibly to stretch their respective organizations.

The aspirations conveyed as strategic intent should take to the vision of an organization. Vision, in fact, is what a firm would finally like to be. A company's vision and major corporate goals are formal declarations of what the company intends to accomplish. For example, TISCO's vision states that Tata Steel goes into the new utopian period with the conviction of a learning, knowledge- based and happy organization. They will establish themselves as a supplier of

choice by delighting their customers with their service and products. In the next decade, they intend to become the most cost competitive steel plant and to serve the community and the nation.

Defining the vision and major goals provides direction to the corporate mission statement and guides the formulation of strategy. A vision, therefore, expresses the desired position that a firm would like to attain in the far off future. There are two components of a properly devised vision core ideology and envisioned future. The core ideology connotes the enduring character of an organization that remains stable as it passes through the changes of circumstances, such as, technology, competition, or management trends. The core values and core purposes determine the code ideology. The envisioned future too consists of a 10-30 years daring goal, and a realistic description of what it will be like to achieve the goal.

An organization having a clear vision is likely to create a common identity and a distributed sense of purpose; provides motivation to be competitive, original and unique; they make sense in the market, as they are practical; foster risk-taking and experimentation and long-term thinking.

3.4.2 MISSION

The mission of a company is an important element in establishing the strategy of the organization. It is an expression of the growth ambition, future visualized and a dramatic picture of what the company wants to become. It is the firm's dream solidified and a colorful sketch of how the firms want their future to look like, irrespective of the current position. The mission statement creates the vision statement added perceptible and intelligible.

Fred David observes that a mission statement divulges the long period of time vision of an enterprise with regard to what it desires to be and whom it wishes to serve. It describes an organization's purpose, customers, products or services, markets, philosophy, and basic technology. In combination, these components of a mission statement reply a key question about an enterprise: "What business we are in? A smart answer to this question makes strategy formulation, strategy implementation and strategy evaluation activities much simpler.

Mission statements need to be communicated throughout the organization. Top management must also demonstrate their importance by "living" them as an example. A clear mission statement can become an important inspiration to employees and can lead to commitment and loyalty to the corporation.

Once established, missions are difficult to change, as they become critical ingredients in the corporate culture. For example, IBM has attempted to change its mission several times, but the critical element established by the company founder, Thomas Watson, still encourage the IBM sales function to attempt to achieve "quota" by the year end, rather than seeking to provide customers with "solutions", or to promote non-mainframe sales.

The mission represents the common purpose that the entire firm shares and pursues. It has to be open to the entire company. All people are supposed to draw meaning, direction and commitment.

A mission represents the whole thrust of the firm. Thomas Watson Jr, former chairman of IBM observed that the fundamental philosophy, soul and operating of an organization are far more concerned to its comparative accomplishments than technological or economic resources, structure of the organization, innovation and the choice of time. It also denotes the core value and faiths of the firm.

Good mission statements tend to be simple and easy to understand at all levels of the organization. They stimulate enthusiasm and commitment amongst employees; they are challenging; they are frequently repeated. For example, in the US General Electric Company, the mission for each business is to "to be number one or two in the world or sell it, close it or fix it". Such a statement is readily understood and memorable.

A company mission is described as the fundamentally being the only purpose of its kind purpose that distinguishes a business from other firms of its kind and finds out the extent of the domain of its operations in terms of the product and the market.

The mission is a widely designed but lasting statement of company intent. It represents the business philosophy of strategists; indicates the image the company attempt to project; thinks deeply the firm's self-concept; embodies the principal product or service domains and basic customer wants the company will makes effort to fulfill.

3.4.3 CORE VALUES

Core values of the organization speak for the commonly held faiths, established set of attitudes, and presumptions that frame how work is performed in an organization. They evidently speak for the organization and its members' greater liking lasting over a period of time for a mode of conduct in both their business processes and their relationship with business partners. Core values are drawn out of the organization's mission statements, and help in distinguishing the organization from others, besides spelling out the organization's predictions and planned behavior of people.

Good core value statements explicitly portray the noticeable norms of behavior that indicate the desired core values of the organization. For instance, an organization might have customer responsiveness as its core value, but without proper execution in terms of noticeable norms of behavior, it might imply different things to different people. Therefore, organizations make attempt to translate abstract core values into behavioral norms like 'welcoming every customer when he/she arrives or exits the organization. These core values and the associated norms of behavior mirror an organizations culture.

3.4.4 GOALS

A goal is described as an in-between outcome to be accomplished by a definite time as a constituent of basic plan. A plan can, therefore, have many goals. Specific goals are often described to as targets.

Goals are short-term significant stages or a point of reference that organizations must accomplish so that the longer term objectives are to be reached. Measurability, quantifiable, challenging, realism, consistency and priority are the main features of goals. In big organizations, goals should be established at the three levels- corporate, divisional, and functional levels. Goals should be expressed in terms of marketing, finance, production and research and development and the accomplishments of management. A group of goals is needed for each objective established in an organization. Goals are especially significant for strategy, whereas objectives are particularly important for strategy formulation. Goals become the ground for resources allocation.

Goals are signs of significant landmarks an organization expects to accomplish in future. They also indicate coming state of the effort exerted in present. While goals may be qualitative, objectives tend to be mainly quantitative in specifications.

An organization shall always have a potential set of goals. It has to make a choice from among these goals. The choice must be further detailed and expressed in terms of operational and measurable objectives. An organization has to convert its purpose into long- term goals and short terms objectives for achieving its mission and vision.

3.4.5 OBJECTIVES

Objectives facilitate the ground for the operation of an organization. Glueck observe that objectives serve to explain the organization in its environment. Many organizations are required to legitimize their existence, to justify themselves in the eyes of the government, customer, and society at large. And by describing objectives, they also invite people who adopt the objectives as their own to work for the organization. Thus, objectives define the enterprise. They encompass long- range company aims, more specific department goals, and even individual tasks given. Thus objectives may relate to a wide or narrow part of an enterprise, and they may be either long or short range.

Objectives may be defined as those ends which the organization attempts to accomplish by its continued survival and activities.

The firms establish various objectives. Even the simplest organizations pursue multiple objectives. Strategists give a time weighting to objectives chased. Some of the objectives are followed in the short run, such as efficiency and employee satisfaction, some in the medium-term such as adaptability or control of assets. Others are followed in the long run. The organizations would consider profit continuity, service to society, and good corporate citizenship as long run objectives.

Since there are multiple objectives in the short run, the strategists should decide priorities for each objective. Some objectives might command higher priority than others. Establishing priorities is crucial in view of the scarcity of resources and time.

There are various ways to gauge and explain the achievement of each objective. Some objectives can be gauged in terms of efficiency, others in terms of effectiveness criterion. Operative objectives are terminals actually sought by the organization and determined by analyzing the behavior of executives in allocating resources. Official objectives are ends that firms seek on official occasions such as public statements to general audiences.

There may be limits to the attainment of some goals. There are constraints that hinder the maximization of results. Strategies are means to an end. Too high or too low objectives are both de-motivating. The objectives should be challenging and realistic. To establish high sales targets in a declining market does not lead to success. On the other hand a low sales target in boom condition is easily achievable and, therefore, leads to a sub-optimal performance.

3.4.6 PLANS

Plans exhibit the particular actions that the organization takes up in order to realize the objectives. Plans clearly state the roles members of the organization will carry out, the allocation of resources across different organizational sub-units and departments, and treat as most important and schedule the various activities.



Check Your Progress-A

1. Choose the correct alternative

i. The strategic intent of the firm constitutes the organization's:
   (a) Belief about its future state
   (b) Its strategic plans
   (c) Its internal environment
   (d) None of these

ii. It is wide, all inclusive, and involving characteristic of futurism. Its strategic plans
   (a) Vision
   (b) Mission
   (c) Strategic intent
   (d) None of these.

iii. It is an important element in establishing the strategy of the organization.
   (a) Strategic intent

(b) Mission
(c) Industry environment
(d) None of these

iv. They speak for the organization's commonly held faiths, established set of attitudes, and presumptions that frame how work is performed in an organization. They are:
(a) Mission
(b) Its strategic plans
(c) Core values
(d) None of these

v. The short-term significant stages or a point of reference that organizations must accomplish so that the longer term objectives are to be reached. They are:
(a) Core Values
(b) Mission
(c) Goals
(d) None of these

3.5 STRETCH, LEVERAGE AND STRATEGIC FIT

Later to the concept of strategic intent, Hamel and Prahalad annexed the concepts of 'stretch' 'leverage' and strategic fit. Stretch is a mismatch between resources and aspirations. Leverage means the concentration, accumulating, complementing, conserving and recovering resources in a way that a merged resource base can be stretched to meet the aspirations that an organization dares to have.

The idea of 'fit' is opposite to the idea of stretch. 'Strategic fit' means positioning the firm by matching its organizational resources to its environment. Strategic fit occurs usually in related diversified businesses as a result of superior competitive position arising from overall lower cost and the successful transfer of core skills, technology, and managerial know-how between businesses. Strategic fit can occur in the functional areas such as market- related fit, operating fit, management fit and financial fit.

Market-related fit occurs when the activity cost chains of different businesses overlap such that they attempt to reach the same consumers via similar distribution channels, or are marketed and promoted in similar ways. It may also be possible to transfer selling skills, promotion, advertising skills and product positioning/differentiation skills across businesses. Successful examples include Canon's strategic position in cameras and photographic equipment being logically extended into copying and imaging equipment. Honda's extended its position in motorcycles to other activities using engines including automobiles and lawnmowers.

Operating fit is achieved where the potential for cost sharing or skills transfer can occur in procurement, R&D, production, assembly, and/or administrating.

Management fit occurs when different business units enjoy comparable types of entrepreneurial, administrative or operating problems. This type of gain is very difficult to achieve due to differences in corporate culture.

The only strategic fit that is almost certain to be achieved is the financial one. The operational strategic fit have lower probabilities of success, that for marketing being higher than that for production which, in turn, is higher than that for R& D.

3.6 DETERMINATION OF FIRM'S STRATEGIC INTENT

Though it is accepted that the strategic intent of the firm is a comparatively long-term concept, it requires to be modernized with changes the business environment, wider corporate strategy, or even changes in ownership or leadership. For instance, a firm that has been traditionally in a single business could develop into multiple businesses, and all of a sudden begins to find its business environment broader and more complicated. Under such conditions the organization needs to reflect and redefine its strategic intent. The danger of redefining the strategic intent of the firm too frequently should also be recognized. People might lack the commitment to the variable intent that seems to be not long-term.

A regular interaction of different forces such as the evaluation of the strategic alternatives the organization has performed, the interests of different stakeholders connected with the organization, the context of industry the firm operates in, its leadership, its past records, and culture, and the state of the future as the organization's authoritative temporary alliance perceive, determine the strategic intent of the organization.

How an organization perceives itself in the time to come as its scope of business represents is the principal factor which decisively affects an organization's strategic intent. FMCG companies, marketing companies, companies of integrated energy and companies in logistics are the important examples of business scope definitions. The firm starts by questioning itself. 'In What business we are?' and 'For what should we be known?'

Different stakeholders may especially have varied opinions about the strategic intent of the company. Authoritative stakeholders in the company are the shareholders, experienced managers, customers, employees, vendors, technology partners, the government, and the society as a whole. The values, interest and the expectations of these stakeholders from the organization also markedly vary. The amount of power stakeholders exerts on the organization, and their urge to exercise this power to formulate the organization's intent and strategy also differ. The most powerful of these stakeholders are the shareholders who are the real owners of the company. Therefore, the organization specifically mentions the way it will serve the interest of different stakeholders.

3.7 LIMITATIONS OF STRATEGIC INTENT

The concept of strategic intent has its own limitations. Strategic intent is a dynamic concept rather than a static one. When firms seek their strategic intent strictly, it is likely that they are not adapting themselves to the variations in the business environment, corporate strategy, and or leadership for long periods of time. Dorothy Leonard-Burton (1995) emphasized how such a pursuit of a firm's strategic intent can generate core rigidities that cause the firms unable to see opportunities/threats in the business environment. In order to win this, firms need to use strategic intent as a guide and direction to the future, rather than an objective in itself.

The strategy diamond is a result oriented technique of clearly mentioning and pronouncing clearly and distinctly the strategic intent in terms of priorities and activities. As the firm accomplishes the elements of the strategy diamond or they become redundant/ irrelevant due to changes in the business environment, the firm needs to revisit and re-evaluate their strategic intent.

3.8 STATEMENT OF FIRM'S STRATEGIC INTENT

Once a firm's strategic intent is determined, it is important that the strategy of the firm is communicated in the right way to all the stakeholders in totality. Hambrick and Fredrickson (2001) clearly and distinctly mention the design of strategy in the forms of a strategy diamond. Fig.3.1 demonstrates the strategy diamond.

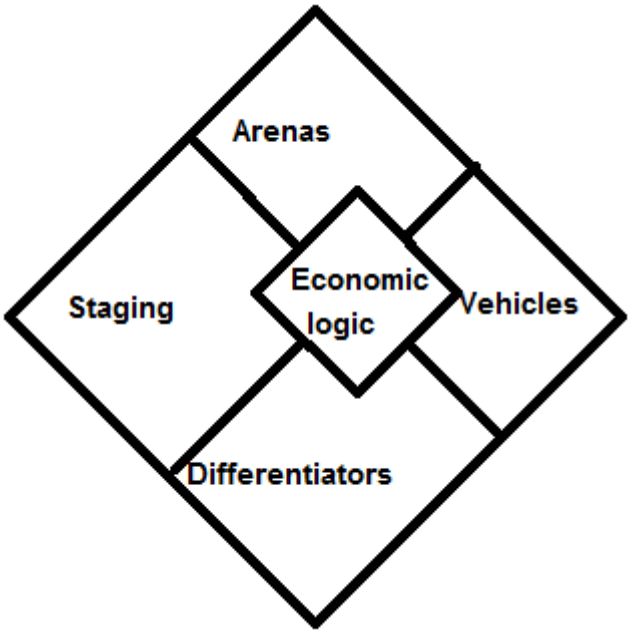


Fig 3.2 Strategy Diamond

3.8.1 ARENAS

Arenas clearly indicate what businesses will the firm be involved in? Specifying the arenas is akin to replying the question 'what business are we in?' Reactions to this question are usually general and broad, as 'national leader in financial services'. In defining arenas, it is significant to be as particular about the products, market segments, geographic areas, and care technologies, as the firm is likely to concentrate on arenas similar to 'specialized personal banking and consumer finance'.

3.8.2 DIFFERENTIATORS

Differentiators explain the particular places of origins of competitive advantage for the firm. They mention how the firm will invite and continue to have its customers and therefore, become winner in the marketplace. These differentiators are an outcome of specific decisions managers take to make their product/services information offerings being unlike anything else and valuable. For instance the State Bank of India applies its big branch network of nearly 7,000 domestic branches, and a big number of foreign branches to cater to the needs of its customers in every corner of the world. On the contrary side banks like the Citibank apply telecommunication and information technology to provide services to their customers 'round the clock' leading to the differentiators, 'the Citi never sleeps'.

When we talk of differentiators two things must be kept in mind.

(1) Differentiators do not just take place they are outcome of deliberate choices managers make of the product/service/information offerings. It is not so simple for firms to generate and continue to have a differentiation. The imitable sources of differentiation do not created the intended value. For instance, even though the Graphic User Interface was first introduced in personal computing by Apple, it is Microsoft who took maximum value out of it, by scaling their operating system to DOES to windows.

(2) Just having a differentiator is not adequate it is more of importance that the differentiation provides value for the customer. For instance, Indian watch manufacturer HMT focused continuously on mechanical watches in the name of low prices, when the industry shifted towards quartz watches. In a gradual manner, the industry matured to provide quartz watches at the same low prices HMT was offering its mechanical watches at, thereby restricting the value of HMT to the consumers.

3.8.3 VEHICLES

Vehicles explain how the firm arrives at the intended ends – its arenas, and differentiators. The vehicles clearly and distinctly mention the means the firm will apply to reach its ends. If the purpose is to become more competent in a particular product/market, how the firm proceeds to develop it- through internal development, joint ventures, or acquisitions. For example, with the appearance of product patent regimes as opposed to process patents, Indian pharmaceutical

firms have determined to concentrate on basic molecular research in order to compete in branded pharmaceutical products, rather than generic products. Dr.Reddy's Labs has deliberately determined to concentrate on specific therapeutic segments and have specifically initiated research programs aimed at new drug discovery, its clinical trials, and subsequent commercialization.

3.8.4 STAGING

Arenas differentiators and vehicles specifically mention the content of the firm's strategy: staging means the speed and the particular order of major activities of the firm in the tracking of its intent. In implementing a strategy containing of multiple actions, it is of vital importance to clearly mention the priorities of the various actions. It is not always possible to furnish the same sort of focus and stress to every individual of the firm's strategic strides, due to either resource constraints or otherwise. For instance, the Indian e-commerce firm, Fabmart Pvt.Lt. started with an online music store, and acquired the position of India's largest online supermarkets. Consciously the promoters determined to concentrate on aggressive spending beforehand in advertising and promotion for constructing its customer base, before adding multiple stores, including gifts, jewels, watches, books, movies, computers, garments, and groceries. The particular order of strategic moves (staging) was evident- Fabmart constructed a brand image and thus a customer loyalty, before extending its operations and its logistics.

3.8.5 ECONOMIC LOGIC

Economic logic presents and explains the particular business model of the enterprise- how the firm intends to produce its revenues and profits. Differentiators clearly mention how the firm is distinct from that of its competitors, whereas the economic logic presents the way the firm will reap advantage of these differentiators. For instance, The Times of India uses borrowed capital on its big, nation-wide circulation base to charge a premium from its advertisers, whereas another publication from the same group-The Economic Times-takes advantage of its premium business clientele to invite focused advertisements for approaching the specific readership segments. In order to sell their big volumes of their products to different segments of the market, Indian FMCG firms like the Hindustan Lever Limited and Proctor and Gamble apply their marketing strong point and country-wide distribution networks. The efforts directed to reduce marginal costs through maximum use of scale and scope economies is the base of the firm's business model.

Therefore, arenas clearly mention the business the firm is desiring to be in; differentiators explain the way the firm will search and continue to have relative competitive advantage over its competitors; vehicles describe the specific methods of accomplishing these ends; staging specify the speed and the particular order of the various actions; whereas economic logic mentions the business model of the firm- the different various sources of revenue generation and profitability for the firm.

This definition dealing with almost all parts of the firm's strategy explains all those parts that a firm's strategy is made up of- the design of the firm's strategy. Along with the official announcement of the firm's intent consisting of its vision, mission and core values, the declaration of strategy diamond in the form of arenas vehicles, differentiators, staging, and economic logic assists the enterprise design its course for accomplishing the intent.

3.8.6 STRATEGIC DISSONANCE

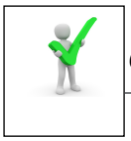
There are quite a few times for an organization operating in highly dynamic environments, when there might be divergence between the basis of competition in the industry, the distinctive competence of the firms, the company's official corporate strategy- its intent and strategy statement, the company's strategic actions, and the company's internal selections environment for new strategies, including resource allocation rules and organizational culture. Burgelman and Groove (1996) explain these circumstances as strategic dissonance. For instance, the Indian pharmaceutical industry has the characteristics of the imminent change in patent rule from product patents to process patents. The process patent rule compelled firms to construct distinctive competencies in process chemistry and reverse engineering of products whose patents had expired in the international market. As the country prepares readies itself for product patents firms have to construct new capabilities, viz., basic research, and in integrated process of new drug discovery. Given the time taken for a molecule from discovery to approval and commercialization (five to seven years), and the huge amounts of money needed for new molecule discovery, it is essential that companies make heavy investments in constructing these competencies.

These circumstances that indicate changes in the business environment, changing the basis of competition among firms, and define differently the way business is performed in an industry, are called strategy changing points. At such points, it is essential that an organization's strategic intent is cautiously arranged with the specific strategic actions the firm's middle and lower managers undertake. Without such an arrangement, the firm's managers might continue doing business in the same old ways in spite of a deliberate change in the strategic intent of the firm

As the Indian pharmaceutical industry passes through this strategic inflection point various firms have started basic research on several molecules. In putting this shift into effect, it is essential to change the set of mind of the research scientists who have customarily paid particular attention to bringing improvements in the efficiency of the manufacturing process through comprehensive knowledge of process chemistry. Recently developed skills and competencies are needed to manage the change from manufacture of bulk drugs to marketing of branded formulations. The process of discovery of a new drug, different stages of clinical trials, and the approval process necessary for branded formulations require close coordination across all functions including research, manufacturing and marketing. Dr.Reddy's Labs has deliberately established the need for this change in set of mind and competencies, and has started a reorientation process involving a system. This orientation powers the employees to update their pertinent technical and managerial skills; needs them to recognize the full worth

of the need for coordination across-functions; and encourage knowledge-sharing culture rather than knowledge-hoarding culture

Usually organizations are equipped to define differently their identity in formulating and clearly and explicitly mentioning their strategic intent as they deal with strategic dissonance. The importance of visionary leadership and senior management's insight about the future is highly conspicuous when defining differently the organization's strategic intent. It is inevitable that the organization not only defines again its strategic intent in periods of strategic dissonance, but also arranges its distinctive internal competencies and strategic actions with the industry environment to sustain its competitive advantage.



Check Your Progress- B

1. Choose the correct alternative

i. A mismatch between resources and aspirations is:
   (a) Stretch
   (b) Leverage
   (c) Strategic intent
   (d) None of these

ii. The concentration, accumulating, complementing, conserving and recovering resources in a way that a merged resource base can be stretched to meet the aspirations that an organization dares to have is:
   (a) Mission
   (b) Leverage
   (c) Fit
   (d) None of these

iii. What businesses the firm will be involved in is indicated by:
   (a) Differentiators
   (b) Vehicles
   (c) Arenas
   (d) None of these

iv. The particular places of origins of competitive advantage for the firm are:
   (a) Differentiators
   (b) Vehicles
   (c) Staging
   (d) None of these

v. It presents and explains the particular business model of the enterprise. It is:
   (a) Arenas
   (b) Economic logic
   (c) Differentiators
   (d) None of these

3.9 SUMMARY

Successful strategic management in producing an intended result starts with the organization distinctly pronouncing its vision for the future. The strategic intent of the firm constitutes the organization's belief about its future state. This strategic intent usually contains extended targets, which compel companies strive to gain in innovative ways. Thus, strategic intent denotes a compelling statement about the destination an organization is going that clearly in an expressed manner carries a sense of what that organization desires to accomplish in the long period. The strategic intent can provide a sense of direction, sense of discovery and sense of destiny

The distinct relationship between the long-term and short term intentions is depicted in the form of hierarchy of strategic intent including, mission, core values, goals, objectives and plan. Later to the concept of strategic intent, Hamel and Prahalad annexed the concepts of 'stretch' 'leverage' and strategic fit. Stretch is a mismatch between resources and aspirations. Leverage means the concentration, accumulating, complementing, conserving and recovering resources in a way that a merged resource base can be stretched to meet the aspirations that an organization dares to have. The idea of 'fit' is opposite to the idea of stretch. 'Strategic fit' means positioning the firm by matching its organizational resources to its environment. Strategic fit occurs usually in related diversified businesses as a result of superior competitive position arising from overall lower cost and the successful transfer of core skills, technology, and managerial know-how between businesses. Strategic fit can occur in the functional areas such as market- related fit, operating fit, management fit and financial fit. Market-related fit occurs when the activity cost chains of different businesses overlap such that they attempt to reach the same consumers via similar distribution channels, or are marketed and promoted in similar ways. It may also be possible to transfer selling skills, promotion, advertising skills, and product positioning/differentiation skills across businesses. Successful examples include Canon's strategic position in cameras and photographic equipment being logically extended into copying and imaging equipment. Honda's extended its position in motorcycles to other activities using engines including automobiles and lawnmowers. The only strategic fit that is almost certain to be achieved is the financial one. Though it is accepted that the strategic intent of the firm is a comparatively long-term concept, it requires to be modernized with changes the business environment, wider corporate strategy, or even changes in ownership or leadership. The concept of strategic intent has its own limitations. Once a firm's strategic intent is determined, it is important that the strategy of the firm is communicated in the right way to

all the stakeholders in totality. The strategy diamond consists of arenas, differentiators, vehicles, staging, economic logic and strategic dissonance**.**



3.10 GLOSSARY

Strategic Intent: This strategic intent is an expression of the growth ambition, future visualized and a dramatic picture of what the company wants to become.

Vision: is the comprehensive category of long-term intentions that the organization desires to chase

Mission: is the extended targets, which compel companies strive to gain in innovative ways.



3.11 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

Answers 1.

i. (a)

ii. (a)

iii.(b)

iv. (c)

v. (c)

Check Your Progress –B

Answers1.

i. (a)

ii. (b)

iii. (c)

iv. (a)

v. (b)



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3.13 SUGGESTED READINGS

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3.14 TERMINAL QUESTIONS

Q1. What do you mean by strategic intent? Explain in brief each of these concepts. (a) Stretch (b) leverage (c) strategic fit.

Q2. 'A vision is too abstract to be of any practical value'. Explain this statement. Describe the major characteristics of a mission statement.

Q3. What do you mean by 'business definition'?

Q4. Describe the role objectives can play in strategic management.

Q5. What are the factors that should be taken into account while formulating objectives?

Q6. Explain with the help of suitable diagram the hierarchy of objectives of an organization

UNIT 4 STRATEGIC PLANNING AND STRATEGIC MANAGEMENT

4.1 Introduction

4.2 Objectives

4.3 What is Strategic Management?

4.4 Strategic Planning

4.5 Strategic Planning Process

4.6 Key success factors of strategic planning

4.7 Approach to Strategic Planning

4.8 Strategic Issue Management

4.9 Strategic Planning and Innovation

4.10 Components of a Strategic Plan

4.11 Summary

4.12 Glossary

4.13 Answer to Check Your Progress

4.14 Reference/ Bibliography

4.15 Suggested Readings

4.16 Terminal & Model Questions

4.17 Activity

4.1 INTRODUCTION

A firm during its journey of growth and maturity also moves through various stages of planning capability and maturity. McKinsey has captured this progression of a firms planning maturity in 4 phases:

- Basic Financial Planning
- Forecast based Planning
- Externally oriented Planning
- Strategic Management

At the outset a firm engages in budgeting, accounting and resource planning to achieve the targets for the year. It is normally short duration and is based on very little analysis. Subsequently firms realise that short-term planning needs to be complemented with longer-term planning ranging from 3 to 5 years. This requires gathering additional market information and forecasting tools to extrapolate trends. Still at the operational level, once the firm's operating environment becomes more complex or larger in scale, the top management steps into the planning process bringing an element of strategic planning. Thus, external environmental analysis is done to create plans which are more responsive to changing environmental dynamics and retaining competitive advantage.

The final phase of maturity defined by McKinsey is strategic management. This unit details the concept of strategic management and the related concept of strategic planning.

4.2 OBJECTIVES

After reading this unit you will be able to:

- Understand the concepts of strategic management and planning
- Describe the strategic planning process.
- Know the various approaches to strategic planning.
- Understand the importance of innovation in strategic management.
- Be able to create a strategic plan.

4.3 WHAT IS STRATEGIC MANAGEMENT?

Pioneered by General Electric, strategic management embodies the twin concepts of strategic thinking and strategic planning. Some common definitions of strategic management are:

> ***"Strategic management** is about the direction of organizations, most often, business firms. It includes those subjects of primary concern to senior management, or to anyone seeking reasons for success and failure among organizations*." (Rumelt, Schendel, and Teece,1994)
>
> ***"Strategic management** is a process that deals with the entrepreneurial work of the organization, with organizational renewal and growth, and more particularly, with developing and utilizing the strategy which is to guide the organization's operations." (*Schendel and Hofer, 1979)
>
> ***"Strategic Management** entails the analysis of internal and external environments of firms to maximize the utilization of resources in relation to objectives*" (Bracker (1980)

Strategic management process and its various components will be handled in detail during the entire course. However, a birds-eye view of strategic management framework adapted from Wheelen and Hunger is given below:

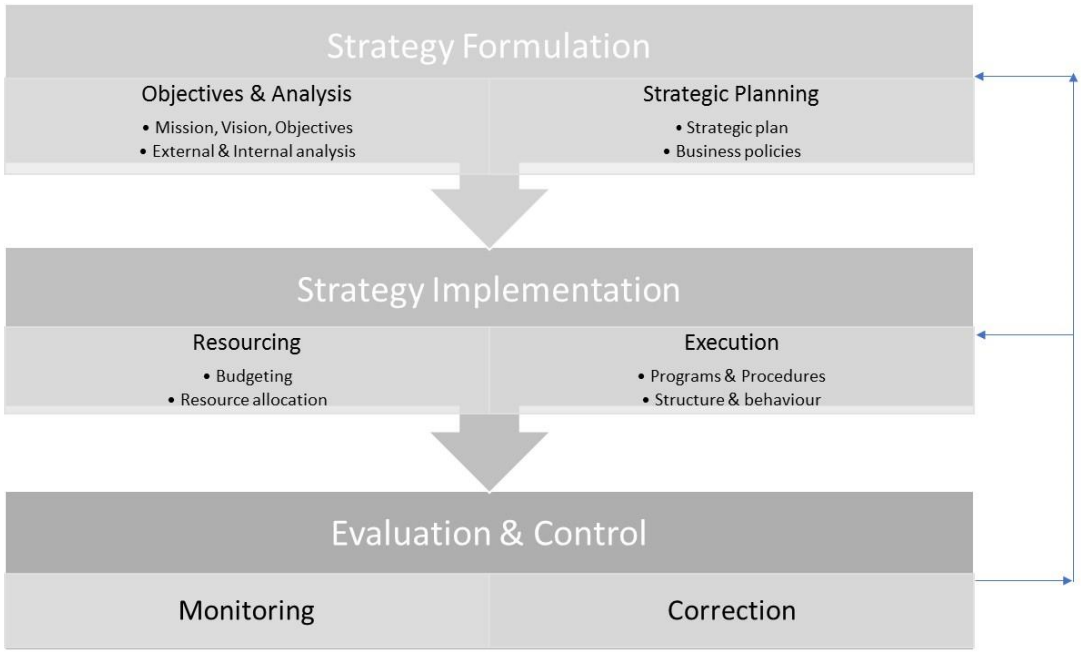


Figure 4.1 Framework of Strategic Management

Strategic management is an iterative process where formulation feeds implementation and vice versa. Feedback loops of experiences, events and collective wisdom are an essential aspect of strategic management.

Benefits of strategic management include :

- It provides a focussed approach to implementing the organisation's strategic vision and mission
- It improves the understanding and tracking of a dynamically changing environment
- Provides a clarity to all levels of the organisation on 'what, where and how' of an organisation's long-term sustainability
- Provides avenues of course correction in implementing the firm's strategy

We will see in the following sections, how long-term viability of a company and its sustained performance is the result of an ongoing process of strategic planning, implementation and review. While short term performances can be managed, very few companies are able to maintain their leadership over decades.

Risk appetite is an important factor to consider in all the components of strategic management and planning. Risk is a probability of success of failure of the strategy which increases with the quantum of resources and the time element of implementation. Many strategies such as venturing into new products, markets, or acquisition of another company though may look very attractive are typically not taken up well be management and stakeholders due to the increased risk associated with them. Hence, management attitude towards risk and the stakeholder's expectations need to be kept in mind during the entire process.

4.4 STRATEGIC PLANNING

As we have seen above Strategic planning is part of strategic management. It entails the formulation of the strategic plan covering analysis of the opportunities and threats, leveraging strengths and mitigating weaknesses of the firm. Strategic planning also the actual task of defining the mission, vision and objectives of the company and designing its strategy also known as the strategic plan.

Strategic planning is an analytical process in which relevant data is analysed and evaluated from the perspective of defining the company's strategy. Via the strategic plan details of implementing, evaluation and strategic control are also detailed and documented. Any strategic planning process must address the following questions for the organisation:

1. Where is the organisation going?
2. How is it getting there?
3. What is the plan of action?
4. How does it know that it is on track according to plan?

The basic purpose of planning is for an organisation to achieve its stated goals and objectives in the budgeted time frame. The rational planning model suggests that with increase in environmental uncertainty, corporations which continually engage in the process of environmental scanning and planning for the changes outperform those that do not. This hypothesis is supported by empirical research.

4.5 STRATEGIC PLANNING PROCESS

Strategic planning process in general can be depicted in the following steps:

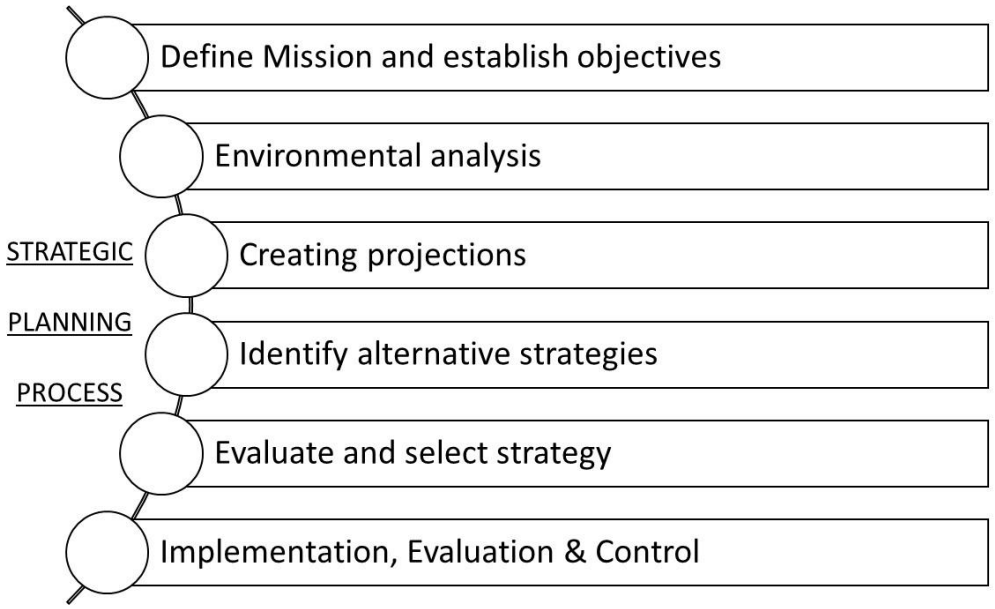


Figure 4.2 Strategic Planning Process

1. Define Mission and establish objectives – Mission is the raison dêtre of an organisation. It defines the purpose of the organisation, while objectives translate this mission into specific items called goals and objectives. Mission statements can include descriptions of a company's competitive advantage, its values, shared purpose etc. It is a statement which distinguishes a firm from others in the same industry. Defining organisational objectives is the most critical step in the strategic planning process as it lists the target state. Objectives are like defined results and timelines to achieve those results for which the strategic planning exercise is being undertaken. They could be in terms of revenue and profitability or contributions to society, community or market share, brand value etc.

2. Environmental analysis – Environmental analysis constitutes both external and internal environment. Scanning the external environment of the firm provides a list of factors which can impact the organisation as well as the opportunities and threats it may face. There is little control over the external environment. Internal environment analysis encompasses evaluating the organisation's internal resources, strengths and weaknesses which can translate into competitive advantage for the company.

3. Creating projections – Forecasting is an important component of strategic planning. Simplistic views of forecasting start from extrapolating data points into the future. As with any forecasting tool, the assumptions made for projecting current to future are of utmost importance. Some of the forecasting tools are extrapolation, brainstorming and expert opinions, statistical modelling, impact analysis etc. Current business environment is fraught with uncertainty, multiplicity of factors and frequent black

swan events which can lay to waste all forecasting models. In such situations, scenario building is a commonly adopted approach to forecasting. This creates a possible target state(s) for the firm.

4. Identify alternative strategies – Strategic management is an art. There is no single strategy which can work in all scenarios and contexts. Strategists need to seek those strategies which work for their business context and objectives. Multiple strategic alternatives are possible just as there can be more than one path to a certain destination. Identifying and selecting strategies is also termed as strategic decision making. Strategic alternatives can typically be classified as competitive or co-operative. Competitive strategies aim to establish a sustainable competitive advantage of an organisation vis-à-vis its competition. Porter's competitive strategies are the most famous examples of this classification. Others could include mergers and acquisitions etc. Co-operative strategies as the name suggests work at working with one or more firms to gain an advantage for strategic growth. Building alliances and collusion are two general co-operative strategies
5. Evaluate and select strategy – All strategic alternatives need to be evaluated against a set of parameters. One or more alternatives can be selected for implementation. This is also called strategic choice. It is important to retain all the alternatives as part of the strategic plan though. This could be useful in reviews and situations of course corrections subsequently. There is no specific rule for strategy evaluation as it is very unique to every firm, every context and every objective. However, a typical strategy evaluation process incorporates examining the pros and cons of each alternative, the ability of each alternative to accomplish the stated objectives, resource requirements of each alternative and the downside effects of each alternative. Scenario analysis comes in handy in this activity as well. Strategy with the best fit to the stated objectives, with least amount of resource requirement and minimum downside is the obvious choice of optimum strategy.
6. Implementation, Evaluation & Control – Strategic plan is not simply a statement of what and where for the firm. It also tells 'how' the firm will get there. Strategy has to percolate down to the tactical and operating levels for it to be implemented. Best laid plans can translate into nothing if the implementation is not proper and it does not get evaluated and monitored periodically.

Some of these steps are discussed in the subsequent sections.

4.5.1 ENVIRONMENTAL ANALYSIS

An important starting point of strategic planning, environmental analysis comprises external and internal evaluation of a company's strengths, weaknesses, opportunities and threats with respect to the environment it operates in. While the first 2 relate to internal analysis the last 2 related to external analysis. In addition to these there might be other inputs to environmental

analysis in the forms of company's values, society, legal and political environment etc. The core difference in approach to strategic management from a few decades back is the growing importance of environment to strategy.

There are several frameworks for environmental analysis which can be used such as:

1. SWOT Analysis
2. PESTLE Analysis
3. Porter's Five Force Analysis
4. McKinsey 7 S Framework

These frameworks will be further detailed in the units on environmental analysis. Internal environment of a company comprises its culture, structure, resources, capabilities, core competencies, processes and systems. Together they define the internal context of the organisation over which it has maximum control.

4.5.2 SCENARIO PLANNING

Another important difference in approach to strategy is the incorporation of uncertainty in the strategic planning process. Unlike the definitive input – output of say an operating plan, a strategic plan uses techniques of scenario building to deal with uncertainty and keep the plan relevant in a wider variety of scenarios. Scenario building is a forecasting technique where multiple scenarios are built with multiple possible outcomes, their probability of occurrence is evaluated, and the implications are assessed. Simply stated a scenario is a description of some future state in terms of challenges, issues and variables. Scenario analysis can be used in combination with other forecasting tools. For example, extrapolation of trends can be done using categories like best-case scenario, worst-case scenario and most-likely scenario. There are various theories for doing scenario building depending on the complexity of strategy and firm's business like chaos theory, intuitive logic, complexity theory etc.

Scenario building can be done at the firm level or at the industry level. An example of firm level scenario for a UBER can be : How customer will commute from point A to point B in 10 years from today? Whereas for an industry level scenario, it is normally done at a higher level wherein all the components of the industry play a role. For example, scenario for auto industry can be: What new technologies will impact car manufacturing in future? Scenario analysis is a very tricky exercise in that if it is not done in a controlled manner, wishful thinking can dominate the scenarios and lead the firm's strategy in a completely wrong direction.

4.5.3 IMPLEMENTATION, EVALUATION AND CONTROL

Strategic planning process creates the strategic plan which not only contains the overall strategic direction of the company, but also a plan to implement the strategy. In the words of Jack Welch,

> *"In reality strategy is actually very straightforward. You pick a general direction and implement like hell."*

Strategy implementation planning can be done in many ways. Some companies' spin-off programs and initiatives to implement key elements of strategy. While others drive strategy via business policies, organisational structuring and business operating plans. Performance oriented organisations manage and measure strategic implementation via tools such as balance scorecard and strategy maps.

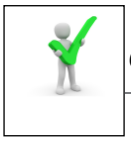
Measurement, evaluation and control are integral part of strategy planning providing feedback loops to various stages of strategic management framework to fine-tune and update the relevant components. There are many tools to evaluate achievement of strategic plans such as Robert Stake's Responsive Evaluation. Responsive evaluation is an organic approach wherein there is no pre-determined template or design. Infact the design emerges via interaction with various stakeholders and incorporating other inputs such as context, background, stakeholder interface points etc.

4.6 KEY SUCCESS FACTORS OF STRATEGIC PLANNING

Strategic planning as the name indicates is part of strategic management and hence needs to be driven by top management. It requires a company-wide understanding of what it is and how it is to be done. While strategic planning is a process-driven activity there is a level of intuition and judgement which is required in it. This needs to be well-balanced with the formal and data-driven aspects. As we have said earlier strategy is unique to every company and hence should incorporate the characteristics of the company, its culture, values and resources.

Strategic plans are long-term in nature while projects and programs spun-off from them are medium and short-term. The alignment of long-term with medium/short-term is critical in all organisational systems and processes. For example, if the performance measurement system in a company is totally oriented towards achievement of short-term goals, it will lead managers to prioritise short-term over long-term interests of the company.

Plans need to be kept simple, without jargon, executable and measurable. Over-strategising, over analysis, making complex plans will only ensure that the employees either don't understand the plan or find it too difficult to implement. Both scenarios make the entire strategic planning exercise purely academic and documentative. Strategic management is a cultural way of working in organisations. This has to be demonstrated at the top and imbibed by all levels of employees in all systems and processes down to the operating level. Having said that strategic plan is not an operating document and should not be used so.



Check Your Progress- A

Q1. Define Strategic Management?

Q2. Explain the difference between mission, objectives and strategy?

Q3. What are steps in the strategic planning process?

4.7 APPROACH TO STRATEGIC PLANNING

Strategy is "*a pattern of purposes and policies defining the company and its business*." (Andrews 1980). Strategic management and strategic planning can be a simple process for a small business with little or no complexity in its operations. For large businesses with multi-country operations or highly technical complex operations the strategic management and planning exercise is also fairly complex and involved. While many such companies engage external consultants to chart out their strategic plan, it is still an outside-in view of the organization. Companies which have a significant engagement in the strategic planning

process whether internal or outsourced will have a more effective strategic plan. We discuss some of the approaches to strategic management and planning.

4.7.1 HARVARD POLICY MODEL

Harvard Policy Model has been developed as early as the 1920s by the Harvard Business School. This model's focus is on attaining the best fit between the firm and its environment. Environment as we have seen earlier refers to the external opportunities, threats, social and political context on one hand and the internal strengths, weaknesses, culture and value systems of the organization on the other hand. The model seeks to define a strategy that best fits the two with the organizational context. Frameworks like SWOT are extensively used in this approach. The Harvard model provides a strong foundation for developing strategies but does not provide any method of how to develop them. It is a good fit for strategic planning at a SBU or strategic business unit level.

4.7.2 STRATEGIC PLANNING SYSTEMS

Strategic planning system breaks-down the strategic management and planning process into three cycles

1. Strategic issue identification
2. Strategy development
3. Strategy implementation

It engages multiple levels and functions of the organisation in a decentralised way to make, implement and control key strategic decisions. While this approach to strategic management achieves in aligning and leveraging the elements of the organization towards the strategy, its success lies in the comprehensiveness and tightness of control over the process. This is also its weakness as too much of definition and control loses the big picture and becomes cumbersome for employees down the level to comprehend and adhere.

4.7.3 STAKEHOLDER MANAGEMENT APPROACH

One of the key objectives of any business is to meet its stakeholder expectations and hence stakeholder management is an essential element of strategic management. Any organization typically has the following stakeholders – customers, employees, owners, suppliers, lenders, regulators etc. Freeman (1984) has stated that strategy is an effective only if it meets stakeholder needs and hence strategy should be understood as a means to achieve those needs. In this approach the company's mission, objectives, and strategies are all formulated in terms of its stakeholders. Thus, this model of strategic planning places stakeholders at the center of strategy building and hence is aligned to the primary objective of any organization.

The weakness of this approach is the lack of criteria to choose competing stakeholders' priorities or needs and how to handle divergent interests of stakeholders.

The approaches discussed above provide methods to the process of strategic planning covering the direction and policy but do not cover how to develop the strategy. This aspect is addressed in the following approaches

4.7.4 PORTFOLIO MODEL

Portfolio model is based on the premise that a business is a portfolio of business units. One of the early and most popular portfolio model was defined by Bruce Henderson, founder of the Boston Consulting Group in 1970s called the growth-share matrix or BCG matrix. The BCG matrix is essentially a 2X2 matrix of a business unit plotted based on its competitive position (represented by market share) and the attractiveness of the industry (represented by industry growth rate) as depicted in example below.

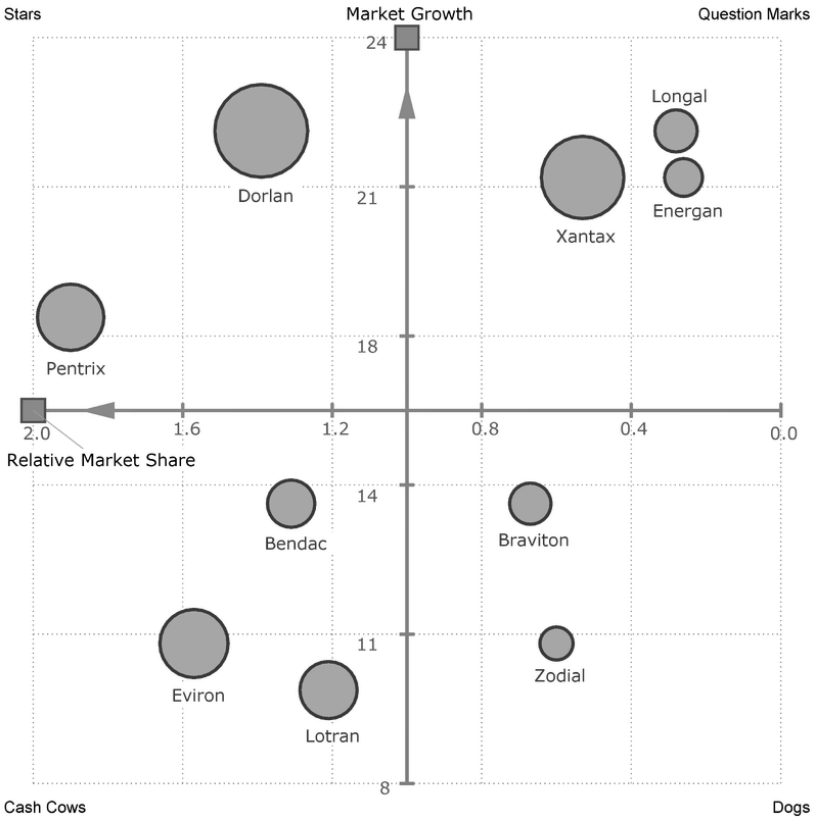


Fig 4.3 Portfolio Model

(source: By Ericmelse - Template:Ericmelse, CC BY 3.0, https://commons.wikimedia.org/w/index.php?curid=9540479)

Based on their position in the matrix the businesses are categorized in one of the following:

1. **Cash Cows** – High market share / low market growth. These businesses generate huge amounts of cash. Requiring low investments, the profits from these businesses can be invested in other parts of the organization.
2. **Dogs** – Low market share in a low growth market, these businesses generate little cash and also offer no hope of increase in share
3. **Stars** – These are high growth businesses with a high market share. Typically, these businesses also generate a huge amount of cash. In order to safeguard or increase market share these businesses required large investments.
4. **Question Marks** – These businesses have the potential to become either stars or cash cows given large investments.

Typically, dogs need to be shot, cash cows to be milked and stars to be nurtured. Question marks are well questions on whether they should be invested in or not. BCG matrix tries to maximize market share, thus bringing down unit cost of production and maximizing profit potential for an enterprise. Thus, the matrix approach provides a set of probable strategies to be adopted in the different types of situations.

Another portfolio approach is Core competency – Propounded by Prahlad and Hamel, this approach seeks to enhance a firm's core competency by suggesting strategies which build portfolios around shared operating or technical competencies.

Portfolio approach suffers a limitation of the understanding of which strategic dimensions to incorporate in the model and how to classify businesses against multiple such dimensions. However, the portfolio theory has its ardent followers as it provides a model of evaluating diverse businesses of investment options across a uniform set of dimensions thus providing a clarity of strategy.

4.7.5 COMPETITIVE ADVANTAGE

"Strategy is about setting yourself apart from the competition. It's not a matter of being better at what you do – it's a matter of being different at what you do." Michael Porter

Conceptualized by Michael Porter in 1980s, this approach stems from his view that organizations should be concerned with building and sustaining competitive advantage by cost leadership, market focus or differentiation. The fundamental principle of this approach is that by analyzing the forces that shape an industry, one can predict the general level of profits throughout the industry and the likely success of any particular strategy for a strategic business unit. From a competitive advantage perspective and industry will generate lower returns is the forces shaping the industry are stronger and similarly for the business as well. Porter defined 2 ways to conduct competitive analysis:

1. **Five Forces Analysis** – This approach lists 5 forces which shape and industry or business viz. bargaining power of customers, power of suppliers, threat of new entrants, threat of substitutes and industry rivalry

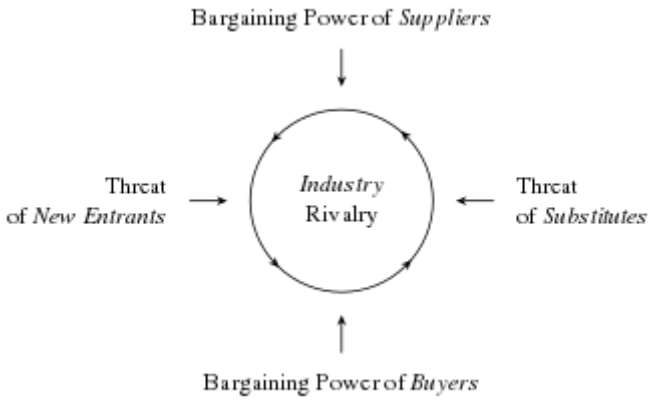


Fig 4.4 Five Forces Analysis

These forces affect the ability of a firm to raise price of product or lower cost of input, thus affecting the profitability of the business overall. Thus, firms should choose those businesses where they have a favorable structure and use these 5 forces to create a sustainable competitive advantage.

2. **Generic Strategies** – Porter suggested that a firm adopt one of the 3 generic strategies for optimal resource utilization and retaining competitive advantage. The 3 strategies as depicted in the figure below are cost leadership, differentiation and market focus.

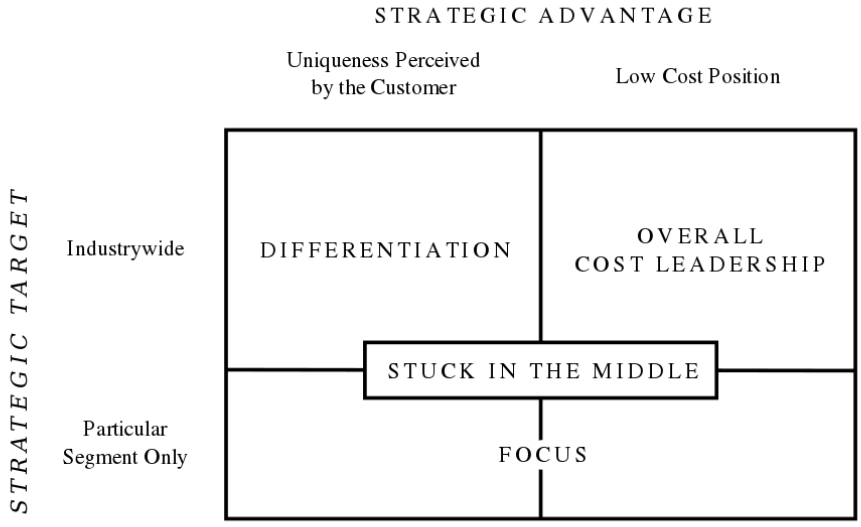


Fig 4.5 Generic Strategies

(Source: By Denis Fadeev - Own work, CC BY-SA 3.0, https://commons.wikimedia.org/w/index.php?curid=32434551)

Competitive advantage has a limited use in those sectors where competition maynot be prevalent or those such as public sector where it is more or a collaborative approach than competition.

The competitive advantage approach differs from the portfolio approach in that the former is a choice of one strategy to be made by the firm by analyzing its position with regard to the 5 forces or with regard to the market segments. The portfolio approach on the other hand is largely concerned with maximizing market share or deepening core competency. Nevertheless, both these approaches go one step further in advising companies on strategy alternatives.

4.8 STRATEGIC ISSUE MANAGEMENT

We have seen above that there are many approaches to strategic planning each with its own pros and cons. Most approaches stated above however take a leap from analysis to strategy identification, thus missing an important step in between. This is the identification of the strategic issues which will eventually be addressed by the strategic plan. One can take it as an extension of environmental analysis wherein internal and external developments which can impact the organizations objectives are identified and taken up for resolution or mitigation as the case maybe. Strategic issue management is also very useful in the periodic strategic review exercise conducted by firms.

Many strategists have argued that incorporating strategic issue management in the annual review is not very practical. Looking at the frequency and urgency with which strategic issues often arise, keeping them for the review exercise which could be an annual or a multi-year exercise renders the issue pointless and the company exposed to derailment.

Suffice to say here that strategic issue management is an important step in the strategic planning process which provides the necessary bridge between situational analysis and strategy development. There needs to be a mechanism to incorporate the same in the strategic planning or plan review process. Along with this there can be a path devised to address other strategic issues of an urgent type outside of the regular review process.

4.9 STRATEGIC PLANNING AND INNOVATION

In today's context there can be no discussion on strategy and strategy planning without incorporating innovation. Continuous innovation is the only way to survive and grow in this constantly changing business environment. Take a look at the Fortune 500 list of top 10 US companies today and 38 years ago.

Top 10 Fortune 500 US companies in 1980	Top 10 Fortune 500 US companies in 2018
1.Exxon Mobil	1.Walmart
2.General Motors	2.Exxon Mobil
3.Mobil	3.Apple
4.Ford Motor	4.Berkshire Hathaway
5.Texaco	5.Amazon
6.ChevronTexaco	6.United Health Group
7.Gulf Oil	7.McKesson
8.Intl. Business Machines	8.CVS Health
9.General Electric	9.AT&T
10.Amoco	10.Amerisource Berger

Fig 4.6 Strategic Planning and Innovation

(Source : https://archive.fortune.com/magazines/fortune/fortune500_archive/full/1980/ https://fortune.com/fortune500/2019/search/)

Other than Exxon Mobil there is no company which has been able to retain its leadership over the years. Another point to note is that while the list of 1980s largely belonged to oil and manufacturing firms, today the list is more technology and retail. Back home in India, the stalwarts of the license raj companies like DCM, Bhushan Steel, Parasrampuria etc. are struggling to survive today, while companies like AB Birla, Kirloskar, Hero group etc. which have managed to innovate and re-invent themselves with the changing times are still going strong. For a long time size and steadiness of operations were considered the key competitive advantage and innovation was left to the small, newer players in the market. The need to innovate and incorporate innovation in strategic management cannot be emphasized more. Failure to innovate has driven many established businesses out of existence. Consider industry leaders like Kodak and Xerox, where are they now?

Activity: Investigate the demise of an industry leader like Kodak or Xerox with a view to understand the shortcomings in strategic management process.

Innovation is a creative process and seems to be out of sync with planning which is a deliberate and organized process. How then can strategic management and innovation co-exist? Let us consider the definitions of innovation and creativity

> *"In its purest sense,* ***invention*** *can be defined as the creation of a product or introduction of a process for the first time.* ***Innovation****, on the other hand, occurs if someone improves on or makes a significant contribution to an existing product, process or service.*

Creativity is the ability to produce novel & useful ideas." Organisational Behaviour, 16e: Stephen P Robbins, Timothy A Judge, Neharika Vohra

Thus, creativity alone does not lead to innovation and it is innovation which helps convert ideas into marketable, monetizable entities for organisations. In companies, innovation also follows a process and is not left to serendipity alone. Incorporation of innovation process has to be done at multiple levels such as:

- Structurally
- Systems & Processes
- Creating an innovative environment via organizational culture
- Leadership and top management focus
- Resource availability and provisioning

These concepts if you recall are key concepts in strategic management as well. Hence incorporating innovation into the strategic plan and other downstream processes is not so much different as long as the company's leadership is committed towards innovation. Many companies engage experts in innovation as board member or strategic advisers to keep the focus of innovation in strategy e.g. TCS has been engaging with noted innovated expert Clayton M. Christensen earlier as board member and not as strategy advisor.

Thus, developing a strategic framework for innovation within the strategic planning process required:

1. Incorporation of innovation as strategy
2. Designing management practices which support innovation
3. Creating supporting structures like innovation groups, venture capital teams etc.
4. Creating an innovation-led culture
5. Including innovation as a pervasive decentralized concept in the organization operating processes

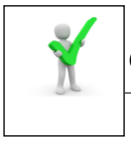
Innovation management and performance measurement of innovation are distinctly different systems which are required to be installed in relevant pockets for this framework to be and effective contributor to strategic management.

4.10 COMPONENTS OF A STRATEGIC PLAN

The final output of the strategic planning process is the strategic plan. The plan is a highly specific, contextual and unique output for every business and every strategic planning exercise. However, in general the plan has the following components:

- Executive summary
- Statement of mission and objectives
- Detailed Environmental analysis e.g. SWOT
- Assumptions and guidelines
- Reference and analysis of other past plans or complementary plans
- Strategic issues identified
- Plan Objectives
- Targets, criteria, parameters for measurement
- Gaps between as-is and to-be
- Strategy alternatives for closing gap
- Evaluation and selection of strategies
- Spin-off initiatives and programs
- Timelines and key milestones
- Contingency plan
- Plan review details

'Keeping it short and simple (KISS)' is a universal mantra for all documentation generated. However, it needs to be kept in mind that the strategic plan here is a blueprint for the organization and hence needs to be comprehensive and with sufficient detail. It's a living document subject to configuration management and document release process. Creating a componentized plan helps in distribution of only relevant parts on a need-to-know basis and also in updating it whenever required.



Check Your Progress- B

Q1. Using the Forbes 500 list explain the importance of innovation in strategy.

Q2. Name 4 approaches to strategic planning?

Q3. Fill in the Blanks with appropriate word or words.

a) …… is the reason for existence of an organization

b) Strategic management framework includes …….., implementation and ……..

c) Creation of a product or introduction of a process for the first time is termed as ……

d) The missing link between strategic analysis and strategy identification is provided by …….

e) Five Forces Model and Generic Strategies has been conceptualized by ……

f) The four quadrants of the growth-share matrix are ……, ……, …… and ……

g) Full form of SWOT in SWOT analysis is ……, ……, …… and ……

Q4. State whether True or False

a) Forecast-based planning is the same as strategic planning.

b) Strategic planning need not always be a long complex process.

c) Growth share matrix is also called BCG matrix.

d) The Stakeholder management approach to strategic planning seeks to attain the best fit between a firm and its environment.

e) Strategic planning is a component of strategy formulation.

4.11 SUMMARY

Strategic management is the formulation and implementation of decisions that determine the long-term growth and performance of an organization. It is not a one-time activity but embedded in the way an organization thinks, plans and acts. Strategic management framework includes components of strategy formulation, strategy implementation and evaluation & control. Risk is an unstated yet important factor in strategic management. It needs to be critically assessed and activity managed at every stage of the strategic management process. Strategy formulation includes the strategic planning process. This is a very critical element of strategic management as a it as the potential to guide to organization towards achieving its mission and objectives. Further, Strategic planning varies with the size

and complexity of an organization. Small and medium size relatively simple businesses need not engage in elaborate strategic planning exercise. Strategic planning process requires combining a future-perspective with the current context with a view to accomplish the goals and objectives. The process starts with mission, goals and objectives. It moves to a comprehensive environmental analysis both internal and external leading to identification of multiple strategies for the firm. Strategic plan also incorporates a plan for implementation, evaluation and control of strategic management and planning. There are multiple approaches to strategic planning. Some of the popular approaches are:

- Harvard Policy Model
- Strategic Planning Systems
- Stakeholder Management Approach
- Portfolio Model
- Competitive Advantage

Alongwith analysis, the last 2 approaches also provide a methodology for identifying strategies. Identification of strategic issues also forms a missing link between strategic analysis and strategy definition. Due to the increased volatility and uncertainty faced by businesses, innovation has become an important element in strategic management. Research by BCG show that innovation is among the top 2 priorities of leadership in 75% of companies surveyed by them in 2014. Companies which fail to innovate stand to perish in the long-term. Strategic management and planning together answer the key questions of 'What, where and how' concerning the future growth and sustainability of the firm's business.



4.12 GLOSSARY

Strategic Management - is the formulation and implementation of decisions that determine the long-term growth and performance of an organization

Mission – is the reason or purpose of existence of an organisation

Objectives – are a detailed set of expected results viz. what is to be accomplished and in what time frame

Strategic Planning – an analytical process in which relevant data is analysed and evaluated from the perspective of defining the company's strategy.

Innovation – a new product, service, business model or a significant improvement over the existing product, service, business model

Environmental Analysis – a process of identifying, monitoring, analysing and evaluating the internal and external environment of the organisation both from current and future perspective

Strategy Formulation – the thinking and planning stage of strategic management which incorporates drafting mission, objectives, strategy and strategic plan for the firm while incorporating outputs of environmental analysis and other organisational learning.

Strategic Implementation – process of putting into action the outputs of the strategic formulation phase via programs, resources and initiatives.

Strategy – an organisation's master plan for sustaining competitive advantage and achieving its mission, vision and objectives

Industry Scenario – a predicted description of the likely future state of a specific industry

Environmental Uncertainty – a parameter of environmental scanning it is the degree of change and complexity that exists in a firm's external environment.

Collusion – refers to co-operation between firms to set the determining parameters of industry such as supply, pricing etc. This is typically illegal and between firms of the same industry.

Alliances – refers to long-term co-operative agreements between 2 or more firms for a mutual economic or other stated gain. The firms here need not be from the same industry.



4.13 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –B

Q3.

a) mission

b) formulation, evaluation& control

c) invention

d) strategic issue management

e) Michael Porter

f) cash cows, dogs, question marks, stars

g) strengths, weaknesses, opportunities and threats

Q4.

a) False, forecast based panning simply extrapolates trends to future whereas strategic planning is a holistic approach to strategic management

b) True, small organisations do not need to undertake a complex strategic planning process

c) True

d) False, Harvard policy model

e) True



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4.16 TERMINAL QUESTIONS

Q1. Strategic planning is a critical part of strategic management – Discuss.

Q2. Discuss the framework of strategic management. Explain its key components.

Q3. Write short notes on any 2 approaches to strategic planning.

Q4. Describe the components of a typical strategic plan. What are its key success factors?

Q5. Outline in detail the strategic planning process.

Q6. What is innovation? What part does it play in strategic management and planning?

4.17 ACTIVITY

1. Practical Question: Investigate the journey of Amazon in India over the last decade. Create a chart of its probable strategy clearly identifying those elements which are common with its parent and those elements which seem to be customized for Indian conditions.
   Hint: you may use the online studies available on ‘strategies of Amazon in India’ for preliminary data collection!
2. Reading activity: Read and understand the case studies on strategic planning available at the following urls:
   https://www.nap.edu/read/13819/chapter/6#25
   https://digitalcommons.uri.edu/cgi/viewcontent.cgi?referer=https://www.google.com/&httpsredir=1&article=1423&context=theses

Block II
Strategy Formulation

UNIT 5 ENVIRONMENT APPRAISAL

5.1 Introduction

5.2 Objectives

5.3 Concept of Environment

5.4 External and Internal Environment

5.5 SWOT Analysis

5.6 General and Relevant Environment

5.7 Classification of Environmental Sectors

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5.1 INTRODUCTION

In this unit, we discussed environmental scanning; defined and explained strategy formulation and implementation; explained the terms evaluation and control; and distinguished between initiation of strategy and strategic decision making.

In this unit, we shall examine environmental appraisal and this study will take us through to the concept of environment, classification of environment, SWOT analysis, environmental sectors and scanning as well as appraisal of the environment.

5.2 OBJECTIVES

The objective of this unit is to;

- define the concept environment as it relates to business organisation;
- distinguish between external and internal environment;
- discuss SWOT analysis;

- differentiate between general and relevant environment;
- define and explain the concept environment sectors;
- Discuss environmental scanning and appraisal of the environment.

5.3 CONCEPT OF ENVIRONMENT

Environment literally means the surroundings, external objects, influences or circumstances under which someone or something exists. The environment of any organization is "the aggregate of all conditions, events and influences that surround and affect it". Since the environment influences an organization in multitudinous ways, it is of crucial importance to understand it. The concept of environment can be understood by looking at some of its characteristics.

5.3.1 CHARACTERISTICS OF ENVIRONMENT

Business environment (or simply environment) exhibits many characteristics. Some of the important, and obvious, characteristics are briefly described here.

1. *Environment is complex*. The environment consists of a number of factors, events, conditions, and influences arising from different sources. All these do not exist in isolation but interact with each other to create entirely new sets of influences. It is difficult to comprehend at once what factors constitute a given environment. All in all, environment is a complex phenomenon relatively easier to understand in parts but difficult to grasp in its totality.

2. *Environment is dynamic*. The environment is constantly changing in nature. Due to the many and varied influences operating; there is dynamism in the environment, causing it to change its shape and character continuously.

3. *Environment is multi*-faceted. What shape and character an environment will assume depends on the perception of the observer. A particular change in the environment, or a new development, may be viewed differently by different observers. This is seen frequently when the same development is welcomed as an opportunity by one company while another company perceives it as a threat.

4. *Environment has a far-reaching impact*. The environment has a far-reaching impact on organizations. The growth and profitability of an organization depends critically on the environment in which it exists. Any environmental change has an impact on the organization in several different ways.

Since the environment is complex, dynamic, multi-faceted, and has a far-reaching impact, dividing it into external and internal components enables us to understand it better.

5.4 EXTERNAL AND INTERNAL ENVIRONMENT

The external environment includes all the factors outside the organisation which provide opportunities or pose threats to the organisation. The internal environment refers to all the factors within an organisation which impart strengths or cause weaknesses of a strategic nature. The environment in which an organisation exists can, therefore, be described in terms of the opportunities and threats operating in the external environment apart from the strengths and weaknesses existing in the internal environment. The four environmental influences could be described as follows;

1. *An opportunity* is a favourable condition in the organisation's environment which enables it to consolidate and strengthen its position. An example of an opportunity is a growing demand for the products or services that a company provides.

2. *A threat* is an unfavourable condition in the organisation's environment which creates a risk for, or causing damage to the organisation. An example of a threat is the emergence of strong new competitors who are likely to offer stiff competition to the existing companies in an industry.

3. *Strength* is an inherent capacity which an organisation can use to gain strategic advantage. An example of strength is superior research and development skills which can be used for new product development so that the company can gain a strategic advantage.

4. *A weakness* is an inherent limitation or constraint which creates strategic disadvantages. An example of a weakness is overdependence on a single product line, which is potentially risky for a company in times of crisis.

An understanding of the external environment, in terms of opportunities and threats, and the internal environment, in terms of strengths and weaknesses, is crucial for the existence, growth, and profitability of any organisation. A systematic approach to understanding the environment is the SWOT analysis.

5.5 SWOT ANALYSIS

SWOT analysis, evolved during the 1960s at Stanford Research Institute, is a very popular strategic planning technique having applications in many areas including management.

Organisations perform a SWOT analysis to understand their internal and external environments. Business firms undertake SWOT analysis to understand their external and internal environments. SWOT, which is the acronym for strengths, weaknesses, opportunities and threats, is also known as WOTS-UP or TOWS analysis. Through such an analysis, the strengths and weaknesses existing within an organisation can be matched with the opportunities and threats operating in the environment so that an effective strategic can be

formulated. An effective organizational strategy, therefore, is one that capitalizes on the opportunities through the use of strengths and neutralizes the threats by minimizing the impact on weaknesses, to achieve predetermined objectives.

A simple application of the SWOT analysis technique involves these steps:

1. Setting the objectives of the organisation or its unit;

2. Identifying its strengths, weaknesses, opportunities and threats;

3. Asking four questions:

(a) How do we maximize our strengths?

(b) How do we minimize our weaknesses?

(c) How do we capitalize on the opportunities in our external environment?

(d) How do we protect ourselves from threats in our external environment?

4. Recommending strategies that will optimize the answers from the four questions.

The SWOT analysis is usually done with the help of a template in the form of a four-cell matrix, each cell of the matrix representing the strengths, weaknesses, opportunities and threats. The analysis for preparing the SWOT matrix could be done by a group of managers in a workshop session. The session could use the brainstorming technique for generating ideas about the SWOT factors. A typical SWOT analysis matrix for a hypothetical organisation is shown in the figure below.

Figure showing a typical SWOT matrix

STRENGTHS - Favourable location - Excellent distribution network - ISO 9000 quality certification - Established R & D Centre - Good management reputation	**WEAKNESSES** - Uncertain cash flow - Weak management information system - Absence of strong USP for major product lines - Low worker commitment
OPPORTUNITIES - Favourable industry trends - Low technology options available - Possibility of niche target market - Availability of reliable business partners	**THREATS** - Unfavourable political environment - Weak management information system - Uncertain competitors' intentions - Lack of sustainable financial backing

Fig 5.1 SWOT Analysis

SWOT analysis has several benefits, among the major being:

- Simple to use;
- Flexible and can be adapted to varying situations;
- Leads to clarification of issues;
- Development of goal-oriented alternatives;
- Useful as a starting point for strategic analysis.

The following could be the pitfalls of using the SWOT analysis indiscriminately:

- Simplicity of use may turn to be simplistic by trivializing the reality that may be more complex than represented in the SWOT matrices.
- May result in just compiling lists rather than think about what is really important for achieving objectives.
- Usually reflects an evaluator's position and viewpoint that can be misinterpreted to justify a previously decided course of action, rather than be used as a means to open new possibilities.
- Chances exist where strengths may be confused with opportunities or weaknesses with threats.
- May encourage organisations to take a lazy course of action of looking for strengths that match opportunities rather than developing new strengths that could match the emerging opportunities.

The process of strategy formulation starts with, and critically depends on the appraisal of the external and internal environment of an organisation.

5.6 GENERAL AND RELEVANT ENVIRONMENT

The external environment consists of all those factors which provide opportunities or post threats to an organisation. In a wider sense, the external environment encompasses a variety of factors, like: international, national and local economy; social changes; demographic variables; political systems; technology; attitude towards business; energy sources; raw materials and other resources; and many other macro-level factors. We could designate such a wider perception of the environment as the general environment.

All organisations, in some way or the other, are concerned about the general environment. But the immediate concerns of any organisation are confined to just a part of the general environment which is of high strategic relevance to the organisation. This part of the environment could be termed as the immediately relevant environment, or simply, the relevant environment. The conception of the business environment of an organisation is presented in the diagram below.

Diagram showing the business environment of an organization

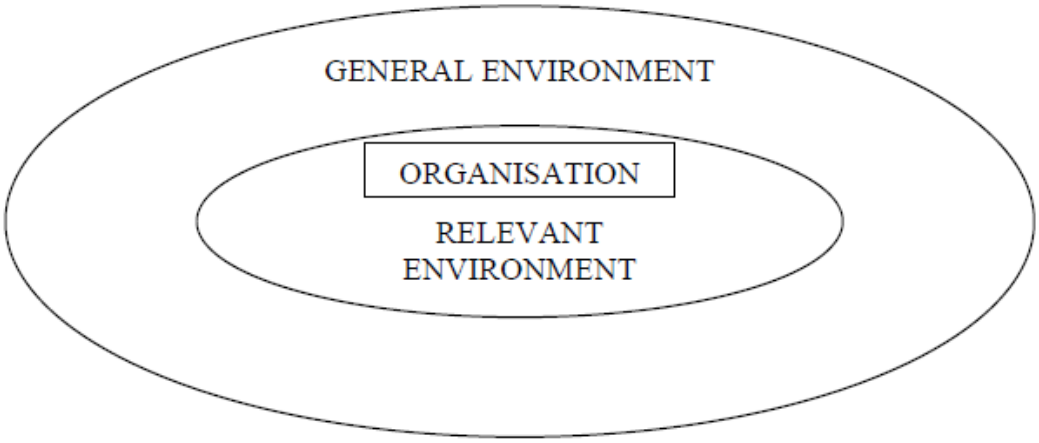
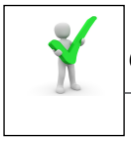


Fig 5.2 General Environment

A conscious identification of the relevant environment enables an organisation to focus its attention on those factors which are intimately related to its mission, purpose, objectives, and strategies. Depending on its perception of the relevant environment, an organisation takes into account those influences in its surrounding which have an immediate impact on its strategic management process. Having identified its relevant environment, an organisation can systematically appraise it and incorporate the results of such an appraisal in strategic planning.

In order to cope with the complexity of the environment, it is feasible to divide it into different components or sectors.



Check Your Progress- A

Q1. Discuss some of the important characteristics of environment.

Q2. List the characteristics of Environment.

Q3. What is SWOT Analysis?

5.7 CLASSIFICATION OF ENVIRONMENTAL SECTORS

Aguilar evolved a categorisation scheme for grouping different kinds of information related to the environment into sectors such as customers, competitors, suppliers, technology; social, political, economic conditions, etc. Keegan suggests that the sector categorisation should be such that these sectors must be exhaustive, i.e., each item of information should find a place in one of the sectors; the sectors must be mutually exclusive so that any given item of information must belong to one of the category; and the classification must be functional and relate to actual scanning practices.

There are several sectors into which the external/general environment could be divided into. But, in a given context, there are certain sectors that merit greater attention than the others.

The classification of the general environment into sectors helps an organisation to cope with its complexity, to comprehend the difference influences operating in the environment, and to relate the environmental changes to its strategic management process. Different bases for classification have been adopted by different authors but the basis itself is not as important as the fact that all the relevant factors in the environment have to be considered. Depending on a variety of factors, such as, the size of the organisation, the level and scope of activities, the geographical spread of markets, the nature of the product, the type of technology used, and managerial philosophy, an organisation may divide its environment into sectors capable of being analysed conveniently. There is an eight-category classification of the environment. These eight sectors of the environment are: market, technological, supplier, economic, regulatory, political, sociocultural, and international sectors of environment. We will now take up each of these sectors for discussion.

5.7.1 MARKET ENVIRONMENT

The market environment consists of the factors related to the groups and other organisations that compete with and have an impact on an organisation's markets and business. Some of the important factors and influences operating in the market environment are as follows:

1. Customer or client factors, such as, the needs, preferences, perceptions, attitudes, values, bargaining power, buying behaviour and satisfaction of customers.

2. Product factors, such as the demand, image, features, utility, function, design, lifecycle, price, promotion, distribution, differentiation, and the availability of substitutes of products or services.

3. Marketing intermediary factors, such as, levels and quality of customer service, middlemen, distribution channels, logistics, costs, delivery systems, and financial intermediaries.

4. Competitor-related factors, such as, the different types of competitors, entry and exit of major competitors, nature of competition, and the relative strategic position of major competitors.

The market environment depends largely on the type of the industrial structure. In monopolies and oligopolies, the concern for the market environment is lesser than what it is in the face of pure competition. In a controlled economy, like that of India, public utilities like electricity boards and most public sector companies such as petrol and cooking gas companies operated in a protected environment.

Here are several examples to show how the market environment affects, and is taken into consideration by the companies.

- Growing international trade, massive investment in infrastructure, increasing levels of disposable income and strong manufacturing and retail sectors have combined to produced a dynamic market environment. Customers and their needs have been featuring more prominently in the business strategies in several industries. Other marketing-related actions include investments in retail networks, increasing opportunities for customer interactions, improving customer service, customer-focused advertising, demonstrating a more visible presence and improving the overall customer experience.
- There is a distinct trend of growing preference for natural products around the world. Eco-friendly products whether in agriculture, clothing, cosmetics or healthcare are seen as better substitutes for synthetic products.
- People are paying increasingly greater attention to personal grooming. Changing lifestyles, increasing disposable incomes, availability of local and internal brands, and influence of satellite television and better awareness of global brands are some of the major factors that have led to an increasing demand for cosmetics. The cosmetics and personal care industry has been growing a t a high rate during the last few years. With the demand for cosmetics on the rise and opening of the market to foreign companies, there is increasing competition offering greater product choice and availability to the fashion-conscious women and men in urban as well as rural areas.
- Sales promotion, advertising, and market research, all of which had not occupied an important position in the marketing policies of companies have now assumed a greater significance. Distribution has been strengthened so that customers are not put to inconvenience. After-sales services, especially for consumer durables, have become a significant component of the marketing strategies of many companies.

- The market environment is one of the most dynamic sectors of the environment. The marketers are facing a daunting challenge in coming to terms with the dynamism and the everchanging nature of the markets.

5.7.2 TECHNOLOGICAL ENVIRONMENT

The technological environment consists of those factors that are related to the knowledge applied and the materials and machines used in the production of goods and services which have an impact on the business of an organisation. Some of the important factors and influences operating in the technological environment are as follows:

1. Sources of technology, like company sources, external sources, and foreign sources; cost of technology acquisition; collaboration in and transfer of technology.

2. Technology development, stages of development, change and rate of change of technology, and research and development.

3. Impact of technology on human beings, the man-machine system, and the environmental effects of technology.

4. Communication and infrastructural technology in environment. Strategists can ill afford to ignore the technological environment, as technology, besides customer groups and customer functions, defines the business of their organisations. According to Boris Petrov, there are three strategic implications of technological change: it can change relative competitive cost position within a business, it can create new markets and new business segments, and it can collapse or merge previously independent businesses by reducing or eliminating their segment cost barriers.

5.7.3 SUPPLIER ENVIRONMENT

The supplier environment consists of factors related to the cost, reliability, and availability of the factors of production or service that have an impact on the business of an organisation. Some of the important factors and influences operating in the supplier environment are as follows:

1. Cost, availability and continuity of supply of raw materials, subassemblies, parts and components.

2. Cost and availability of finance for implementing plans and projects.

3. Cost, reliability and availability of energy used in production.

4. Cost, availability and dependability of human resources.

5. Cost, availability and existence of sources and means for the supply of plants and machinery, spare parts and after-sales service.

6. Infrastructural support and ease of availability of the different factors of production, the bargaining power of suppliers, and the existence of substitutes.

The supplier environment occupies a dominant position in strategy formulation.

5.7.4 ECONOMIC ENVIRONMENT

The economic environment consists of macro-level factors related to the means of production and distribution of wealth which have an impact on the business of an organisation. Some of the important factors and influences operating in the economic environment are:

1. The economic stage at which a country exists at a given point of time.

2. The economic structure adopted, such as, a capitalistic, socialistic or mixed economy.

3. Economic policies, such as, industrial, monetary and fiscal policies.

4. Economic planning, such as, five-year plans, annual budgets, and so on.

5. Economic indices like national income, distribution of income, rate and growth of gross national product (GNP), per capita income, disposable personal income, rate of savings and investments, value of exports and imports, the balance of payments, etc. and so on.

6. Infrastructural factors, such as, financial institutions, banks, modes of transportation, communication facilities, and so on.

Strategists are acutely aware of the importance and impact of the economic environment on their organisations. Almost all annual company reports presented by the chairman devote attention to the general economic environment prevailing in the country and an assessment of its impact on their companies.

5.7.5 REGULATORY ENVIRONMENT

The regulatory environment consists of factors related to planning, promotion, and regulation of economic activities by the government that have an impact on the business of an organisation.

Some of the important factors and influences operating in the regulatory environment are as follows:

1. The constitutional framework, directive principles, fundamental rights, and division of legislative powers between central and state governments;

2. Policies related to licensing, monopolies, foreign investment, and financing of industries;

3. Policies related to distribution and pricing, and their control;

4. Policies related to imports and exports;

5. Other policies related to the public sector, small-scale industries, sick industries, development of backward areas, control of environmental pollution, and consumer protection.

5.7.6 POLITICAL ENVIRONMENT

The political environment consists of factors related to the management of public affairs and their impact on the business of an organisation. Some of the important factors and influences operating in the political environment:

1. The political system and its features, like the nature of the political system, ideological forces, political parties and centres of power;

2. The political structure, its goals and stability;

3. Political processes, like the operation of the party system, elections, funding of elections, and legislation with respect to economic and industrial promotion, and regulation;

4. Political philosophy, government's role in business, and its policies and interventions in economic and business development.

5.7.7 SOCIO-CULTURAL ENVIRONMENT

The socio-cultural environment consists of factors related to human relationships within a society; the development, forms and functions of such a relationship; and the learnt and shared behaviour of groups of human beings which have a bearing on the business of an organisation.

Some of the important factors and influences operating in the social environment are:

1. Demographic characteristics, such as, population, its density and distribution, changes inpopulation and age composition, inter-state migration and rural-urban mobility, and income distribution;

2. Socio-cultural concerns such as environmental pollution, corruption, use of mass media, the role of business in society, and consumerism;

3. Socio-cultural attitudes and values, such as, expectation of society from business, social customs, beliefs, rituals and practices, changing lifestyle patterns, and materialism;

4. Family structure and changes in it, attitude towards and within the family, and family values;

5. The role and position of men, women, children, adolescents, and the aged in family and society;

6. Educational levels, awareness and consciousness of rights, the work ethic of the members of society, and the attitude towards minority and disadvantaged groups.

The socio-cultural environment primarily affects the strategic management process within the organisation in the areas of mission and objective-setting, and decisions related to products and markets. Strategists do not seem to be fully aware of the impact of the socio-cultural environment on business or they are so preoccupied with other environment influences that they do not give a high priority to socio-cultural factors. One reason for such a lack of interest

could be the nature of socio-cultural influences. Socio-cultural changes take place very slowly and do not seem to have an immediate and direct impact on short-term strategic decisions.

5.7.8 INTERNATIONAL ENVIRONMENT

The international (or global) environment consists of all those factors that operate at the transnational, cross-cultural, and across-the-border level which have an impact on the business of an organisation. Some of the important factors and influences operating in the international environment are as below:

1. Globalisation, its process, content, and direction;

2. Global economic forces, organisations, blocs, and forums;

3. Global trade and commerce, its process and trends;

4. Global financial system, sources of financing, and accounting standards;

5. Geopolitical situation, equations, alliances, and strategic interests of nations;

6. Global demographic patterns and shifts;

7. Global human resource – institutions, availability, nature and quality of skills and expertise, mobility of labour and other skilled personnel;

8. Global information systems, communication networks, and media;

9. Global technological and quality systems and standards;

10. Global markets and competitiveness;

11. Global legal system, adjudication and arbitration mechanisms;

12. Globalisation of management and allied disciplines, and the diffusion of management techniques in industry.

The international environment constitutes a special class of the environmental sector. While the preceding seven sectors are largely limited and exclusive in nature, the international environment encompasses all the sectors, albeit in the global context. What we mean to say is that while for instance, the political environment within a country could consist of certain factors related to national politics; the international environment would also have a geopolitical component including the political factors and influences at the global level.

Environmental protection is of paramount importance in a world where the issues of sustainable development have assumed great significance. The corporate sector is now required to adhere to a plethora of regulations for environmental protection and control of pollution. This is especially relevant for polluting industries, like, processing plants and refineries.

It should be noted that any classification of the environment into sectors is artificial and is meant solely to gain an understanding of the different environmental factors. In reality, the dividing line between the different sectors of the environment is hazy and there is a high level of interaction between variables belonging to various environmental sectors. For example, market demand, which is a part of the market environment, does not exist in isolation but is dependent on other factors, such as, the general state of the economy, buyer motivation or technical quality of the products.

Apart from the inter-sectoral interaction, there are complex inter-linkages existing among the factors in the same sector of the environment. To consider an example of such an inter-linkage, the technological environment has a number of factors and influences. Among these, collaboration in and transfer of technology affect the development of technology in a particular company and also in the industry as a whole. When the technological level is raised, it has repercussions on human beings and the man-machine system. There are also implications for the environmental effects of technology.

The intersectoral and intrasectoral nature of the environmental factors have to be considered while understanding the different environmental sectors. Strategists have to constantly monitor the environment and its different sectors for opportunities and threats that have, or are likely to have, an impact on their organisations. Such a monitoring is done through environmental scanning.

5.8 ENVIRONMENTAL SCANNING

Recently we have seen how organisation exists consists of a bewildering variety of factors. These factors (may also be termed as influences) are events, trends, issues, and expectations of different interested groups. These factors are explained below.

- Events are important and specific occurrences taking place in different environmental sectors;
- Trends are the general tendencies or the courses of action along which events take place;
- Issues are the current concerns that arise in response to events and trends;
- Expectations are the demands made by interested groups in the light of their concern for issues.

Environmental influences are a complex amalgam of the events, trends, issues and expectations that continually shape the business environment of an organisation. By monitoring the environment through environmental scanning, an organisation can consider the impact of the different events, trends, issues and expectations on its strategic management process. Since the environment facing any organisation is complex and canning it is absolutely essential, strategists have to deal cautiously with the process of environmental scanning. It has to be done in a manner that unnecessary time and effort is not expended, while important factors are not ignored.

For this to take place, it is important to devise an approach, or a combination of different approaches, to environmental scanning.

5.8.1 APPROACHES TO ENVIRONMENTAL SCANNING

Kubr has suggested three approaches which could be adopted for sorting out information for environmental scanning. We could call these approaches as systematic, ad-hoc and processed form approaches.

1. Systematic Approach. Under this approach, information for environmental scanning is collected systematically. Information related to markets and customers, changes in legislation and regulations that have a direct impact on an organisation's activities, government policy statements pertaining to the organisation's business and industry, etc. could be collected continuously to monitor changes and take the relevant factors into account. Continuously updating such information is necessary not only for strategic management but also for operational activities.

2. Ad-hoc Approach. For adopting this approach, the organisation uses information in a processed form, available from different sources both inside and outside the organisation. When an organisation uses information supplied by government agencies or private institutions, it uses secondary sources of data and the information is available in a processed form. Since environmental scanning is absolutely necessary for strategy formulation, organisations uses different practical combinations or approaches to monitor their relevant environments. These approaches may range from an informal assessment of the environmental factors to a highly systematic and formal procedure. Informal assessment may be adopted as a reactive measure to a crisis and ad-hoc studies may be undertaken occasionally. A highly systematic and formal procedure may be used as a proactive measure in anticipation of changes in environmental factors and structured data collection and processing system may be used continuously.

3. Processed-form Approach. Between the two extremes of the informal and formal approaches, different stances adopted by organisations might exist, depending on varying degrees of concern for the environment. Such stances are situational. For example, when an issue related decision has to be taken, a periodic monitoring of the environment may be done.

Systematic and ad-hoc approaches can be used for the relevant environment of the organisation while the processed-form approach could be used to appraise both the relevant as well as the general environment. Whatever approach is adopted for environmental scanning, data collection is necessary for deriving information about environmental factors.

5.8.2 SOURCES OF INFORMATION FOR ENVIRONMENTAL SCANNING

The various sources of information tapped for collecting data for environmental scanning could be classified in different ways. There could be formal and informal sources. Then there could be written as well as verbal sources. In terms of origin, data sources could be external and internal.

Given below are some of the important types of sources of information.

1. Documentary or secondary sources of information like different types of publications. These could be newspapers, magazines, journals, books, trade and industry association newsletters, government publications, annual reports of competitor companies, commercial databases, etc.

2. Mass media such as radio, television and Internet.

3. Internal sources like company files and documents, internal reports and memoranda, management information system, databases, company employees, sales staff, etc.

4. External agencies like customers, marketing intermediaries, suppliers, trade associations, government agencies, etc.

5. Formal studies done by employees, market research agencies, consultants and educational institutions

6. Spying and surveillance through ex-employees of competitors, industrial espionage agencies, or by planting 'moles' in rival companies. The ethicality of these sources is doubtful but nevertheless, these are used and so need a mention.

Strategists use different information sources depending on their needs for environmental scanning. Government publications – though a rich and comprehensive source of information – usually are available after a considerable time lag. Private sources, though relevant and timely, are quite expensive to tap. Therefore, whenever a particular information source is used, it should be checked for its reliability, timeframe, methods of data collection and analysis used, form of presentation, etc.

5.8.3 METHODS AND TECHNIQUES USED FOR ENVIRONMENTAL SCANNING

The range of methods and techniques available for environmental scanning is wide. There are formal and systematic techniques as well as intuitive methods available. Strategists may choose from among these methods and techniques, those which suit their needs in terms of the quantity, quality, availability, timeliness, relevance and cost of environmental information.

Various authors have mentioned the methods and techniques used for environmental scanning. LeBell and Krasner outline nine groups of techniques: single-variable

extrapolation, theoretical limit environments, dynamic modes, mapping, multivariable interaction analysis, unstructured expert opinion, structured expert opinion, structured inexpert opinion and unstructured inexpert speculation.

Fahey, King and Narayanan have included ten techniques in their survey of environmental scanning and forecasting in strategic planning. These are: scenario-writing, simulation, morphological analysis, project-program-budget system (PPBS), game theory, cross-impact analysis, field anomaly-relation, multi-echelon coordination and other forecasting techniques.

Of particular interest is the emerging set of techniques based on the complexity theory that is a group of mathematical techniques designed to deal with the dynamic nature of real-world problems. Among the techniques are the applications of the mathematical concepts of fractals, fuzzy logic, genetic algorithms, swarm stimulation, Monte Carlo method and the more popular of them, the chaos theory.

Owing to the increasing complexity of the external environment, inevitably there have been attempts to utilise the emerging information technologies in assisting strategic planners in environmental scanning. Techniques based on artificial intelligence, neural networks, data mining and a knowledge-based system have been proposed. An example is that of a software agent-based system for continuous environmental surveillance. Another is Futurus, a business solutions-software by Satyam Computer Services, for designing and simulating future scenarios.

While many of the environmental techniques are based on statistical methods and increasingly, the use of sophisticated software in computer-assisted environmental scanning and forecasting, some of them, like scenario-writing, may not use statistical information but employ informed judgement and intuition to predict what the future is most likely to be, expressed in the form of a descriptive statement or report.

Process based techniques for environmental scanning have been proposed from time to time. For instance, a four-step technique called QUEST (quick environmental scanning technique), proposed by B. Nanus uses scenario writing by a team of strategists. Day and Schoemaker have proposed a seven-step process for developing peripheral vision that vigilant organisations should develop, based on the assumption that opportunities and threats often begin as weak signals from the periphery of the external environment.

Strategists have to be aware of the pitfalls of the environmental scanning process so as to use it judiciously.

5.8.4 PITFALLS IN ENVIRONMENTAL SCANNING

Just like any other strategic planning technique, environmental scanning has its soft underbelly. We could enumerate at least five pitfalls faced while using environmental scanning.

- Sometimes, strategic planners may focus excessively on the influences in the relevant environment that they miss out on the trends and issues in the general environment that really matter.
- There is a danger of 'paralysis by analysis', meaning that environmental scanning can create such an overload of information that it may prevent timely action. Environmental scanning should not become a number-crunching routine.
- The purpose of environmental scanning is to uncover influences that matter for the future of the organisational strategic decision-making. This purpose should not be lost and environmental scanning should not be used for purposes other than this. For instance, scanning results cannot be used for political manoeuvering by strategists to favour their own viewpoint, functional interests or departmental aims.
- The environmental scanning function should not be integrated too closely with the operational and functional activities of the organisation. This means that it should not become a line function, thus aligning it too closely with the interests of those activities.
- Similarly, environmental scanning should not be too far from the realities of the organisation, making it an impersonal, staff function.
- After environmental scanning process is complete, the strategists are faced with the question of how to structure the mass of information available to them. The problem boils down to sifting the information in such a manner that a clear picture emerge of what opportunities and threats operating in different sectors of the environment facing the organisation.

5.9 APPRAISING THE ENVIRONMENT

In order to draw a clear picture of what opportunities and threats are faced by the organisation at a given time, it is necessary to appraise the environment. This is done by being aware of the factors that affect environmental appraisal, identifying the environmental factors and structuring the results of this environmental appraisal.

5.9.1 FACTORS AFFECTING ENVIRONMENTAL APPRAISAL

Given the same environmental conditions, no two strategists or two organisations would appraise the environment in a similar fashion. This is due to the many factors that affect the process of environmental appraisal. We could identify these factors by classifying them into three categories: the strategist-related, organisation-related and environment-related factors.

1. Strategist-related factors. There are many factors related to the strategist, which affect the process of environmental appraisal. Since strategists play a central role in the formulation of strategies, their characteristics such as age, education, experience, motivation level, cognitive styles, ability to withstand time pressures and strain of responsibility have an impact on the extent to which they are able to appraise their organisation's environment and how well they are able to do it. Apart from these factors that are related to the strategists as individuals,

group characteristics could be the interpersonal relations between the different strategists involved in appraisal, team spirit and the power equations operating between them.

Information consciousness is yet another variable denoting the attitude of top managers towards environmental scanning and the communication patterns established among managers with the organisation .

2. Organisation-related factors. Like those of strategists, many characteristics of the organisation also have an impact on the environmental appraisal process. These characteristics are the nature of business the organisation is in, its age, size and complexity, the nature of its markets and the product or services that it provides. Another variable identified is of information climate, which as assessed through the information infrastructure implemented, i.e. the processes, technologies and people used in information acquisition and handling .

3. Environment-related factors. The nature of environment facing an organisation determines how its appraisal could be done. The nature of the environment depends on its complexity, volatility or turbulence, hostility and diversity. Information processing perspectives suggest that scanning activity will increase in response to increasing environmental uncertainty. Social cognition perspectives suggest that scanning decreases at high and low levels of uncertainty since useful information is either unattainable or is already known.

In sum, how well environmental appraisal is done depends on the strategists, their organizations and their environment in which their organisations exist. Before strategists can structure the environmental appraisal, it is necessary to identify the environmental factors.

5.9.2 IDENTIFYING THE ENVIRONMENTAL FACTORS

Environmental scanning results in a mass of information related to different sectors of the environment. Without a technique to deal with this information, a strategist would be at a loss to comprehend and analyse the environmental influences. These influences, as we have seen, are the events, trends, issues and expectations of different interested groups. A feasible approach to identifying the important environmental factors is to test each factor with regard to its impact on the business of the organisation and the probability of such an impact. The figure below provides a matrix which can help a strategist to identify the high priority environmental factors (termed as issues by Boulton).

Figure identifying high priority environmental issues

Probability of impact	High	Medium	Low
High	Critical	High priority	Low priority
Medium	High priority	High priority	Low priority
Low	To be watched	Low priority	Low priority

Source: Adapted from William R. Boulton, Business Policy: The Art of Strategic Management, New York, Macmillan Publishing Co., 1984, p. 120.

Fig 5.3 High Priority Environmental Issues

Environmental scanning leads to the identification of many issues that affect the organisation. These issues could be judged on the basis of the intensity of their impact on the business of the organisation and the relative probability of such an impact. In such a manner, environmental issues (and all the factors) could be distributed among the nine cells of the matrix. The issues which are most likely to have a high level of impact on the organisations are the critical issues and need immediate attention of the strategists. High priority issues are those which have a medium to a high probability of impact, while those currently having a high level of impact but a low probability of occurrence need to be kept under watch. All other issues could be considered as being of low priority but still requiring continuous monitoring as conditions may change later.

In this way, strategists could narrow the range of environmental issues they have to focus their attention upon. These issues help in structuring of the environmental appraisal, when divided into opportunities and threats and allocated to different sectors of the environment.

5.9.3 STRUCTURING ENVIRONMENTAL APPRAISAL

The identification of environmental issues is helpful in structuring the environmental appraisal so that the strategists have a good idea of where the environmental opportunities and threats lie.

Structuring the environmental appraisal is a difficult process as environmental issues do not lend themselves to a straightforward classification into neat categories. An issue may arise simultaneously from more than one sector of the environment. Strategists have to use their experience and judgement to place the different environmental issues where they mainly belong, so that clarity emerges.

There are many techniques available to structure the environmental appraisal. One such technique, suggested by Glueck, is that of preparing an environmental threat and opportunity profile (ETOP) for an organisation.

The preparation of an ETOP involves dividing the environment into different sectors and then analysing the impact of each sector on the organisation. A comprehensive ETOP requires subdividing each environmental sector into subfactors and then the impact of each subfactor on the organisation is described in the form of a statement. A summary ETOP may only show the major factors for the sake of simplicity.

The table below shows an example of an ETOP prepared for an established company which is in the bicycle industry. The main business of the company is in sports cycle manufacturing for the domestic and exports market. This example relates to a hypothetical company but the illustration is realistic and based on the current Indian business environment.

Table Environment threat and opportunity profile (ETOP) for a bicycle company

Table Environment threat and opportunity profile (ETOP) for a bicycle company

Environmental Sectors	Nature of impact	Impact of each sector
Economic	↑	Growing affluence among urban consumers; rising disposable incomes and living standards.
Market	→	Organised sector a virtual oligopoly with four major manufacturers, buyers critical and better informed; Overall industry growth rate not encouraging; Growth rate for niche segments like sports, trekking, racing and fancy city cycles is high; largely unsaturated demand in niche segments; slender margins; traditional distribution systems.
International	↓	Global imports growing but India's share shrinking; India second globally as manufacturer; consumer and exporter after China; major importers are the US and EU but India exports mainly to Africa; threat of cheap Chinese imports.
Political	→	Bicycle principal mode of transport for low and lower-middle income; industry too small for any major political attention.
Regulatory	→	Parts and components reserved for small-scale industry, bicycle industry a thrust area for exports; regulatory restrictions heavy; duty drawback rates lowered.
Social	↑	Environment- and health-friendly transport option; wide usage like commuting to work or school and as recreation and physical fitness equipment; easier negotiating traffic congestions; customer preference for sports cycles which are easy to ride and durable.
Supplier	→	Mostly ancillaries and associated companies in small-scale sector supply parts and components; rising steel prices; increasing use of aluminium; industrial concentration in Punjab and Tamilnadu.
Technological	↑	Technological up-gradation of industry in progress; import of machinery simple; product innovations ongoing such as battery-operated and lightweight foldable cycles.

Source: Adapted from William R. Boulton, Business Policy: The Art of Strategic Management, New York, Macmillan Publishing Co., 1984, p. 120.

Fig 5.4 ETOP

Up arrows indicate favourable impact; down arrows indicate unfavourable impact, while horizontal arrows indicate a neutral impact.

As observed from the above table, sports cycle manufacturing is an attractive proposition due to the many opportunities operating in the environment. Prospects in the economic, social and technological sectors are bright. Market environment can throw up opportunities in the niche segment that the company operates in. The company can capitalise on the burgeoning demand by taking advantage of the various government policies and concessions that still

exist despite thelow attention value of the industry. It can also take advantage of the high exports potential that already exists and has not been adequately capitalized upon. Since the company is an established manufacturer of bicycles, it has a favourable supplier environment with traditional ties binding it to its vendors. But contrast the implications of this ETOP for a new manufacturer, who is planning to enter this industry. Though the economic, social and technological environment sectors would still be favourable, much would depend on the extent to which the company is able to ensure the supply of raw materials and components, have access to the latest technology have the facilities to use it.

The preparation of an ETOP provides a clear picture to the strategists about which sectors and the different factors in each sector have a favourable impact on the organisation. By the means of an ETOP, the organisation knows where it stands with respect to its environment. Obviously, such an understanding can be of great help to an organisation in formulating appropriate strategies to take advantage of the opportunities and counter the threats in its environment.

Before the formulation of strategies can be undertaken, strategists have to access whether the organisation has the required strengths or whether it has weaknesses which can affect its capability of taking advantage of the opportunities. This assessment is done through an analysis of the strengths and weaknesses of the organisation and forms a part of the SWOT analysis. The strengths and weaknesses can be analysed through an organisational appraisal, which is the subject matter of the next unit.

5.10 SUMMARY

The subject matter of the unit is environmental appraisal, which is the process of identifying opportunities and threats facing an organisation, for the purpose of strategy formulation.

We have defined the concept environment as it relates to business organisation; distinguished between external and internal environment; discussed SWOT analysis; differentiated between general and relevant environment; defined and explained the concept environment sectors; discussed environmental scanning, listed the methods and techniques for environmental scanning and drew and analysed the structuring of environmental appraisal and its impact on each sector of the organisation.



5.11 GLOSSARY

Opportunity- An opportunity is a favourable condition in the organisation's environment which enables it to consolidate and strengthen its position.

Weakness-A weakness is an inherent limitation or constraint which creates strategic disadvantages.

Market Environment-The market environment consists of the factors related to the groups and other organizations that compete with and have an impact on an organisation's markets and business.



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5.14 TERMINAL QUESTIONS

Q1. List the eight environmental factors that affect an organization's strategy and why?

Q2. Write a note on Environmental Analysis and diagnosis process.

Q3. Discuss the various methods and techniques used for Environmental Analysis.

Q4. What are the steps involved in ETOP Analyis?

Q5. "The intensity of competition depends on several factors" Identify these factors and discuss briefly on them.

5.15 ACTIVITY

1. Demonstrate how a strategist can understand it better by dividing it into external and internal components and general and relevant environment.

2. A small scale industrialist recently attended a seminar on strategic management. She is quite enthusiastic but does not understand exactly how to use the SWOT analysis for her company. Act as a consultant and advise her on how to use the SWOT analysis.

UNIT 6 ORGANISATIONAL APPRAISAL

6.1 Introduction

6.2 Objectives

6.3 The Resource Based Theory

6.4 Framework for the Development of Strategic Advantage by an Organization

6.5 Understanding Organizational Appraisal

6.6 Appraisal of Organizational Capability Factors

6.7 Methods and Techniques Used for Organizational Appraisal

6.8 Internal Analysis

6.9 Comparative Analysis

6.10 Comprehensive Analysis

6.11 Structuring Organizational Appraisal

6.12 Summary

6.13 Glossary

6.14 Reference/ Bibliography

6.15 Suggested Readings

6.16 Terminal & Model Questions

6.1 INTRODUCTION

In the previous units, we have discussed the concept of strategy and its importance in business activities also we discussed the model of strategy management. A key element in strategy formulation is identification of opportunities for organization in longer term. However, mere existence of these opportunities is of no use if the organization if not ready to grasp them, or in other words does not have resources and capability to capitalize those opportunities. It is equally important to identify, analyze and evaluate the capabilities an organization has. In this unit we will discuss various aspect of organizational analysis or organizational appraisal. We will start with discussing the importance of resources in strategy formulation and proceed with various tools and techniques uses in evaluating resources, capabilities and competences in organization's quest for competitive advantage.

6.2 UNIT OBJECTIVES

This unit is aimed to analyze the organization to determine its strategic capability. After reading this unit you should be able to:

- Evaluate the resources of the organization
- Understand the concept of RBV / RBT
- Explain process of organizational appraisal
- Explain various tools and techniques used in organizational appraisal

6.3 THE RESOURCE BASED THEORY

Competitive advantage (CA) refers to the ability of a firm to outperform its rivals, or competitions. In a very general sense, CA could be derived from a variety of factors like first mover advantage, scale of operation, quality management, global operations etc., Competitive Advantage is a relative concept- it signifies how a firm may outperform its competitors, which is again the purpose of strategy.

A generic view of strategy development process starts by looking at opportunities in a specific industry and tries to exploits them. For example, Mr. Sunil Bharti, while launching his telecom company 'Airtel' was guided by the opening of telecommunication sector in late 1990 and the opportunities it offers.

The Resource Based Theory (RBT) also known as Resource Based View (RBV), by contrast, can be seen as an "inside-out" process of strategy formulation, it focuses on what can an organization do? What can be achieved from the resources, capabilities and competencies (we will discuss these terms in detail) an organization possess.

We start by looking at what resources the firm possesses. Next, we assess their potential for value generation and end up by defining a strategy that will allow us to capture the maximum of value in a sustainable way. In marketing terms, the company is not fighting for market share or the piece of cake; it tries to increase the size of the cake. For example, 'Apple' totally neglected the competition in mobile handset market and focused on the features and benefits its products provide to customers, results we all know their phone are a hit in the market despite being having high cost.

The RBV's basic premise is that each firm possesses a unique 'bundle' of resources- tangible and intangible assets and organizational capabilities to make use of those assets. Each firm develops competencies from these resources and when put to use effectively, these become the sources of the firm's CA.

The process is summarized in the figure 6.1 below:

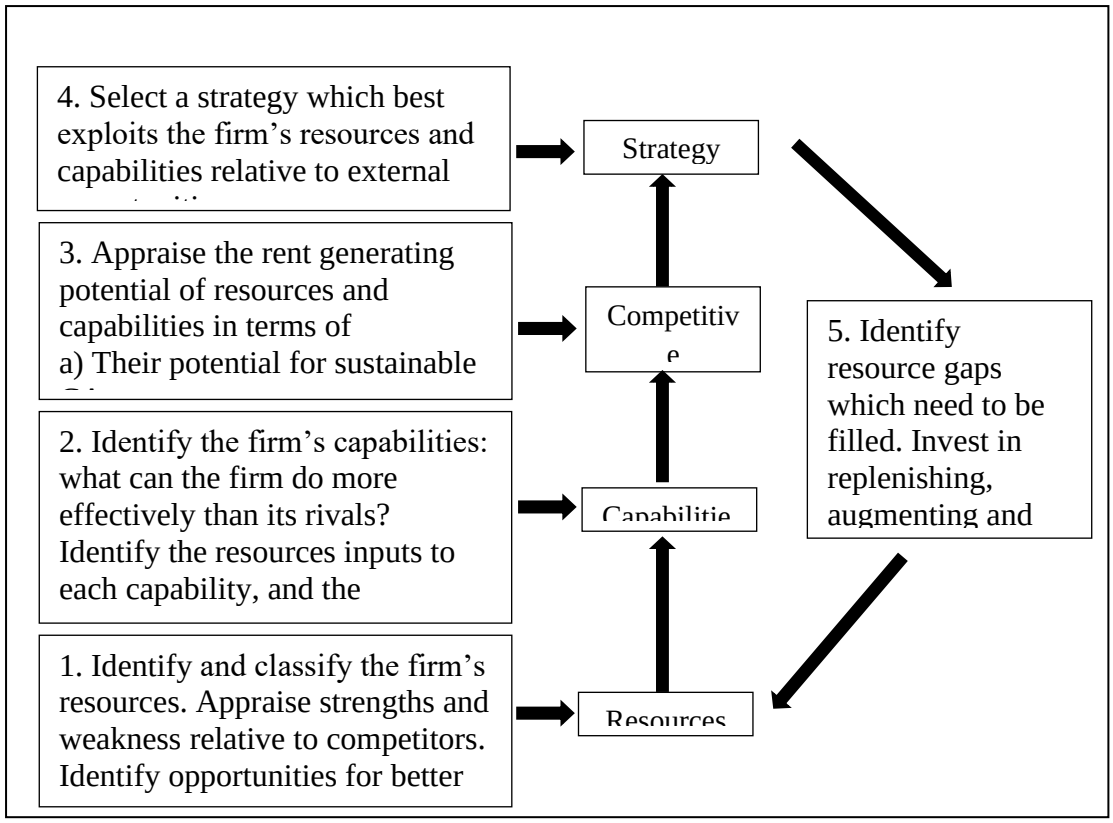


Figure 6.1: A Resource-Based Approach to Strategic Analysis

Key Elements of Resource Based Theory

- Pursue a strategy that exploits a firm's principal resources and capabilities.
- Ensure that the firm's key resources are exploited fully to realize the full profit potential.
- Fill the critical resource gap and expand the firm's base of resources and capabilities for the future.

6.3.1 UNDERSTANDING RESOURCES, COMPETENCIES AND CAPABILITIES

Resources

The term 'Resources' may be defined as the stock of assets and skills that belong to an organization as a point of time. It may also be viewed as the factor inputs into the production process including tangible assets, intangible assets and the skills possesses by people working at various levels (figure 6.2).

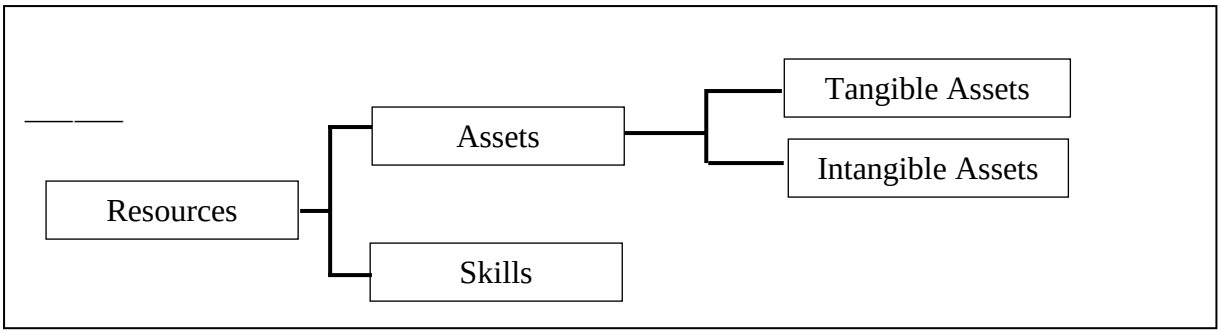


Figure 6.2: A simple framework for Resource Classification

Examples of different resources are:

Assets		
Tangible Assets	**Intangible Assets**	**Skills**
Physical: Plant, Equipment, Furniture, Vehicles, Land, Building, Computer etc.	Technological: Patents, Trademarks, Trade secrets, Database, MIS, etc.	Skill sets, Creativity, Expertise of employees, Teamwork, Synergy, etc.
Organizational: Structure, Planning, Controlling, Coordinating systems.	Reputational: Brand name, Perception of product quality, Reputation with suppliers, etc.	
Financial: Borrowing Capacity, Ability to generate internal funds.	Organizational: Style, System, Culture, Creatively	

Competency

A competency is defined as "any knowledge, skill, set of actions, or thought pattern that distinguishes reliably between superior and average performer i.e. a competency is what superior performers do more and with better results than average performers on the job." Competency refers to the ability of an organization to achieve its purpose. It is the ability to perform exceptionally well (i.e. better than others) and increase the stock of targeted resources of an organization. Competency may be categorized as core and non-core depending on the nature of capabilities.

Core competency

The term core competence has been popularized by Prahalad and Hamel as an idea around which strategies could be formulated by an organization. Core competencies are seen as an organization's primary source of competitive advantage, and the areas that an organization should focus its resources and attention. Core competency is a unique skill or technology that creates distinct customer value. Core competencies are resources or capabilities that can serve

as a source of competitive advantage, strategic competitiveness and ability to earn above average returns.

As an organization grows, develops and adjusts to the new environment, so do its core competencies. Thus, core competencies are flexible and developing with time. They do not remain rigid and fixed. The organization can make maximum utilization of the given resources and relate them to new opportunities thrown by the environment.

Core competencies are to be protected and nurtured, and all non-core functions should be outsourced. Core competencies help one to recognize the opportunities of the new facets of creating values which are different for every organization.

Capabilities and Routines

Capability is the ability for a team or bundle of resources to perform some task or activity. It is a way of combining assets, people and process to convert inputs into outputs. They emerge over time through a complex process of interaction between resources. Complex organizational capabilities pose a huge barrier for other firms to enter the market making it easier for organization to sustain its Competitive Advantage.

Capabilities can be represented mathematically as: C = F (TA, IA, S), where C: Capabilities, TA: Tangible Assets, IA: Intangible Assets, S: Skills.

Organizational capability rests on an organization's capacity and ability to use its competencies to excel in a particular field.

Routines are regular and predictable patterns of activity which are made up of a sequence of coordinated actions by individuals. They are the result of the repeated interaction (learning) between people and other resources of the firm.

6.4 FRAMEWORK FOR THE DEVELOPMENT OF STRATEGIC ADVANTAGE BY AN ORGANIZATION

The resources, behavior, strengths and weaknesses, synergistic effects and competencies of an organization determine the nature of its internal environment. Figure 6.3 below depicts a diagram shows the framework that explains the process of development of strategic advantage by an organization. We have already discussed some of the terms used in the figure in general and you must have discussed other terms in previous units also. However, let us elaborate these terms to place them in the specific context of organizational appraisal.

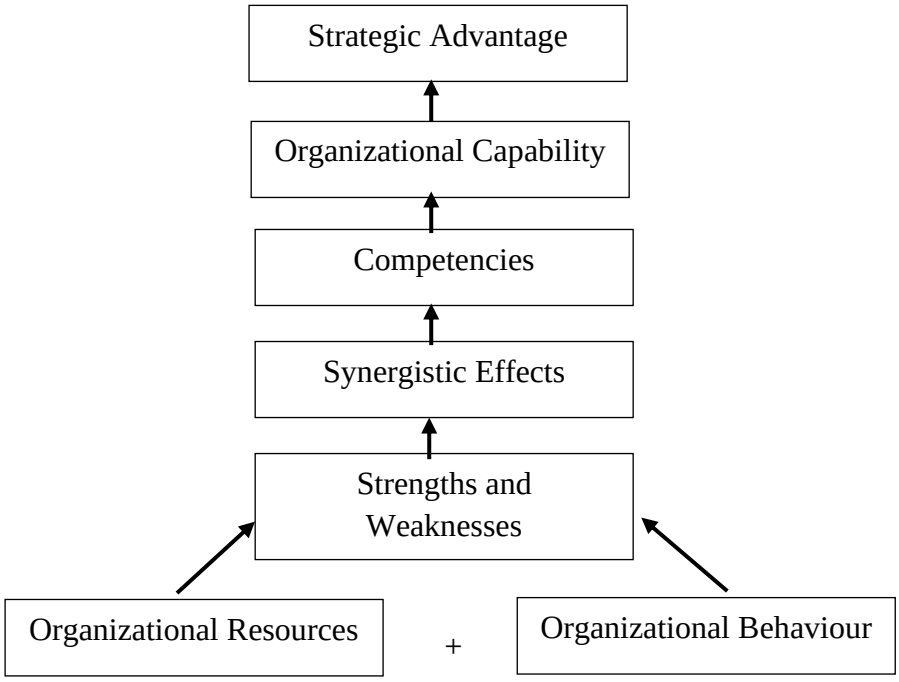


Figure 6.3: Framework for Development of Strategic Advantage

6.4.1 ORGANIZATIONAL RESOURCES

A firm is a bundle of resources, tangible and intangible, that include all assets, capabilities, organizational processes, information, knowledge, and so on. These resources can also be classified as physical, human, and organizational resources (other classification discussed above).

Most organizations have to acquire resources the hard way, the cost and availability of resources are the most important factors on which the success of an organization depends.

If an organization is favorably placed with respect to the cost and availability of a particular type of resource, it possesses an enduring strength which may be used as a strategic weapon by it against its competitors. Conversely, the high cost and scarce availability of a resource are handicaps which cause a persistent strategic weakness in an organization.

6.4.2 ORGANIZATIONAL BEHAVIOR

Organizational behavior is the manifestation of the various forces and influences operating in the internal environment of an organization that create the ability for, or place constraints in the usage of resources.

Organizational behavior is unique in the sense that it leads to the development of a special identity and character of an organization. Some of the important forces and influences that affect organizational behavior are: the quality of leadership, management philosophy, shared

values and culture, quality of work environment and organizational climate, organizational politics, use of power, among others.

The framework proposes a marriage of the hard side of an organization, its resource configuration, with the soft side of behavior.

6.4.3 STRENGTHS AND WEAKNESSES

Organizational resources and behavior do not exist in isolation. They combine in a complex fashion to create strengths and weaknesses within the internal environment of an organization. Strength is an inherent capability which an organization can use to gain strategic advantage. Weakness, on the other hand, is an inherent limitation or constraint which creates a strategic disadvantage for an organization

Strengths and weaknesses do not exist in isolation but combine within a functional area, and also across different functional areas, to create synergistic effects.

6.4.4 SYNERGISTIC EFFECTS

It is the inherent nature of organization's that strengths and weaknesses, like resources and behavior, do not exist individually but combine in a variety of ways. For instance, two strong points in a particular functional area add up to something more than double the strength. Likewise, two weaknesses acting in tandem result in more than double the damage.

Synergy is the idea of putting two or more elements together to achieve a sum total greater than the sum total of individual element separately. In effect, what we have is a situation where attributes do not add mathematically but combine to produce an enhanced or a reduced impact. Such a phenomenon is known as the synergistic effect.

Within an organization, synergistic effects occur in a number of ways. For example, within a functional area, say marketing, various elements- product, pricing, distribution, and promotion aspects support each other, resulting in marketing synergy. At a higher level, the marketing and production areas may support each other leading to operating synergy. On the other hand, marketing inefficiency reduces production efficiency, the overall impact being negative, in which case disergy (or negative synergy) occurs. In this manner, synergistic effects are an important determinant of the quality and type of the internal environment existing within an organization and may lead to the development of competencies.

6.4.5 COMPETENCIES

As already discussed, Competencies are special qualities possessed by an organization that make them withstand pressures of competition in the marketplace. When an organization develops its competencies over a period of time and hones them into a fine art of competing with its rivals it tends to use these competencies exceedingly well. The capability to use the competencies exceedingly well turns them into core competencies.

Distinctive Competence: When a specific ability is possessed by a particular organization exclusively, or in a relatively large measure, it is called a distinctive competence. It is the unique feature of an organization which cannot be easily shared by its competitors. For

example, the cost leadership Reliance Industries enjoy cannot be easily copied by others. A distinctive competence is any advantage a company has over its competitors because it can do something which they cannot or it can do something better than they can. It is not necessary, of course, for all organizations to possess a distinctive competence. Neither do all the organization's, which possess certain distinctive competencies, use them for strategic purposes. Nevertheless, the concept of distinctive competence is useful for the purpose of strategy formulation.

6.4.6 ORGANIZATIONAL CAPABILITY

Organizational capability is the inherent capacity or potential of an organization to use its strengths and overcome its weaknesses in order to exploit opportunities and face threats in its external environment. It is also viewed as a skill for coordinating resources and putting them to productive use. Without capability, resources, even though valuable and unique, may be worthless. BNET Business Dictionary defines organizational capability as "the knowledge and skills that an organization can apply to achieve success in a competitive environment. It focuses on the ability to provide products that customer's value or will value in future. This involves the need to adjust and change in order to fit the changing environment and the need to stretch to organizational resources in ways that are innovative, or that other organizations find it hard to match."

Several thinkers in the field of strategy favor the line that capabilities are the outcome of an organization's knowledge base, that is, the skills and knowledge of its employees.

Strategists are primarily interested in organizational capability because of two reasons.

Firstly, they wish to know what capacity exists within the organization to exploit opportunities or face threats in its environment. Secondly, they are interested in knowing what potentials should be developed within the organization so that opportunities could be exploited and threats should be faced in future.

Organizational capability is measured and compared through the process of organizational appraisal which is the subject matter of this unit. A feasible approach to appraising the organization is to start with the factors and influences operating within the organization.

6.4.7 STRATEGIC AND COMPETITIVE ADVANTAGE

Strategic advantages are the outcome of organizational capabilities. They are the result of organizational activities leading to rewards in terms of financial parameters, such as, profit or shareholder value, and/or non-financial parameters, such as, market share or reputation. In contrast, strategic disadvantages are penalties in the form of financial loss or damage to market share. Clearly, such advantages or disadvantages are the outcome of the presence or absence of organizational capabilities. Strategic advantages are measurable in absolute terms using the parameters in which they are expressed. So, profitability could be used to measure strategic advantage, higher the profitability the better the strategic advantage. They are comparable in terms of the historical performance of an organization or its current performance with respect to its competitors.

Competitive advantage is a special case of strategic advantage where there is one or more identified rivals against whom rewards or penalties could be measured. So, outperforming rivals in profitability or market standing could be a competitive advantage for an organization. Competitive advantage is relative rather than absolute, and it is to be measured and compared with respect to other rivals in an industry.

With rising competitiveness in the industry, mainly owing to liberalization and the reform process the usage of the term competitive advantage has become more pronounced.

The term competitive advantage is more popular since it has been used as an important concept by the proponents of the positioning school of thought in strategy.

6.5 UNDERSTANDING ORGANIZATIONAL APPRAISAL

6.5.1 ORGANIZATIONAL APPRAISAL

Organizational appraisal, also known as corporate appraisal, appraisal of internal factors, audit of organizational competence or organizational analysis, is the systematic evaluation of an organization's capability. It can be defined as "Organizational appraisal is the process through which an organization evaluates its capability so as to have competitive advantage at the marketplace." The framework we discussed above facilitates operational aspect of organizational appraisal.

6.5.2 ROLE OF ORGANIZATIONAL APPRAISAL

Organizational appraisal is basically two dimensional:

1. An organization always wants to build on its strengths, as they are the key factors to success. Thus, the organization will appraise only those environmental factors which are relevant in the context of its strengths in turn limiting the scope of environmental variables for analysis. For example, if the organization is strong in manufacturing and production, it may concentrate on production activities rather than going for marketing and production both.

2. It is also equally important for an organization to overcome its weaknesses, for that it needs to first identify the weakness, whether related to a person, process or organizational. The organizational appraisal pinpoints the weak areas of the organization and helps in identifying and implementing correctional actions.

6.5.3 PROCESS OF ORGANIZATIONAL APPRAISAL

The process of organizational appraisal goes through certain sequence of activities. This process is undertaken so that the organization reaches at a point at which it can undertake strategic decisions in view of its strengths and weaknesses.

Process of organizational appraisal will proceed through the following sequence:

1. Identification of key factors for appraisal.

2. Assessing importance of key factors on historical as well as future requirements.

3. Assessing strengths and weaknesses of key factors in the light of competitors'' and likely future scenarios.

4. Preparing organizational capability profile.

5. Relating organizational capability to strategy.

6.5.4 CONSIDERATIONS IN ORGANIZATION APPRAISAL

1. Factors affecting organizational appraisal

    1. Ability of strategist to comprehend complexity
    2. Size of the organization
    3. Organization's internal environment vitiated

2. Approaches to organizational appraisal

    1. Systematic approach
    2. Ad hoc approach

3. Sources of information for organizational appraisal

    1. Verbal
    2. Written
    3. Internal
    4. External

6.6 APPRAISAL OF ORGANIZATIONAL CAPABILITY FACTORS

Organizational capability factors are the strategic strengths and weaknesses existing in different functional areas within an organization which are very important in strategy formulation. In strategic advantage analysis the strategists examine the firm's resources and capabilities in the key function areas to determine where the firm has significant strengths (and weaknesses) so that it can exploit the opportunities and meet the threats in the environment. Assessment of the strengths and weakness of a firm is based on analysis of following internal factors:

6.6.1 FINANCIAL CAPABILITY

Financial capability factors relate to the availability, usage, and management of funds and all allied aspects that have a bearing an organizations' capacity or ability to implement its strategies. The strengths and weaknesses in the areas of finance and accounting can be ascertained in the following ways.

1. **Financial resources and strength:** It helps to determine the availability of financial resources, source of fund. What are the available financial resources whether short term or

long term? Are long term funds available or can be procured consistently with industry needs and relative to competitors.

2. **Capital structure:** Capital structure of an organization determines the scope for flexibility in raising additional capital, maintaining financial leverage and maintaining minimum capital cost. How does the cost of capital compare with that of industry and competing firms?

3. **Financial planning:** Financial planning is the determination in advance, of the quantum of

Capital requirement and its forms. If the Organization plans all these things well in advance it becomes strength of the organization.

4. **Accounting system and audit procedure:** It is the determination of efficient account procedure and systems for costing, budgeting profit planning, and auditing. Not only determine that there is no misappropriation of funds but also provide feedback for further course of action.

Absence of such systems provides inefficiency in the organization.

5. **Tax planning and Tax advantage:** Does the company enjoy tax advantages and avail of tax concessions through tax planning? If the organization is planning its investment pattern properly it takes the advantages of tax benefits, under certain provisions of the Company Law and Direct Tax Laws. Advantages under these provisions may reduce the tax liability of the organization to a very low level.

6. **Relations with shareholders:** Are the company's dividend and profit retention policies consistent with shareholder's expectations? If such relationship is cordial the company can go for smooth functioning even in case of adversity.

6.6.2 MARKETING CAPABILITY

Marketing and distributions factor are important because success of business activities depend on these factors. Capability factors relate to the pricing, promotion and distribution of products or services, and all the allied aspects that have a bearing on an organization's capacity and ability to implement its strategies. The marketing function is considered to be a key area not only because its performance depends on the success or failure of business activities, but also because it provides a vital interface and communication link between the organization and the external environment. The analysis of marketing capabilities should include the following elements:

1. **Competitive position and market share:** Business organizations have to operate in a competitive field. So, it is necessary to know whether the firm have sizable market share.

2. **Product line:** Does the product line consist of a wide range and variety of designs and qualities?

3. **Product life cycle:** Product life cycle helps to know in which phase the main products are introductory, growth, or declining phase.

4. **Pricing:** Pricing policies, changes, protection, etc. are to be looked to know whether the pricing strategy is effective.

5. **Market:** Which type of market is? Do the sales depend on a few customers?

6. **Marketing research:** Marketing research offers the information for taking various marketing decisions such as Pricing, Advertising, Packing, Channels of Distribution, etc.

7. **Channel of distribution:** Channel of distribution means what is the way out of goods to be distributed, means whether to sell it through wholesalers, retailers, own departmental stores etc. An effective channel of distribution in the strength of the Organization because it distributes the product at the points where these are needed but a centralized distribution channel may be a weak point.

8. **Packaging:** How efficient and effective is the packaging and similar services.

9. **Marketing policy:** Is the policy consistent with the competition, consumer preferences, technological change and other environmental factors?

6.6.3 OPERATIONS CAPABILITY

Operations capability factors relate to the production of products or services, use of material resources, and all allied aspects that have a bearing on an Organizations Capacity and ability to implements its strategies.

1. **Factors related to the production system:** Capacity, location, layout, product or service design, work systems, degree of automation, extent of vertical integration etc.

2. **Factors related to operation and control system:** Aggregate production planning, material supply, inventory, cost and quality control; maintenance systems and procedures etc.

3. **Factors related to R & D system:** Personnel facilities product development, patient rights, level of technology used, technical collaboration and support etc.

6.6.4 PERSONNEL CAPABILITY

Personnel capabilities factors relate to the existence and use of human resources and skills, and all allied aspects that have a bearing on an organization's capacity and ability to implement its strategies. Some of the important factors which influence the personnel capability of an organization are as follows:

1. **Factors related to the Personnel system:** System for manpower planning, selection, development, compensation, communication and appraisal position of the personnel department within the organization, procedures and standards, etc.

2. **Organizational and employee's characteristics:** Corporate image, quality of managers, staff and workers, perception about the image of the organization as an employer, availability of developmental opportunities for employees, working conditions etc.

3. **Industrial relations:** Union-management relationship, collective bargaining, safety, welfare and security; employee satisfaction and morale, etc. Is the degree of unionization

among employees of a high order? Does the management maintain harmonious relations with the unions?

6.6.5 INFORMATION MANAGEMENT CAPABILITY

Information management capability factors relate to the design and management of the flow of information from outside into and within, an organization for the purpose of decision-making and all allied aspects that have a bearing on an organization's capacity and ability to implement strategies. Some of the important factors which should be analyzed in information management are:

1. **Acquisition and retention of information:** Sources, quantity, quality, and timeliness of information, retention capacity, and security of information.

2. **Processing and synthesis of information:** Database management, computer systems, software capability, and ability to synthesis information.

3. **Retrieval and usage of information:** Availability and appropriateness of information formats, and capacity to assimilate and use information.

4. **Transmission and dissemination:** Speed, scope, width, and depth of coverage of information, and willingness to accept information.

5. **Integrative, systemic, and supportive factors:** Availability of IT infrastructure, its relevance and compatibility to organizational needs, upgradation facilities, willingness to invest in state-of-art systems, availability of computer professionals, and top management support.

6.6.6 GENERAL MANAGEMENT CAPABILITY

General management capability relates to the integration coordination and direction of the functional capabilities towards common goals and all allied aspects that have a bearing on an organization's capacity and ability to implement its strategies. Some of the important factors which influence the general management capability of an organization are as follows:

1. **Management system:** Strategic management system processes related to mission-purpose and objective setting, strategy evaluation system, management information system, corporate planning system, rewards and incentives systems for top managers etc.

2. **External relationships:** Influence on and rapport with the government, regulatory agencies and financial institutions; public relations, sense of social responsibility, public image as corporate citizen etc.

3. **Factors related to General Managers:**

Manager's mentality:

– Their relative preoccupation with external vs. internal problems.

– Propensity to take risks.

– Perception of the critical success factors and behaviors.

– Values, norms and personal goals of managers.

Power:

– Power position of the manager in the firm.

– His ambitiousness and drive to use power.

Competence:

– Talents / Personality.

– Leadership traits / skills.

– Knowledge about the firm and environment.

Capacity:

– Personal work capacity.

– Work habits.

4. **Organizational climate:** Organizational culture, use of power, political processes, balance of vested interests, introduction acceptance and management of change, nature of organizational structure and controls etc.

A few typical strengths which influence the general management capability of an organization are given below:

– Effective system for corporate planning.

– Control, reward and incentive system for top managers geared to the achievement of objectives.

– Entrepreneurial orientation and high propensity for risk taking.

– Good rapport with Government and bureaucracy.

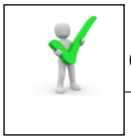
– Favorable corporate image.

– Commonly being perceived as a good organization to work for.

– Development oriented organizational culture.

– Political processes used for consensus building in organizational interest.

– Effective management of organizational change.



Check Your Progress- A

Q1. What do are the key points of Resource Based Theory (RBT)?

Q2. What do you mean by Core Competency?

Q3. What is the role of Organizational Appraisal?

Q4. Why appraisal of Organizational Capability Factors is necessary?

6.7 METHODS AND TECHNIQUES USED FOR ORGANIZATIONAL APPRAISAL

The methods and techniques used for organizational appraisal can be identical to those used for the performance evaluation of an organization also referred as strategic audit. Unlike performance evaluation, organizational appraisal is comprehensive and long-term in nature. Methods and techniques used for organizational appraisal can be classified broadly in three parts:

1. **Internal analysis**

    VIRO Framework

    Value chain analysis

    Quantitative analysis, which includes financial and non-financial analysis

    Qualitative analysis

2. **Comparative analysis**

    Historical analysis

Critical Success Factors Analysis

Benchmarking

3. **Comprehensive analysis**

Key factor rating

Balanced scorecard

Let us discuss these methods and techniques and see to what extent these help in assessing organizational strengths and weaknesses.

6.8 INTERNAL ANALYSIS

Internal analysis of an organization deals with an investigation of organizational strengths and weaknesses by focusing on factors which are relevant to it. For internal analysis, four types of techniques may be used, let us discuss each one of them:

6.8.1 VIRO FRAMEWORK

Barney and Hesterly, describe the VRIO framework as a good tool to examine the internal environment of a firm. They state that VRIO "stands for four questions one must ask about a resource or capability to determine its competitive potential:

1. The Question of Value

-Does a resource enable a firm to exploit an environmental opportunity, and/or neutralize an environmental threat?

2. The Question of Rarity

-Is a resource currently controlled by only a small number of competing firms?

-Are the resources used to make the products/services or the products/services themselves rare?

3. The Question of Imitability

-Do firms without a resource face a cost disadvantage in obtaining or developing it?

-Is what a firm is doing difficult to imitate?

4. The Question of Organization

-Are a firm's other policies and procedures organized to support the exploitation of its valuable, rare, and costly-to-imitate resources?

According to the VRIO framework, a supportive answer to each question relative to the firm being analyzed would indicate that the firm can sustain a competitive advantage. Below is an example (Table 6.1) of how to apply the VRIO framework and the likely outcome for the firm under varying circumstances.

If a firm's resources are:		The firm can expect:
Not valuable	→	Competitive Disadvantage
Valuable, but not rare	→	Competitive parity (equality)
Valuable and rare	→	Competitive advantage (At least temporarily)

Table 6.1: Applying the VRIO Framework—the value and rarity of a firm's resources

Then, if there are high costs of imitation, the firm may enjoy a period of sustained competitive advantage (Table 6.2). Costs of imitation increase due to some combination of the following:

1) **Unique Historical Conditions** (path dependence; first mover advantages),

2) **Causal Ambiguity** (links between resources and advantage foggy),

3) **Social Complexity** (social relationships not replicable),

4) **Patents** (double-edged sword since period of protection eventually runs out).

If a firm's resources are:		The firm can expect:
Valuable, rare, but not costly to imitate	→	Temporary competitive advantage
Valuable, rare, and costly to imitate	→	Sustained competitive advantage (if organized properly)

Table 6.2: Applying the VRIO Framework, integrating the notion of Inimitability

Organized properly deals with the firm's structure and control (governance mechanisms—compensation, reporting structures, management controls, relationships, etc).

These must be aligned so as to give people ability and incentive to exploit the firm's resources (Table 6.3).

Valuable?	**Rare?**	**Costly to Imitate?**	**Organized Properly?**	**Competitive Implications**	**Economic Implications**
No			No	Disadvantage	Below Normal
Yes	No		↕	Parity	Normal
Yes	Yes	No	↕	Temporary Advantage	Above Normal (at least for some amount of time)

Yes	Yes	Yes	Yes	Sustained Advantage	Above Normal

Table 6.3: Summary of VRIO, Competitive Implications, and Economic Implications

6.8.2 VALUE CHAIN ANALYSIS

The second framework that companies can use to identify and evaluate the ways in which their resources and capabilities can add value is value chain analysis. This framework is useful because it enables companies to understand which parts of their operations or activities create value by segmenting the value chain into primary and secondary activities as illustrated in the figure.

The figure 6.4 illustrates how the value creating activities performed by the company can be separated into primary and secondary activities.

Primary activities, shown vertically, represent traditional line activities such as inbound logistics, operations, outbound logistics, marketing and sales, and service.

Support activities, shown horizontally, are represented by a company's staff activities and include its financial infrastructure, human resource management practices, technological development, and procurement activities.

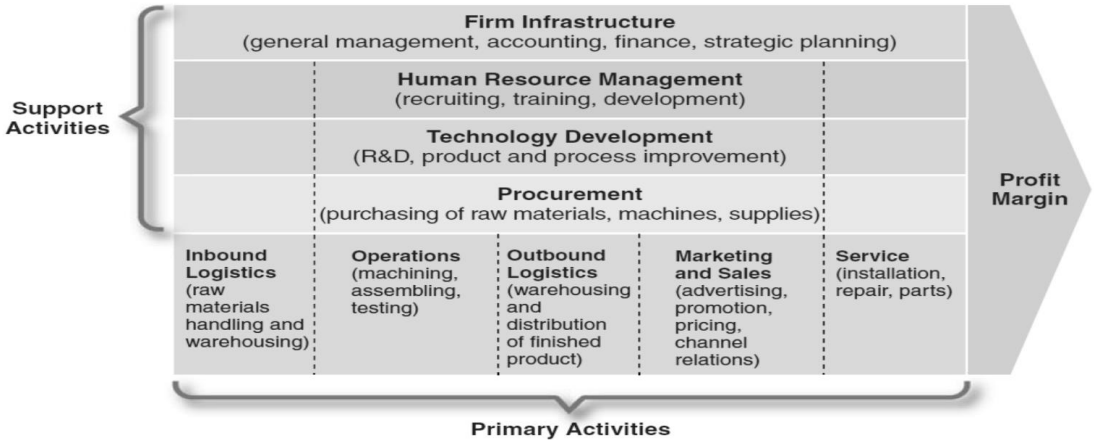


Figure 6.4: Value Chain Analysis

The first step in value chain analysis is to carefully examine each of the company's primary activities to determine the potential for creating or adding value.

Inbound Logistics: Examine all activities related to the receipt, control, warehousing, inventory, and distribution of raw materials or component parts into the production process.

Operations: Activities to be examined are all those necessary to convert the inputs (raw materials or components) available as a result of inbound logistics into finished products. Examples include machining, assembly, equipment maintenance, and packaging.

Outbound Logistics: This category represents the company's activities involved with the collection, storage, and physical distribution of products to customers. Examples include warehousing or storage of finished products, material handling, and order processing.

Marketing and Sales: Several marketing and sales activities must be completed to both induce customers to purchase products and ensure that products are available. Activities include developing advertising and promotion campaigns; selecting and developing distribution channels; and selecting, training, developing, and supporting a sales force.

Service: These are the activities that a company offers to enhance or maintain a product's value, including installation, product use training and adjustment, repair, and warranty services.

The next step in the value chain analysis process is an examination of the company's support activities to determine any value creating potential in those activities.

Procurement: These are activities that are completed to purchase the inputs needed to produce a company's products, including items consumed or used in the manufacturing process (such as raw materials or component parts), supplies, and fixed assets (machinery, equipment and facilities).

Technological Development: All activities that are completed to either improve a company's products or its production processes. This includes basic research, process and equipment design, product design, and servicing procedures.

Human Resource Management: These activities are related to the recruiting, hiring, training, developing, and compensating (including performance assessment and reward systems) of a company's employees.

Company Infrastructure: These activities support the activities performed in the company's value chain, including general management practices, planning, finance, accounting, legal, and government relations. By performing its infrastructure related activities, a company identifies external opportunities and threats, and internal strengths and weaknesses related to company resources and capabilities, and supports or nurture its core competencies.

Using the value chain framework enables managers to study the company's resources and capabilities in relationship to the primary and support activities performed to design, manufacture, and distribute products, and to assess them relative to competitors' capabilities.

In value chain analysis, focus is on measuring the value created by each activity in the chain. Also perform a primary or support activity that no competitor is able to perform to create superior value for customers and achieve a competitive advantage. This implies that, given that individual companies are comprised of unique or heterogeneous bundles of activities, reconfiguring the value chain, or re-bundling resources and capabilities, may enable a company to develop unique value creating activities.

The managerial challenge is that the value creation process is difficult and there is no one best way to assess a company's primary and support activities or to evaluate the value creating potential of those activities either within the company or relative to competitors, because of incomplete or ambiguous data. Another limitation of Value chain analysis is the difficulty in quantifying the contribution of various activities.

However, by being objective, managers may be able to use the value chain framework to identify new, unique ways to combine resources and capabilities to create value that are difficult for competitors to recognize, understand, or imitate. The longer a company is able to keep competitors "in the dark," as to how resources and capabilities have been combined to create value, the longer a company will be able to sustain a competitive advantage.

6.8.3 QUANTITATIVE ANALYSIS

Performance of an organization can be assessed using numbers, as quantifying the variable is it strength or weakness makes the evaluation more meaningful and complete. Financial figures are the most widely used numbers in evaluating the performance of an organization. Financial figures when combined with non-financial figure give a realistic view of an organization.

6.8.3.1 Financial Analysis

Financial analysis is the most widely used tool for analyzing any organization. But the analysis is only good as the accounting procedures that have provided the information. A note of caution to be learned here is that, even multinational like Enron and Satyam Computers, showed rosy picture of their financial statements, which were not true and were reported with dishonest intentions. Nevertheless financial analysis is and will be an important part of organizational appraisal.

Ratio analyses are among the best known and widely employed tools of financial analysis. The four basic groups of financial ratios are:

1. Liquidity ratios: include current ratio and quick ratio.

2. Leverage ratios: include debt-equity ratio, interest coverage ratio, proprietary ratio and debt to assets ratio.

3. Activity Ratios: include assets turnover ratio, fixed assets turnover ratio, working capital turnover ratio, debtors' turnover ratio, inventory turnover ratio.

4. Profitability Ratios: include gross profit ratio, net profit ratio, operating ratio, return on shareholders' funds, earning per equity share.

6.8.3.2 Non-financial Analysis

In an organization, there are many aspects which cannot be expressed in financial terms. For measuring strengths and weaknesses of these aspects, non-financial analysis is relevant. For example market share, employee turnover, employee absenteeism, advertising recall rate, inventory turnover rate; number of patents registered per period etc. are measured in non-financial terms.

6.8.4 QUALITATIVE ANALYSIS

For analyzing those organizational factors which cannot be quantified easily and precisely, qualitative analysis is relevant. For example, organizational image cannot be easily quantified; at the best it can be described in terms of degree. A systematic qualitative analysis may use the survey approach to finding, for instance, the status of organizational climate.

These factors do matter so far as the strengths and weaknesses of an organization are concerned.

6.9 COMPARATIVE ANALYSIS

The fact is organizational capabilities are assessed in a context. This context is to develop competitive advantage which emerges out of using capability in environmental context. Therefore, an organization should compare its capability in terms of outside forces. Further, organizational capability is not a static phenomenon but keeps on changing. Therefore, an organization should assess its capability over the period of time and make a comparative analysis. Thus, there are two widely used techniques of comparative analysis: Historical Analysis and Benchmarking.

6.9.1 HISTORICAL ANALYSIS

Normally financial statements reflects figures for two years i.e. current year and previous year, also some changes are reflected on Y-O-Y basis i.e. Year-On-Year basis. The idea is that a reader of these statements may judge the company's performance on comparative basis. In historical analysis, an organization may take all analyses over a number of years and can analyze whether its strength are improving or declining. Historical analysis has some limitations also. First, focus should not only be on the areas of bad performance, but also to identify the reasons for the declining performance, so that corrective measures can be taken and weakness is removed. Secondly, improvements from last year performances could be illusory, and can be a financial reporting gimmick. Lastly, historical analysis only evaluates one's own performance or improvements, while organizations should be more concerned with its performance in comparison to its competitors.

Next two analysis i.e. critical success factors analysis and benchmarking compares an organization performance with the competitors and the Industry.

6.9.2 CRITICAL SUCCESS FACTORS ANALYSIS

Critical success factors (CSFs) are, according to Bullen and Rockart, "the limited number of areas in which satisfactory results will ensure successful competitive performance for the individual, department or organization. Critical success factors are the few key areas where 'things must go right' for the business to flourish and for the manager's goals to be attained."

Rockart's concept of critical success factors is clearly inspired by the issue of optimum match between environmental conditions and business characteristics, i.e., the core of business strategy.

The surrounding environment is assumed to possess certain fundamental requirements and limitations, threats and opportunities, to which businesses must align their strategy, skills and resources, in order to achieve success. No organization can afford to develop a strategy which fails to provide adequate attention to the principal factors which underlie success in the industry. Rockart distinguishes between five sources of critical success factors:

• **The industry**, e.g., demand characteristics, technology employed, product characteristics etc. These can also affect all competitors within an industry, but their influence will vary according to the characteristics and sensitivity of individual industry segments.

• **Competitive strategy and industry position** of the business in question, which is determined by the history and competitive positioning in the industry.

• **Environmental factors** are the macroeconomic influences that affect all competitors within an industry, and over which the competitors have little or no influence, e.g., demographics, economic and government legislative policies etc.

• **Temporal factors**, which are areas within a business causing a time-limited distress to the implementation of a chosen strategy, e.g., lack of managerial expertise or skilled workers.

• **Managerial position**, i.e., the various functional managerial positions in a business has each their generic set of associated critical success factors.

After identifying the CSFs relevant to the industry in which an organization operates currently or plans to enter, it can measure its strength and weaknesses in the light of those CSFs. This type of analysis provides an opportunity to the organization to strengthen those areas in which it is lacking as compared to its competitors.

Some points regarding CSFs are worth noting:

1. A set of CSFs is the result of asking the question: what do we need to do in order to be successful in a particular context.

2. CSFs are based on practical logic, heuristic or a rule of thumb rather than on an elaborate procedure or an esoteric theoretical model.

3. CSFs are the results of long years of managerial experience, which leads to the development of intuition, judgment and hunch for use in strategic decision-making.

4. An analysis of what relevant CSFs operate in a particular context could be based on the manager's statements, expert opinions and organizational success stories.

5. CSFs could also be generated internally through creative techniques such as brainstorming.

6. The use of CSFs in objectives-setting and strategic choice distinguishes the successful organizations from the unsuccessful ones.

7. CSFs are used to pinpoint the key result areas, determining objectives in those areas and devising measures of performance for judging the objective-achieving capability of any organization.

6.9.3 BENCHMARKING

Dictionary defines a benchmark as "a standard or a point of reference against which things may be compared and by which something can be measured or judged".

Benchmarking is defined "as the continuous, systematic process of measuring one's output and/or work processes against the toughest competitors or those recognized best in the industry."

Benchmarking is an approach of setting goals and measuring productivity based on best industry practices. Benchmarking helps in improving performance by learning from best practices and the processes by which they are achieved. It involves regularly comparing different aspects of performance with the best practices, identifying gaps and finding out novel methods to not only reduce the gaps but to improve the situations so that the gaps are positive for the organization. Benchmarking is periodical exercise for continuous improvement within the organization so that the organization does not lag behind in the dynamic business environment.

Comparing the results with a competitor helps the management to get a goal that is both desirable and achievable but provides no clue on how the goals are to be achieved. It is a comparison of work progress that tells us how the competitor follows a process which produces outstanding results and this is the essence of benchmarking.

6.9.3.1 Implementation of Benchmarking Program

The following methodology is used in successful implementation of benchmarking program:

1. Identification of Need to Benchmark -This step will define the objectives of the benchmarking exercise. It will also involve selecting the type of benchmarking. Organizations identify realistic opportunities for improvements.

2. Identification of Areas to Benchmark - Benchmarking is a must for few critical process such as product development, customer service, inventory control, asset base, profitability, shareholder value etc. To work properly this should commence by identifying the outcomes which drive the profits, sales and costs of the business. Factors which might be considered are:

(a) Activities which generate the greatest costs

(b) Process which have been subject to customer complaints

(c) Processes essential to delivering the firm's competitive advantage

3. Understanding Existing Process - This step will involve compiling information and data on performance. This will include mapping of existing processes. Information and data is collected by different methods for example, interviews, visits, observation and filling of questionnaires.

4. Identification Best Process -Within the selected framework, best processes are identified. These may be within the organization or outside the organization.

5. Senior Managers Commitment -To ensure that the program enjoys the cooperation and commitment of senior managers, they should be informed of:

(a) The objectives and benefits of benchmarking

(b) The likely costs of the program

(c) The possibility that sensitive data may be revealed to outside organizations

(d) The long-term nature of benchmarking program and its expected benefits to the organization

6. Understanding the Benchmarking Process - Before the benchmarking process put to implementation it should be discussed with process managers, operative staff, customers and suppliers.

7. Development of Appropriate Measures - The benchmarking team should study the whole organization and its subunits and then document the activities and problems.

8. Monitor Process Measurement System - For successful implementation of benchmarking program, proper monitor and control system should be developed. It requires the reliable data capture and management information system.

9. Selection of Appropriate Organization to Benchmark against - The purpose of benchmarking is to help management understand how the firms is carrying out its activities and how its performance compares with competitors and with other organizations who carry out similar operations.

10. Obtain and Analyze Data -The level of process performance and the trends revealed by these measures are used to establish an internal baseline for comparison with external process. The two sets of figures are compared, lessons are learnt (indicated by benchmarks), and enablers are identified and adopted to suit the requirements.

11. Development of Benchmarking Program - Differences in the operating environment should be discussed with the senior management, and operating staff. Benchmarking is not a process of pinpointing mistakes but it is a process of organizational improvement through identification and closing of benchmarking gap.

12. Evaluation of Results -The benchmark firm will need to monitor the success of its improvement strategies. Organizations evaluate the results of the benchmarking process in terms of improvements vis-à-vis objectives and other criteria set for the purpose. It is also periodically evaluating and reset the benchmarks in the light of changes in the conditions that impact the performance.

6.9.3.2 Types of Benchmarking

Internal Benchmarking - It involves looking within the organization to determine other departments, locations and projects which have similar activities and then defining the best practices amongst them.

It involves seeking partners from within the same organization. For example, from business units located in different areas. The main advantages of internal benchmarking are: access to sensitive data and information are easier; standardized data is often readily available; and usually less time and resources are needed. There may be fewer barriers to implementation as practices maybe relatively easy to transfer across the same organization. However real

innovation may be lacking and best in class performance is more likely to be found through external benchmarking.

External Benchmarking - External benchmarking involves seeking help of outside organizations that are known to be best in class. External benchmarking provides opportunities of learning from those who are at the leading edge, although it must be remembered that not every best practice solution can be transferred to others. In addition, this type of benchmarking may take up more time and resource to ensure the comparability of data and information, the credibility of the findings and the development of sound recommendations.

Generic Benchmarking - Generic benchmarking involves comparing with organizations that have similar processes. It involves the comparison of an organization's critical business processes and operations against best practice of the organization that performs similar work or delivers similar services. For example, how do best practice organization process customers' orders? It extends the benchmarking process outside the organization and its industry to get inspiration from organizations in dissimilar industry.

Functional Benchmarking- This type of benchmarking is used when organizations look to benchmark with partners drawn from different business sectors or areas of activity to find ways of improving similar functions or work processes. This sort of benchmarking can lead to innovation and dramatic improvements.

Competitive Benchmarking - It involves examining the products, services and processes of competitors and then comparing them with their own. It involves the comparison of competitors' products, process and business results with own. It requires that the company perform a detailed analysis of its competitors' products, services, and processes. Benchmarking partners are drawn from the same sector. However, to protect confidentiality it is common for the companies to undertake this type of benchmarking through trade associations or third parties.

Compatible Industry Benchmarking - Compatible industry will include those companies that are not directly competing for the same customer. It makes comparisons within a general industry category. For example, a company, which is manufacturing automobile spare parts, compares itself with another company which is manufacturing automobile accessories.

Strategic Benchmarking - It is similar to the process benchmarking in nature but differed in its scope and depth. It involves a systematic process by which a company seeks to improve their overall performance by examining the long-term strategies. It involves comparing high-level aspects such as developing new products and services, core competencies etc.

Global Benchmarking - It is a benchmarking through which distinction in international culture, business processes and trade practices across companies are bridged and their ramification for business process improvement are understood and utilized. Globalization and advances in information technology leads to use this type of benchmarking.

6.9.3.3 Merits and Demerits of Benchmarking

Merits

The important merits of benchmarking are summarized as follows:

(a) I t increases customer satisfaction.

(b) It leads to significant cost savings and improvements in products and services.

(c) I t helps in improving strategic planning by providing assessment of strengths and weaknesses of current process.

Demerits

(a) I t increases the diversity of information which must be monitored by management. This increases the potential for information overload.

(b) I t may reduce managerial motivation if they are compared with a better resourced rival.

(c) There is a danger that confidentiality of data will be compromised.

(d) It encourages management to focus on increasing the efficiency of their existing business instead of developing new lines of business. As one rightly put it- Benchmarking is the refuge of the manager who's afraid of the future.

(e) Successful benchmarking firms may find that they are later overloaded with requests for information form much less able firms whom they can learn little.

6.10 COMPREHENSIVE ANALYSIS

While various methods discussed so far have their own contributions in analyzing organizational strength and weaknesses, they fail to produce a comprehensive picture. In order to overcome this limitation, comprehensive analysis is required. This analysis uses two methods: key factor rating and balanced scorecard.

6.10.1 KEY FACTOR RATING

This method takes into account the various factors affecting the organizational functioning as discussed in section 6.5 (under organizational capabilities). It is a comprehensive method, which can be used with financial aspect also; however, this aspect is only one of several. If we consider the different factors that have been detailed in section 6.5 under various headings of functional capabilities, we can suggest questions that can be asked with regard to the different functional areas and rate them. This method has some limitations also; firstly, its comprehensiveness may make it an unwieldy method to use. It will require a verity of information from different parts of an organization making it a slow and inefficient method. Secondly it is based on subjectivity of the managers who is assigning ratings based on their judgment. Lastly, this method could better be merged with the annual audit process that generally happens in all organizations otherwise there is a possibility of evaluation efforts being duplicated.

6.10.2 BALANCED SCORECARD

To organize an organization's performance measures, Professor Robert Kaplan and Professor David Norton of Harvard University developed a tool called the balanced scorecard. The idea behind the framework is to provide a "balance" between financial measures and other measures that are important for understanding organizational activities that lead to sustained, long-term performance. The balanced scorecard recommends that managers gain an overview of the organization's performance by tracking a small number of key measures that collectively reflect four dimensions: (1) financial, (2) customer, (3) internal business process, and (4) learning and growth (figure 6.5).

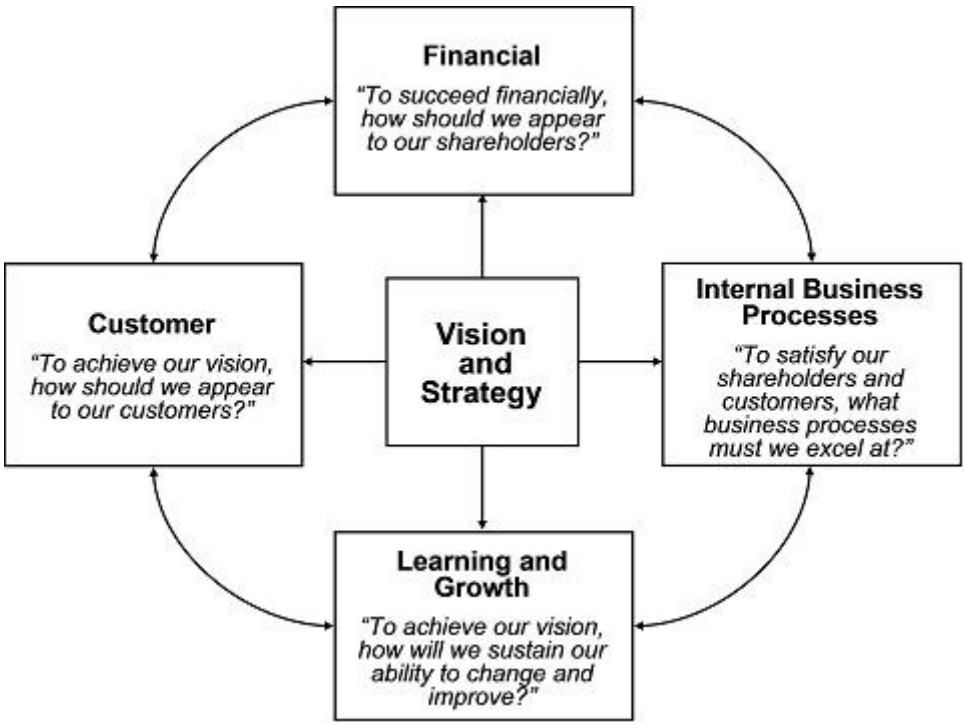


Figure 6.5: Balanced Scorecard

1. Financial Measures

Financial measures of performance relate to organizational effectiveness and profits. Examples include financial ratios such as return on assets, return on equity, and return on investment. Other common financial measures include profits and stock price. Such measures help answer the key question "How do we look to shareholders?"

2. Customer Measures

It deals with how customers can be satisfied on continuous basis. Poor performance from this measure is a leading indicator of future decline, even though the current picture may look to be good.

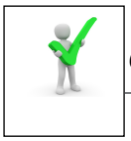
3. Internal Business Process Measure

It refers to internal business processes through which products are created to satisfy customers. These processes should be carefully designed by those who know these. Two types of processes are key to success: mission-oriented processes and support processes. Specific measures and benchmarks are then set to monitor their effectiveness.

4. Learning and Growth Measure

It includes employee training and organizational culture and assesses how the organization is improving its ability to innovate, improve, and learn in order to support success with critical operations and processes defined in internal process perspective

Balanced scorecard is a comprehensive strategic management system. However, this can be used to assess an organization's strength and weaknesses by keeping score of the strengths and weaknesses in critical areas of performance as suggested by balanced scorecard.



Check Your Progress- B

Q1. What do you mean by VIRO Framework?

Q2. Discuss the relevance of Value Chain Analysis.

Q3. Write a note on Key Factor Rating.

Q4. Why do you mean by Balanced Scorecard?

6.11 STRUCTURING ORGANIZATIONAL APPRAISAL

Just as environmental appraisal is structured through an environmental threat and opportunity profile (ETOP), organizational appraisal can also be structured through various techniques. For instance, Glueck proposes a preparation of the strategic advantage profile (SAP) where the results of organizational appraisal are presented in a summarized form. Another approach, suggested by Rowe et al., is to prepare a organizational capability profile (OCP) as a means for assessing a company's strengths arid weakness in dealing with the opportunities and threats in the external environment.

6.11.1 PREPARING THE ORGANIZATIONAL CAPABILITY PROFILE

The organizational capability profile (OCP) is drawn in the form of a chart as depicted in table 6.4, which shows a summarized OCP. The strategists are required to systematically assess the various functional areas and subjectively assign values to the different functional capability factors and sub factors along a scale ranging from the values of -5 to +5. A detailed OCP may run into several pages where each of the sub factors constituting the different functional capability factors can be assessed. In this manner, a summarized OCP, as shown in table 6.4, may be prepared.

Capability Factors	Weakness (-5)	Normal 0	Strength (+5)
1. Financial capability factors (a) Sources of funds (b) Usage of funds (c) Management of funds			
2. Marketing capability factors (a) Product-related (b) Price-related (c) Promotion-related (d) Integrative and systematic			
3. Operations capability factors (a) Production system (b) Operations and control system			

(c) R & D system			
4. Personnel capability factors (a) Personnel system (b) Organizational and employee characteristics (c) Industrial relations			
5. Information management capability factors (a) Acquisition and retention of information (b) Retrieval and usage of information (c) Processing and usage of information (d) Transmission and dissemination of information (e) Integrative, systemic, and supportive			
6. General management capability factors (a) General management systems (b) External relations (c) Organizational climate			

Table 6.4: Organizational Capability Profile

After the completion of the chart, the strategists are in a position to assess the relative strengths and weaknesses of an Organisation in each of the six functional areas and identify the gaps that need to be filled or the opportunities that could be used. The preparation of an OCP provides a convenient method to determine the relative priorities of an Organisation via-a-via its competitors, its vulnerability to outside influences, the factors that support or pose a threat to its existence, and its overall capability to compete in a given industry.

6.11.2 PREPARING THE STRATEGIC ADVANTAGE PROFILE

Based on the detailed information presented in the OCP, it is possible to prepare a concise chart of a strategic advantage profile. A SAP provides a picture of the more critical areas, which can have a relationship to the strategic posture of the firm in the future.

In table 6.5 we provide an illustration of an SAP drawn for a hypothetical company in the bicycle industry. The main business of the company is in the sports cycle manufacturing for domestic and exports markets. This example relates to a hypothetical company but the illustration is realistic.

Capability factor	Competitive strengths or weaknesses	
1. Finance	⇩	High cost of capital; reserves and position unsatisfactory
2. Marketing	⇨	Fierce competition in industry; company's position secure at present

3. Operations	⇧	Plant and machinery in excellent condition; captive sources for parts and components available
4. Personnel	⇨	Quality of managers and workers comparable with that in competitor companies
5. Information	⇨	Computerized management information system in the process of development; traditional functions such as payroll and accounting computerized
6. General management	⇧	High quality and experienced top management; generally adopts a proactive stance with regard to decision-making

Table 6.5: Strategic Advantage Profile

The SAP presented in table 6.5 clearly shows the strengths and weaknesses in different functional areas. For instance, the company has to use its strengths in the area of operations and in general management areas. A gap is also indicated in the finance area which has to be overcome if the company has to survive and prosper in a competitive industry like bicycle manufacturing. In marketing, though the competitive position is secure at present, it cannot be said that it will remain so in the future. The SAP indicates that strategists can initiate action to cover the gaps and use the company's strengths in the light of environmental threats and opportunities.

The probable line of action to be adopted for covering the gaps and using the company's strengths in the light of environmental threats and opportunities is found through considering strategic alternatives at the corporate-level and the business level and exercising a strategic choice.

6.12 SUMMARY

In this unit we focused our attention to internal environment of an organization. This internal environment comprises many features of the firm but, for the purpose of strategic analysis, the key issue is what the firm can do. This means looking at the resources of the firm and the way resources combine to create organizational capabilities. Our interest is the potential for resources and capabilities to establish sustainable competitive advantage. Systematic appraisal of an organizations resources, capabilities and competencies provides the basis for formulating strategy. Questions like how can the firm deploy its strength to maximum advantage? How can it minimize its vulnerability to its weaknesses? Can be answered with the help of organizational appraisal. We discussed the basic philosophy of putting resources first, promoted by theories like RBV or RBT. We also learned various tools and techniques like VIRO, Value chain analysis, Ratio analysis, Benchmarking, Balanced scorecard and other to build organizational capability profile (OCP) and strategic advantage profile (SAP).



6.13 GLOSSARY

Benchmarking: An analysis of competitor strengths and weaknesses; used to evaluate a firm's relative competitive position, opportunities or improving, and success/failure in achieving such improvement.

Capabilities: the combination and use of firm resources to produce action.

Capabilities Analysis: an assessment of the likelihood that a firm's resources and capabilities will provide a sustained competitive advantage relative to competitors.

Competitive Advantage: characteristics of a firm that allow it to outperform rivals in the same industry.

Core Competencies: the subset of a firm's resources and capabilities that provide competitive advantage across several businesses.

Critical success factor(s): An activity that is critical to undertake if other activities are to be successful. he factors can be scoped to working toward the mission of the organization or accomplishing a major strategy or goal in the Strategic Plan.

Distinctive Competence: A competence that provides a firm with a competitive advantage in the marketplace.

Key Success Factors: The product attributes, competencies, competitive capabilities and market achievements with the direct bearing on company profitability.

Resource-Based View: perspective that above-average returns derive primarily from within the firm via valuable and rare resources and capabilities that are hard to imitate or substitute for.

Resources: inputs into a firm's production process—may be tangible (those that can be seen and quantified) or intangible (e.g. reputation, knowledge).

Strength: A skill, resource, or other advantage that a firm has relative to its competitors that is important to serving the needs of customers in its marketplace.

Sustainable Competitive Advantage: Competitive advantages that can be maintained over a fairly long period of time. See also Competitive Advantage.

Synergy: the excess value created by businesses working together over the value those same units create when working independently

Value Chain Analysis: a tool for identifying a firm's value-adding resources and capabilities

Weakness: A limitation or lack of skills, resources, or capabilities that impedes a firm's effective performance.



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6.16 TERMINAL QUESTIONS

Q1. What is resource? Explain giving examples the different types of resources.

Q2. "Resources help in gaining competitive advantage". Explain this statement in light of Resource Based View.

Q3. Explain capabilities, competencies and core competencies.

Q4 Explain value chain analysis.

Q5. Explain the step involved in Benchmarking.

Q6. Explain the significance of Balanced scorecard using example of any Indian organization.

Q7. What is organizational appraisal? Explain its objectives, process and constituents.

Q8. Explain OCP and SAP.

UNIT 7 INDUSTRY, COMPETITIVE AND INTERNAL ANALYSIS

7.1 Introduction

7.2 Objectives

7.3 Industrial Organization Perspective or I/O Model

7.4 Industry Analysis

7.5 Methods of Industry Analysis

7.6 Models Based on Industry Analysis and Firm Internal Analysis

7.7 Analysis of Competition in an Industry: Five Forces Model

7.8 Competitor Analysis

7.9 Summary

7.10 Glossary

7.11 Reference/ Bibliography

7.12 Suggested Readings

7.13 Terminal & Model Questions

7.1 INTRODUCTION

In the previous unit we discussed resource based view approach, which focuses on the importance of internal factors viz. resources, capabilities and competencies, in achieving sustainable competitive advantage for an organization. But we have also studied in previous units, which dealt with environment scanning and analysis that opportunities and challenges are external to the organization. In this unit be will explore the significance of external environment especially the micro or task environment, which comprises of competitors, suppliers, buyers and other external entities, on the strategy formulation of an organization.

Industry analysis is a part of strategic analysis of organizations. Industry analysis basically consists of analyzing the industry environment in which organizations operate their activities. The strategy managers need to analyze the industry along with an analysis of the general environment. We will be using the GIC(General-Industry-Competitor) concept for evaluation external environment of an organization.

7.2 UNIT OBJECTIVES

After reading this unit, you should be able:

- To discuss I/O approach of strategic management.
- To understand how to evaluate the structure of an industry.
- To learn how to examine the attractiveness of an industry.
- To recognize the dynamics of competition, and how it affects industry and firms.

7.3 INDUSTRIAL ORGANIZATION PERSPECTIVE OR I/O MODEL

Industrial organization is concerned with the workings of markets and industries in general and the way firms compete with each other, in particular. The model or approach has its roots from microeconomic, but is also well-researched and acknowledge model in strategic management.

Industrial organization economics is one of the most popular frameworks for evaluating environmental factors that may impact a firm's performance. The main justification for using industrial organization economics is that industry structure (an external factor) is the most significant factor influencing firm future and its profitability.

The main reason for considering industrial organization as a separate subject is its emphasis on the study of the firm strategies that are characteristic of market interaction: price competition, product positioning, integrated marketing communication, R & D activities and so forth.

The model highlights the significant role of the external environmental factors on a firm's strategic actions and future prospects.

7.3.1 UNDERLYING ASSUMPTIONS TO THE I/O MODEL

I/O Model has four underlying assumptions:

1. "The external environment is assumed to impose pressures and constraints that determine the strategies that would result in above-average returns."

2. "Most firms competing within a particular industry or industry segment are assumed to control similar strategically relevant resources and to pursue similar strategies in light of those resources".

3. "Resources used to implement strategies are assumed to be highly mobile across firms. Because of resource mobility, any resource differences that might develop between firms will be short lived."

4. "Organizational decision makers are assumed to be rational and committed to acting in the firm's best interests, as shown by their profit-maximizing behaviors."

The I/O emphasizes the importance of micro environmental factors on the strategy of firm. The approach suggests that it is the task environment or market attractiveness (industry growth

prospects) which compels firms to operate in a specific industry or market. It also justifies how an organization in a competitive market can earn above normal returns.

The traditional Industrial Organization perspective consists of a structure, conduct and performance (SCP) model that was developed by Bain and Mason in the 1960's. This paradigm originally intended to stimulate social welfare by describing conditions where perfect competition exists, and initiate competition enhancing activities where there is an absence of such competition.

However, Porter modified the traditional Bain/Mason paradigm by focusing on factors that can provide a competitive advantage, rather than factors leading to perfect competition. Instead of focusing on how to create perfect competition, Porter turns the SCP-model upside down and focuses on how a single firm can create and sustain competitive advantage. According to Porter, firms should seek an industry with few competitors, and strive to achieve monopoly profit in that industry.

7.4 INDUSTRY ANALYSIS

7.4.1 INDUSTRY

An "industry" consists of a group of firms "offering products or services that are close substitutes for each other. The products satisfy the same basic consumer needs. An industry is a group of firms whose products have so many of the same attributes that they compete for the same buyers". Alternatively, industry is a group of firms that satisfy similar needs of customers', through its goods or services. For example, "Kurkure", "Bingo" or "Lays Chips" belong to an "industry" as they satisfy the 'mid-day hunger' need of Indian consumers. They are also close substitutes for each other.

7.4.2 PURPOSE OF INDUSTRY ANALYSIS

Industry environment influences a company's business operations tremendously. Thus, it is absolutely essential for a company to fit its strategy to its industry environment. If it becomes very difficult or impossible to do it, the company must reshape the industry's environment to its advantage by adopting appropriate strategy.

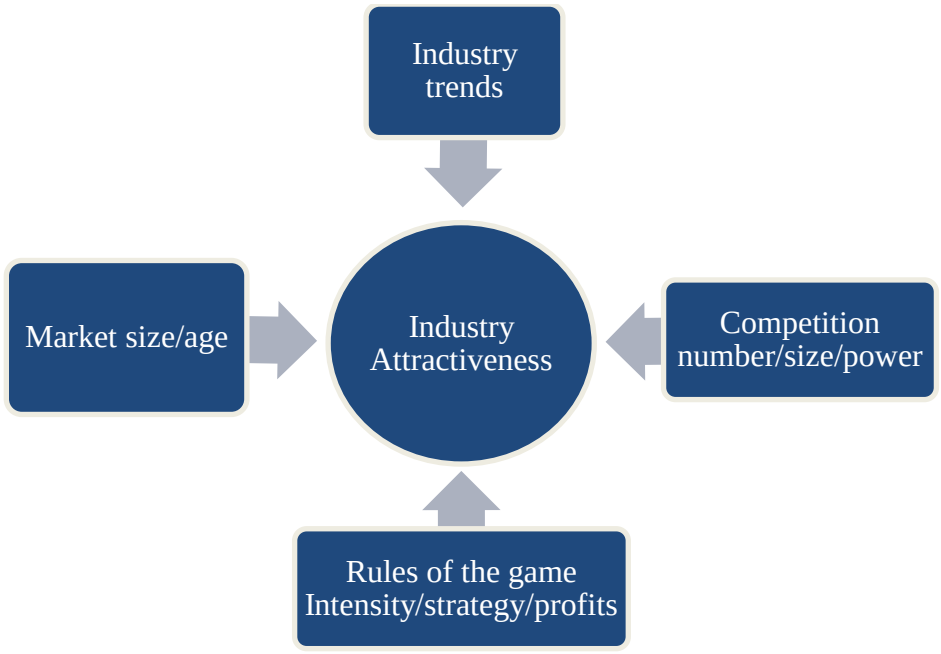


Figure 7.1: Broad analysis of Industry Environment

No organizations can expect good strategy-making without a detailed analysis of industry environment. That is why, it is widely recognized that good strategy-making should be preceded by good industry and competitive analysis. Industry analysis provides necessary information about the industry's situations.

To analyze industrial environment, we should begin by understanding its purpose. The purpose of studying industrial environment or analyzing industry structure is to gain an understanding of the competitive relationships among groups of firms that compete for a specific market. The first step is a broad analysis of industry environment. This is illustrated in Figure 7.1.

A slight elaboration of the factors may be helpful.

Market size/age: Is the market relatively small or large, and can it be broadly characterized by its stage of development (start-up, emerging, growth, maturing, declining)?

Number of competitors: What is the level of competition for the market? Are there many small rivals or a few large, dominant ones? Also, how easy is it for new players to enter the industry? Some industries are easy to enter, others difficult.

The rules of the game: How do firms compete in this market? Do they compete on price, quality, technology, service, etc? What is the average level of profitability? Is it a profitable market or is it a high volume, low margin field? When there is a major change in the cost or profit structure, competition will tend to intensify, as, for instance, if price cutting strategies are used competitive scenario changes.

Industry trends/driving forces: What are the industry trends and how rapidly do they change? Is the industry growing and innovative or stable and slow to change? The rate of market growth is a critical factor because it influences the equilibrium between demand and supply. In a slow-

growth industry, competition tends to increase because any growth must be taken from a rival's share.

Industry attractiveness: The overall attractiveness of an industry is determined by the interaction of these key structural forces. The higher the rate of growth and the weaker the competition, the more attractive is the industry.

With the above discussed data, managers can achieve several purposes:

- Identifying and selecting the company's arena by defining its industry and served markets.
- Identifying business opportunities and uncovering niche markets.
- Providing a benchmark for evaluating the company relative to the competitors and, based on it, developing skills and capabilities necessary for success.
- Shortening the company's response time to competitors' moves.
- Restricting or preempting competitors' moves.
- Encouraging organizational development through frequent interactions among the executives during the analysis.
- Helping the company to gain a competitive advantage through identifying any area where the company holds a significant advantage over its rivals.
- Enhancing organizational learning by exposing managers to the ideas land actions of their competitors.
- Providing invaluable insights into the industry and competition, which help managers identify appropriate strategy and implement strategy successfully.

7.5 METHODS OF INDUSTRY ANALYSIS

The widely used model for industry analysis was given by Thompson and Strickland. This model is based on seven forces. This model provides a comprehensive treatment for the analysis of the issues in an industry. It focuses on "dominant economic characteristics of an industry, sources of competitive pressures, strengths of the competitive forces in the industry, driving forces, market position of the competitors, strategic actions undertaken by competitors, the key success factors in the industry and the overall attractiveness of the industry".

Thompson and Strickland's Seven Factors Model

The model for industry and competitive analysis proposed by Thompson and Strickland touches on all the relevant issues in an industry that need to be analyzed for assessing the overall industry situations.

The seven factors of the Thompson and Strickland are as follows:

- Industry's dominant economic features.
- Main sources of competitive pressure and the strengths of the competitive forces.
- Driving forces.
- Market position of the rival companies.
- Competitor's strategic moves.

- Industry's key success factors.
- Industry's overall attractiveness and profitability prospects.

An analysis of these factors reveals competitive structure of the industry.

Let's discuss the factors one by one. The information generated through the analysis of these factors would build understanding of a firm's surrounding environment and form the basis for matching strategy to changing industry conditions and competitive forces

7.5.1 DOMINANT ECONOMIC FEATURES OF THE INDUSTRY

An industry's economic features are important because their implications for strategy making are great. Economic features of an industry generally include:

- Market size
- Competitive rivalry among existing firms
- Growth rate of market
- Stage in life cycle (early development, rapid growth and takeoff, decline and decay etc.)
- Number of companies in industry
- Number of customers
- Extent of backward linkage or forward linkage
- Ease of entry into the industry
- Ease of exit from the industry
- Types of distribution channels
- Level of differentiation of competitors' products
- Technology/innovation
- Opportunities to realize economies of scale by the companies
- Capacity utilization
- Industry profitability

Getting a handle on an industry's distinguishing economic features not only provides a broad overview of the attractiveness of the industry, but also promotes understanding of the kinds of strategic moves that industry members are likely to employ.

7.5.2 MAIN SOURCES OF COMPETITIVE PRESSURES

An important component of industry analysis is sources of competitive pressures and the strengths of each competitive force. An understanding of the competitive character of the industry helps managers develop successful strategy. Thompson and his colleague suggested the use of Michael Porter's Five Forces Model for the analysis of competitive pressures and the strength of each force of competition. They are of the view that the state of competition in an industry is a composite of five competitive forces identified by Porter. We will discuss Porter's Five Forces Model in detail later part of the unit.

7.5.3 DRIVING FORCES

Economic characteristics say a very little about the ways in which the environment may be changing because of new developments in the industry. New developments take place in the industry because important forces are always driving the competitors, customers and suppliers to alter their actions. These forces in the industry are the fundamental reasons of varying competitive conditions prevailing in an industry i.e. they are the most powerful of the change agents.

The most common driving forces are:

- Changes in the long-term industry growth rate
- Growing globalization
- Emerging new Internet capabilities and applications
- Changes in who buys the product and how they use it
- Product innovation
- Technological change and manufacturing process innovation
- Marketing innovation
- Entry or exit of major firms
- Diffusion of technical know-how across more companies and more countries
- Changes in cost and efficiency
- Growing buyer preferences for differentiated products instead of a commodity product
- Regulatory influences and government policy changes
- Changing societal concerns, attitudes, and lifestyles

Next, we need to analyze, whether these driving forces will result in making industry environment less or more attractive i.e. the resultant of these driving forces. The collective impact of the driving forces usually requires looking at the likely effects of each force separately, because the driving forces may not all be pushing change in the same direction. For example, two driving forces may be acting to spur demand for the industry's product while one driving force may be working to curtail demand. Whether the net effect on industry demand is up or down hinges on which driving forces are the more powerful.

The last step of driving forces analysis is for managers to draw some conclusions about what strategy adjustments will be needed to deal with the effect of the driving forces.

Lacking the understanding of the impact of these forces on industry and the consequent changes, on short term basis i.e. one to three year, will adversely affect the managers capabilities to craft a strategy tightly matched to emerging conditions.

There may be many forces of change in an industry but in reality all do not qualify as 'driving forces'. Managers need to carefully evaluate the forces so that they can intelligently separate the major changes from the minor changes. This would help mangers formulate sound strategy.

7.5.4 MARKET POSITION OF COMPETITORS

The analysis of competitive forces helps in understanding the overall competitive structure of an industry, as it identifies the market position of different competitor. Such analysis is a must

if a manager wants to identify the sources of competitive pressures and how strong they are. Attempt is made to study the market position of rival companies.

Strategic group analysis is one such technique that reveals the industry participant's competitive position. It is most useful when an industry has so many competitors that it is not practical to examine each one in depth.

Strategic group mapping endeavors to determine the strategic group for a product of a company. Let us discuss the concept of Strategic Group Analysis in detail.

7.5.4.1 Strategic Group Analysis

The problem that the strategic analyst will face is conceiving of the nature of competition that the organization faces. In particular, who are the most direct competitors and on what basis is competition likely. Given this understanding it is then possible to gauge the extent to which strategy is appropriate in the competitive circumstances.

One problem here is that the idea of the industry is not particularly helpful. The boundaries of an industry can be very unclear and may not provide any precise delineation of competition.

In a given industry there may be many companies each with different interests and competing on different bases. There is a need for some intermediate mapping of the basis of competition between the individual firm and the industrial level.

Strategic group analysis is one means of providing this intermediate level of analysis. The idea is to identify more finely defined groupings of organizations so that each grouping represents those with similar strategic characteristics, following similar strategies or competing on similar bases.

A strategic group consists of those industry members with similar competitive approaches and positions in the market. Porter argues that such groups can usually be identified using two, or perhaps three, sets of key characteristics as a basis of competition. It is useful to consider the extent to which organizations differ in terms of such characteristics and also show similarities. Some examples of such characteristics would be:

- Extent of product (or service) diversity;
- Extent of geographic coverage;
- Number of market segments served;
- Distribution channels used;
- Extent (number) of branding;
- Marketing effort (e.g. advertising spread, size of sales force, etc.);
- Extent of vertical integration;
- Product or service quality;
- Technological leadership (a leader or follower);
- R&D capability (extent of innovation in product or process);
- Cost position (e.g. extent of investment in cost reduction)
- Utilization of capacity;

- Pricing policy;
- Level of gearing;
- Ownership structure (separate company or relationship with parent);
- Relationship to interest groups (e.g. government, the city);
- Size of an organization

7.5.4.2 Procedure for Constructing a Strategic Group Map

A strategic group map can be constructed using the procedure suggested by Thompson and Strickland:

- Identify the competitive characteristics that differentiate firms in the industry (variables: price, quality range, geographical coverage, degree of vertical integration, product line breadth, use of distribution channels, degree of service offered)
- Plot the firms on a two-variable map using pairs of these differentiating characteristics
- Assign firms in that fall in about the same strategy space to the same strategic group
- Highlighting circles for each strategic group, the size of the circles should be proportional to the size of the strategic group's respective share of total industry sales revenues

The closer the strategic groups are to each other on the map, the stronger the competition among the member companies. The next closest competitors are in the immediately adjacent groups.

7.5.4.3 The Value of Strategic Groups Maps

Strategic group maps are revealing in several respects. The most important has to do with identifying which rivals are similarly positioned and are thus close rivals and which are distant rivals. Generally speaking, the closer strategic groups are to each other on the map, the stronger the cross-group competitive rivalry tends to be. Although firms in the same strategic group are the closest rivals, the next closest rivals are in the immediately adjacent groups.

The second thing to be picked up from strategic group mapping is that not all positions on the map are equally attractive. Two reasons account for why some positions can be more attractive than others:

- Industry driving forces may favor some strategic groups and hurt others
- Competitive pressures may cause the profit potential of different strategic groups to vary

A third benefit of preparing strategic group maps is that strategy makers may identify competitive "white spaces" where customer needs have gone unmet. The identification of a white space or "blue ocean" gives expansion oriented companies opportunities to pursue new industry segments that may offer high growth and profits. While a competitive white space may present additional growth opportunities for industry leaders, the discovery of a blue ocean may be critical to the survival of companies faltering in the "red ocean" of a crowded strategic group. A "blue ocean" strategy seeks to gain a competitive advantage by discovering or

inventing a new industry or distinctive market segment that allows a company to create and capture altogether new demand.

7.5.5 STRATEGIC MOVES OF THE COMPETITORS

Strategic moves refer to strategic steps or actions undertaken by a company. Every company must be informed of the strategic moves of the competitors. Information about the competitors' strategic moves can be obtained through an analysis of their moves in a systematic way. The analysis involves:

- Identifying competitors' strategies
- Analyzing the strategies
- Watching the actions of the competitors
- Understanding their strengths and weaknesses, and
- Anticipating what moves they will make next.

After investigation the competitors' strategic moves, managers can decide about the appropriate counter-moves. They can plan their own actions to defeat the competitors. It is simply impossible to outcompete a competitor without monitoring their actions and predicting their future moves.

Managers of a company can gather information about the strategies of competitors by:

- Examining what the competitors are doing in the marketplace
- Monitoring what the management of the competing companies is saying about their plans
- Considering competitors' geographical market arena, strategic intent, market share objective and willingness to take risks
- Trying to understand whether competitors' recent moves are offensive or defensive
- Directly visiting the competitors' offices to get information about prices, wage and salary levels, introduction of new products, etc.
- Pumping competitors' representatives at trade shows/exhibitions/ trade fairs; and
- Searching through garbage dumpsters outside competitors' offices (may be considered unethical, although not illegal).

7.5.6 INDUSTRY'S KEY SUCCESS FACTORS

There are certain factors in every industry that determine a product's success in the market. These may include attributes of the product, resources of the company, competitive capabilities etc. these factors are called 'key success factors' (KSF). A sound strategy incorporates industry key success factors. They are prerequisites for industry success.

That is why all firms in the industry must pay close attention to the KSF.

Key success factors usually vary from industry to industry. The variations occur mainly because of changes in the driving forces and competitive conditions in the industry. This warrants that the managers of companies need to give careful attention to identifying the major KSF and avoid the minor ones.

In addition, the answers to the following three questions help identify an industry's key success factors:

1. On what basis do buyers of the industry's product choose between the competing brands of sellers? That is, what product attributes are crucial?

2. Given the nature of the competitive forces prevailing in the marketplace, what resources and competitive capabilities does a company need to have to be competitively successful?

3. What shortcomings are almost certain to put a company at a significant competitive disadvantage?

7.5.7 INDUSTRY ATTRACTIVENESS

Strategy-makers in a company must be able to give answer to the question: "Is the industry attractive and what its prospects for above average profitability are?" In order to answer to this question, strategists review the overall industry situation and develop reasoned conclusions about the relative attractiveness or unattractiveness of the industry. The factors that they usually analyze for assessing industry attractiveness include:

- Industry's growth potential
- Favorable or unfavorable impact by the prevailing driving forces
- Competitive position of the company in the industry
- Potential entry or exit of major firms
- Stability and/ or dependability of demand
- Possibility of competitive forces becoming stronger or weaker
- Severity of problems/issues confronting the industry as a whole
- Degrees of risk and uncertainty in the industry's future.

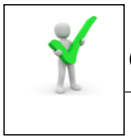
7.5.8 PREPARING AN INDUSTRY ANALYSIS PLAN

Industry analysis provides information about the industry situations that help strategy-makers concentrate on strategic thinking and predicting the future of the industry. An insight about the overall industry situations facilitates effective and pragmatic strategy-making. On the basis of the above analyses, managers can prepare a document containing all the information related to the competitive forces in the industry. Below (Table 7.1) is given a sample format for jotting down the information in a document form.

Information About Economic Features	Market size, growth potential, technology, vertical integration, number and sizes of buyers and sellers, and so on
Sources of Competition	Status of competition among competitors, power of buyers and suppliers, competition from substitutes, threat of potential entry and so on.
Driving Forces	Changes in long-term industry growth, globalization of competition in the industry, product innovation, changing buyer preferences, etc.

Market Position	Market leaders, runner-ups, weak companies, strategic group members.
Strategic Moves of Rivals	Competitors' strategic moves and intents, whom to be watched and so on.
KSF	Product attributes, competencies, capabilities and so on.
Industry's Overall Attractiveness	Factors making industry attractive. Factors making industry unattractive, special industry problems, favorable or unfavorable profit outlook.

Table 7.1: Industry Analysis Plan



Check Your Progress- A

Q1. What is the purpose of Industry Analysis?

Q2. What are the dominant Economic Features of the Industry?

Q3. What are the main sources of Competitive Pressures?

Q4. What are the factors that are usually analyzed for assessing industry attractiveness?

7.6 MODELS BASED ON INDUSTRY ANALYSIS AND FIRM INTERNAL ANALYSIS

Let us discuss two fundamental models for strategy formulation in which industry and internal environment analysis plays a key role. They BCG matrix and McKinsey / General Electric Matrix. You must have studied them in other marketing domain, where they are widely used.

7.6.1 THE BOSTON CONSULTING GROUP (BCG) MATRIX

This technique is particularly useful for multi-divisional or multiproduct companies. The divisions or products compromise the organizations "business portfolio". The composition of the portfolio can be critical to the growth and success of the company. The BCG matrix considers two variables, namely.

1. MARKET GROWTH RATE (The Industry Variable)

The market growth rate is shown on the vertical (y) axis and is expressed as a %. The range is set somewhat arbitrarily. The overhead shows a range of 0 to 20% with division between low and high growth at 10% Inflation and/or Gross National Product have some impact on the range and thus the vertical axis can be modified to represent an index where the dividing line between low and high growth is at 1.0. Industries expanding faster than inflation or GNP would show above the line and those growing at less than inflation or GNP would be classed as low growth and show below the line.

2. RELATIVE MARKET SHARE (The Internal Variable)

The horizontal (x) axis shows relative market share. The share is calculated by reference to the largest competitor in the market. Again the range and division between high and low shares is arbitrary. The original work used a scale of 0.1, i.e. market leadership occurs when the relative market share exceeds 1.0.

The BCG matrix is based on the classification of divisions or products into "Question Marks", "Stars" "Cash Cows" or "Dogs", depending on the growth rate of the market they are in and on their relative market share. Each division or product has a life cycle. Many start out as "question marks" that later move into the "stars" category if they succeed. Later in the life cycle, as the market growth rate decreases, they can be categorized as "cash cows" and towards the end of their cycle sales may erode completely or falling sales and market share can turn SBUs into "dogs". The four categories of divisions or products in the BCG method are described in more detail below and illustrated in figure 7.2.

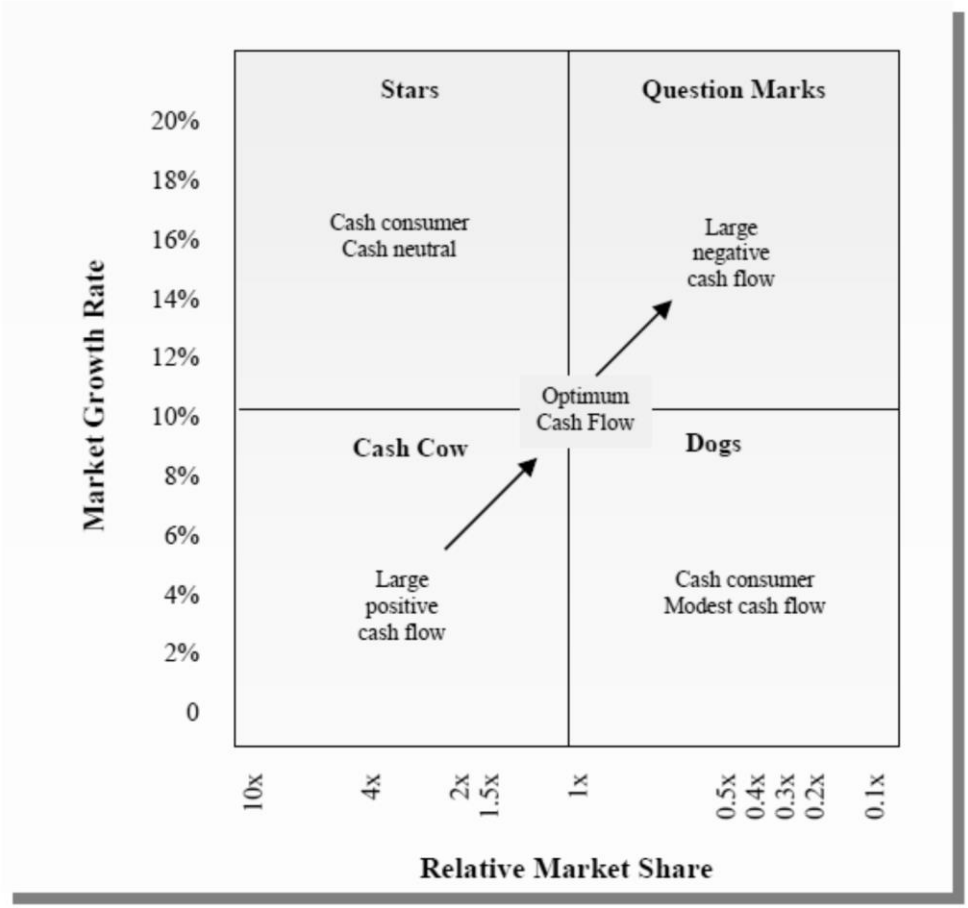


Figure 7.2: Boston Consulting Group (BCG) Matrix

QUESTION MARKS

These are products or businesses, that compete in high growth markets but where the market share is relatively low. A new product launched into a high growth market and with an existing market leader would normally be considered as a question mark. Because of the high growth environment, they can be a "cash sink".

Strategic options for question marks include:

- Market penetration
- Market development
- Product development
-

STARS

Successful question marks become stars. i.e. market leaders in high growth industries. However, investment is normally still required to maintain growth and to defend the leadership position. Stars are frequently only marginally profitable but as they reach a more mature status

in their life cycle and growth slows, returns become more attractive. The stars provide the basis for long term growth and profitability.

Strategic options for stars include:

- Integration – forward, backward and horizontal
- Market penetration
- Market development
- Product development
- Joint ventures

CASH COWS

These are characterized by high relative market share in low growth industries. As the market matures the need for investment reduces. Cash Cows are the most profitable products in the portfolio. The situation is frequently boosted by economies of scale that may be present with market leaders. Cash Cows may be used to fund the businesses in the other three quadrants.

It is desirable to maintain the strong position as long as possible and strategic options include:

- Product development
- Concentric diversification

If the position weakens as a result of loss of market share or market contraction, then options would include:

- Retrenchment (or even divestment)

DOGS

These describe businesses that have low market shares in slow growth markets. They may well have been Cash Cows. Often they enjoy misguided loyalty from management although some Dogs can be revitalized. Profitability is, at best, marginal.

Strategic options would include:

- Retrenchment (if it is believed that it could be revitalized)
- Liquidation
- Divestment

Successful products may well move from question mark though star to Cash Cow and finally to Dog. Less successful products that never gain market position will move straight from question mark to Dog.

The BCG is simple and useful technique for strategic analysis. It is convenient for multi-product or multi-divisional companies. It focuses on cash flow and is useful for investment and marketing decisions.

7.6.1.1 Limitations of the BCG Matrix

- Definition (qualitative and quantitative) of the market is sometimes difficult.
  It assumes that market share and profitability are directly related.

- The use of high and low to form four categories is too simplistic.
- Growth rate is only one aspect of industry attractiveness and high growth markets are not always the most profitable.
- It considers the product or business in relation to the largest player only. It ignores the impact of small competitors whose market share is rising fast.
- Market share is only one aspect of overall competitive position.
- It ignores interdependence and synergy.

Companies will frequently search for a balanced portfolio, since.:

- Too many stars may lead to a cash crisis
- Too many Cash Cows puts future profitability at risk
- And too many question marks may affect current profitability.

7.6.2 MCKINSEY / GENERAL ELECTRIC MATRIX.

The matrix can be described as a multifactor portfolio model and it has a greater flexibility compared to the BCG, in terms of the elements that can be included. The matrix allows a company to assess the fit between the organizational competencies and the business/product offerings. It also introduces the forecasted positioning of businesses/products on the matrix facilitating the strategic planning process. The matrix has nine cells compared to the BCG four cells and the scores on the axis can be rated low, medium, high compared to the BCG high and low.

This model suggests that the long run profitability of each unit is influenced by the unit's business strength and that the ability and incentive of a firm to maintain or improve its position in a market depends on the industry attractiveness.

Factors that Affect Market Attractiveness

Whilst any assessment of market attractiveness is necessarily subjective, there are several factors which can help determine attractiveness. These are listed below:

- Market size.
- Market growth.
- Market profitability.
- Pricing trends.
- Competitive intensity / rivalry.
- Overall risk of returns in the industry.
- Opportunity to differentiate products and services.
- Segmentation.
- Distribution structure (e.g. retail, direct, wholesale.

Factors that Affect Competitive Strength

Factors to consider include:

- Strength of assets and competencies.

- Relative brand strength.
- Market share.
- Customer loyalty.
- Relative cost position (cost structure compared with competitors).
- Distribution strength.
- Record of technological or other innovation.
- Access to financial and other investment resources.

This approach considers not only the objective factors such as sales, profit, ROI for example but also gives weight to the subjectively estimated factors such as volatility of market share, technology, employee loyalty, competitive stance and social need.

Business Strength	High	Grow Penetrate	Selective Harvest or Investment	Harvest for Cash Generation
	Medium	Invest for Growth	Segment & Selective Investment	Controlled Harvest
	Low	Selective Investment/ Divestment	Controlled Exit or Dis-investment	Rapid Exit or Attack
		High	Medium	Low
	Industry Attractiveness			

Figure 7.3: GE-McKinsey Matrix

The GE-McKinsey matrix (Figure 7.3) can be likened to the more generalized and well-known SWOT (strengths, weaknesses, opportunities, threats) analysis as it allows the addition of both internal and external factors in the matrix construction. The competitive position or business strength represent the internal capabilities which are controllable by the company while the external factors which are not controlled by the company (opportunities and threats) make up the industry attractiveness.

This portfolio model also allows the business/product to be analyzed in terms of dimensions of value to the organization (Industry Attractiveness) and dimensions of value to the customer (Relative Business Strength). The GE McKinsey or Attractiveness- Strength matrix is important primarily for assigning priorities for investment in the various businesses of the firm, it is a guide for resource allocation and does not deal with cash flow balance, as does the BCG.

1. The three cells at the top left hand side of the matrix are the most attractive in which to operate and require a policy of investment for growth – these are usually colored green.

2. The three cells running diagonally from left to right have a medium attractiveness, are colored yellow and the management of businesses within this category should be more cautious and with a greater emphasis being placed on selective investment and earning retention.

3. The three cells at the bottom right hand side are the least attractive, therefore colored red and management should follow a policy of harvesting and / or divesting unless the relative strengths can be improved.

7.7 ANALYSIS OF COMPETITION IN AN INDUSTRY: FIVE FORCES MODEL

In a strategic analysis, Five Forces Analysis is an excellent method to help you analyze how competitive forces shape an industry in order to adapt or influence the nature of competition. Collectively, the Five Forces determine the attractiveness of an industry, its profit potential, and the ease and attractiveness of mobility from one strategic position to another. Because of this, the analysis is useful when firms are making decisions about entry or exit from an industry as well as to identify major threats and opportunities in an industry.

This analysis was originally developed by Michael Porter, a Harvard professor and a noted authority on strategy. While all firms operate in a broad socioeconomic environment that includes legal, social, environmental, and economic factors, firms also operate in a more immediate competitive environment.

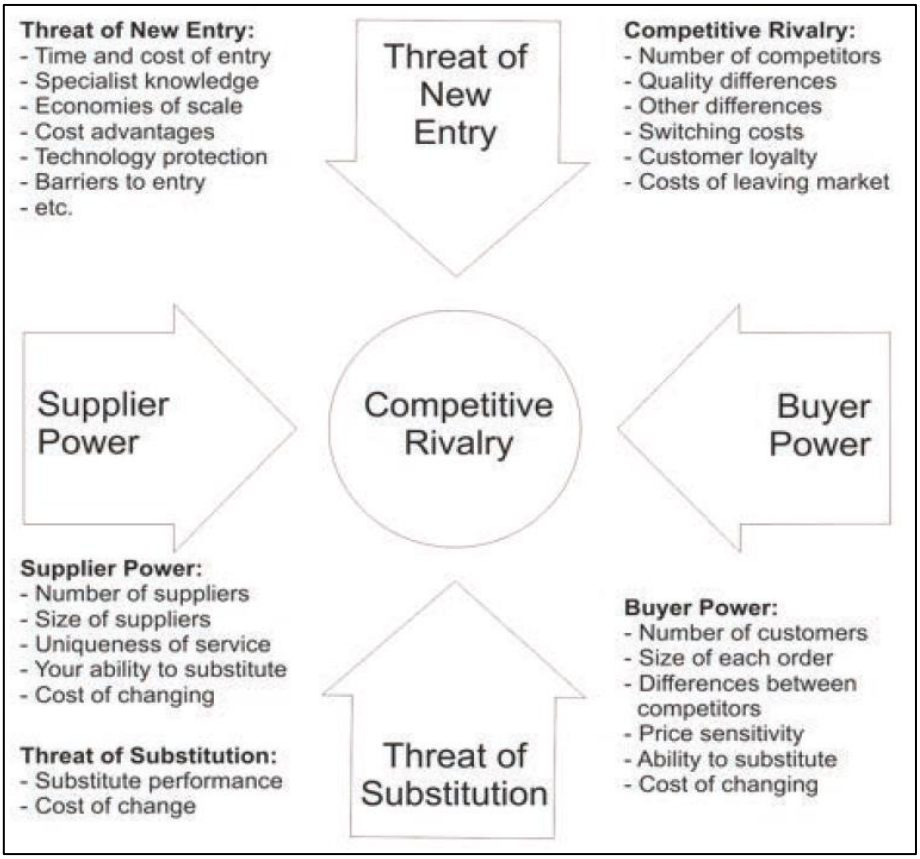


Figure 7.4: Michael Porter Five Forces Model

The structure of this competitive environment determines both the overall attractive-ness of an industry and helps identify opportunities to favorably position a firm within an industry.

Porter identified five primary forces that determine the competitive environment (Figure 7.4):

(1) Rivalry among current competitors,

(2) Threat of new entrants,

(3) Threat of substitutes and complements,

(4) Bargaining power of suppliers, and

(5) Bargaining power of buyers.

According to Porter, successful managers do more than simply react to this environment; they act in ways that actually shape or "enact" the organization's competitive environment. For example, a firm's introduction of substitute products or services can have a substantial influence over the competitive environment, and in turn this may have a direct impact on the attractiveness of an industry, its potential profitability, and competitive dynamics.

7.7.1 FORCE1: COMPETITIVE RIVALRY

First identify the competitors within an industry. Competitors may include (1) small domestic firms, especially their entry into tiny, premium markets; (2) strong regional competitors; (3) big new domestic companies exploring new markets; (4) overseas firms, especially those that either try to solidify their position in small niches or are able to draw on an inexpensive labor force on a large scale; and (5) newer entries, such as firms offering their products online. The growth in competition from other countries has been especially significant in recent years, with the worldwide reduction in international trade barriers.

Once competitors have been identified, the next step is to analyze the intensity of rivalry within the industry. One of the big considerations is simply the number of firms within an industry. All else being equal, the more firms in an industry, the higher the rivalry. It is tempting to look at duopolies—industries with two dominant players (e.g., Coke and Pepsi)—and declare they have "high rivalry." But duopolies are far less competitive—and typically far more profitable—than the alternative of many firms competing. Two additional considerations include whether (1) the incentives to "fight" are low and (2) coordination between competitors is possible. We consider each in turn.

Rivalry will be less intense if existing players have few incentives to engage in aggressive pricing behavior (i.e., slashing prices to gain market share). A number of things push back on this tendency. For example, substantial market growth within an industry, especially if firms are capacity constrained, lowers the incentive to fight. Similarly, if there are opportunities to differentiate offerings, firms can avoid head-to-head competition. The cyclical nature of demand in an industry can also be a big driver. Industries where demand ebbs and flows either with the business cycle or seasonally tend to suffer from overcapacity in the down times.

During these times, firms have high incentives to cut prices in an attempt to use their excess capacity.

Coordination that helps reduce pressures to engage in aggressive price cutting may be possible between competitors. In the extreme, firms may explicitly coordinate pricing and/or output. OPEC is a moderately successful cartel of oil-producing nations that tries to control the price of oil. In most mature economies, such explicit collusion is restricted as an antitrust violation. But there are sometimes factors that facilitate tacit coordination.

7.7.2 FORCE 2: THREAT OF NEW ENTRANTS

There are three main categories of considerations when assessing whether new entrants are likely to enter an industry. In particular, potential entrants are less likely to enter if:

1. Entrant faces high sunk costs. Sunk costs are investments that cannot be recovered once invested. While it is true that one should not consider sunk costs once invested, ex ante (i.e., beforehand) the likelihood of investments being sunk increases the riskiness of an investment and thus raises the threshold for entering an industry. High capital expenditures, in and of themselves, do not pose a high barrier to entry. Arguably, if the future cash flows accruing to entrants are attractive, a firm should be able to raise capital from financial institutions.

2. Incumbents have a competitive advantage. If potential entrants are at a competitive disadvantage compared to existing players, it simply may not be profitable to enter. Examples of potential barriers to entry of this type include legal barriers such as patents and licenses. Brand value can also be a significant barrier to entry. Another barrier can be pre-commitment contracts, for example, that give access to distribution networks that lock in incumbent firms and lock out potential entrants. Finally, the presence of economies of scale and/or learning curves can prevent entry by potential new entrants. Economies of scale drive down costs for large, incumbent players making it difficult for new entrants to be cost-competitive. Learning curves (e.g., the time and effort it takes to develop a capability or technology) can also be a significant to barrier to entry as new entrants struggle to catch up to existing firms.

3. Entrant faces retaliation. Entry is less likely if potential entrants may be forced out of business by the strategic, often pricing, behavior of incumbents. Such aggressive behavior must be credible, however. For example, if incumbents have excess capacity, they are incentivized to cut prices in the face of new entrants. They can do so because they can easily meet any increase in demand given their unused capacity. Another example is the presence of large exit costs. Exit costs are payments that must be made to shut down operations within an industry. These may include such things as obligations to health and retirement benefits programs or environmental liabilities for cleaning up a polluted facility.

7.7.3 FORCE 3: THREAT OF SUBSTITUTES

Technological advances and economic efficiencies are among the ways that firms can develop substitutes for existing products. In addition to the threat of current substitutes, companies need to think about potential substitutes that may be viable in the near future. The main thing to consider is the cross-price elasticity of a potential substitute. The cross-price elasticity is the

percentage change in demand for one good given a 1% change in price for another good. For example, a 1% increase in the price of coffee will likely lead to a large increase in demand for tea. In this way, coffee and tea are elastic—they are significant substitutes and have high cross-price elasticity. Be aware that the cross-price elasticity among products may change over time.

A final consideration is whether there are substantial switching costs between products. A switching cost is the cost incurred to adopt an alternative product. In the case of butter and margarine, the switching costs are negligible if not zero. On the other hand, the switching cost for substituting car rental for public transportation is extremely high if you do not know how to drive an automobile.

7.7.4 FORCE 4: BARGAINING POWER OF SUPPLIERS

Organizations are at a disadvantage if they become overly dependent on any powerful supplier. Suppliers are powerful if the firms in an industry have few other sources of supply or if suppliers have many other buyers (e.g., an oligopoly). Small numbers determine the extent of bargaining power. This power is increased by the existence of switching costs, in this case, fixed costs firms incur if they change suppliers.

On the other hand, firms in an industry have power if they have many alternative sources of supply or if they have a credible threat of integrating backward to provide their own sources of supply. Not surprisingly, supply chain management is particularly important in industries where the potential power of suppliers is high.

A final consideration is the availability of reliable information on suppliers. An industry benefits from having well-known information on supplier prices. The industry is further helped if suppliers cannot easily segment the market and thus struggle to price-discriminate.

7.7.5 FORCE 5: BARGAINING POWER OF BUYERS.

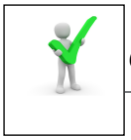
Once again, numbers help determine the extent of bargaining power. For example, when firms have only a small number of buyers (e.g., oligopsony) those buyers have more alternatives and may play competitors against one another, courting different offers and negotiating the best terms. In these cases, when buyers exert power, they can demand lower prices, higher quality, unique product specifications, or better service.

Switching costs play a role in this exchange as well. Distribution networks may provide advantages to firms, but when they cannot easily modify or change the nature of distribution, a firm may find an important barrier between itself and its end consumer. Finally, information asymmetries matter as well. Unlike suppliers, however, less available information benefits the industry because they may leverage this information advantage to thwart attempts to play firms off one another and can potentially price-discriminate between buyers.

7.7.6 LIMITATIONS OF FIVE FORCE MODEL

Porter's Model has major drawbacks as a tool for industry analysis. It can be used for analyzing only the degree of competition in the industry. It cannot explore such factors as the influential economic factors in the industry that are relevant to managerial strategy-making. It also fails

to identify the driving forces – major causes of changing industry conditions. It is also difficult to assess, with this model, the competitive position of rivals and their likely strategic moves, and overall industry attractiveness.



Check Your Progress- B

Q1. Discuss the Boston Consulting Group (BCG) Matrix.

Q2. Discuss analysis of Competition in an Industry.

Q3. What are limitations of Five Force Model?

7.8 COMPETITOR ANALYSIS

Competitive marketing strategies are strongest either when they position a firm's strengths against competitors' weaknesses or choose positions that pose no threat to competitors. As such, they require that the strategist be as knowledgeable about competitors' strengths and weaknesses as about customers' needs or the firm's own capabilities.

Analysis of competition is meant to achieve three main purposes:

- to forecast competitors' future strategies and decisions.
- to predict competitor's likely reactions to a firm's strategy and competitive initiatives.

- to determine how competitive behavior can be influenced to the benefit of the initiating firm.

7.8.1 IDENTIFYING COMPETITORS

Identifying competitors for analysis is not quite as obvious as it might seem. Two complementary approaches are possible. The first is demand-side based, comprised of firms satisfying the same set of customer needs. The second approach is supply-side based, identifying firms whose resource base, technology, operations, and the like, is similar to that of the focal firm. However, the firm must pay attention not only to today's immediate competitors but also to those that are just over the horizon (such as cellphones once were to cameras, social networking sites once were to web portals, or the internet once was to video rental stores). There are three domains for recognizing the sources and types of direct and less direct competitors to which the firm must also attend. These domains represent (1) the areas of influence, (2) the contiguous area, and (3) the areas of interest.

1. The area of influence is the territory, market, business, or industry in which the firm is directly competing with other firms to serve the same customer needs using the same resources. It is the arena in which Maruti, Hyundai, Honda, Mahindra compete with each other. These are a firm's direct competitors.
2. Immediately contiguous areas are those in which competition is close but indirect; comprising those firms that serve the same customer need but with different resources. Many food products fit into this category such as snack foods (Lays potato chips versus Haldiram's peanuts), or packaging (glass versus plastic versus aluminum). They may serve the same need but through differing distribution channels (direct such as Dell versus retail such as HP). These are a firm's indirect competitors.
3. Areas of interest are composed of firms that do not currently serve the same customer base but have the same resource base or, in broader terms, have capability equivalence – the ability to satisfy similar customer needs.

Competition to a firm comes in different ways, it may be through substitute products or direct competition from existing competing brands. Kotler, identifies four levels of competition based on the degree of product substitution:

- Brand competition - that is competition from similar brands to the firm's directly positioned against the firm's brand, e.g. Toyota Corolla Vs Nissan Sunny, Mercedes Vs. BMW.
- Industry Competition - Competition broadly defined as composed of all other firms in the industry producing the same product class e.g. FMCG Industry.
- Form Competition - An even broader definition of competition viewed as all those firms producing products fulfilling the same need e.g. passenger transport - competition between ETs, buses, planes etc.
- Generic Competition - Defined from the broadest possible view i.e. competing against all the firms fighting for the same dollar of the consumer.

7.8.2 COMPONENTS OF COMPETITOR ANALYSIS

The competitor analysis process entails answering the following questions:

- What are the competitors' objectives?
- What are the competitors' strategies?
- What are the competitors' assumptions?
- What are the competitors' Capabilities (strengths and weaknesses)?
- What are the competitors' likely response profiles?

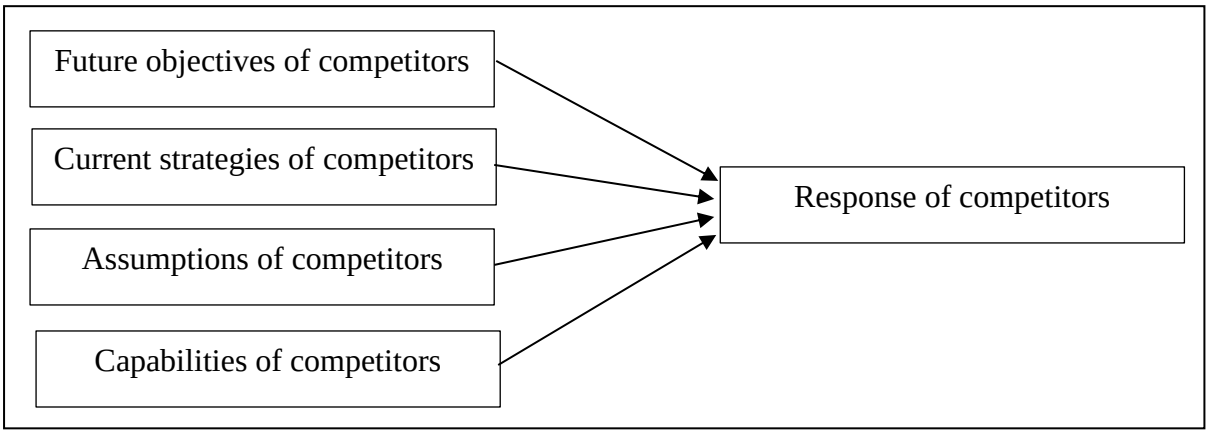


Figure 7.5: Competitors Analysis Components

Based on the above questions, five basic components of competitor analysis are identified (Figure 7.5):

7.8.2.1 Identifying Competitors' Objectives

The main objective is profit maximization; however, there is an array of others which are weighted differently:

- Cash flow
- Technological leadership
- Market share growth/expansion
- Service leadership
- Overall market leadership /domination
- Survival

7.8.2.2 Identifying Competitors' Strategies

Competitor strategies may be identified by what the competitor say (intended strategies) and does (realized strategies), Competitor's annual reports and the accompanying chairman's statement to shareholders may be good sources of information on realized and intended strategies. The following may reveal the firms realized and intended strategies:

- Capital investment undertaken.
- Any hiring of employees taking place.

- New products planned.
- Rumored / undertaken acquisitions and alliances.
- Planned new advertising and promotional campaigns.

7.8.2.3 Identifying Competitors' Assumptions

It is important to find out what each competitor's assumptions are about itself, the industry and other companies. Assumptions may be built around the following:

- The competitor's belief about its relative position in terms of quality, technological sophistication, cost, etc.
- Organizational values.
- Assumptions about future demand.
- The competitor's belief about strengths and weaknesses of other competitors.

However, the competitors' assumptions may be accurate or inaccurate.

7.8.2.4 Identifying and Evaluating Competitor Capabilities (Strengths And Weaknesses)

This is important as it will reveal the extent to which the competitor is a threat to firm. Benchmarking can be a good way of trying to identify a firm's strengths and weaknesses compared to competitors'. What makes a competitor Vulnerable (Weakness):

- A lack of cash
- Low margins
- Poor growth
- Over-dependence on one market
- Over-dependence on one account
- Strength in falling families
- Short-term orientation
- People problems
- Taking their eyes off the ball
- Predictability
- Product/service obsolescence/weakness
- High market share??
- Low market share
- Premium price positioning
- Slow moving/bureaucratic structures.

Strengths and weaknesses analysis should not just be limited to one functional area only, but should look at the whole organization e.g. production, financial etc.

7.8.2.5 Identifying Competitors' Likely Response Profiles

We will be trying to answer two main questions:

- How is the firm (competitor) going to react to general environmental changes, in particular, changes in the market place?
- How is the firm going to react to specific competitor moves?

In answering the above questions, we are trying to determine:

- which competitor is most vulnerable?
- Where is it strongest?
- what is the battle ground going to be?
- How, if at all, will it respond / react?

7.8.3 FOUR COMMON REACTION PROFILES

Laid Back Competitor - Competitors who do not respond quickly to competitor moves. This might be due to a lack of resources, failure to notice the competitive moves or may be due to high customer loyalty. It is important to establish the reasons behind the competitor's laid back behavior.

Selective Competitor - a competitor who reacts to certain attacks and not all. Knowing the competitor's area of reaction would help the firm isolate areas of attack.

Tiger Competitor - the firm reacts to any form of attack. It is advisable to avoid engaging in a competitive warfare with such a competitor.

Stochastic competitor - an unpredictable competitor. May or may not retaliate to competitive attacks.

7.9 SUMMARY

In units provides a fundamental understanding of industry, its structure, attractiveness, its significance in strategy formation. Firm profitability is a function of industry attractiveness as well as the internal resources and capabilities of the firm. Firms within the same industry might differ across various parameters-the breath of their market, their product/service quality, their geographic reach, their level of vertical integration, or their profit motives.

Firms in a particular industry could, therefore, be classified into multiple strategic groups on any of these parameters, with similar business environments and strategies. In this unit we discussed about strategic group mapping in detail.

In the last we discussed about competitor analysis and learned that competitive forces in an industry are hardly static. The dynamics of competition could alter the industry structure through dynamic competitive moves of various competitors.



7.10 GLOSSARY

Backward Integration: when input sources are moved into the organization

Barriers to Entry: industry characteristics that reduce the rate of entry below that which would level profits

Boundaries: the scope of firm operations

Cartel: a group of firms that explicitly agree to set prices and/or to limit output

Competitive Dynamics: the series of advantage-seeking competitive actions and responses taken by firms within a particular industry

Competitive Groups: clusters of firms within an industry that share certain critical asset configurations and follow common strategies

Competitive Positioning: the choice of strategies and product segments within an industry

Competitive Rivalry: the intensity with which two or more firms jockey with one another in the pursuit of better market positions

Competitive Scope: the extent to which a firm targets broad product market segments within an industry

Competitor Analysis: an assessment of a firm's competitors' capabilities, performance, and strategies

Divestiture: selling off assets of the firm

Economies of Scale: unit costs decline as output increases

Economies of Scope: costs of production of two lines of business run together are less than the sum of each run separately

Environmental Analysis: an assessment of the elements in broader society that can influence an industry and the firms within it

Exit Costs: costs incurred when a firm exits a business (e.g., early payments of contractual obligations such as salaries or environmental cleanup costs)

Forward Integration: when output outlets are moved into the organization

Industrial Organization View: perspective that above-average returns derive primarily from industry characteristics that reduce competitive pressures within industries

Industry Life-Cycles: the periodic evolution of markets spurred by innovation and technological change

Strategic Groups: clusters of firms within an industry that share certain critical asset configurations and follow common strategies

Switching Costs: one-time costs customers incur when buying from a different supplier

Vertical Integration: the process in which either one of the input sources or output buyers of the firm are moved inside the firm.



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7.13 TERMINAL QUESTIONS

Q1. Define 'Industry Analysis'. Outline the major purposes served by industrial analysis.
Q2. Explain Industrial organization view with respect to strategic management.
Q3. Explain the major five forces that determine an industry profit potential.
Q4. Selecting an industry of your choice, identify actions could firms take to erect barriers of entry to this industry.
Q5. Explain strategic groups.
Q6. What do you mean by competitor analysis? Explain components of competitor analysis.

UNIT 8 CORPORATE LEVEL STRATEGIES-I

8.1 Introduction

8.2 Objectives

8.3 Generic Strategies

8.4 Alternatives of Generic Strategies

8.5 Stability Strategies

8.6 Expansion Strategies

8.7 Summary

8.8 Glossary

8.9 Answer to Check Your Progress

8.10 Reference/ Bibliography

8.11 Suggested Readings

8.12 Terminal & Model Questions

8.1 INTRODUCTION

Environmental scanning and organizational analysis generate various strategic alternatives for the consideration of an organization for adoption. Option of strategies is extensive and to a large extent would be controlled by the way an organization becomes conscious of its strengths and weaknesses as well as the opportunities and threats the external environment presents.

The strategies could be formulated at different levels- corporate, business and functional. Therefore, three level strategic alternatives have objective reality for a firm. A firm has to exercise a choice at three levels for selecting alternatives for implementation.

This unit focuses on the corporate level strategies. The framework of generic strategies includes stability, expansion, retrenchment and the combination strategies.

In the following sections we will discuss the stability strategies; expansion strategies through concentration, integration, diversification, cooperation and internationalization strategies; and retrenchment strategies of turnaround, divestment and liquidation; and finally, the combination strategies.

8.2 UNIT OBJECTIVES

After studying this module, you shall be able to;

- Know the generic strategies
- Understand the stability strategy
- Comprehend the expansion strategy
- Understand the retrench strategy
- Become aware of the combination strategy

8.3 GENERIC STRATEGIES

The corporate level generic strategies relate to establish the businesses the company shall be occupied with. They regulate the course that a firm adopts in order to accomplish its objectives. A firm may be conducting a small single business or may be a big, complex and diversified firm with various businesses. In both instances the corporate strategy is entirely related with the fundamental course of the firm. For a small firm it could find out the direction of action giving better profit to the firm. For a large firm the corporate strategy denotes controlling the various businesses to maximize their contribution to the accomplishment of overall corporate objectives. Glueck identified four generic ways in which alternative courses of action can be considered: stability, expansion, retrenchment, and combination. These generic strategies are occasionally alluded to as grand strategies. Business firms inquire into the generic strategy options at the time of designing their corporate strategy because only by this travel through they can identify the specific course most favorable for accomplishing the selected growth objective.

Corporate strategy is anxious about two main issues:

(1) What business domains a company be engaged in so as to make its long-term profit as large as possible?

(2) What strategies should it apply to become involved in and withdraw from business domains?

Thus, corporate strategies are essentially about commitments concerned to assigning resources to various businesses of a firm, reallocating resources from one class of businesses to others, and managing a range of investments in doing so that the comprehensive corporate objectives are successfully brought about. An analysis based on business definition facilitates a range of strategic alternatives that an organization can look attentively at.

8.3.1 STABILITY STRATEGY

When a company feels that it needs to persist in the existing business and is performing reasonably well in that business, however, there is not enough scope for sufficient growth, the stability is the most favorable strategy to be followed.

Jauch and Glueck defined a stability strategy as a strategy that a firm proceeds along when:

1. It persists to serve the customers in the existing product or service, market, and function areas as described in its business definition, or in identical sectors.

2. Its key strategic decisions concentrate on improvement that brings small change in functional execution.

The stability strategy is not a 'no-action strategy'. Improvements bringing small are involved. Long-term stability strategy also makes necessary reinvestment, R& D and innovation. However, the business definition remains unchanged.

8.3.2 EXPANSION STRATEGY

An expansion strategy is a strategy that a firm follows when:

1. It performs services to the public in added product or service sectors or increases markets or functions to its business definition.

2. It concentrates its strategic commitments to major increases in the pace of activity within its existing business definition.

This strategy necessitates defining the business differently either increasing the scope of activity or substantially adding the efforts of the existing business.

When expansion strategy is followed, it could lead to adding new products or new markets or functions. Even without making a change in business definition various firms accelerate the pace of activities. Expansion strategy is usually thought as 'entrepreneurial' strategy wherein firms develop and bring in new products and enter new markets or penetrate markets to consolidate share. Expansion is often considered as the way to improve execution. The desirable and undesirable expansions must clearly be distinguished by the key strategists.

8.3.3 RETRENCHMENT STRATEGY

Retrenchment strategy may necessitate a firm to define its business differently and may comprise divestment of a major product line or an SBU, exit a number of markets or decrease its functions. Retrenchment in pace may require a firm to apply layoffs, reduce R&D or marketing or other expenditures, improve the collection of receivables etc. The attempt directed at defining the business differently and decelerate the pace of activities can bring up the performance of a firm. Retrenchment combined with expansion is common. However, retrenchment as a stand-alone strategy is probably the least favored generic strategy.

Retrenchment strategy demands a partial or total exit either from products, markets or functions in a firm's businesses. Retrenchment strategy is generally pursued within the time of down turn of a business when it is considered feasible to bring the firm back to profitability. If the expectations of restoring profitability are bleak, exit market share, reduce expenses and assets can be used for controlled divestment. The retrenchment strategy is specifically pursued for dealing with crises. For minor crises pace retrenchment will be favorable, for moderate crises, partial divestiture may be inevitable whereas for serious crises the only option left is a liquidation strategy.

8.3.4. COMBINATION STRATEGY

When a business firm takes up a mix of stability, expansion and retrenchment either concurrently or sequentially for improving its performance, it is known to pursue the combination generic strategy. With combination strategies, the strategists deliberate apply various generic strategies to several parts of the firm or to different future times. The reasons for pursuing a combination of strategies at the same time are that a firm may pursue stability in some businesses and expansion in other businesses; stability in specific businesses and retrenchment. A firm may also pursue stability, expansion and retrenchment in varied areas of the company The possibilities for time-phased combinations are more, especially at the time the products, markets, and functions are considered and when the choice takes place through varying the pace or the business definition For example a paints company pursues combination strategies when it increases its offering of decorative paints to facilitate a larger variety to its customers (stability) and enlarges its product range to add industrial and automotive paints (expansion), and shuts down the paint-contracting division (retrenchment).

8.4 ALTERNATIVES OF GENERIC STRATEGIES

For an organization there may be several variations of generic strategy options. It is possible to think of these variations in terms of the following options:

1. Internal/External options
2. Related/Unrelated options
3. Horizontal/Vertical options (backward or forward)
4. Active/Passive options

1. Internal/External options

(a) The internal dimension operates when an organization pursues a strategy independent of an external entity.

(b) The external dimension operates when an enterprise pursues a strategy depending upon another entity.

2. Related /Unrelated options

(a) Related dimension operates when an organization follows a strategy related to its existing business definition internally or externally. It leads to the addition of "related" products, markets or functions.

(b) Unrelated dimension operates when an enterprise follows a strategy unrelated to its current business definition of one or more of its businesses in terms of its products, markets or functions.

3. Horizontal and Vertical options

(a) Horizontal approach applies to the addition of products, markets or functions that complement the existing business definition.

(b) Vertical dimension operates when the existing business definition expands or contracts primarily in terms of functions performed.

4. Active/ Passive options

(a) Active dimension operates when an organization follows an offensive strategy in anticipation of environmental opportunities and threats.

(b) Passive strategy is a defensive approach adopted as a reaction to environmental pressures.

These alternatives are applicable to one or more generic strategies. A single dimension involves various approaches for implementing a generic strategy.

8.5 STABILITY STRATEGIES

Stability strategies consist of attempt of a company oriented to an incremental improvement of functional execution. This strategy is more favorable for a firm operating in a steady environment. Generally small and medium-sized firms that are in a state of peaceful happiness with their current performance pursue stability strategies. Hunger and Wheelen visualize three types of stability strategies:

1. No change strategy
2. Profit strategy
3. Pause/Proceed with caution strategy

8.5.1 NO CHANGE STRATEGY

The stability strategy is not a 'do-nothing' approach but a deliberate decision to 'do nothing new'. The firm continues with the current business definition. This could be viewed as an absence of strategy but in fact it is a strategy. A firm may take decision to continue with its present strategy if it finds the external environment firmly fixed to a certain extent. Either there is no noticeable opportunity or threat in the environment or no additional major strength

and weakness within the organization, the firm finds it worthwhile not to make any drastic change in the present strategy.

8.5.2 PROFIT STRATEGY

The business environment may not be as steady as may be presumed by a firm. A business firm may not continue with no-change strategy but has to be active. When a firm finds its profitability under pressure, the stability strategy can be planned to augments profits via such ways as giving intellectual benefit to current operations with such instruments as to cut down investment, reduce costs, enhance productivity and raise prices to conquer transitory complications. This may be an approach for short period of time to remain at ebb and sustain profitability by means presently available.

8.5.3PAUSE PROCEED CAUTION

The stability strategy is also visualized as 'to stay for a while' or proceed- with wariness means of access. Firms that desire to explore every possible option before starting on a course of complete generic strategy, follow this approach. This approach is inevitable where an intervening period of consolidation is thought essential before embarking on major expansion spree. The objective is to ensure that the strategic changes flow down the organizational levels, necessary structural changes occur and the organizational systems adapt to new strategies. Thus pause/proceed with alertness strategy is also a short-run deliberate and conscious effort to postpone major strategic changes to a more opportune time. Bata India and Liberty Shoes in the Indian shoe market pursue this strategy.

8.6 EXPANSION STRATEGIES

Expansion strategies are the most favorably regarded corporate strategies. Very nearly all organizations plan expansion. A company can take up expansion strategy in the following five ways:

1. Concentration
2. Integration
3. Diversification
4. Cooperation and,
5. Internationalization

8.6.1 CONCENTRATION

Concentration employs resources towards a common objective in one or more of a firm's businesses in terms of products, markets or functions in such a way that the outcome is expansion. Concentration strategies are differently known as intensification, focus or specialization. Peters and Waterman advocated a parameter to successful firms that they called as "stick to the knitting". Concentration strategies, in other words, are the 'stick to the knitting' strategies. Superior firms rely on doing what they know they are excellent at executing.

Concentration strategies employ investment of resources in a product line for a specified market with the help of experienced technology. This may be carried out pursuing the below strategies:

- Market penetration
- Market development
- Product development

8.6.1.1 Market penetration

Market penetration as a conscious strategy employs acquiring market share through increasing excellence or productivity, and enhancing marketing agility. This is desirable for the long- term accomplishment of obtaining a position of exerting authority in market share. However, the reality of the market and the relative position of competitors ascertain the comfort with which a business can relish a strategy of market penetration.

If the market is in a growing position, it may be relatively comfortable for companies with a small share, or new competitors, to obtain market share because the absolute level of sales of the established companies may still be enlarging; and in few cases, those companies may be not in position or may not be interested to supply the new demand.

In static markets, market penetration can be much more uneasy to achieve. In mature markets the market penetration is still more cumbersome due to the advantageous cost structure of market leader that obstruct the unexpected access of competitors with smaller market share. However, the self-satisfaction of market leaders with the existing market position may let smaller-share competitors to gain share or may construct a reputation in a market segment of little attraction to the market leader, from where it penetrates the wider market. At times, collaborating with others can assist a firm to achieve market penetration especially of maturing markets. In declining markets, the market penetration is advisable to the extent other firms abandon the market. If they do, it may be relatively comfortable for a company to enlarge its share of that market.

8.6.1.2 Market development

Market development directs attention to the efforts of an organization to preserve the confidentiality of its current products while embarking upon a venture into new market areas. It involves (a) entering new market segments, (b) promoting new uses for the product and (c) extending into new geographical tracts. In capital- intensive industries a company with specific assets may have its distinctive competence with the product and not the market, and hence the continued exploitation of the product by market development would be a preferred strategy. Most capital goods companies have developed this way by opening up more overseas markets as old markets have become saturated. Exporting is a method of market development. However, there are several reasons why organizations might want to develop beyond exporting and internationalize by locating some of their manufacturing, distribution or marketing operations overseas.

8.6.1.3 Product development

Product development is the generation of new or more excellent products to assume the role of former product. The company retains the freedom of its existing markets while making products different or developing recent ones. The wet shaving industry is an example that depends on product development to create successive waves of consumer demand. For instance, in 1989 Gillette came out with its new Sensor shaving system that significantly increased its market share. In turn, Wilkinson Sword responded with its version of the product.

There may be various reasons for companies preferring product development.

- Companies in retailing purse the emerging needs of their customers by regular launching new product lines.
- Local authorities need to shift their pattern of services as local needs change.
- The company is particularly excellent at research and development.
- Product divisions are the basis of company's structure.
- Product development acquires the position of an essential strategy in case of short life cycle products.

Product development is of great consequence for product differentiation and constructing market share. For example Tide (detergent) has gone through more than fifty different variations in formulation during the past forty years to excel its execution. Tide is a different product each year.

8.6.2 INTEGRATION

Integration directs attention to fusing activities concerned to the present activities of a firm, on the basis of the value chain. A value chain is a number of interconnected activities an organization accomplishes right from the procurement of fundamental raw materials to the marketing of completed products to the final consumers. Thus, integration is an expansion strategy that results in enlarging the scope of the business.

Integration may take place in two forms:

- Vertical integration
- Horizontal integration

8.6.2.1 Horizontal Integration

Usually, when firms integrate vertically, they move backward or forward with quick decisions resulting in a complete integration. ‘ A backward integration is associated with strategies affecting the supply of a firm’s inputs’ while ‘ a forward integration refers to moves altering the nature of the distribution of the firm’s output. A company achieves full integration when it produces all of a particular inputs required for its processes or when it transfers all of its output through its own activities. But when a firm does not integrate fully, it may opt for partial vertical integration. Two such partial vertical integration strategies are known as ‘taper integration’ and ‘quasi- integration’. Taper integration occurs when a company buys from independent suppliers in addition to company owned suppliers or when it disposes of its output through independent outlets in addition to company- owned outlets. When firms buy most of their needs from other firms in which they possess the stake of ownership, they follow a supposedly integration strategies. Support industrial units and sub-contracting outsourcing are examples of supposedly integration.

A company pursuing vertical integration is usually encouraged by a strong feeling to nourish the competitive posture of its core business. There are four main reasons for following a vertical integration strategy. (1) Entitles the company to construct barriers for new entrants (2) provides investments in efficiency- upgrading specialized assets, (3) protects product-quality, and (4) results in better scheduling.

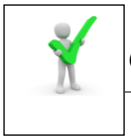
8.6.2.2 Horizontal Integration

When an organization takes up the same types of products, markets or functions, it is said to follow a strategy of horizontal integration. For example, a leather shoe company takes over its rival leather shoe company; it is horizontal integration or merger. Horizontal integration strategy is usually pursued for geographical expansion by acquiring a competitor’s business, to enlarge the market share or to capitalize on the economies of scale. For example Spartek Ceramics India Ltd. took over Neyveli Ceramics and Refractories Ltd. (Neycer) (both the companies in the sanitary-ware business) in the early 1990 and became the largest ceramic tile manufacturer in the country.

The chief desirability of a horizontal integration strategy is that the acquiring firm greatly expands its operations, thereby accomplishing greater market share, upgrade economies of scale, and improving efficiency of capital usage with only moderately increased risk, since the success of the expansion is chiefly determined by experienced abilities.

Horizontal integration, similar to concentration strategies, bears a risk as the firm commits to next businesses all established to serve the same set of customer groups and customer needs.

The firm faces a serious risk if the product of the integrated firm gets unsuccessful in achieving its goal or gets out of dated. Due to these reasons, several firms become varied to reduce their risk.



Check Your Progress- A

1. Choose the correct alternative.

(i). When a company feels that it needs to persist in the existing business, it is pursuing a strategy of:

(a) Expansion

(b) Retrenchment

(c) Combination

(d) None of these

(ii). When a company performs services to the public in added product or service sectors or increases markets or functions to its business, it follows a strategy of:

(a) Stability

(b) Expansion

(c) Retrenchment

(d) None of these

(iii). Employing resources towards a common objective in one or more of a firm's businesses in terms of products, markets or functions in such a way that the outcome is expansion. The expansion strategy is known as:

(a) Concentration

(b) Integration

(c) Diversification

(d) None of these

(iv). Selling existing products in existing in existing market is a strategy of:

(a) Market development

(b) Product development

(c) Market penetration

(d) None of these

(v).Selling a new product in existing market is a strategy of:

(a) Market penetration

(b) Product development

(c) Diversification

(d) None of these

8.6.3 DIVERSIFICATION

Diversification is understood by identifying courses of development along which the organization gets away from both its existing products and markets at the same time. In reality, it is not one strategy but a combination of strategies that consist of all the dimensions of strategic options such as internal or external, related or unrelated, horizontal or vertical and active or passive diversification. The diversification is largely categorized into two types: concentric diversification and conglomerate diversification.

8.6.3.1 Concentric or related diversification

When an organization undertakes an activity concerned to its current business definition with regard to group of customers, functions related to customers or optional technologies, it is known as concentric diversification.

Concentric diversification may be of three types:

(a) Market- related concentric diversification

When a company offers a similar type of product with the help of unrelated technology, it is a market- related concentric diversification. For example, a company in the sewing machine business diversifies into kitchenware and household appliances sold through a chain of retail stores.

(b) Technology- related concentric diversification

When a company offers a new type of product or service with the help of related technology, it is technology- related concentric diversification. For example,

(c) Marketing and technology- related concentric diversification

When a company provides a similar type of product or service with the help of related technology, it is marketing and technology related concentric diversification. For example, a

raincoat manufacturer begins to provide such items as rubber gloves, or waterproof shoes sold through the same retail outlets.

8.6.3.2 Conglomerate diversification or unrelated diversification

Conglomerates are corporations that have no clearly understood strategic fit between the activities of their component businesses.

In conglomerate diversification, there are no linkages between the new businesses or products and the existing businesses or products. It is entirely unconnected diversification and has no common threat all with the firm's existing position. For example, Ponds India, a dominant firm in personal care products, during late 1970s and early 1980s entered into leather products, thermometer, and mushrooms, quite unconnected products to the current businesses, serves as an example of conglomerate diversification.

A key characteristic of the conglomerates is that they possess a small central office entrusted with the activities of financing and controlling in addition of acquisition, analysis and implementation.

The conglomerate strategy is strongly supported by the success of companies like Textron, Textron, Litton Industries, and Ling Temco Vought. Enterprises pursuing a conglomerate strategy did not attempt to obtain synergy or strategic fit between businesses besides financial synergy that could be delivered by the purchase of companies with underused assets, debt capacity, complementary cash- flows, and the like. The key distinction between concentric and conglomerate diversification is that concentric diversification stresses sharing of attributes in markets, products or technology, whereas profit considerations are the main basis of conglomerate acquisitions.

8.6.4 COOPERATIVE EXPANSION

Corporate strategists could think carefully the likelihood of competition existing in harmony with cooperation. The idea is of availing concurrently competition with cooperation among contestant firms for reciprocal advantage. The strategic options based on cooperation among firms could take the following structures:

- Mergers
- Takeover or Acquisitions
- Joint Ventures
- Strategic Alliances

8.6.4.1 Mergers

A merger is a union of two or more firms in which one firm obtains for oneself the assets and liabilities of the other firm transacted for cash or shares, or both the firms are disestablished, and the assets and liabilities are united and recent stock is created. For the obtaining firm, it is an acquisition and for acquired firm it is a merger. If both organizations cease to exist and a new organization emerges, it is consolidation.

8.6.4.2 Takeovers or Acquisitions

Acquisition facilitates a speedy route of obtaining an accepted product/ market situate. Acquisitions may be a particularly attractive means of corporate development under certain strategic and financial conditions. In fully grown industries consisting of certain acknowledged firms, coming in through acquisition can keep away the competitive responses that can accompany effort to get in the industry by internal development: rather than make the rivalry more intense by adding a further actor, the prospective competition is procured. In other industries where competitive favor rests in assets constructed over considerable periods of time acquisitions can instantly obtain a market position that could be effectively unmanageable to grow internally. For example, Sony, the Japanese electronics company, has achieved competitive position with its acquisition of CBS Records and Columbia Pictures. Many acquisitions apparently fail to create value.

8.6.4.3 Joint Ventures

Joint ventures are a quick and frugal effort for getting larger competitive potentialities. Joint ventures increase the competitive capacities and preparedness of partners to develop new products, cut down costs, bring in recent technologies, pierce through new markets and prevent competition. In some markets inward investment is restricted joint ventures may be the single alternative to acquire market access. Within joint ventures, the participators make their equity positions evident. Holdings can differ considerably in size, although it is generally significant to demarcate crystal lines of management decision- making control in order to be successful. Joint ventures are a particular case of consolidation where two or more firms constitute a transitory partnership for a specific objective. For example, Merrill Lynch, one of the last players in money management and investment banking in the US, and DSP financial consultants, set up a joint venture in the financial sector.

Joint ventures may be helpful to acquire approach to an added business particularly if operation is not economical for an enterprise to perform it alone, the situation involving financial loss business is thought appropriate to be distributed and made smaller for the participating firms, the distinctive competence of two or more organizations can be brought together, setting up an organization needs to overcome such obstacles as tariffs, import quotas, cultural road-blocks and nationalistic political interests.

Thus, joint ventures are a result-oriented strategy for sharing development costs, spreading risks and experience to make effective use of resources.

8.6.4.4 Strategic alliances

Strategic alliances take the shape of temporary alliance for combined action and agreements for cooperation, constructed between a corporation and others in order to achieve pre-defined strategic goals. Joint ventures may be viewed as a particular kind of alliance, but in latest times the term is more popularly applied to different forms of cooperative agreements in which shareholding may or may not be involved. Specifically, they have been built in some industries in which the cost of new business model development, technology investment, and the like has emerged as being beyond the resources of the individual corporation. Japanese corporations have particularly applied strategic alliance and alliance cooperative agreements with European and North American firms, in part as an approach to enter these markets. Such alliances have been recognized as important systems for evolving a global viewpoint in the so-called Triad markets.

With an alliance strategy it has been feasible for corporations to quickly obtain approach to markets, exchange technologies, form defensive shareholding blocks, enter third markets combined with other partners, and engaged in otherwise prohibitively expensive technologies, production facilities, and the like. They have the merit of being relatively formed with ease and disbanded -more so than joint ventures -and by joining in multiple alliance firms may contain risk and bring down costs.

Regardless of the obvious merits, however, several corporations have earnestly interrogated their worth with respect to ownership of technology, strategic cost advantage, and dominant market share. For such matters of interest it has been discussed that the prospective depreciation of technical skills, the providing competitor access to markets, and organizational and cultural disputes may well be more than any advantage. As a result, perhaps 50 per cent of such alliances are therefore considered as unsuccessful.

The choice of an appropriate partner is especially significant for the success of an alliance. A selection involving process of analysis should focus on basic strategic fit of the strategy with the culture of the organization. To accomplish a basic strategic fit between alliance partners, the activities and experience of each partner should complete those of the other in order to add overall value.

Strategic alliances ought to be an integral part of the strategy of the partners. It is thus necessary to envision the harmony and complementarities of partners' business plans, as well as strategic goals, strategies relating to product market, strategy concerning to technology, the usual time frame for accomplishing goals, and sufficient and clearly outlined commitment of resources

Many alliances have been unsuccessful due to cultural variations of the partners' organization. This has been especially in reality when they hail from countries or regions

with divergent cultures, such as Japanese and Western Europe. Western corporations in particular pay little heed to know cultural and managerial styles of partners from different cultures which in fact shape the effect on, in spite of the fact that this is a dominant cause for the divorce of alliances. Analysis of culture of the partners is therefore inevitable to assure that an acceptable fit is possible before irreversible steps are taken.

8.6.5 INTERNATIONALIZATION

International strategies are a sort of expansion strategies that require enterprise to market their products or services beyond the domestic frontiers. For this objective, a firm would have to evaluate the international environment, assess its own capacities, and conceive strategies to gain access to foreign markets.

Various firms when encounter slower growth rates at domestic market or a restricted domestic market open up new markets in other countries get into international markets. This has been a key cause for Japanese expansion. Prior to inquiring into the international markets further, firms must find out and think a critical mass of GNP, growth of population and competitor activity in the foreign markets. At times firms can launch recent products quicker in a foreign market than at home. U.S.-based pharmaceutical firms often do so.

Occasionally firms may discover that producing in particular location can be more advantageous than exporting to a given country. For example, the government of a country may put a limit on imports to the country if there is a specified of 'domestic-content' production in existence. Such protective policies are framed for the purpose of creating as a trade barrier. Therefore, companies attempt to establish manufacturing facilities and marketing networks in each key country in which they transact business. However, certain countries provide incentives to establish production facilities within their boundaries.

For the same reason, supplier will often erect new facilities in countries in the location of their customers. Japanese car companies established manufacturing plants in US

The factors for choosing to situate production facilities in another may also include supply of raw materials or technology. For example Canadian firms have made investments in developing countries where new deposits of important ores or other resources have been searched.

An important phenomenon is that the act of moving toward international markets is often incremental. Majority of firms start their international operation by exporting that contains relatively low investment and risk. Then a firm may occupy in a joint marketing venture with a foreign local acting as its agent. Once a foreign presence is secured, the firm may take a decision to enlarge its activities. Expansion at this phase may occur in the development of specialized products, new investments in local manufacturing facilities or direct investment in the foreign market.

Bartlett and Ghoshal described four kinds of internationalization strategies:

- International strategy,
- Multi-domestic strategy,

- Global strategy, and
- Transnational strategy.

8.6.5.1 International Strategy

Companies follow an international strategy to generate value by conveying great worth of skills and products to foreign markets where aboriginal competitors lack those skills and products. Most international companies such a Coca Cola, McDonald, IBM, Kellogg, Proctor and Gamble Microsoft and several others have created value by conveying differentiated products evolved at home to new markets abroad. Such firms centralize product development functions domestically.

Hill & Jones observe that' an international strategy justify if a company has a valuable distinctive competency that aboriginal competitors in a foreign markets lack and if the company faces comparatively weak pressures for local responsiveness and cost reductions. In such circumstances, an international strategy can be very favorable.'

8.6.5.2 Multi-domestic strategy

Multi-domestic strategy is pursued when companies make attempt to accomplish maximum degree of reacting quickly and positively to domestic needs and extensive modifications in products to local demands by matching their products and services to different national conditions widespread in the countries they do their business. They also set up an entire range of value- creation activities such as production, marketing and R&D in each major national market in which they do business. They often produce at a high-cost because they are not in a position to realize value from experience curve effects and location economies and that makes this strategy unfavorable in industries experiencing high cost pressures.

8.6.5.3 Global Strategy

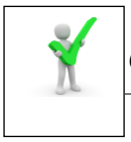
Companies chasing a global strategy pay direct attention on a low-cost approach for enhancing profitability by taking advantage of the benefits of experience-curve effects and location economies. Their production, marketing, and R& D activities are focused on a few beneficial locations. Global companies do not to modify their products to suit local customers and marketing strategy to local conditions but choose to market a standardized product worldwide so that they can realize the maximum benefits of the experience curve.

8.6.5.4 Transnational strategy

Firms pursue a transnational strategy when a combined approach is adopted consisting of low-cost and high local responsiveness simultaneously for their products and services. In the present environment, competitive scenario is so enormous that in order to continue to exist to derive benefit from the global marketplace companies must make full use of experience-based cost economies and location economies, transfer distinctive competencies within the company and at the same time pay attention to pressures for local responsiveness.

To achieve these two opposite objectives is quite cumbersome. This invites a creative approach to managing the production and marketing of products and services. Pursuing transnational strategy is possibly the only viable strategy in a world of competition.

In the modern multinational companies, distinctive competencies do not rest just in the home country but can grow in any of the company's worldwide conduct of business. The flow of skills and product offering should not be the only option, from transnational firm situated in a developed country to its subsidiaries in the developing countries. Rather, the flow should involve a two way process from foreign subsidiary to transnational firm, and from foreign subsidiary to foreign subsidiary. This process is known as 'global learning'. Companies that pursue a transnational strategy are attempting to simultaneously achieve benefits of low-cost and differentiation. However, this strategy is not easy to pursue. Pressures for cost reductions and local responsiveness place conflicting demands on a company. Being locally responsive raises costs making cost- reductions difficult to achieve.



Check Your Progress- B

1. Choose the correct alternative.

(i). When a firm sells new product in new market areas, it follows a strategy of:

(a) Product development

(b) Diversification

(c) Market development

(d) None of these

(ii). Focusing activities concerned to the present activities of a firm, on the basis of the value chain is a strategy of:

(a) Concentration

(b) Integration

(c) Diversification

(d) Cooperation

(iii). Identifying courses of development along which the organization gets away from both its existing products and markets at the same time is a strategy of;

(a) Integration

(b) Concentration

(c) Diversification

(d) None of these

(iv). A union of two or more firms in which one firm obtains for oneself the assets and liabilities of the other, the strategy is:

(a) Merger

(b) Take over

(c) Acquisition

(d) None of these

(v). A temporary alliance for combined action and agreements for cooperation, constructed between a corporation and others in order to achieve pre-defined strategic goals is a strategy of:

(a) Take over

(b) Merger

(c) Strategic alliance

(d) None of these

8.7 SUMMARY

Environmental scanning and organizational analysis generate various strategic alternatives for the consideration of an organization for adoption.

The strategies could be formulated at different levels- corporate, business and functional.

The corporate level generic strategies relate to establish the businesses the company shall be occupied with. They regulate the course that a firm adopts in order to accomplish its objectives. There are four types of generic strategies, stability strategy, expansion strategy, retrenchment strategy and combination strategy.

When a company feels that it needs to persist in the existing business and is performing reasonably well in that business, however, there is not enough scope for sufficient growth, the stability is the most favorable strategy to be followed.

An expansion strategy is a strategy that a firm follows when performs services to the public in added product or service sectors or increases markets or functions to its business definition.

Retrenchment strategy may necessitate a firm to define its business differently and may comprise divestment of a major product line or an SBU, exit a number of markets or decrease its functions.

When a business firm takes up a mix of stability, expansion and retrenchment either concurrently or sequentially for improving its performance, it is known to pursue the combination generic strategy. For an organization there may be several variations of generic strategy options. It is possible to think of these variations in terms internal/external options, related/unrelated options, horizontal/vertical options (backward or forward) and active/passive options



8.8 GLOSSARY

Expansion strategy: when a perform services to the public in added product or service sectors or increases markets or functions to its business definition.

Diversification is selling new product in new market areas.

Integration is focusing activities concerned to the present activities of a firm, on the basis of the value chain.

Merger is union of two or more firms in which one firm obtains for oneself the assets and liabilities of the other.



8.9 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

Answers 1:

(i). (d)

(ii). (b)

(iii). (a)

(iv). (c)

(v). (b)

Check Your Progress –B

Answers 1:

(i). (b)

(ii). (b)

(iii). (c)

(iv). (a)

(v). (c)



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8.12 TERMINAL QUESTIONS

Q1. What are generic strategies? Describe different types of generic strategies.

Q2. What is stability strategy? Does this strategy require the firm to 'do nothing'?

Q3. What are the various reasons for following expansion and retrench strategies.

Q4. What are the various dimensions of generic strategies?

Q5. Discuss the advantages and disadvantages of vertical integration.

Q6. Under what conditions can a joint venture prove to be successful?

Q7. What are the various approaches for using a turnaround strategy?

UNIT 9 CORPORATE LEVEL STRATEGIES-II

9.1 Introduction

9.2 Objectives

9.3 Retrenchment Strategies

9.4 Combination Strategies

9.5 Summary

9.6 Glossary

9.7 Answer to Check Your Progress

9.8 Reference/ Bibliography

9.9 Suggested Readings

9.10 Terminal & Model Questions

9.1 INTRODUCTION

Corporate level strategies usually are applicable to large corporations with multi-businesses as to how they manage and allocate resources among these businesses. Such a strategy assists the management in equating resources with market opportunities in each business area. Top managers are responsible for formulating corporate level strategy, and they normally to think and decide about the future for five years or longer. At the corporate level, top managers have two sorts of decisions to take when formulating a strategy. First, they must evolve a master plan known as generic strategy consistent with the overall direction for the organization. Second, they must develop a portfolio strategy that will determine the types of organization activities and allocation of resources to these activities.

A generic strategy is a general strategy dealing with nearly all elements of an enterprise which facilitates the ground for strategic course that will accomplish the organization's long- term goals. Generic strategies include three types of strategies, namely growth, stability and retrenchment.

While in stability strategy, management continues the existing state of affairs if the company is performing well and does not wish to assume risks connected with more forceful growth, both the growth strategy and retrenchment strategy have several different approaches to accomplish the results. The stability and expansion strategies have been dealt with in Unit VIII. In this unit the retrenchment and combination strategies will be discussed.

9.2 OBJECTIVES

After studying this module, you shall be able to

- Know the retrenchment strategies.
- Understand the combination strategies.

9.3 RETRENCHMENT STRATEGIES

The retrenchment generic strategy is chosen to be taken up when an organization plans to cut down the scope of its activity to a great extent. For this objective, the problem areas are recognized and the causes of the problems are identified. Then, attempts are made to resolve the problems that result in various types of retrenchment strategies.

Several external and internal developments consist in the likelihood of industries and markets. In declining industries companies encounter such risks as declining demand, emergence of more appealing substitutes, unfavorable govt. policies, and customer needs and preferences are experiencing changes. In addition to external developments, there are company specific developments such as poor management, poor quality of functional management and wrong strategies that gives rise to company failures. In such conditions the industries, markets and companies face the risk of decline. Several products such as black & white TV, VCRs, jute and jute products, calculators and wooden toys have either extinct or are facing decline, and the companies in these industries and markets were compelled to abolish operations or shut down.

The reduction become apparent in various indication shown in the performance of companies such as declining profitability, cash flow diminishing gradually, falling sales, declining market share and accumulating debt. A hawk-eyed management can set up on a firm basis a system for effective monitoring and control to timely accept the signal of imminent danger and examine the general feeling of discomfort. In this scenario recovery becomes a feasible strategic option.

Slatter has hypothesized four types of recovery scenarios.

1. The potential for improvement is low in realistically non-recoverable situation with little probability of survival as the company is not competitive, there is a cost disadvantage, and the demand for basic products or services of the company is in an ultimate decline.
2. There can be a temporary recovery situation wherein there could be beginning successful retrenchment but no long term sustained turnaround. This could occur when the altering the position of the product is a possibility, now shapes of

competitive advantages can be identified, or cost reduction and revenue generation could be made possible.

3. There can be a situation of sustained survival where a turnaround is reached successfully but little prospects for future growth are an objective reality. The industry may be in a process of gradual decline. A company experiencing such a situation could either think of divestment or opt for a turnaround, if it foresees an easy and relaxed niche in the industry where it discerns possibilities of becoming the industry leader.
4. With the presence of potentialities of new product development and/or market repositioning, the market is still adequately magnetic, sustained recovery situation where a genuine and successful turnaround is possible may be an option. Possibly the decline was caused more by internal factors than external conditions.

A retrenchment strategy can take any of the following forms:

1. Turnaround strategy
2. Divestment or divestiture strategy
3. Liquidation strategy

When business is in decline but deserves to be saved, the organization pursues a turnaround strategy. At the time of adopting a divestiture strategy, an enterprise cuts off the loss- creating units, divisions, or SBUs, shortens its product line, or decreases the functions performed. If none of these remedies are workable, then it may opt to abandon the activity totally, resulting in liquidation strategy. Each of these strategies are discussed in detail.

9.3.1 TURNAROUND STRATEGIES

Turnaround strategies are useful when a business is gradually declining, however is worth saving. It is important to acknowledge the situations under which an otherwise successful business may decline. Such recognition can suggest the appropriate solutions that might aid recovery.

9.3.1.1 Factors leading to decline

A number of factors can be identified as lead a firm to decline.

1. Substandard management

Substandard management consists of a multitude of sins, ranging from sheer ineptitude to neglect of core businesses and a deficiency of efficient managers. The personal attributes of the chief executive and key management act a major part in causing decline. Besides, incompetence the key factors identified as poor management reasons for decline includes the following.

(a) One man rule

One man rule often appears to be the basic cause of substandard management. A study found that the existence of a chief executive exercising absolute power in influencing others with a passion for empire building strategies often are the characteristics of the failing companies. This is acceptable while the company is successful, but rapid decline ensues when the leadership is perceived to fail.

(b) Combined chairman and chief executive role

In this case the activities of the CEO become unchecked.

(c) Ineffective boards of directors:

The constitution of the Board of Directors is of crucial importance. Often, non-executive directors do not have adequate understanding of the business and/or do not participate in the deliberations of the meetings. In addition, executive directors may not be producing any significant effect. Their participation is confined only to their specific area of interest.

(d) Neglect of core business

The time, the core business reaches maturity and top management remains engaged with efforts directed at diversification, the core business does not get adequate attention.

(e) Lack of management depth :

In recently diversifying firms, where customary skills have tended to be functional and the firm not having enough general management or succession skills, deficiency of management depth causes the business decline.

2. **Inadequate financial control**

Absence of sufficient financial control is another reason for decline of firms. Such a deficiency arises because the control systems need a couple of adequate cash-flow forecasts, costing systems, and budgetary controls in existence. In smaller firms all three items may not be present and only statutory financial information is produced. In larger firms the issue is more likely to be because of inadequate systems.

Usually, control systems are very complicated, generate substandard information, and may even present the inaccurate information. Many of the managers do not understand the information that they really need, or can be provided by the information system. Many senior managers do not know the way of using accounting information. In several corporations, concentration of power has been accepted as a causal factor in decline and, in addition, the level in hierarchy at which control is located may well be too high. Many companies do not undertake correct overhead cost allocation. Activity based costing is a modern tool, which attempts to improve this problem.

3. Competition

Price and product competitions that usually occur together are thought as general reasons for corporate decline.

Enterprises remaining unsuccessful to re-energize their product contributions in response to needs of the changing market and intensifying competition ultimately finish in decline. Substandard product introducing strategies, unfounded faiths about the ability to work successfully of the existing product, shortage of financial and technological resources to chase the process of bringing in new products and a lack of success to develop new product concepts may be other probable reasons connected with product competition.

Intense price competition is also a familiar cause of down fall of Western corporations, particularly in those sectors Japanese and other Asian competitors target. Though the price competition is more intense in markets with products not recognized as different, it has also occurred in areas where product differentiation is essential, such as automobiles and consumer electronics.

4. **High cost structure**

Firms with a significantly higher cost structure relative to dominant competitors usually bear a seriously competitive disadvantage. The principal places of origin of cost disadvantage include: relative cost disadvantages, absolute cost disadvantages, cost disadvantages due to diversification strategy, cost disadvantages due to management style and organizational structure, operating inefficacies, and unfriendly government policies.

Relative cost disadvantages are connected with the economies of scale and effects of experience curve. Absolute cost disadvantages are because of a number of factors such as competitive cost disadvantage, due to ownership or monopoly of critical raw materials or components by competitors; approach to cheaper labor, production know-how relating to ownership, and comfortable site location.

Diversified firms may practically be in contact with a cost disadvantage due to the assignment of corporate overheads especially in industries with shared costs, where overheads are assigned capriciously without an activity-based costing system. An unspecified number of organizations knowingly lower costs by improving productivity, reducing labor costs via outsourcing, cutting down central staff overheads, and the like. Those areas that do not so reduce overheads may experience serious cost disadvantages. Operating inefficacies are commonly the outcome of substandard management and can take place in any functional area of management

Quite a lot business may dwindle as an outcome of direct and/or indirect government policies, such as subsidies, tax differentials, exchange rates, preferential procurement, environmental controls, social policies, and the like.

5. Continual change in market demand

A continual change in demand or a variation in the pattern of demand to which the corporation becomes weak to react or simply cannot respond can be a casual variable in a corporate decline. A fall in demand may be owing to the conditions of the market being obsolete, such as buggy whips and gas lamps; demand affected by trade cycle, which create cause serious but probably temporary decline, and seasonal diminution, such as of ice cream

demand in winter. This is not usually deadly unless the firm is in a frail financial condition. Inability to successfully monitor secular decline trends often take place because the firm in truth does not desire to see and acknowledge that this is happening, because of the resulting change in strategic behavior and the adjustment it may entail. Cyclical decline failures are often the result of price conflicts in which competitors attempt to enlarge or keep up market share. Insurance is a classic example of an industry with such a pattern.

6. **Unfavorable movements in commodity prices**

The principal variations in commodity prices that occur suddenly have been responsible for many business collapses. Changes in the price of oil, and second oil-price shocks, rapid changes in the prices of metals such as copper, aluminum, and steel; and significant movements in exchange rates, as with the rapid appreciation of the yen in the late 1980s, and again the mid 1990s are examples of such changes.

7. Incompetent Marketing

Many firms are subjected to grave decline because of managerial issues throughout their organizations, especially serious in the sales and marketing functions. Such difficulties arise due to weakly motivated sales force and substandard sales force management., ineffective and purposeless advertising, attempts not directed to key customer and products, substandard after -sales service, low product quality, deficiency of research and new knowledge of varying customer buying habits, inability to access distribution channels, dearth of marketing orientation

8. Big size of projects

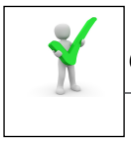
Many large projects can be failures due to underestimation of cost and or overestimation of revenue. Such projects can go astray due to underestimation of capital requirements, beginning difficulties, capacity expansion and high market entry costs.

9. Strategy of Acquisition

Acquisition at times acts as a determining part in corporate strategy, especially for firms daunting to diversify. However, most acquisitions are thought to be failures. The principal reasons of decline for the acquiring company consists the acquisition of loss bearing firms with lean competitive positions in their own markets, payment of an unreasonably high acquisition price for the acquired firm, and substandard post-acquisition management and control mechanism.

10. Financial Policy

High debt-equity ratio, orthodox financial policies and unprofessional sources of financing are direct causes of failure.



Check Your Progress- A

Choose the correct alternative.

1. A strategy chosen to be taken up when an organization plans to cut down the scope of its activity to a great extent. The strategy is:
   (a) Stability
   (b) Expansion
   (c) Retrenchment
   (d) None of these

2. The concentration, accumulating, complementing, conserving and recovering resources in a way that a merged resource base can be stretched to meet the aspirations that an organization dares to have is:
   (a) Mission
   (b) Leverage
   (c) Fit
   (d) None of these

3. What businesses the firm will be involved in is indicated by:
   (a) Differentiators
   (b) Vehicles
   (c) Arenas
   (d) None of these

4. The particular places of origins of competitive advantage for the firm are:
   (a) Differentiators
   (b) Vehicles
   (c) Staging
   (d) None of these

5. It presents and explains the particular business model of the enterprise. It is:
   (a) Arenas
   (b) Economic logic
   (c) Differentiators
   (d) None of these

9.3.2 INDICATORS OF DECLINE

The indicators are often simple to recognize than the causes. The most common indicators include the following:

- Diminishing profitability gauged by declining profits before tax and interest (PBIT) and reduced ROI, ROE, and ROS
- Reducing volume of sales and in particular per employee sales, sales per square foot, and the like at stable prices-
- Enlarged debt
- Crunching liquidity, measured by falls in current test and acid test ratios, plus rising stocks and debtors as a percentage of sales
- Reduced dividends and dividend cover
- Accounting practices that delay publishing accounts and auditors, qualification of accounts
- Rapid turnover of management
- A reduction in market share
- A deficiency of strategic deliberations by top management

9.3.3 SUCCESSFUL TURNAROUND STRATEGIES

There is no standard model for companies to respond to a decline. A couple of generic successful turnaround strategies have been recognized. Generally, a number of these strategies may be deployed simultaneously. They include change in management, the attempt to redefine the company's strategic focus, divesting for closing unwanted assets, improving profitability of remaining operations, making acquisitions to rebuild core operations.

1. Change of Leadership

The change of leadership usually involves a change of CEO or chairman, or both, to furnish a new vision for the corporation and to instill confidence in shareholders and bankers. Since the old leadership bears a mark of disgrace for failure. For example, as the first step in implementing a turnaround, IMB changed CEO John Akers with an outsider, Lou Gerstner.

2. Powerful financial control

Powerful financial control is indispensable for successful turnaround. Centralization of cash, improved cash- flow to reduce debt, including possible asset disposals would be helpful.

3. Organizational change and decentralization

Organizational change and decentralization of power is long-term turnaround policy. However, it might be expected once new top management has been installed and which often involves downsizing. Decentralization should also not take place until adequate financial controls are established.

4. Define strategic focus differently

Defining the strategic focus differently may well include addition or reduction of product lines; addition or deletion of customers according to potential for profitability; changes in the sales mix by focusing on specific products and customers; withdraw entirely from those segments which have no inviting features; and entry into new product market components.

5. Growth via acquisition

Doing acquisitions is quite a usual turnaround strategy principally to make the competitive position of a company's remaining core businesses healthier. This does not essentially mean diversification. However, this involves the purchase of firms in the same industry, or in closely related industries. This option may not be open to firms in serious financial crisis.

6. Asset reduction

This is usually an essential part of any turnaround strategy. In the short term, tight cash control and reduction in working capital assets are treated as more important than other areas, and in the medium term fixed asset disposals and sales of whole businesses may well be essential. This sale of assets can bring the company much-needed cash that it can invest in the rest of the operations.

7. Define strategic focus differently

Defining the strategic focus differently may well include addition or reduction of product lines; addition or deletion of customers according to potential for profitability; changes in the sales mix by focusing on specific products and customers; withdraw entirely from those segments which have no inviting features; and entry into new product market components.

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9.3.4 DIVESTMENT STRATEGIES

Regular divesting of businesses even some good, healthy ones makes certain that the rest of the units realize their full potential and that the entire company grows powerful.

Some executives know the importance of a carefully designed divestiture program. Holding on a business too long to the chest imposes a variety of costs.

- Costs to the corporation,
- Costs to the unit and
- Depressed exit price.

Though these costs are concealed, they can be greater than the benefits of holding the business.

9.3.4.1 Costs to the corporation

On the one hand, well-established profitable businesses can generate cash and provide sustainable earnings. On the other hand, they can disable a company to create new, high-growth businesses. Determined businesses building often requires a sense of crises- a clear and pressing requirement for growth. Long- held/ low- growth businesses may furnish a corporation the cash to prosper today but they can obstruct it from preparing for a flourishing tomorrow. A long-held business can cause a corporation the following costs:

(a) **Breed risk-averse cultures**

Companies controlled by mature low-growth businesses can reproduce rigid, risk- averse culture that can suppress innovation and liberal attitude, making it difficult to invite energetic and entrepreneurial executives. For example, Perkin Elmer's Summe, when took over as CEO, initiated a number of divestitures not just to reposition the company but also to invite a new team of executives.

(b) **Usurp corporate resources**

Long-held businesses can take more corporate resources with power than they really need. They can get investment funds and spend precious management time that might have been utilized for creating new businesses with stronger growth prospects. A senior management team can manage only a restricted number of businesses. A stagnant portfolio can make a company's management paralyzed, unable to concentrate on new opportunities. Proactive management every year reviews the duty performed by each business unit as part of the overall company's strategic planning process and perceives divestiture as a powerful way to free up resources. Wambold describes the reason for selling its aluminum business despite its strong cash flow in the words," It was using resources and management time that could be used better elsewhere"

9.3.4.2 Costs of the Unit

When a business unit is carried too long a period, it is not only the company as a whole that experience pain but also the unit.

9.3.4.3 Depressed exit price

A divestiture occurring at an opportune time can contribute to shareholder value, and an inappropriately timed divestiture can damage value. Many corporations unpack a unit only after several years of weak performance. In some cases, industries are so stormy that managers simply cannot see beforehand market ups and downs. In other cases they may be in a position to identify the peaks but be unable to find a buyer prepared to pay the prevalent price. For the broad majority of divestitures an earlier sale would have created much higher

returns. Foster and Kaplan suggest that the longer a business exists, the worse it performs for shareholders.

9.3.4.4 An approach to divest

A five-step process is suggested to follow to get a divestiture program to take off, create support for it throughout the organization and finally make it a key element of corporate strategies. (Lee Dranikoff Tim Koller and Antoon Schneider)

- Prepare the organization
- Identify candidates
- Structure the deal
- Communicate the decision
- Create new businesses

9.3.4.5 Prepare the organization

Divestiture, customarily, is an unhappy experience for the companies. They do not hope to accept the challenge to make the divestiture a daily part of doing business. The mark of disgrace about divestiture is so powerful that the people counter it, at least in the beginning. Therefore, the senior managers spend a lot of time to explain the set of reasons for divestiture. For instance Perkin Elmer's leadership team prepared the ground for the divestiture program by talking directly and repeatedly with people throughout the organization. As a company starts taking pleasure in the results of proactive divestiture, the mark of disgrace should face, and divestiture should become an expected event in a unit's life cycle. The management will have to make the employees certain that divestiture is an indication not of failure but of strength.

9.3.4.6 Identify Candidates for Divestiture

Creating and controlling divestiture need deliberation on selling off good, profitable businesses. It is significant, therefore, to set up real criteria for analysis and apply them to every unit in a way that is not influenced by personal opinions. The strategists ought to think the following four factors.

1. The business unit's impact on the rest of the corporation

The strategists are required to conduct a number of analyses to identify the effects of a business unit, positive or negative, on other units and on the corporation as a whole. For instance:

- A cultural audit can assist in determining whether there exists a clash between the culture of the business unit and that of the corporation.
- An analysis of the CEO's calendar can identify units that consume a more than appropriate share of management time.

- Interaction with unit managers and a review of capital spending requests turned down can identify opportunities that are not being explored because of competitive conflicts.
- Discussion with recruiters can furnish an idea whether a unit is obstructing the rest of the company in inviting talent.
- A unit analysis determines whether it furnishes the rest of the corporation with new growth alternatives or other valuable benefits such as shared R&D resources.

2. The corporation's impact on the business unit

The strategists have also to conduct analysis of the amount of value the corporation adds to the business unit in comparison to other potential owners. The analysis ought to concentrate on parents' skills the unit need, appropriateness of current corporate culture, the synergies quantified between the unit and the corporation and then compared with another owner could offer the unit.

3. Ability of the Unit to meet Market Expectations

The strategists should also analyze the way the market value of the business. Is the market value of the business is overvalued or undervalued? This analysis is need to assess the unit's value on the basis of potential market expectation for performance and compare that number of the unit's implied market value embedded in the stock price. Such an analysis tells executives if the unit can realistically create value in the future. If the analysis discloses that existing businesses are overvalued, it can turn executives more prepared to invade in selling off units and even in changing the complete identity of the corporation. The spotted candidates for divestiture, for instance, may consist of cash cows. The question arises as to why cash cows should be sold? Of course, a cash caw can provide advantages to a company, providing shelter during downturns or give a source of funding for new investment. Their selling is justified in because they are in mature industries and have restricted potential for accomplishing growth beyond the market's anticipations. It often adds little to shareholder value. In fact, a cash cow can be very risky to carry because its market will often dwindle steeply if it ceases to maintain its market share. Further, cash cows often thrust some of the highest concealed ownership costs on both the corporation and its other business units.

4. The corporation's comprehensive portfolio

The strategists ought to ascertain the foremost mix of businesses for the company to keep. Both quantitative and qualitative can be the forms of portfolio analysis. It should be noted that no single type of portfolio is topmost for every company. The objective of a divestiture strategy ought not be plainly to change a diversified, multi-business company into a focused, single-business company. McKinsey Neil Harper and Patric Viguerie indicated that the capital markets compensate a medium degree of diversification.

These analyses will assist in identifying candidates for divestiture. Of course, all sorted candidates will not be sold. In disposing of businesses certain workable reflections- such as

taxes, availability of purchasers, market response, payment mix, application of divestiture earnings, and dilution of earnings- should also be taken into focus. Such criteria can reduce the list of candidates and can put restrictions on exit schedule.

9.3.4.7 Structure the deal

Once the list of divestiture candidates is prepared, the strategists should focus and deliberate about the potential buyers and way to best structure the deal. The alternative may vary from a simple sale for cash, to a spin-off to shareholders, to more complicated structures consisting of two-step transactions and compensation for non-prediction. Further the way of conducting the sale should also be determine whether through an auction with many buyers, or an exclusive negotiation with the most reasonable buyer, or a mix thereof. Reflecting on the alternatives, the reasons for divesting should be taken into consideration. Very often, these justifications will take to support simple, quick transactions that reduce the costs to the minimum of the unit disposed of and the corporation. When considering costs not only expenses related to transaction but also the costs of time, complexity, and taxes should be taken into account. Because spin-offs can be done tax free, they can be particularly inviting in certain situations.

The general skills needed in executing divestitures plans consist of coordinating the activities of bankers, lawyers, and accountants. It must also be assured that the employees of the divestment candidate are not aloof during the sale process and separate the unit from the rest of the company.

9.3.4.8 Convey the decision

The divestiture process proceeds with the conveying the decision to divest to all concerned. However, conveying a decision that a business unit is going to be disposed of is not so simple. In some instance, it would be appropriate to send the message as soon as the unit is included in the list of divestiture candidates. But sometimes it can cause difficulty, if the deal does not pass. So, as a general rule, holding off on the announcement until the sale appears probable would be alright. As Pactive Wambold remarks it is more desirable to lessen uncertainty where possible, so once it gets evident that a business unit is at the verge of being sold, we are bold about the decision with the people. However, when it is not yet clear, it can be best to hold the news. Telling someone that the unit might be sold increases creates misgivings and can hurt the business. Irrespective of the timing of communication, the people of the business unit must be precisely and simply be informed the reasons for the divestiture. GE's Jack Welch clearly told his business units that they had to be number one or number two in an industry. If they failed that test, they know precisely why they were being sold.

9.3.4.9 Carve out a new businesses

The ultimate step in a proactive program of divestiture strategy is the creation of new businesses. As companies remove superfluous businesses, they also need to design expansion plans focused on providing strength to remaining businesses, starting up one, or making

acquisitions. The aim ought to be to make a cycle of making businesses young again, which makes the corporate portfolio of business regularly refreshed.

Thus, divestiture is not an objective in itself. Rather, it is an approach to a broader end: constructing a company that grows and prospers over the long run. Intelligent executives divest businesses so that they can carve out new ones and expand current ones. All the funds, management time, and support- functional capacity that are freed up through a divestiture should therefore be reinvested in addition to shareholder value.

9.3.5 LIQUIDATION STRATEGIES

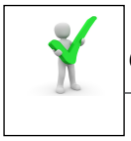
A retrenchment strategy regarded to the greatest extent utmost and uninviting is liquidation strategy, which requires winding up a firm and disposing of its assets. It is considered as the last remedy because it leads to serious outcomes such as loss of employment for workers and other employees, terminal of opportunities where a firm could chase any further activities, and the mark of disgrace of failure. Many small-scale units, proprietary firms, and partnership ventures liquidate often, however, medium-and large sized companies seldom liquidate in India. The company management, government, banks and financial institutions, trade unions, suppliers and creditors, and other agencies are exceedingly disinclined to take a decision, or ask, for liquidation. Selling assets for executing a liquidation strategy may also be complex as buyers are not easy to find. Furthermore, the expectations of the firm about the adequate compensation are also not high as most assets, being unusable, are considered as scrap. Liquidation strategy may be displeasing as a strategic option but when a ceased business is worth more than alive, it is a nice proposition. For instance, the properties in the form of real estate owned by a firm may give it more money than the actual returns of doing business. When liquidation is evident an abandonment plan is most desirable. Planned liquidation would consist of a systematic plan to reap the maximum benefits for the firms and its shareholders through liquidation. Under the Companies Act 1956, liquidation may be either by the order of court, voluntarily by the owners of the business, or subject to the supervision of the court. At the time the liquidation strategy is pursued, the business is distinctively sold partially, only at occasions as a whole, but for its tangible asset value and not as a going concern. It is thought as the ultimate shelter because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where as firm could pursue any future activities, and the disgrace of failure.In choosing liquidation, owners and the strategists of a business admit failure and realize that this step will create hardships to themselves and their employees. For such logics liquidation is branded as the least preferred strategy. The decision to liquidate is a decision that very few people are able to make and seldom made except in extreme situations. The failure and its disgrace are implied in it. Liquidation can also be a successful strategy; it was growing more popular in the early to mid- 1980s, when liquidation offered instant returns on investment shareholder made.

Planned liquidation

Liquidation is a good proposition when a dead business is more valuable than alive. For example, the real estate of a firm may fetch it more money than the actual returns of doing business. When liquidation is clear, an abandonment plan is most desirable. Planned liquidation would require a systematic plan to reap the maximum benefits for the firm and its shareholder through the process of liquidation.

9.4 COMBINATION STRATEGIES

A mix of stability, expansion and retrenchment strategies is known as combination strategies. Combination strategies are applied either at the same time in different businesses or at different times in the same business**.** Every organization at all times requires a combination of strategies. No organization has developed and survived by following a single strategy. The complicated nature of businesses demands that different strategies need to be adopted to suit the situation. For instance, as companies determine to divest businesses, they also are required to formulate expansion plans focusing on making stronger remaining businesses, starting new businesses or making acquisitions. An enterprise pursuing a stability strategy for quite some time also has to think expansion. Another firm that has been on expansion spree for long has to pause to consolidate its businesses or at the same time liquidate unviable businesses. Multi-business firms have to adopt multiple strategies either simultaneously or sequentially.



Check Your Progress- B

Choose the correct alternative.

(i). The change of leaderships is a successful:

(a) Stability
(b) Turnaround strategy
(c) Expansion strategy
(d) None of these

(ii). The winding up a firm and disposing of its assets is a strategy of:

(a) Liquidation
(b) Turnaround
(c) Divestment
(d) None of these

(iii). A mix of stability, expansion and retrenchment strategies is known as

(a) Cost leadership
(b) Differentiation
(c) Combination
(d) None of these

(iv).When a dead business is more valuable than alive, a good proposition is:

(a) Planned liquidation
(b) Turnaround
(c) Divestment
(d) None of these

(v) An enterprise pursuing a stability strategy for quite some time has to think of:

(a) Retrenchment
(b) Expansion
(c) Divestment
(d) None of these

9.5 SUMMARY

Corporate level strategies usually are applicable to large corporations with multi-businesses as to how they manage and allocate resources among these businesses. A generic strategy is a general strategy dealing with nearly all elements of an enterprise which facilitates the ground for strategic course that will accomplish the organization's long- term goals.

The retrenchment generic strategy is chosen to be taken up when an organization plans to cut down the scope of its activity to a great extent.

A retrenchment strategy can take any forms out of turnaround strategy, divestment strategy and liquidation strategy. When business is in decline but deserves to be saved, the organization pursues a turnaround strategy. There are various factors that lead a business to decline. Such factors include substandard management, one man rule, combined form of chairman and chief executive role, ineffective board of directors, neglect of core business, lack of management depth, inadequate financial control, competition, high cost structure, continual change in market demand, unfavorable movements in commodity prices, incompetent marketing, big size of projects, strategy of acquisition and financial policy. There are several indicators of decline which the management of the business has to pay attention to. Successful turnaround strategies include change of leadership, powerful financial control, organization change and

decentralization, defining strategic focus differently, growth via acquisition and asset reduction.

Regular divesting of businesses even some good, healthy ones makes certain that the rest of the units realize their full potential and that the entire company grows powerful. There are certain costs of divestment including costs to the corporation, costs of the unit, depressed exit price. An approach to divestment may include a process consisting of prepare the organization, identify candidates, structure the deal, communicate the decision and create new businesses.

A retrenchment strategy regarded to the greatest extent utmost and uninviting is liquidation strategy, which requires winding up a firm and disposing of its assets.

A mix of stability, expansion and retrenchment strategies are known as combination strategies.



9.6 GLOSSARY

Retrenchment: when an organization plans to cut down the scope of its activity to a great extent, it is known as retrenchment.

Turnaround: when a business is gradually declining, however is worth saving, the strategy is known as turnaround

Liquidation: When a dead business is more valuable than alive, it is liquidation.



9.7 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

Answers:

(i). (a)

(ii). (b)

(iii). (c)

(iv). (a)

(v). (b)

Check Your Progress –B

Answers:

(i). (b)

(ii). (a)

(iii) (c)

(iv). (a)

(v). (b)



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9.10 TERMINAL QUESTIONS

Q1. What do you understand by generic corporate strategies?

Q2. Define retrenchment strategies? What are different forms a retrenchment strategy can take?

Q3. Describe the turnaround strategy. Discuss the factors that lead to decline of a corporate.

Q4. What are indicators of decline of a business?

Q5. Discuss different successful turnaround strategies.

Q6. Elaborate suitable divestment strategies.

Q7. Discuss the appropriate procedure to be followed for a strategy of divestment.

Q8. Explain the strategies of liquidation.

Q9. Discuss the liquidation and combination strategies.

Q10. Compare and contrast the strategies of turnaround and liquidation.

UNIT 10 BUSINESS LEVEL STRATEGIES

10.1 Introduction

10.2 Objectives

10.3 Base of Business Level Strategies

10.4 Business Level Strategies

10.5 Generic Business Strategies

10.6 Summary

10.7 Glossary

10.8 Answer to Check Your Progress

10.9 Reference/ Bibliography

10.10 Suggested Readings

10.11 Terminal & Model Questions

10.1 INTRODUCTION

This unit elaborates the business- level strategies. Business level strategies deal with the strategies that the individual businesses use within an organization. These are three principal strategic options at organizations disposal for acquiring competitive advantage.

In this unit, first we discuss the basis of business level strategies that consist of customer needs, customer groups and distinctive competencies. Thereafter the business level strategies will be discussed. Thereafter the discussion of Porter's classification of generic business strategies follows. Generic strategies are the fundamental ways a company can withstand competition effectively and successfully in a business or industry. The unit also analyses the different strategies a company can pursue to accomplish and make full use of its competitive advantage, compete in an industry and reap profitability successfully.

10.2 UNIT OBJECTIVES

After studying this unit, you shall be able to;

- Know the Business level strategies
- Understand cost leadership strategies

- Comprehend the differentiation strategies
- focus strategies

10.3 BASE OF BUSINESS LEVEL STRATEGIES

The process of business definition is visualized in terms of:

- Customer needs,
- Customer groups
- Distinctive competencies

These decisions are at the core of business-level strategic choice because they furnish the place of origin of a company's competitive advantage over its competitors and decide the manner a company will withstand competition in a business or industry. The business level strategies consider at the way in which companies can achieve competitive advantage at the business level.

10.3.1 CUSTOMER NEEDS

Customer needs denote something that the attributes of a product or service can meet the expectations. The basic needs include need for food, clothing, and accommodation, medical as well as upper order needs such as security need, knowledge, education, information and social esteem etc. Businesses aim at the fulfillment of these needs. Firms make efforts to identify needs of their customers and to fulfill them and accordingly design products and services. All companies must distinguish their products to a certain extent in order to invite customers and meet a certain minimum amount of customer needs. However, some companies distinguish their products to a much greater extent than others and this distinction can furnish them a sharpness concerning competition. Some companies prefer not to differentiate their products but offer them to their customers at a low-price.

10.3.2 CUSTOMER GROUPS

Companies recognize customer groups based on prime differences in their needs or preferences in order to obtain a competitive advantage. This process is market segmentation. Market segmentation permits companies to furnish many products for many market niches to meet customer needs in a better way. Consequently, the demand for the company's products increases and creates more revenue than would be the case if the company offered single product for the entire market. If the nature of the product or the industry does not permit high level of differentiation, customers evaluate the product on the basis of the price. The competitive advantage rests with the company possessing superior efficiency and can provide the lowest-priced product.

10.3.3 DISTINCTIVE COMPETENCIES

The ultimate consideration for the business level strategy is to determine the distinctive competencies chased to fulfill customer needs and groups. Distinctive competencies are the ways in which a company attempts to meet customer needs and groups in order to obtain a competitive advantage. In doing business strategy choices, a firm must determine the way to organize and unite its distinctive competencies to acquire a competitive advantage.

10.4 BUSINESS LEVEL STRATEGIES

The business level strategies are the optional courses of action that a firm can take up for each of its businesses individually to customer groups and give value to the customers to enable them to satisfy their needs. In the process the firm applies its competencies to acquire, maintain and enhance its competitive advantage. The competitive advantage of any business in an industry arises from the intelligent use of its core competencies.

The simultaneous application of organizational behavior and organizational resources generate capabilities that enable a firm to generate competencies employed to acquire a competitive advantage against competitors in an industry. Competitive advantage facilitates a company to receive above average returns. Therefore, businesses are required to formulate and implement a number of strategies in order to achieve competitive advantage.

M.E. Porter earned the credit of propounding business strategies. Porter calls business strategies as competitive strategies. He thinks industry to be the fundamental unit of analysis for clear understanding of the competition. An industry is a group of competitors providing products or services where greatest competitive interaction takes place and competitive advantage is finally won or lost. Through competitive strategies firms define and determine an approach to compete in the industry in which they operate. The industry structure and the promoting a firm within the industry are the two factors characterized by the constant change that determine the selection of a competitive strategy.

Five forces determining the degree of competition- the threat of new entrants; the threat of substitute products or services, the bargaining power of suppliers, the bargaining power of buyers, and the rivalry among the existing competitors in an industry –decide the industry structure. These five forces differ from industry to industry and determine the long- term profitability of firms within an industry. The positioning of the firm in the industry is a firm's all inclusive approach to competing formulated to gain sustainable competitive advantage based on competitive advantage and competitive scope. The competitive advantage can arise due to low cost and differentiation and the competitive scope can be in terms of broad and narrow aim.

Competitive position connotes a circumstance wherein a firm strives to win in a market with rival firms. The firm may either present mass- produced standardized products at low price or higher-priced limited variety products but focused with extreme strength on recognized

customer groups willing to pay the higher price. In the case of limited variety higher-priced products the firm creates differentiation in its products on certain physical basis from its competitors so that the customers are prepared to purchase the products even at a premium. The basis of lower cost is the competence of a firm to design, manufacture, and market a similar product with greater efficiency than its competitors. Differentiation is the ability of the firm successfully to provide unique and superior value to the buyer for which he is prepared to pay a premium.

Competitive scope denotes the breadth of a firm's aim within its industry (Porter, M.E.). The range of products, geographic areas, types of buyers, channels of distribution and the array of related industries in which a firm would also compete, consist the breadth of a firm's target. The competitive scope is supreme on the ground that industries are divided into segments that have varying needs, require varied group of competencies and strategies to fulfill the customer needs. So a firm can either pursue a broad or a narrow-target approach. In the broad target approach the firm can offer a complete range of products to a wide range of customer groups situated in a widely- dispersed geographical area. In the narrow-target approach the firm can opt to offer a restricted range of products to a few customer groups in a constricted geographical area.

The combination of competitive advantage and competitive scope results in a set of generic competitive strategies called as the business- level strategies.

The business level strategies of an enterprise hold within the overall competitive theme that a company selects to stress the way it positions itself in the market place to obtain a competitive advantage, and the various positioning strategies can be applied in different industry conditions.

10.5 GENERIC BUSINESS STRATEGIES

Various efforts to classify strategy have been devoted at different times. One of the earliest efforts was that of Ansoff's (1965) Product-Market-Diversification Matrix. This matrix identifies clearly and definitely a suitable strategy for the marketing of new or current products in new or current markets. A drawback of this categorization was that the sustainability of the strategies involved was not taken into consideration.

Michael Porter addressed this point and viewed strategy as fundamentally aimed at obtaining a long-term sustainable advantage in a competitive market developed another classification of strategies. Porter made mention of low cost and differentiation as generic business-level strategies. These strategies are termed as generic because all kinds of businesses or all sorts of industries can pursue them irrespective of their being profit or not-for-profit organizations. Each of the generic strategies ensues from a company making choices over time that supports each other.

According to Porter, a business can make great efforts to provide a product or service more cost- effectively than its competitors (cost leadership), it can strive to differentiate its product

or service in order to add value to the product or service and command higher prices (differentiation) or it can narrow its focus to a special product market segment in order to monopolize (focus). Not following any of these strategies a firm may be termed as being "stuck in the middle"

The positioning of the first in the industry and the industry structure determine the business strategy of a firm. The industry structure is constituted of the five forces operating in the industry environment. The competitive advantage and the competitive scope determine the positioning of the firm in the industry. A firm can acquire competitive advantage by pursuing two approaches of low cost and differentiation. The two approaches of narrow target and broad target are the components of competitive scope. When the competitive advantage and competitive scope are put together a matrix as shown in Fig.10.1 is obtained. There could be three fundamental ways in which firms can achieve sustainable competitive advantage.

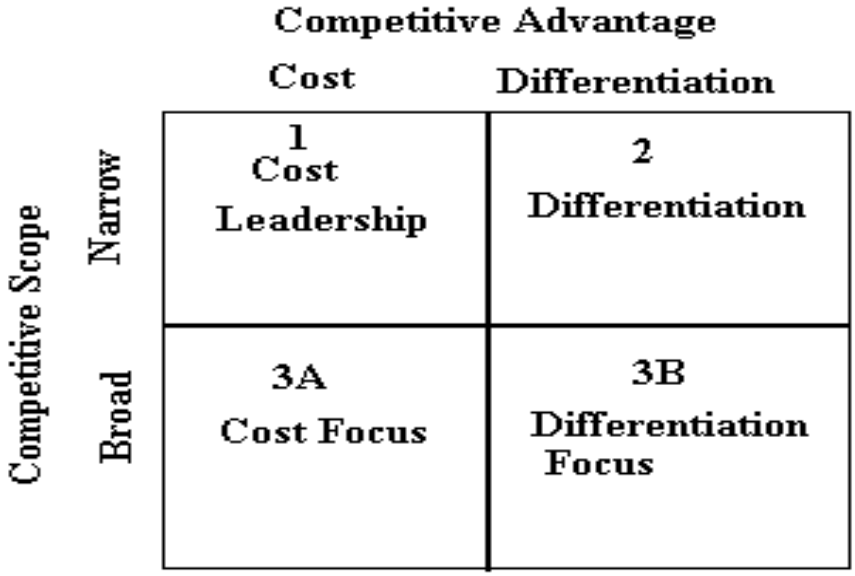


Fig.10.1 Three basic strategies

Source: Adapted from M.E. Porter

- **Cost Leadership**
- **Differentiation**
- **Focus**

10.5.1 COST LEADERSHIP STRATEGY

The cost leadership may be the most favorable strategy to pursue if a firm begins to be the lowest cost producer in the industry. A low cost strategy is based on performing everything feasible to lower unit costs.

Porter defines cost leadership strategy as a firm makes a start to become the low- cost producer in its industry, a low cost producer must identify and make best use of all sources of

cost advantage. Low- cost producers usually sells a standard, product and lays substantial emphasis on gathering scale or absolute cost advantages from all places of origin. If a firm can successfully bring about and sustain overall cost leadership, then it will take the position of an above- average performer in its industry subject to the condition that it can control prices at or near the average of the industry.

The cost leader performs better than its competitors by producing products or services at a cost lower than the competition. Customers like more a lower cost product or service if it gives them the similar need satisfaction as the close products offered in the market do. If all firms offer products at a similar price, the cost leader is able to make an above- average profits because of the low cost of its products.

Furthermore, the cost leadership gives a margin of safety to the firm to lower price if the competition becomes intense and yet make more or less the same level of profit.

10.5.1.1 Approach to achieve cost leadership?

The reduction of cost ought to be without interruption to keep the cost different from the competitors. Cost reduction requires an understanding of all stages of the value chain for a product or service of a firm. It can be obtained through such methods as access to cheaper inputs or technologies relating to the owner, or by positioning to make full use of any experience effects. Costs are dispersed over the entire value chain in activities that make addition to the making of the product.

The key objective of obtaining cost leadership is to make sure that the total cost across the value chain is lower as relative to its competitors. For this purpose it is necessary to analyze the cost drivers and find out the areas for optimization of costs. For accomplishing cost leadership a number of steps are to be taken:

- The demand forecasting is accurate and high capacity utilization is to be achieved to realize cost advantages.
- Economies of scale must be function to bring down per unit cost of product/service.
- The level of standardization of products should be high. The firm must offer uniform service packages using mass production techniques enables lower per unit cost.
- Targeting the average customer enables to offer a common set of utilities in a product/service to serve a larger number of customers.
- Investments must be made in cost-saving technologies facilitate saving out of the cost and make the product/service competitive in the market.
- The differentiation is held back till it becomes very necessary to realize cost-base competitiveness.

Often cost leadership occurs with market share. The larger the market share of the firm, the lower the costs will be. Therefore the control of a large share of the market is becomes necessary. If the opportunities to construct an efficient plant are restricted the second, third or other low-cost producers are also be able to achieve above average performance.

Since the cost leader counts on the economies of scale and the market positioning, cost leadership is likely to stay long if standard products of reasonable quality are provided. Therefore, cost leadership strategies are more favored in comparatively steady environments.

The requirements of a cost leader for human resources are also recognizably different. The technocrats are not required on a large scale, particularly where commodity products are involved. Therefore, unskilled or semi-skilled people can perform much of the work. In the same manner cost control is of the topmost importance.

Necessary conditions for cost leaderships

The cost leadership strategy in order to become functional requires some necessary conditions in the market

- The competition based on price overcomes other bases in the product/service market that makes reduction of costs a significant factor.
- The highly standardized product is offered in the market. Therefore, the differentiation is superfluous.
- A large number of buyers exist who possess significant bargaining power to lower down the price of the product.
- The customer loyalty is at low level and cost of switching to another seller is also low.

10.5.1.2 Strategic Choices of Cost Leadership

There can be three strategic choices of a cost leader in terms of product differentiation, market segmentation and distinctive competency**:**

1. **Product Differentiation**
   The level of product differentiation for the cost leader remains low. If the cost leader attempts to make its products unique, then its costs are bound to rise. However, the level of differentiation of the cost leader is not markedly inferior to that of the differentiation, but reasonably priced at low cost. The cost leader also does not try to be the industry leader in differentiation and does not incorporate a feature into the product until customers desire it. For example, a cost leader does not incorporate stereo sound in television sets until the customers make demand for it.

2. **Market Segmentation**

   Usually the cost leader does not opt for market segmentation. The appeal of the product is targeted to the common customer. As the development of a range of products and catering the needs of varied segments of the market is a costly affair. The cost leader is usually occupied with a constricted scope of market segmentation.

3. **Distinctive Competencies**
   The cost leader develops competencies to enhance efficiency and lower down its costs relative to its competitors. The manufacturing and materials management are the areas

in which the cost leader attempts to develop distinctive competencies for the purpose of achieving lower cost.

Therefore, he develops skills in flexible manufacturing and efficient material management techniques. The cost leader may also concentrate on HR and R& D functions to bring down costs. For example Nissan followed a cost leadership strategy in developing its midsize car, the Altman. Heinz is another example of a cost leader. Beans and vegetables supplied in a sealed can do not permit a large amount to add to the cost of the product. The profit requires large volume of cans to be sold. Therefore, Heinz goes to unusual extent to reduce costs. The design of organizational structure matching the strategy of cost leadership is another place of origin of a company's cost. The cost may be reduced by rationalizing the structure of the organization.

10.5.1.3 Advantages of Cost Leadership

The cost leader enjoys a number of advantages of pursuing the strategy of cost leadership:

1. **Protection from competition**

The cost leader finds protection from competition within its industry. The lower costs provide a wider cushion of margin. The rise in the prices of inputs and other cost will less influence the cost leader than its competitors. Similarly, if buyers gain strength and force the prices down of its products, the cost leader will be affected to a smaller extent as compared to its competitors.

2. **The cost of inputs**

As cost leader holds a big market share, it procures the inputs in bulk quantities increasing its bargaining power in relation to its suppliers. This brings down the cost of inputs for the cost leader. If the substitute products pose a threat, the cost leader is comfortable in reducing its price to compete with the competition and retain its market share.

3. **Barrier to entry**

The cost benefit of the cost leader constructs a barrier for the potential entrants to enter the industry. The new firms are hesitant to enter the industry as they are not in a position to match the leader's costs or prices. Therefore, so long as the cost advantage of the cost leader remains, it is safeguarded from the recent competition.

10.5.1.4 Disadvantages of Cost Leadership

1. **Avenues of low cost**

   The main difficulty the cost leader finds is continually seeking new ways of producing at low cost. For example, if technological developments turn experience-curve economies obsolete new entrants may use lower-cost technologies that provide them a cost advantage over the cost leader.

2. **Low cost of labor**

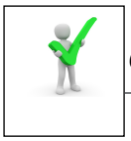
The competitor may also get the benefit of low cost of labor. For example, the availability of labor at low wages in developing countries has encouraged many companies of the developed economies to assemble their products in these countries following the low cost strategy.

3. **Easy Imitation**

   If methods, processes and product features of the cost leader a can easily be imitated, it poses a difficulty to cost leadership strategy. For example, the ease with which the IBM-clone manufacturers imitated and produced IBM compatible products at low costs and sell them at lower prices caused troubles for IBM.

4. **Changes in customers' taste**

   The cost leadership strategy is also accompanied with the risk of neglecting the changes in customers' tastes and preference in its chase of costs reduction. Thus a company might find that reducing the costs drastically might adversely influence the demand for the product. For example, the Joseph Schlitz Brewing Co., in order to reduce costs, substituted inferior grains. The consumers found that the product bear ingredients inferior, so the demand markedly declined. Therefore, the cost leader cannot entirely ignore product differentiation, and even low-priced products must not be too inferior to the differentiated products.



Check Your Progress- A

Choose the correct alternative.

(i) Which one of the following is a business level strategy?

(a) Merger

(b) Expansion

(c) Focus

(d) None of these

(ii) Something that the attributes of a product or service can meet the expectations are:

(a) Customer needs

(b) Customer groups

(c) Distinctive Competencies

(d) None of these

(iii) The optional courses of action that a firm can take up for each of its businesses individually to customer groups and give value to the customers to enable them to satisfy their needs are strategies at the level of:

(a) Corporate

(b) Business

(c) Function

(d) None of these

(iv) Generic Business level strategies are attributed to the name of:

(a) C.K.Prahlad

(b) M.E.Porter

(c) M.S.Ghoshal

(d) None of these

(v) If a firm begins to be the lowest cost producer in its industry, the strategy is:

(a) Differentiation

(b) Focus

(c) Expansion

(d) None of these

10.5.2 DIFFERENTIATION STRATEGY

If the firm is not able to follow cost leadership strategy, but the firm is able to distinguish its products along some attributes that customer value, and the cost of differentiating the product is lower than the extra revenue envisaged then differentiation may be the favorable strategy to follow.

Porter defines a differentiation strategy to be unique in its industry along some dimensions widely valued by buyers. The uniqueness of the product is rewarded with a premium price. A firm able to achieve and sustain differentiation of products earns above-average returns in its industry if its premium price is greater than the additional costs incurred in achieving uniqueness. The reasoning behind the differentiation strategy requires that a firm selects attributes in which to differentiate its product or services from its rivals.

Porter's differentiation is based on the ability to charge higher price, and not on the basis of the product's attributes per se. It can be based, therefore, on either products innovation or

marketing. A firm is considered to follow a differentiation strategy when its performance exceeds its competitors in offering the product with special features that its competitors are neither able nor prepared to offer. Customers recognize a product or service differentiated if it gives them the need satisfaction they give importance to, and are ready to pay more for such need gratification

If the customers distinguish a product or service by reasoning of its special characteristics and attributes from other products/services of its category offered to the market, the product or service is considered to be a distinguished product or service. A differentiation firm is able to charge a premium price, acquire new customers and control customers' loyalty for the uniqueness of its product.

In order to chase a differentiation strategy, explicit outline of the aimed market is needed to be secured to make certain that sufficient ways are there in which to distinguish the business, and that the market can be divided into sub-markets. The customers are ready to make additional payment for the distinction. A differentiator will take every step not to follow as a model which may require a continuous defining of the business differently on the basis of differentiation. At the same time, the necessary course of action for the differentiation based on a mix of attributes and tasks rather than a plain business attribute or service. Added safeguard from imitation may also be made by making connection into the value chains consisting buyers and suppliers.

Differentiation whether based on innovation -or based on marketing based is more appropriate in constantly changing industry environments. It can assist to avoid, at least in the short run, potentially more costly forms of competition. However, as it often involves new technologies and unforeseen customer and competitor reactions, it increases environmental unpredictability.

As far as human resource requirements are concerned, differentiation needs the application of experts. It also requires the setting up of systems to facilitate the coordination of these experts, who may be performing in different functional departments, or may come from outside the company. The profits of a differentiator firm come from the difference in the premium price charged and the additional cost incurred for providing the differentiation. The success of a differentiation firm lies in the extent the firm is able to offer differentiated product/service by keeping up a balance between its price and costs. The firm may be unsuccessful if the customers stop having interest in the differentiated features, or are not willing to pay premium price for these features. For example, Orient fans offers premium ceiling fans based on product innovation and superior technology. In the Computer industry, Apple Computers in 1992 enjoyed competitive advantage based on differentiation. Apple had a unique proprietary operating system and a strong brand name, both of which enabled the company to differentiate itself from its competition.

10.5.2.1 Strategic Choices of Product Differentiator

The strategic choices of a product differentiator are in terms of product differentiation, market segmentation and distinctive competency.

1. Product Differentiation

In order to get a competitive advantage, a differentiator selects a high level of product differentiation. There are three dimensions of product differentiation: quality, innovation and customer responsiveness. Innovation is of very great value for technologically intricate products, where new features are added for differentiation, and customers are willing to pay a premium price for recent and innovative products, such as state-of-the – art computer, stereo, or car.

If customer responsiveness is the basis of differentiation a differentiator firm provides comprehensive after-sales service and product repair. This is of particular significance in case of cars and domestic appliances. Companies like Maytag, Dell Computer, and Federal Express all excel in customer responsiveness. A product's appeal to customers' psychological needs can become a source of differentiation. A differentiator makes great efforts to differentiate it along several possible dimensions. The more it differentiates from its competitors the more it is safeguarded from competition and the wider is its market appeal.

2. Market Segmentation

A differentiator picks out to divide its market into many niches and offers a product specifically designed for each market niche and decides to be a broad differentiator. But it might choose to serve just those niches where it has a specific differentiation advantage.

3. Distinctive Competencies

In selecting distinctive competency to chase, a differentiator concentrates on the organization function that facilitates the sources of its differentiation advantage. R&D function determines the differentiation based on innovation and technological competency. Attempts to make customer service better depends on the quality of the sales function.

10.5.2.2Advantages of Differentiation Strategy

The following are the major advantages of differentiation:

1. Differentiation keeps a company safe from harm against competitors to the extent the customers develop brand loyalty for its products. Brand loyalty is a very valuable asset as it shields the company on all frontiers. For instance, strong suppliers do not create a problem as the company's strategy is targeted to the price than the cost of production. Thus a differentiator can bear a medium rise in the prices of its inputs better than the cost leader.
2. Powerful buyers also do not make a threat to the differentiator as it provides the buyers a unique product and control high brand loyalty.
3. Product differentiators can pass increases in the prices of inputs on to the buyers who are willing to pay the premium price.

4. Differentiation and brand loyalty create a barrier for potential entrants to the industry.
5. Differentiation forces new companies to develop their own distinctive competencies to meet competition.
6. The substitute products present a threat to the extent they are in a position to satisfy the same customer needs as the differentiator's products do, and their ability to break the brand loyalty of customers of the competitors.

10.5.2.3 Disadvantages of Differentiation Strategy

1. It is may be intricate for the differentiator company to keep up uniqueness of the product in customers' eyes. The competitors may very soon move to imitate and copy the products and do away the uniqueness of the differentiator. In computer, autos and electronic appliances this very often happens.
2. Patents protection and first- mover advantages are helpful so long as the general quality of competitive products comes up to match the differentiator's product. From this point brand loyalty starts fading and customers start leaving the differentiator. For instance, American Express Company's green, gold and platinum cards used to be closely associated with high status and prestige. The company differentiated its products by advertising its exclusivity and uniqueness and charged a premium price. During 1990s American Express' differentiation strategy suffered a setback as competitor companies like MasterCard and Visa demonstrated that their cards could be used at locations where American Express cannot. Not only high- income group but also the common consumers could avail many other benefits of using their particular credit cards. Several banks and many other companies like AT&T and GM brought their own credit cards. The arrival of so many competitive products broke the loyalty of Am. Express' customers cards' uniqueness faded away.
3. Another drawback of the differentiation strategy lies with the benefit with which competitors will imitate a differentiator's product. The better it becomes for the competitors' to imitate, the tougher it is for the differentiator to charge a premium value.
4. Once differentiation of the product relies on the planning or physical features of the product, it is much straightforward to imitate, and also the greater is the risk for the differentiator. For example, for the products like VCRs, stereos and cigarettes the customers are vale sensitive; the significance of differentiation diminishes shortly because the company needs to charge a premium value.

10.5.2.4 If the differentiation is based on the quality of service provided or reliability or any other intangible source like the prestige of a Rolex or BMW or Chevrolet, the imitation of intangibles is much more complex and makes a company much more secure. Consequently, the differentiator can enjoy the advantage of the differentiation for a long time.

10.5.3 FOCUS STRATEGY

The focus strategy is directed to perform service to the needs of a restricted customer group or segment. A focused company centralizes on serving a particular market niche defined geographically, by type of customer or segment of the product line. To pick out a niche by type of customer means serving a specific kind of customers such as only the very rich, or the very young or the very adventurous. To focus only a segment of the product line means selecting merely a particular type of product such as fast motor cars, or vegetarian foods. A focus strategy needs specialization in some way.

Marketing to such a niche would again require a choice between low- cost or differentiation but, this time, if the niche is well selected, the scope of the market would make the firm able to proceed on more limited cost and differentiation capacities

In principle, a focus strategy makes full use of the differences in cost behavior in some segments. It is only available where such segments are served sub-standard by the broadly targeted competitors and, of course, only sustainable for as long as the niche can be safeguarded.

A focus strategy is the selection of a narrow competitive scope within an industry. The focuser carefully picks up a section or group of sections in the business and makes ready its strategy to serve them while excluding other. In cost focus a corporation attempts to find an advantage relating to a cost in its aimed portion, while in differentiation focus a firm seeks differentiation in its target segment.

The troublesome purpose for the focuser is reached once the niche has been exhausted, at which period he could also be enticed, out of a false sense of security derived from his success within the slim scope of the niche, to focus on the broader market. This may have harmful consequences.

10.5.3.1 Strategic Choices of Focuser

The strategic choices of a focuser are in terms of product differentiation, market segmentation and distinctive competency.

1. Product Differentiation

   A company pursuing focus strategy can opt for high or low product differentiation.

2. Market Segmentation

   A focused company selects specific niches in which to compete, rather than going for entire market,

3. Distinctive Competency

   A focuser may follow any distinctive competency because it can pursue any kind of differentiation or low-cost advantage.

10.5.3.2 Advantages of Focus Strategy

The focus strategy has the following main advantages:

1. The advantage of the cost leader in terms of cost safeguards it from competitors among business. The lower costs also mean that the strategy is directed to perform service to the needs of a restricted customer group or segment.
2. A focused company centralizes on serving a particular market niche defined geographically, by type of customer or segment of the product line. To pick out a niche by type of customer means serving a specific kind of customers such as only the very rich, or the very young or the very adventurous.
3. To focus only a segment of the product line means selecting merely a particular type of product such as fast motor cars, or vegetarian foods. A focus strategy needs specialization in some way.
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6. A focus strategy is the selection of a narrow competitive scope within an industry. The focused firm chooses carefully a portion or a number of portions in the industry and makes its strategy ready to serve them while excluding others. In cost focus a firm attempts to find out an advantage relating to cost in its aimed portion, while in differentiation focus a firm attempts to find out differentiation in its aimed portion of the market.
7. The troublesome purpose for the focuser is reached once the niche has been exhausted, at which period he could also be enticed, out of a false sense of security derived from his success within the slim scope of the niche, to focus on the broader market. This may have harmful consequences.

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10.5.3.4 Advantages of Focus Strategy

The focus strategy has the following main advantages:

1. The advantage of the cost leader in terms of cost safeguards it from competitors among business. The lower costs also mean that the increases in the value of inputs can less have an effect on the cost leader than its competitors if the suppliers become a lot of powerful. Similarly, if the consumers grow a lot of powerful, the decrease in the value of its product will have an effect on the cost leader to a lesser extent as compared to its competitors.
2. The increase in customer loyalty reduces the threat from substitute products.
3. The focus strategy allows a company to stay close to its customers and to react to their needs undergoing constant change. A focuser does not encounter the complexity of managing a large number of market segments that a large differentiator has to.

10.5.3.5 Disadvantages of a Focus Strategy

1. The suppliers if grow powerful often pose a threat to a focused company as it purchases inputs in small quantities. But as long as it can pass on increases in price to loyal customers, this may not be a significant difficulty.
2. The new entrants into the industry have to win over the customer loyalty the focuser business has generated.
3. The production costs of a focused company often are greater than those of a company pursuing low-cost strategy as it produces a small volume. If a focuser is required to invest in large quantity in growing a distinctive company like product innovation,

competition with a differentiated firm, if profitability is likely to lower down. However, this issue can be win- over by the arrival of flexible manufacturing systems. At a lower cost small production runs have become possible. As a result, small focus firms are able to compete with big companies in specific market segments with cost disadvantage very much reduced.

4. A focuser's niche can disappear all of a sudden due to technological change or changes in tastes of consumers. A focuser is not able to move comfortably to new niches as its resources and competency focus one or a few niches while a generalist differentiator can easily move.
5. Differentiators will compete for a focuser's niche by serving a product that can meet the needs of the focuser's customers. A focuser is Invulnerable to invasion and therefore has to constantly protect its niche.
6. In order to ensure long-term profitability a firm must be confident of its basic strategy. Many firms do not make the choice among these three strategies. Such firms end up being 'stuck in the middle'.

10.5.3.6 Being "Stuck in the middle"

The foregoing discussion makes it evident that each strategy requires the organization to perform consistent choices in terms of product, market & distinctive competency to establish a competitive advantage. A firm chasing one strategy should also take advantage also from constituents of the other strategies, so far as this did not take it away from its chosen strategy. A differentiator, for example, should make all possible effort for cost reduction without sacrificing differentiation, and a cost leader differentiates until this starts to cost a lot.

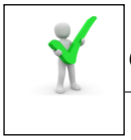
A firm must achieve a fit among the three elements of business strategy. For instance, a low cost company cannot go for a high level of market segmentation and offer a wide range of products. This would to a great extent enhance the production costs and the company would have to sacrifice low cost advantage. Similarly, a differentiator business with a competency in innovation should not attempt to cut down expenses on R&D to reduce costs.

However, if a firm mixes its primary goal and source of competitive advantage and pursues both cost reduction and differentiation unsystematically then it is said to be "stuck in the middle". This is an undesirable strategy because cost leadership and differentiation are incompatible. There will be a cost leader, differentiator, or focuser that will be able to compete better than the firm stuck in the middle in anyone segment of the market. Firms with such an absence of strategy, usually end stuck in the middle because they have made product/market choice in such a way that they have not been able to acquire or sustain a competitive advantage. Consequently, they have below average performance and suffer with intensification of industry competition.

However, the cost leadership and differentiation are not incompatible, at least in the short run. This may take place, for example, if a firm explores a new product, service, or process innovation that makes it able to reduce cost and at the same time successfully differentiate. With the suitable barriers constructed, it may be possible to make full use of such an innovation for a substantial period of time. Likewise, cost leadership and differentiation may also be followed together when market share largely determines costs, and control of a considerable share enables the firm to use the additional margin to differentiate, and still holds the position of cost leader. The same may be possible if interrelationships between industries exist that a competitor may be able to make full use of while others are not.

Some companies began pursuing one of the three generic strategies but made incorrect choices, or were subjected to variations in environment. Unless management closely monitors the business and its environment, a company may get the control of a generic strategy lost. It is needed continuously to alter product/market choices to achieve the desired fit with changing industry conditions.

Successful management of a generic competitive strategy requires strategists to pay attention to two issues. They should ensure that the product/market/distinctive competency decisions are directed toward one specific competitive strategy and monitor the environment to keep the firm's source of competitive advantage in harmony with varying opportunities and threats.



Check Your Progress- B

Choose the correct alternative

(i) If the firm is able to distinguish its products along some attributes that customer value, and the cost of differentiating the product is lower than the extra revenue envisaged the strategy pursued is:

(a) Cost leadership

(b) Differentiation

(c) Focus

(d) None of these

(ii) Which one of the following is not a strategic choice of a differentiator:

(a) Product differentiation
(b) Market segmentation
(c) Distinctive competencies

(d) None of these

(iii) The strategy directed to perform service to the needs of a restricted customer group or segment is a:

(a) Cost leadership
(b) Differentiation
(c) Focus
(d) None of these

(iv) The level of product differentiation for the cost leader remains:

(a) Low
(b) High
(c) Extremely high
(d) None of these

(v) The production costs of a focused company often compared to those of a company pursuing low-cost strategy is:

(a) Greater than
(b) Lower than
(c) Equal to
(d) None of these

10.6 SUMMARY

Generic strategies are the fundamental ways a company can withstand competition effectively and successfully in a business or industry. The process of business definition is visualized in terms of customer needs, customer groups and distinctive competencies. Customer needs denote something that the attributes of a product or service can meet the expectations.

Companies recognize customer groups based on prime differences in their needs or preferences in order to obtain a competitive advantage. Distinctive competencies are the ways in which a company attempts to meet customer needs and groups in order to obtain a competitive advantage. The business level strategies are the optional courses of action that a firm can take up for each of its businesses individually to customer groups and give value to the customers to enable them to satisfy their needs.

There could be three fundamental ways in which firms can achieve sustainable competitive advantage in terms of cost leadership, differentiation and focus

A low cost strategy is based on performing everything feasible to lower unit costs. The cost leadership strategy in order to become functional requires some necessary conditions in the

market. There can be three strategic choices of a cost leader in terms of product differentiation, market segmentation and distinctive competency**.** The cost leader enjoys a number of advantages of pursuing the strategy of cost leadership in terms of protection from competition, the cost of inputs and barriers to entry.

A differentiation strategy is to be unique in its industry along some dimensions widely valued by buyers. The uniqueness of the product is rewarded with a premium price. The strategic choices of a product differentiator are **also** in terms of product differentiation, market segmentation and distinctive competency.

The focus strategy is directed to perform service to the needs of a restricted customer group or segment. The strategic choices of a focuser are in terms of product differentiation, market segmentation and distinctive competency.

However, if a firm mixes its primary goal and source of competitive advantage and pursues both cost reduction and differentiation unsystematically then it is said to be "stuck in the middle".



10.7 GLOSSARY

Distinctive Competencies: are the ways in which a company attempt to meet customer needs in order to obtain a competitive advantage.

Business strategies: are the optional courses of action that a firm can take up for each of its businesses individually to customer groups and give value to the customers to enable them to satisfy their needs.

Differentiation strategy: If the firm is able to distinguish its products along some attributes that customer value, and the cost of differentiating the product is lower than the extra revenue envisaged then the strategy is differentiation strategy.



10.8 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

Answers:

(i). (c)

(ii). (a)

(iii). (b)

(iv). (b)

(v). (d)

Check Your Progress –B

Answers:

(i). (b)

(ii). (d)

(iii). (c)

(iv). (a)

(v). (a)



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10.11 TERMINAL QUESTIONS

Q1. Distinguish between corporate and business level strategies. Explain the importance of business level strategies.

Q2. Discuss cost leadership, differentiation and focus competitive strategies.

Q3. Differentiate between low-cost focus and differentiation focus strategies.

Q4. Explain the strategic choices of differentiation and focus strategies.

Q5. What is the danger of being a company stuck in the middle?

Business Policy and Strategic Management
MS 201



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Unit II Understanding Strategy and Strategic Management

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Unit IV Strategic Planning and Strategic Management

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11.10 Terminal & Model Questions

11.1 INTRODUCTION

This unit presents strategic analysis and choice. Strategic analysis involves judgments about what strategy to pursue. This flows from analysis of a company's external environment and internal conditions. Strategic choice is related to the decisions about an organization's future and the ways it needs to respond to the many influences and pressures identified in strategic analysis.

This unit consists of the process of strategic choice, strategic choice at corporate and business levels, selection factors, selection of strategies, contingency strategies and the strategic plan.

The strategic analysis discusses the analytical techniques in two stages i.e. techniques applicable at corporate level and then techniques used for business-level strategies.

11.2 OBJECTIVES

After studying this module, you shall be able to;

- Know the strategic choice process.
- Understand strategic choice at corporate level.

- Comprehend the strategic choice at business level.
- Know the selection factors.
- Understand the selection of strategies.
- Comprehend the contingency strategies.
- Know the strategic plan.

11.3 STRATEGIC CHOICE PROCESS

The strategic choice is fundamentally a process involving decision-making consisting of formulating objectives, generating various alternatives, making selection of one or more available possibilities that will assist the enterprise accomplish its objectives in the best feasible manner, and finally, translating the selected possibility into action. To select on from among the various alternatives, a decision-maker has to fix an evaluation criteria to assess the quality of particular options. The selection factors serve as the criteria that act as counselor to decision-making and markedly make easier the process of selection. The four steps of the strategic choice process are:

- Paying particular attention to alternatives
- The selection factors
- Assessment of strategic alternatives
- The strategic choice

11.3.1 PAY PARTICULAR ATTENTION TO ALTERNATIVES

A large number of variations of the generic strategy options are possible for a particular organization, from which strategists can choose some. The objective of paying particular attention to a few alternatives is to constrict the choice to a number of feasible strategies. Theoretically, all the possible alternatives may be considered but in practice, the choice would be limited to a few. The decision-maker will be encountered with a dilemma. If too many alternatives are considered the process would become unproductive and ungainly. However, if too few options are considered, alternatives worthy of choice would be ignored. To resolve this difficulty, a decision-maker has to pay particular attention to a reasonable number of alternatives. However, it is not simple to determine the 'reasonable' number. In order to arrive at the reasonable number of alternatives, it is favorable to begin with the business definition.

Defining business along three dimensions create a decision-maker suppose in a structured manner and consistently move in one or additional dimensions creating a variety of possible alternatives.

A company could produce strategic alternatives to work forward from the current to the future state where the company desires to be. Paying particular attention on alternatives could also be achieved by conceptualizing a future state and working towards to the present state.

Gap analysis helps to achieve this. A company decides the objectives for a future period and then tries to achieve them through the current level of efforts. The analysis of the difference between the projected and current performance a gap could be identified.

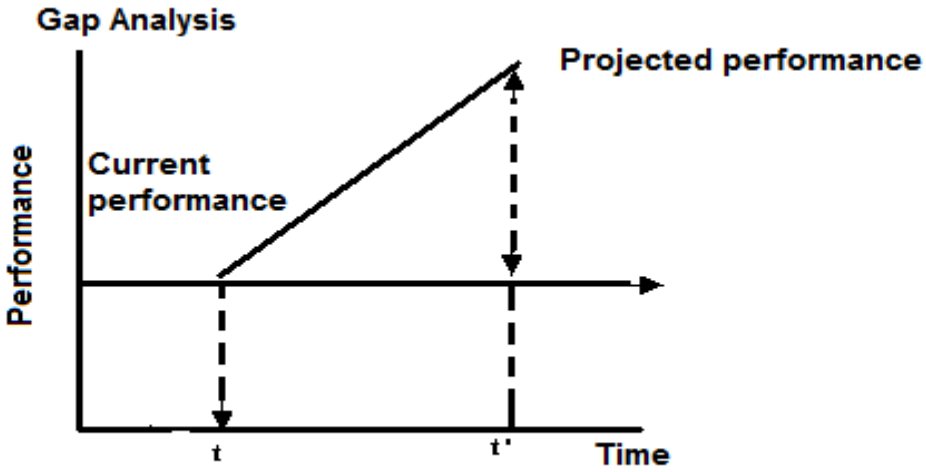


Fig.11.1 Gap Analysis

Fig.11.1 depicts the functioning of the gap analysis. The width of the gap, its nature, importance and the possibility of its being reduced influence the degree of concentration on alternatives. If the gap is narrow, stability strategies would be most favored. If the gap is large, due to past and expected poor performance, retrenchment strategies may be more suitable.

11.3.2 SELECTION FACTORS

The business definition and a gap analysis performed with great care together make smooth the process of reducing the strategic choice to certain feasible alternatives to be further analyzed. This analysis relies on certain selection factors that determine the test for the assessment of strategic alternatives. The selection factors are largely categorized into objective and subjective factors. The objective factors are based on analytical techniques to facilitate a strategic choice. The subjective factors are based on personal intuition and judgment. The alternatives produced in previous step are analyzed on the basis of both types of selection factors.

11.3.3 ASSESSMENT OF STRATEGIC ALTERNATIVES

An ultimate selection of strategy relies upon the selection factors. Every individual strategic alternative has to be assessed for its capability to assist the organization in the accomplishment of its objectives. Assessment of strategic alternatives requires the simultaneous careful thought of outcomes of analysis performed based on both objective and subjective factors. Strategists may apply any approach suitable for the circumstance.

11.3.4 STRATEGIC CHOICE

An assessment of strategic alternatives takes to an assessment of the most appropriate alternative. A strategic plan detailing the strategies and the existence of conditions for their successful execution has to be prepared. Besides the selected strategies, some contingency strategies would also have to be formulated.

The strategic choice is performed at two levels: strategic choice at the corporate level and the strategic choice at the business level.

11.3.4.1 Strategic Choice at the Corporate Level

At the corporate level strategic analysis deals with a corporate body consisting of a portfolio of businesses in a corporate. The analysis carefully thinks the various issues concerning the various businesses in the corporate portfolio. The strategic options are the generic strategies of stability, expansion, retrenchment, and combination. The corporate level strategic analysis is pertinent to a multi-business corporation. For single business entities, business-level strategic analysis would be sufficient

The corporate level analysis techniques that form a major part of the analysis performed at the corporate level are discussed.

11.4 CORPORATE PORTFOLIO ANALYSIS

An elementary methodology of company strategic analysis in diversified, multi- business firms is that the business portfolio analysis approach. Company portfolio analysis may be outlined as a group of techniques that assist strategists in creating strategic selections relating to individual products or businesses in a firm's portfolio. Corporate portfolio analysis could also be used for competitive analysis and strategic designing in multi-business corporations as well as for less diversified firms. The main benefit of applying a portfolio approach in a multi-business corporation lies in resources allocation at the corporate level to the businesses with greatest potential. For instance, a well -diversified company could think about diverting resources from cash- rich businesses to the businesses with faster- growth potential to attain corporate objectives in an optimum way.

A number of techniques thought appropriate for corporate portfolio analysis are discussed in the following paragraphs.

11.4.1 BCG MATRIX

Boston Consulting Group (BCG) Matrix is a 2 x 2 matrix BCG, USA developed. It is the most talked about corporate portfolio analysis instrument. It facilitates a graphic representation for an organization to scrutinize carefully various businesses in its portfolio based on their concerned market share and industry growth rates. The analysis involves two dimensions on management of SBU's (Strategic Business Units). Business potential and the evaluation of environment are comparatively analyzed. The matrix classifies the business as

high or low in accordance with their industry growth rate and relative market share. Relative Market Share is equal to SBU sales this year minus leading competitor's sales this year. Market Growth Rate is equal to Industry sales this year - Industry Sales previous year. The analysis needs that both standard units be computed for each SBU. The dimension of business strength, relative market share, will ascertain the size of comparative advantage market dominance indicates. The principal theory concealed in the BCG matrix is that the experience curve exists in it and that market share is acquired because of comprehensive cost leadership.

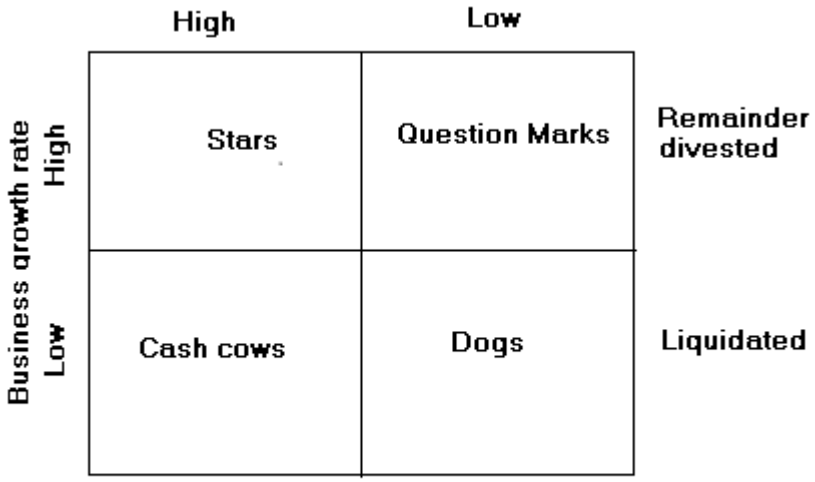


Fig.11.2 BCG Growth Matrix

1. Stars

Stars are businesses that possess high market share in a high growth environment. Such businesses grow quickly and are the best long-run opportunities in terms of growth and profitability in the firm's portfolio. They are leaders in their business and create large amount of cash. They need substantial investment to retain and enlarge their dominant position in an expanding market. Their requirement for investment is larger than the internal cash generation. They are, therefore, short-tern, priority users of corporate resources. Because of their high share, they are anticipated to enjoy a lower cost structure than their lower share competitors because of the experience effects.

2. Cash Cows

Cash cows are low-growth, high market-share products or divisions. Due to their high market share, their costs are low and they generate cash. Since growth is slow, reinvestment costs are accordingly low. Cash cows produce funds for payment of overheads, dividends, and investment for the remaining firm and exceed their needs. Therefore, these businesses provide a source of corporate resources for deployment elsewhere (to stars and question marks) and are governed to retain their strong market share while efficiently generating excess of case. They are the really the substructure of the firm. Stability is the appropriate strategy for such firms.

3. Dogs

Dog are those businesses in which the growth rate is slow and the relative market share is also low as compared to the leading competitors. Due to their low market share these businesses are often presumed to have a higher cost structure as compare to the industry leaders. It is demanding and exceedingly expensive for them to acquire share in a mature market. Divestment or rapid harvesting is the recommended strategy for such feeble businesses. Usually these low capital intensive businesses prove to be useful cash producers.

4. Question Marks

The products or divisions with high-growth, low-market-share is termed as 'question mark' businesses. Cash needs of these businesses are high, but their cash generation is low. Such businesses are seen to indicate opportunity. They need to acquire share by creating added market share and hence lower cost via experience gains, while the growth rate in the industry is high. The main objective of such businesses should be to gain market share rather than short- term profitability maximization. So question marks should be changed into stars, then later into cash cows. This strategy will lead to short run cash drain but positive flow in the long run can be expected. They are candidates for divestiture

BCG matrix usually applies to multiple-SBU enterprise taking decisions about the expansion, preserving and retrenchment of different sbus. The prime goal of the matrix is to ascertain the corporate strategy that best facilitates a portfolio in good proportions of business units. Glueck observes, 'the goal of the matrix is to have a balanced portfolio of product or divisions'. Some of the BCG directions could ultimately lead to an absence of innovative product introductions, as new products start as a dog or question marks.

The BCG matrix was a worth beginning growth in the portfolio approach to corporate-level strategy evaluation. BCG's ideal, balanced portfolio would contain the largest sales in cash cows and starts, with only a few question marks and very few dogs. BCG matrix provides two major contributions to corporate strategic choice.

- each business unit is assigned a specific role or mission.

- multiple business units are integrated into a total corporate strategy

11.4.1.1 Limitations of BCG matrix

BCG matrix suffers from a number of limitations:

1. Since it is cumbersome to explain a market clearly, measuring market share and market growth rate becomes still more difficult.
2. Dividing the matrix into four cells based on a high/low classification is too simplistic. The markets with average growth rates or the businesses with average market shares are excluded.
3. The relationship between market share and profitability differs across industries and market segments. In some industries a large market share creates major advantages in terms of unit costs; in others it does not. Some companies, for instance Mercedes Benz and Polaroid, with low market share could produce superior profitability and cash flow with careful strategies based on differentiation, innovation or market segmentation.
4. The matrix is not useful particularly in comparison of relative investment opportunities across different business units in the corporate portfolio. For example, is every star better than a cash cow? How should one question mark be compared to another in terms of whether it should be made into a star or divested?
5. Strategic evaluation of a set of businesses needs investigation of more than relative market shares and market growth. The attractiveness of an industry may grow on the basis of technological, seasonal, competitive, or other considerations as much as on growth rate. Similarly, the value of a business within a corporate portfolio is often connected to deliberations other than market share.
6. The classification in the BCG matrix somewhat oversimplifies the types of businesses in a corporate portfolio. Likewise, the simple strategic missions recommended by the BCG matrix often don't reflect the diversity of alternatives possible.
7. Executives do not like the application of terminology such as dog, question mark cash- cow in BCG matrix. These terms denote as negative, non-dynamic and unnecessarily graphic.

11.4.2 GE NINE-CELL PLANNING GRID OR MCKINSEY MULTIFACTOR MATRIX

GE nine cell planning grid attempts to win over some of the constraints of BCG matrix in two manners:

1. Multiple factors are applied to evaluate industry attractiveness and business strength instead of the one measure applied in the BCG matrix.

2. The cells of the matrix are increased from four cells to nine cells. It replaced the high/low axes with high/medium/low making a finer contrast between business portfolio positions. Factors such as market growth, size of market, industry profitability, competition, seasonality and cyclical qualities, economies of scale, technology, and social/environmental/ legal/human factors are included for judging the industry attractiveness For evaluating business strength factors such as market share, profit margin, ability to compete, customer and market knowledge, competitive position, technology, and caliber of management caliber are recognized. Fig.11.3 represents the multifactor matrix.

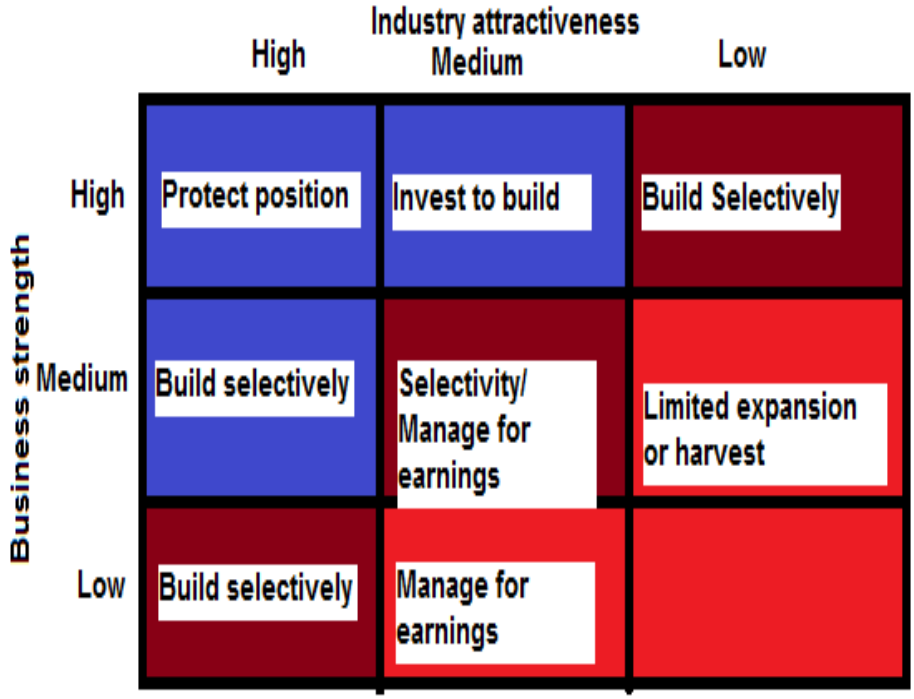


Fig.11.3 GE nine cell planning grid

The strategists then calculate "subjectively" a business's situation within the planning grid by assigning quantities to the two dimensions of the grid.

The strategist initially selects industry attractiveness factors to measure industry attractiveness and then each industry attractiveness factor is allocated a weight representing its perceived importance as compared to other attractiveness factors. Ranging from favorable to unfavorable future conditions for those factors are forecast and rated based on some scale 0 to 1 (scale is illustrative). Then a weighted composite score is attained for a business's overall industry attractiveness.

In order to appraise business strength, a similar procedure is adopted in selecting factors, allocating weights to them, and then rating the business on the considered dimensions.

Thus the GE planning grid might prove to be a useful tool for judging a business within a corporate portfolio. Usually several managers are required during the planning process. The managerial judgment is primarily used for the inclusion and exclusion of factors and their

rating and weighting. Thus businesses are categorized both in terms of the projected business strength and the projected industry attractiveness. The decisions relating to the allocation of resources is quite similar as in the BCG approach. Businesses categorized as invest to grow would be dealt with like the stars in the BCG matrix. These businesses would be provided resources to pursue growth- oriented strategies. Businesses classified in the harvest/divest category would be controlled like the dogs in the BCG matrix. Businesses classified, as selectivity/earnings would either be managed as cash cows or as question marks.

The strategic recommendations GE planning grid generates are similar to those of the BCG matrix. However, the GE nine-cell grid ameliorates the weaknesses of BCG matrix in three basic ways.

1. The body of terms used in GE grid is expedient as it is more universally acknowledged.
2. The multiple measures associated with every individual dimension of the GE grid envelopes more factors pertinent to business strength and market attractiveness than plainly market share and market growth.
3. The nine- cell format makes crystal clear distinction between portfolio positions than does the four-cell BCG format.

11.4.3 HOFER'S MATRIX

Hofer tried to improve upon the BCG matrix because it insufficiently represents new businesses in new industries that are just beginning to grow. Hofer's matrix is an extension of bcg matrix that set right the inadequacy. Hofer analyzed businesses in terms of their competitive position and stage of product-market development. Figure 11.4 illustrates his recommendation. Circles indicate the size of the industries involved. The pie wedges within the circles represent the market shares of the firm. Hofer suggests that these be plotted for present and prospective businesses. Strategic choices based upon such a scheme might follow the logic below.

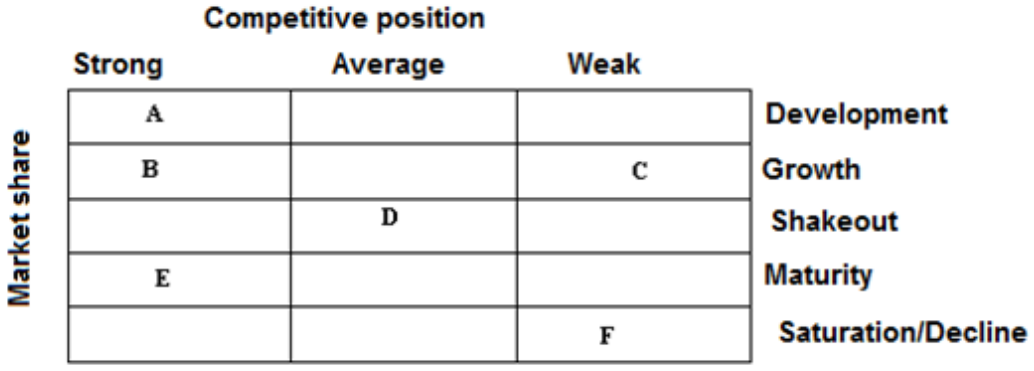


Fig.11.4 Hofer's Matrix

Business A seems to be a coming up star, and thus a subject of excess resource allocation- especially to strengthen its competitive position in light of its strong market share.

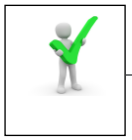
1. Business B might takes much the same scenario as business A, but corporate resource allocation would probably depend upon on determining why B has been unable to obtain a higher market share, given its strong competitive position, and on the presentation of sound plans to rectify that deficiency.
2. Business C and D are question marks, though C is a strong candidate for retrenchment.
3. Business F and, to a lesser extent, business E represent cash cows within the corporate portfolio and would be main targets for corporate resource generation.
4. Business G appears becoming dog, managed to generate short-term cash flow and targeted for possible divestiture or liquidation.

   Hofer's approach can be a helpful instrument to assist the reflection of strategists in multiple-SBU firms who are considering alternative strategies for their various SBUs. Even within a single SBU with multiple products and/or markets, the approach can assist the thinking about the desired portfolio.

11.4.4 AN EVALUATION OF CORPORATE PORTFOLIO ANALYSIS

Hill and Jones pointed four main flaws with of the portfolio planning techniques.

1. An evaluation of a business only on the basis of two dimensions of market share and industry growth can mislead as a number of other factors are required to be considered.
2. The relationship between relative market share and cost saving is not as directly proportional as is supposed to be. Companies with a low market share but focused on a market niche could have achieved low operational costs.
3. A high market share in a low- growth industry does not essentially result in the large positive flow.
4. Several of the portfolio planning techniques pays attention to the source of value creation from diversification strategies. They consider business units as independent whereas they depend upon the entire corporate as they are linked to the corporate headquarter to share skills and competencies. Managements do not pay adequate attention to the process of managing a large diversified company. They think that success lies in putting together the right portfolio of businesses, whereas in reality it comes from managing a diversified portfolio to create value. In order to remove these shortcomings Shell Directional Policy Matrix may be used.



Check Your Progress- A

Choose the correct alternative

1. A process involving decision-making consisting of formulating objectives, generating various alternatives, making selection of one or more available possibilities is:
   (a) Strategy formulation
   (b) Strategic Choice
   (c) Strategy implementation
   (d) None of these

2. BCG matrix is a:
   (a) 2 x 2 matrix
   (b) 3x3 matrix
   (c) 4 x 4 matrix
   (d) None of these

3. The Horizontal axis in BCG matrix measures:
   (a) Business growth
   (b) Relative market share
   (c) Industry attractiveness
   (d) None of these

5. GE matrix is a :
   (a) 2 x 2 matrix
   (b) 3x3 matrix
   (c) 4 x 4 matrix
   (d) None of these

6. In Hofer's matrix vertical matrix represents:
   (a) Market share
   (b) Competitive position
   (c) Industry attractiveness
   (d) None of these

11.4.5 SHELL DIRECTIONAL POLICY MATRIX

The Directional Policy Matrix (DPM) was developed by the royal dutch shell group as an instrument of portfolio- planning. The technique measures businesses on a three by three matrix for recognizing business sector prospects and the company's competitive capabilities. Fig.11.5 presents such a matrix. The position of each business is recognized applying a number of variables. The model may be applied to any diversified business.

1. Business sector prospects

Four main criteria are used for assessing business sector prospects:

(i) Market growth rate

High growth sectors are not ever the most profitable, but growth is an essential condition for growth of sector profits. Such conditions vary from industry to industry.

(ii) Market quality

Sector quality is assessed on the basis of criteria including record of high, stable profitability, product resistance to commodity pricing, free availability of technology, number of suppliers, domination by a few major customers, high added value in the product, product with high switching cost, and freedom from risk of substitution.

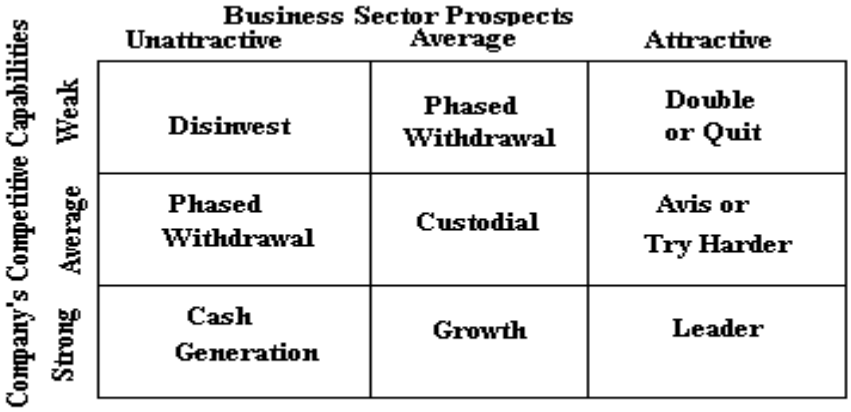


Fig.11.5 Shell Directional Policy Matrix

(i) Feedback on industry situation:

Expansion of an enterprise often depends on the availability of feedback on industry situation. However, shortage of feedstock availability is treated as a positive factor, as it reduces competitive pressures.

(ii) Environmental aspects

The extent of restriction on production, transportation and marketing influence the sector prospects.

2. Company competitive capabilities

The matrix evaluates the relative strength of a business's competitive capabilities using the three criteria usually assessed for the present time, but future achievable positions that may be a result of the implementation of strategies can also be plotted.

Market position, production capability and product research and development are the three criteria:

(i) Market position

Market position is assessed using the main criteria of market share.

(ii) Production capacity

The production capability is a combination of Process economies, hardware capability, location and number of plants and access to feedstock combine to form the production capability.

(iii) R&D Capability

The mix of product range, quality development record, and technical service is used to assess R&D capability

Then the strategist assigns a star rating from one to five. No rating is made for commodity products. The star ratings are then changed to numerical values. The business with one star is awarded a zero and five stars a four. Thus, all of the variables are given equal weighting, while in more advanced models the individual variables are weighted. The results are then plotted on the DPM. An alternative strategy is suggested by each cell.

Leader businesses behave to be high- share concerns, with low costs and a their technical position is higher. While such businesses are usually profitable, cash flows may be marginal due to growth and the need for continuous investment. Such businesses must be supported on priority.

Work harder businesses require investment with a view to drive them into leader positions. In the absence of investment, such a position becomes a liability. Double or quite businesses can be sufficiently supported to change them into the future leadership positions. Growth businesses tend to be profitable and approximately cash neutral. Parental positions tend to occur when there are a relatively large number of competitors and the concerned company is relatively weak. For such businesses, the major objective is to maximize cash generation without making commitment of added resources.

Cash generation is understood as a strong competitive capability in a slow growth market. While profitable such businesses do not attract new investment opportunities and therefore are managed to maximize cash generation. Businesses with phased withdrawal are on an average to weak position in a low-growth sector, while not generating excessive cash, nevertheless remain profitable. Therefore, a phased withdrawal rather than a rapid exit is an appropriate strategy. Such a strategy targets to maximize shareholder value for the business. Businesses in the disinvest sector are usually making losses. Such businesses should be disposed of or closed.

11.4.6 SELECTION FACTORS

Four managerial selection factors influence the strategic choice.

- Perception of external dependence,
- Attitudes toward risk,
- Awareness of past enterprise strategies, and
- Power relationships

1. Perception of external dependence

The owners, competitors, customers, government, and community are the other units on which business firms depend for their survival and prosperity. The more a firm depends on these units, the less flexible its strategic choice is. Thus the range of strategic choices is restricted. Strategic choices are the outcome of interactions of the firm with this environment. Thus strategic choices are the consequences that are negotiated as various parties move to reach their objectives.

A stockholder controlling 51 percent of the voting stock holds more power, and the firm is more dependent on the desires of the majority power. But in addition to the objective phenomena there are the subjective views of the decision makers. Facts do not speak for themselves, executives interpret them. Two firms of equal power can be controlled by executives who see the firms differently. One firm's executives can visualize their firm as week and dependent, and the other as strong. Thus the emphasis they put on the strategic alternatives can differ. For instance, a strategy requiring lower prices to gain market share may be rejected if managers believe that their union has the power to gain greater wages and benefits than their competitors offer. Diversification strategies are often applied to bring down dependence.

2. Managerial attitudes toward risk

The amount of risk the firm, its stockholders, and management can tolerate influence the strategic choice. Managerial attitude toward risk ranges from comfortable risk to strong risk-aversion. The risk averters probably see the firm as very weak and will adopt only defensive strategies with very low risks. Risk attitudes are subject to change, and differ by industry liable to change rapidly and uncertainty of the environment. In very rapidly changing industries, executives must be capable of taking greater amounts of risk; otherwise it will be difficult for them to function.

Internal conditions of the enterprise can also change the risk attitudes. These internal conditions may include the amount of gambling on any given project and the amount of betting and the amount of loss involved. The financial strength and the past success also have an influence on the perception of risk. If you have won recently, you may see less risk in the future.

Thus the evaluation of manager's perceptual risk will assist in knowing the potential acceptability of a particular strategic option. In so far as they influence managerial attitudes, the risk attitudes of the managers and stockholders will eliminate some strategic alternatives and highlight others.

3. Managerial Awareness of Past Strategies

Past strategies are the starting point of strategic choice and may consequently remove completely some strategic choices. The present position of the firm is the beginning point of the process. This point requires reflection on if continuing with the present strategy will take to the achievement of desired objectives. To the extent that the gap is small, past strategy will be continued. And to the extent that managers are committed to continuing the strategy, other alternatives will not be paid attention to.

The corporate cultures constructed to implement the strategy of the past also get in the way of choosing a new strategy. Changing a corporate culture requires new patterns of resource allocation, norms, communication, leadership, rewards, and so on. Such changes will be required if a new strategy separates very far from the past one. It is often complex and time-spending to change corporate culture. Even the past image of the firm may cause a new strategy difficult to implement. So the values of management and perceptions of the firm from outside as a result of long commitments to past strategy prevent the firm from taking fast strides into new growth areas.

4. Managerial Power Relationships

People understand that power relationships act as a principal reality in organizational life. In many firms, if the top manager advocates one alternative, the decision is fully in agreement. At occasions personalities get involved in the process of strategic choice: The persons whom the boss likes and respects play an important role to make strategic choice. Also if "mistakes" are committed, the shift of power can take place to lower-level executives. The power of the CEO plays a role, too. The choice of strategy is also affected by the manager's personal goals, ambitions, values, and motivation. With the existence of a powerful CEO the organization's goals become interwoven with individual goals in the process of strategic choice. Without doubt, power and politics also influence strategic decisions. The importance of the decisions, the extent of time pressure and uncertainty and the style of the decision maker influence the comparative roles of analytical, political, and intuitive approaches to decision making. The external political pressures also exert an influence in determining the compromise among objectives. The politics ever plays a role, even to the extent of influencing objectives and the way the analytical approaches are applied and interpreted. According to, Politics seems to be an over-riding factor in the strategic choice process about 30 per cent of the time (Mintzberg). Thus, the values and goals of the key managers must also be analyzed.

The chosen strategy may have little probability of success if it is not implemented effectively. It is also not likely that that a politically unacceptable strategy will be taken away successfully.

The strength of lower-level participants also plays a part in strategic decision-making. Naturally, strategic choices are made by top managers but earlier strategic choices made by their subordinates restrict the strategic choice usually considered. Subordinates can opt to hold or submit proposals for strategic change. They can also affect the choice by giving analytical data in support their proposal. Furthermore, strategies must be implemented, and lower-level managers have the strength to make or mar a strategy. Decision-makers also have to select the type of environment to operate in. In large organizations, they can influence conditions existing in the environments. Threats and opportunities perceived in the environment, which affect strategic choice, are functions of the power decision makers exercise in the light of ideological values (Child) Hence, power compels choices to follow a particular course of action on the one hand, and expands choice opportunities on the other. The prime is the perception of power and its use.

Finally, at occasions workers' councils also exert an influence on strategic choices.

Thus the power of insiders and outsiders can be a strong political influencing factor on the strategic decision. Coalitions develop to influence the formation of objectives and strategies.

a. The time dimension and strategic choice

The strategic decision process and the quality of the decisions taken are affected by the appropriateness of the timing of decision and the time pressures. The date by which the strategic decision should be taken is usually fixed not by the manager but by others. At occasion, the strategist has to take decisions in time frames fixed by others. In other cases, the strategist has more time to identify alternatives and choose among them. When time pressures are significant, strategist may not be able to collect enough information or think over an adequate number of alternatives. The strategic choice process itself is also affected by time pressures. Ultimately, the wish to accomplish certain objective within specific time frame will more naturally lead to the choice of certain alternative strategies.

11.4.7 SELECTION OF STRATEGIES

The evaluation of strategic alternatives itself does not determine strategies to be selected for implementation. Johnson and Scholes suggest three ways in which strategies are selected.

3. Selection against objectives

The quantified objectives of the organization are the first criteria for the selection of the future strategies. Evaluation methods are therefore central to at the centre of the decision-making process. They are expected to provide quantified answers concerning the relative merits of various alternatives and indicate the right course of action. At occasions some adjustment is needed between the objectives and the strategy. The strategist must assess that the strategic options fit specified objectives of the organization.

4. Referral to a higher authority

Usually the selection of strategies occurs by passing the matters to a higher authority for a decision. In several cases the managers with the responsibility to evaluate the strategies may not have the authority to take ultimate decision in the matter. Similarly, the managers with the responsibility for making the decisions on strategies might not have been involved in the evaluation process. The way the evaluation results are conveyed to the senior managers also plays an important role in the selection of strategies. It is probable that senior managers may not have the adequate time or willing to reveal the detailed information of the strategic evaluation. They are more related with applying their judgment of the situation on the facts available, and also with visualizing how different strategies will match the comprehensive mission of the company.

Thus the evaluation process brings up the level of debate occurring among senior managers at the time of using judgment on the selection of strategy. In a diversified corporation the evaluation of strategies differs at the corporate, subsidiary, or the service departments.

5. Partial implementation

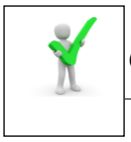
The terminal decision on a strategy may be made by committing certain resources to the partial implementation of one or more strategies that permits the organization to gain more experiment on the ground, to upgrade its knowledge of the appropriateness of each strategy and, at a later time, to make a more knowledgeable decision about strategies to follow. The advantage of partial implementation approach is that it can generally be approved at lower levels of the organization. However, senior managers might feel it risky to allow too much liberty for such unapproved experimentation in the organization.

11.4.8 CONTINGENCY STRATEGIES

Strategists will pick out to turn their eyes at one set of strategic alternatives in first-generation of strategic planning and multiple set of alternatives in second-generation or contingency approaches to strategic management. In more developed strategic management, managers also produce alternative strategies that they can think over if conditions should change. When conditions change markedly, consideration of the contingency strategies starts.

A programmed strategy or contingency strategy is added dimension to different approaches to strategic choice. A programmed strategy is planned in a detailed and integrated way that it is difficult to change it once it has started to be implemented. A contingency strategy requires the strategic planner to select the favored strategy within the best estimate of conditions and other strategic choices. But it is adaptable enough to permit for shifts in the thrust of the plan when conditions require it. While, programmed strategies flow from first-generation planning, second-generation planning gives rise to contingency strategy formation.

For steady environments with people who desire well-explained role programmed planning is most favored. The contingency strategy is appropriate for dynamic environments with people preferring variety and stimulations.



Check Your Progress- B

Choose the correct alternative.

1. Shell Directional Policy Matrix is developed by;
   (a) Royal Dutch Group
   (b) Boston Consulting Group
   (c) McKinsey & Co.
   (d)None of these

2. Which one of the following does not measure business sector prospects in Shell Directional Policy Matrix;
   (a) Market growth rate
   (b) Market quality
   (c) Feedback on industry situation
   (d) None of these

3. At the corporate level strategic analysis deals with a corporate body consisting of;
   (a) A portfolio of businesses in a corporate.
   (b) Functions
   (c) A plan of a particular business
   (d)None of these

4. Strategic choices are influenced by factors;
   (a) Perception of external dependence
   (b) Attitudes toward risk
   (c) Awareness of past enterprise strategies
   (d)All of these

5. Commonly the selection of strategies takes place by referring the matters to a;
   (a) Higher authority
   (b) Lower authority
   (c) Middle authority
   (d) None of these

11.5 SUMMARY

Strategic choice is related to the decisions about an organization's future and the ways it needs to respond to the many influences and pressures identified in strategic analysis.

The strategic choice is fundamentally a process involving decision-making consisting of formulating objectives, generating various alternatives, making selection of one or more available possibilities that will assist the enterprise accomplish its objectives in the best feasible manner, and finally, translating the selected possibility into action. The four steps of the strategic choice process are paying particular attention to alternatives, the selection factors, assessment of strategic alternatives and the strategic choice. At the corporate level strategic analysis deals with a corporate body consisting of a portfolio of businesses in a corporate. A number of techniques thought appropriate for corporate portfolio analysis include BCG matrix, GE nine cell planning grid, Hofer's matrix and Shell Directional policy matrix. Four managerial selection factors influence the strategic choice. These are perception of external dependence, attitudes toward risk, awareness of past enterprise strategies, and power relationships. The strategies are selected against objectives, referral to higher authority and partial implementation. A contingency strategy requires the strategic planner to select the favored strategy within the best estimate of conditions and other strategic choices.



11.6 GLOSSARY

Corporate Portfolio Analysis: is a group of techniques that assist strategists in making strategic decisions.

Experience Curve: is a systematic unit-cost reduction as experience accumulates



11.7 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

Answers:

1. (b)
2. (a)

3. (b)
4. (b)
5. (a)

Check Your Progress –B

Answers:
1. (a)
2. (d)
3. (a)
4. (d)
5. (d)



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11.10 TERMINAL AND MODEL QUESTIONS

Q1. Do you find any difference between strategic analysis at the corporate level and at the business level? How are they related?

Q2. Discuss the usefulness of portfolio approach to strategy evaluation.

Q3. Explain the role of SWOT analysis as a tool of strategic choice at the business level.

Q4. Discuss the BCG matrix and its strategic implications.

Q5. Explain the directional policy matrix.

Q6. Describe the need for developing contingency strategies.

UNIT 12 STRATEGIC CHOICE

12.1 Introduction

12.2 Objectives

12.3. Meaning of Strategic Choice

12.4 Attributes of Strategic Choice

12.5 Factors affecting Strategic Choice

12.6 Strategic Choice Procedure

12.7 Contingency Strategies

12.8 Summary

12.9 Glossary

12.10 Reference/ Bibliography

12.11 Suggested Readings

12.12 Terminal & Model Questions

12.1 INTRODUCTION

In the previous unit you learnt about the different approaches to generic strategies; how generic strategies can be taken up and implemented. You have identified various alternatives – Growth/Expansion, Stability, Retrenchment or Combination Strategies and the conditions to illustrate which strategy variations may be considered appropriate.

In this unit, you will study about the actual choice of strategy. The available alternatives are narrowed down on the basis of organizational objectives and then the most appropriate strategy is chosen.

12.2 OBJECTIVES

After reading this unit you will be able to:

- Understand the meaning of strategic choice
- Explain the significance of strategic choice.

- Learn how to focus on few appropriate alternatives from among several alternatives.
- Learn how choices are made by decision makers from among several alternatives.

12.3 MEANING OF STRATEGIC CHOICE

At the heart of effective strategic planning lies the ability to surface the truly important issues and to make good choices, in the process of deciding how to address these issues. Strategic choice refers to the decision to choose from among several alternatives; the strategy which best serves the purpose of realising the organization's objectives. An effective strategic choice process positions an organization for making sustainable strategic decisions. It is important to keep in mind the external and internal environments when making a strategic choice. Potential strategies include stability, expansion, retrenchment, a combination and some strategic variation of these generic strategies. While devising a suitable strategy, strategists ask themselves some very important questions that cover all crucial aspects of the organization, such as: What are our objectives? Are these being met by our strategy? Will they be met in the future? Asking these questions is essential to the success of a strategy. The process involves four key stages. The first stage involves identifying the problem and developing an outline of the actions the firm intends to take. With a clear picture of the problem in hand, the process of short listing various solutions is carried out. This process involves listing various alternatives that are carefully analyzed by strategists. The third stage involves evaluating all possible strategies and analyzing how each will affect the business in the long run. In the final stage, a decision is made for the final choice. This decision is made keeping various parameters in mind. Some of these parameters could be feasibility, prudence, consensus, acceptability, etc. Certain strategic choices make up for a bigger part of the strategic policies of the company. Hence, more importance is given to them and decision makers ensure that they choose a strategy which enables the firm to work towards the fulfilment of its mission. At times, majority shareholders use their influence over the company by selecting a strategic choice that benefits their agendas.

In a nutshell, strategic choice is a combination of intent, analysis and options available.

Strategic Choice may be described as the firm's decision to select from among the grand strategies considered, the strategy/strategies that would best meet the company's objectives. The choice is made by focusing on a few alternatives on the basis of the selection factors, evaluating the alternatives against these criteria and finally choosing the appropriate alternative.

Strategic Choice is influenced by the relative volatility of the market it operates in. A highly volatile sector needs a more flexible strategic response.

12.4 ATTRIBUTES OF STRATEGIC CHOICE

In the context of planning for the long term future performance of an organization a sound choice is characterized by the following attributes:

Authenticity:

In order for a strategic decision to qualify as authentic, it should be made from a number of, at least two, options which represent feasible alternatives. The choice/decision must be stated so clearly that it is obvious what an organization will do by following the options, and equally important what it will not do.

The entity must choose who it intends to serve in some beneficial way. It must choose what benefit it will provide. For a business it must be clear which customers it will cater to, and which markets it will not service. Authentic choices may also include choosing the basis on which the business will compete, or how the firm will achieve competitive advantage in the chosen customer segments of the market, and what it will not do to compete.

An inauthentic choice does not plainly spell out what the organization will and won't do as a result. For example, many companies pride themselves on being committed to a customer focus. Is it possible for any business to state in its strategic plan that it will not focus on the customer, or even deliberately ignore the customer? It is not a matter of choice.

If competitors take options rejected by particular organizations then we might say that a strategic choice was authentic, was addressed, and taken.

Achievability/Believability:

A believable choice may be described as one that can be traced back to some real basis in terms of the evidence and commitments of the members of the team responsible for the strategic planning.

Believable choices are based on relevant, representative, and trustworthy evidence or are derived from such facts by sound logic. This stress on facts and logic does not preclude some role for the intuition, emotional commitments, or personal beliefs and values of the participants. However, it does acknowledge them, and their possible influence on the strategic choice process.

In a well designed strategic planning process, the logic applied to the data can be easily traced, clearly stated, and be open to assessment.

Strategic choices and decisions flowing into the strategic plan from them will be less believable, or convincing, to those required to implement them, if conditions are not right. For example if strategic choices are perceived to be unduly influenced by the relative political position of key players or their relationship with other participants in the planning process, they will be less believable.

Anything that compromises the open and rigorous testing of strategic choices through the planning process may undermine their believability, and the confidence people have in the

overall plan. For example, overuse of particular data to support a prejudicial position may be as concerning as too little data.

Opinions, and apparent hunches, or just gut feelings may be useful inputs to generating or discussing strategic choices. This is because they may be the product of many years of relevant experiences and knowledge in the field under consideration. A few decades of working in an industry subject to seasonal fluctuations may give a manager a set of mental models of change in an industry that can be a valuable and believable resource in considering a particular strategic choice being considered by a planning team.

However rather than disregarding these 'gut instincts', and just like the 'harder' data in the more formal accounting models, they need to be assessed for believability by the planning team as a whole.

Communicability/Understandability:

A strategic choice may be authentic, and it may be believable, however, if it not in a form that enables it to be effectively and efficiently communicated, it is a waste of time. 'Message received and not understood'. This is not simply a matter of the way it is expressed or written. It is also about whether or not the choice is compelling.

When communicated through other forms of planning as well as the complex webs of formal and informal communication channels required to get anything done in an organization, any the choice made should be engaging to a variety of audiences. These audiences include people who may have been remote from the formation of the strategic choices. Yet these same people may be expected to implemented the associated decisions, or at least adjust to their impact on them.

The communicability of the strategic choice becomes a kind of test of the management team commitment. Members of the organization remote from the decision making process, and yet with responsibilities for executing the strategic plan will judge the enthusiasm of the management team by the way in which the top managers communicate the strategic choice or choices. They will of course test the logical sense of the strategic choice against their own experiences and, if found wanting, the strategic choice will not have been fully communicated because it may be rejected by the recipients. "Message received, understood, and not accepted'.

In addition to the factual content of the choice, the managers who have taken this position need to also communicate their determination to make a choice to change direction from current strategies. They also need to communicate their seriousness, and willingness to do whatever it takes to help the organization through the transition to this new position arising from the strategic choice made.

This brings us to the last major attribute of good a strategic choice, deliverability.

Implementability

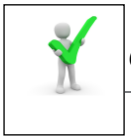
Surfacing the really important issues or strategic elephants, exploring choices relevant to addressing these issues is all very well. Narrowing the choices to a small number that meet

the A, B and C already outlined is fine. However, a strategic choice is not much use unless it can be executed.

That means the choice is not only Authentic, Believable and Communicable. It must also be Deliverable, or Doable, or…Executable. Enough with the alphabet block already!

Strategic choices that have been shortlisted for inclusion in a corporate strategy need to be capable of being broken down into a series of doable steps to be taken immediately, and can be further broken down into medium and long-term achievable actions, with clearly stated deliverables.

These larger authentic, believable, communicable corporate strategic choices must also be able to be carried out in the real world. They must be capable of being translated into clear budgets. Projects or action plans, with clearly assigned accountabilities. They must be at least adequately resourced. As importantly they must be planned with associated risk management practices in place to deal with the inevitable obstacles that arise.



Check Your Progress- A

Q1. What do you understand by strategic choice?

Q2. Why not just accept that first strategy that pops into the decision maker's mind?

12.5 FACTORS AFFECTING STRATEGIC CHOICE

Political Factors: Political or legal factors has a great impact upon Government regulation and policy on businesses as well as the economy, consumer's protection, legal issues that defines formal and informal rules firms must operate in. The government's role as a regulator or facilitator of business affects choice of strategy.

Economic Factors: Disposable incomes, unemployment, exchange rates , inflation, industries economic growth trends (various countries), interest rates, taxation, government spending levels and money supply influence the planning and working of firms. For example a firm may choose to opt for a growth strategy through new products in new markets or luxury products in markets if disposable incomes are high.

Social Factors: Trends affect the demand for an industries product and how they operate in the market. Firms create various management strategies to adjust and adapt to a countries social trend - lifestyle changes, consumerism, education, trends, language diversity, immigration/emigration, living standards, fashion, and attitudes to work, leisure and attitude to foreign products and services due to the countries culture.

Technological Factors: The dynamic technological environment influences the strategic decision making of the firm. Government spending on research, new discoveries and development, new technologies, research and development efforts, and rates of technological obsolescence have an impact on a firm's choice of strategy.

Other factors that influence choice of strategy are Management's attitude towards risk and constraints of time and competition.

12.6 STRATEGIC CHOICE PROCEDURE

Process of strategic choice

1. Focusing on alternatives: the main aim of this step is to narrow down the choice to a manageable number of achievable strategies. This can be achieved by visualising a future state and working backwards from it. Having the firm's mission and vision in mind helps managers think in a structured manner along any one or more dimensions of the business.

   The business has the option of choosing the type of strategy it wants to pursue. Focusing on strategic alternatives could be done by visualizing the future state and working backwards. This may be done through gap analysis. Strategists analyze one set of alternatives in first generation planning and at multiple sets of alternatives in second generation or contingency planning. Where do strategists begin? Where do these alternatives come from? Generally, strategists begin with alternatives they know about or consider ones proposed by subordinates which are in tune with the past.

Therefore, the size of the perceived gap in performance directs the strategist to consider some strategies and ignore others.

GAP ANALYSIS = Projected Performance – Desired Performance

At Corporate level, strategic alternatives are: expansion, stability, retrenchment or combination.

Expansion Strategy may be chosen if the performance GAP is large

Stability Strategy may be the right choice if the "Performance Gap" is narrow.

Retrenchment Strategy would be the best choice if the performance GAP is large due to poor performance in the past and expected performance in future.

Combination Strategy is often used in a more complex scenario, when there are multiple reasons for the performance GAP.

At Business level, strategic alternatives are: cost leadership, differentiation or focused business strategy. Organizations think in terms of alternative ways of competing. The choice is essentially between positioning the business as being low-cost, differentiated or focused. The organization must understand the conditions of the industry's risk and benefit of each competitive positioning before making a choice.

2. Analysing strategic alternatives: the alternatives have to be subjected to a thorough analysis which relies on a number of factors. These factors are called selection factors, as they determine the criteria on the basis of which the evaluation takes place. They are:

   Objective factors: based on analytical techniques. These are hard facts used to facilitate strategic choice.

   Subjective factors: based on one's personal judgement, collective or descriptive factors. Subjective factors are essentially intuitive and descriptive in nature. Here no "cut and dried" analytical models can be used. The factors to be considered may include Government Policies, Perception of critical success factors (CSFs) and dist .♣ Commitment to past strategic actions, Strategist's decision styles and attitude to risk, Internal Political Considerations, Timing and Competitor Considerations.

   A careful analysis of Government Policies is essential as Strategies within organizations are shaped by Government policies, politics and priorities.

   Strategists may also be guided by the distinctive competencies that the organization possesses and the Critical Success Factors that assure success.

   Commitment to past strategic actions - Past strategic action shows that they move in an incremental fashion. By this strategist are more likely to start from where the organization is, and work up in the way that had been adopted by it to reach where it was.

Strategist's decision styles and attitude to risk - The decision style adopted by strategist, particularly by CEO and their attitude to risk is a determining subjective factors in strategic choice.

Internal Political Considerations-When strategy formulation is viewed as a political process, strategist are viewed as a coalition of interest. A dominant CEO is able to affect strategic choice a decisively.

Timing and Competitor Considerations - When to exercise a strategic choice? When a particular strategic choice is to be made? For what time period is a strategic choice to be made? What are the competitor action?

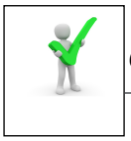
Critical success factor (CSFrefers to those few things that must go well to ensure success for a manager or an organization, and, therefore, they represent those managerial or enterprise area, that must be given special and continual attention to bring about high performance. CSFs include issues vital to an organizations current operating activities and to its future success.

Distinctive competence of a firm refers to a set of activities or capabilities that a company is able to perform better than its competitors and which gives it an advantage over them. Distinctive competence can lie in different area such as technology, marketing activities, or management capability.

3. Evaluation of strategies: each factor is evaluated for its capability to help the organisation achieve its objectives. Evaluation of strategic alternatives basically involves bringing together the analysis done on the basis of the objective and subjective factors. To observe what is important, both the factors have to be considered together.
4. Choosing From Among the Strategic Alternative This is the final step of making the strategic choice. One or more strategies have to be chosen for implementation. Also a blue print has to be made that will describe the strategy and the condition under which they operates

12.7 CONTINGENCY STRATEGIES

Conditions/circumstances change over a period of time. The rate of change is much faster now and calls for measures to quickly adjust and adapt with the changed environment. The need for contingency strategies is triggered by sufficient changes in circumstances/environment. Therefore, another dimension to strategic choice may be included in the form of 'contingency strategy' that allows the strategist to choose a preferred strategy taking into account the best estimate of conditions and other choices available. The purpose is to induce flexibility into planning. The contingency strategy is especially suited for unstable environments and also for decision makers who cherish variety.



Check Your Progress- B

Q1. Briefly discuss the objective factors that influence choice of strategy.

Q2. Describe the subjective factors that influence strategic choice.

Q3. What strategic alternatives are available at the Business level?

Q4. What strategic alternatives are available at the corporate level?

12.8 SUMMARY

Strategic Choice may be described as the firm's decision to select from among the grand strategies considered, the strategy/strategies that would best meet the company's objectives. The choice is made by focusing on a few alternatives on the basis of the selection factors, evaluating the alternatives against these criteria and finally choosing the appropriate alternative.

Various approaches and tools are available to support the decision makers in analyzing the best alternatives based on the assessment of external and internal conditions. The first generation strategic planning involves a careful analysis of one set of strategic alternatives whereas the second generation or contingency approaches require the strategist to look at multiple sets of alternatives. If the performance gap is narrow, the alternatives considered with emphasize on stability. If the performance gap is large the alternatives focus on expansion or retrenchment. The strategic choice is limited by the extent to which a company depends on it's stakeholders including owners, customers, suppliers, competitors, government and the society.



12.9 GLOSSARY

Cost leadership - This means competition entails competing through cost, efficiency, firms within an industry would compete using lower cost of production to gain competitive advantage over competitors.

Differentiation - concerned with how a firm competes, the way in which it can offer uniqueness to customers which relate to consistency, reliability, status, quality, and innovation.

Strategy - This describes the direction the business will pursue within its chosen environment and guides the allocation of resources and effort.

Strategic intent - An ambitious organizational goal that is not proportional to current resources and capabilities and remains stable over time. To ensure long-term success, management envisions a desired leadership position and then establishes the criterion that the organization will use to chart its progress.



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12.12 TERMINAL QUESTIONS

Q1. Explain the process of strategic choice. What are the steps involved in the process of strategic choice?

Q2. What is a contingency plan or strategy?

Q3. Where do reasonable strategic alternatives come from?

Q4. Describe the attributes of strategic choice.

Q5. Discuss the factors that affect strategic choice.

UNIT13 STRATEGY IMPLEMENTATION

13.1 Introduction

13.2 Objectives

13.3. Meaning of Strategy Implementation

13.4 Role of Strategists in Strategy Implementation

13.5 McKinsey 7-S Framework

13.6 Challenges in Strategy Implementation

13.7 Process of Strategy Implementation

13.8 Evaluation of Strategy

13.9 Criteria for Evaluation

13.10 Control of Strategy

13.11 Summary

13.12 Glossary

13.13 Reference/ Bibliography

13.14 Suggested Readings

13.15 Terminal & Model Questions

13.1 INTRODUCTION

In the previous unit you learnt about how decision makers evaluate alternative strategies at the corporate and SBU levels to ensure that the purposes of business are satisfied in the most optimal manner. The available alternatives are narrowed down on the basis of organizational objectives and then the most appropriate strategy is chosen. If the enterprise intends to close the gap between ideal and expected outcomes it needs to go put in more efforts than just making a strategic choice. Proper implementation is essential to convert choice into reality. Necessary structural and administrative mechanisms must be put in place to make the strategy workable.

In this unit, you will study about the implementation of strategy. Implementing strategies is quite significant to enable the enterprise to move from the current state to the desired state. A brilliant strategy that is not properly implemented is meaningless. Organizational objectives can be met only through appropriate implementation of strategies.

13.2 OBJECTIVES

After reading this unit you will be able to:

- Identify the different types of plans required to implement strategy.
- Understand the process of strategy implementation.
- Learn how leadership implementation is handled.
- Understand the importance of organizational structure in strategy implementation.
- Learn the significance of organizational culture.
- Understand the importance of resource allocation.

13.3 MEANING OF STRATEGY IMPLEMENTATION

Strategy implementation refers to the process of transforming the strategy/plan into action. It is the aggregate of all activities and decisions required to successfully execute a strategic plan. Strategy implementation may also be described as the manner in which an organization should develop, utilize, and amalgamate organizational structure, control systems, and culture to follow strategies that lead to competitive advantage and a better performance.

13.4 ROLE OF STRATEGISTS IN STRATEGY IMPLEMENTATION

The Board of Directors are rarely involved except where major organizational changes are required such as appointing a new CEO, for inducing major changes in structure or major resource allocation decisions in case of mergers or capital investments.

Top managers at the corporate level are often involved in strategy formulation and goal setting and play a very important role in integrating the corporate level strategy with the SBU level plans. They often negotiate with SBU managers regarding resource allocation. Therefore, top corporate managers and SBU heads are primarily responsible for resource allocation.

Once basic decisions are made strategy gets implemented through the structural hierarchy in the organization. Decisions/choices made at the corporate headquarters are articulated and communicated to the top brass of SBUs. The SBU top managers then select their specific strategies and implement them in their units. The corporate planning staff facilitates the process. Consultants may also be hired for expert opinion.

13.5 MCKINSEY 7-S FRAMEWORK

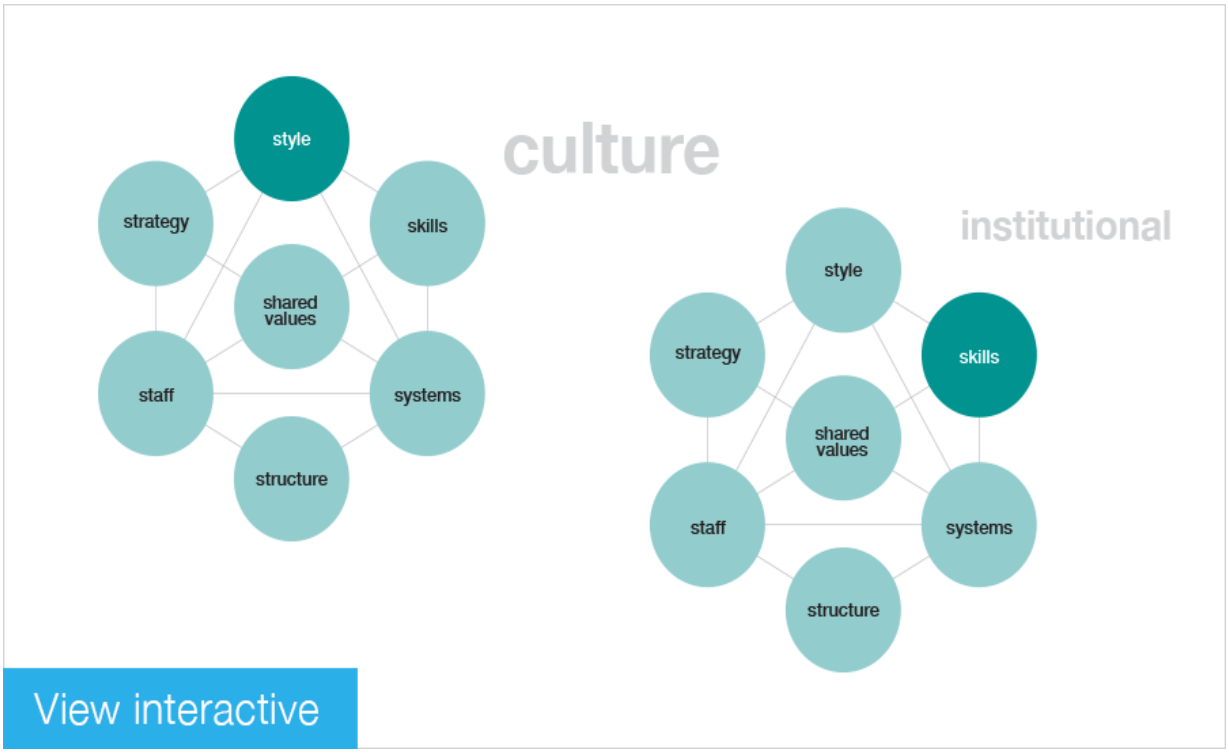


Fig 13.1 MCKINSEY 7-S FRAMEWORK

Source: McKinsey & Company

http://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our insights/enduring-ideas-the-7-s-framework

Former McKinsey consultants Thomas J. Peters and Robert H. Waterman, have formulated a framework of interrelated factors that influence an organization's ability to change. The lack of hierarchy among these factors suggests that significant progress in one part of the organization will be difficult without working on the others.

The researchers found that the major problems with strategies were that of implementation. The seven features or the 7s must fit into and support the strategy.

The 7s Elements The seven interdependent factors are categorized as either "hard" or "soft" elements. Hard Elements: Strategy, Structure & Systems Soft Elements: Shared values, Skills, Style & Staff. Hard Elements "Hard" elements are easier to define or identify Management can directly influence them. These are Strategy Structure Systems Soft Elements "Soft" elements, on the other hand, can be more difficult to describe They are less tangible and more influenced by culture. These soft elements are as important as the hard elements if the organization is going to be successful. These are: Shared Values, Skills, Style & Staff.

'Shared Values' forms the interconnecting centre of the model. It indicates the shared vision of the organization and what it believes in. Placing Shared Values in the middle of the model emphasizes that these values are central to the development of all the other critical elements. The company's structure, strategy, systems, style, staff and skills all stem from why the organization was originally created, and what it stands for. The original vision of the company was formed from the values of the creators. As the values change, so do all the other elements.

Strategy is the broad framework to build and maintain competitive advantage by allocating the scarce and valuable resources to accomplish the mission and goals.

Structure refers to the way in which the different units of the organization relate to each other. The hierarchy –who reports to whom describes the structure.

System is the set of rules, regulations, daily activities and procedures that the members of the organization engage in to get work done.

Style refers to the behaviour of key managers /leaders in the process of achieving the organizational goals.

Staff is all about identifying, hiring, training and developing qualified people in the organization.

Skills refer to the uniqueness and distinctive capabilities of the employees or the organization as a whole. The organization is known by these distinctive skills. For example, a firm may be known as an Engineering firm or a management consultancy. This reflects the specific skills of the members of the organization as a whole.

13.6 CHALLENGES IN STRATEGY IMPLEMENTATION

Strategy implementation process is not as simple and straightforward as it might appear to some decision makers. The decision makers responsible for implementing plans may act with their understanding of the issue, their biases, likes and dislikes. For example, a new manager may implement a process that worked very well in his former company or the Chief Executive may launch a new implementation model and everyone is expected to follow it. Consultants may intervene, each with their own tools and ideologies. Some manager may get a kick out of complex theoretical models, or someone may want to create something completely new.

Most managers fail to understand the process. Your strategy may be brilliant and your implementation plans may be just perfect, but if your managers don't get it, it's worthless.

There is often no clarity regarding ownership of the strategy implementation process. The responsibilities are distributed among many different managers.

The responsibility and ownership of implementation in large organizations may be vested with the finance department, human resources, the strategy coordination team, internal consultants, several program management offices and, last but not least, the managers themselves. This fragmentation leads to lack of ownership for the global implementation process. Most companies don't coordinate the activities spread across all these players. They work in isolation.

Another disadvantage – apart from the lack of ownership – is the lack of visibility for the global process. Separate, stand-alone, Strategy Execution topics such as budget discussions for new strategic initiatives, Key Performance Indicator (KPI) reviews or the selection of a new development program, regularly make it to the boardroom table, but Strategy Execution as an activity doesn't.

People resist change. They are comfortable with the established procedures and tend to panic at the thought of change. This is especially true when it comes to changing the strategy implementation process.

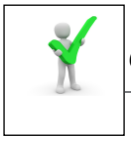
The process of strategy execution is not measurable. Most companies today measure and monitor almost everything. Every part of the business has its own kpi. But the strategy implementation process itself remains a black box.

Other challenges include questions related to budget allocation and the costs associated with implementation are often unanswered.

The strategy implementation process is often not balanced. Managers prefer to focus on things they are already quite good at. Companies operate the same. Organizations invest in those strategy implementation process steps that are already quite developed, but then neglect the weaker ones – creating a vast difference between the different strategy implementation steps.

The strategy implementation process is usually a very expensive exercise. Most companies do not ptimize by outsourcing some activities. Moreover, most managers lose time, and therefore money, by doing things that are not really needed or are very inefficient at doing things a certain way.

The strategy implementation process may become a political minefield with too many people keeping their jobs alive by continuing the complexity or adding even more.



Check Your Progress- A

Q1. What is the role of Board of Directors in strategy implementation?

Q2. What do you understand by 'shared values'?

13.7 PROCESS OF STRATEGY IMPLEMENTATION

The process of strategy implementation has still not been specified in detail but there is a high degree of unanimity between experts in terms of activities and systems.

The following activities suggest the process more or less in the same order.

Prerequisites for strategy implementation

Successful implementation is usually spearheaded by top management applying team work/participatory styles of leadership. Strategies are implemented by people, so you need their commitment. Some implementation is actually out- sourced from those with better value- adding core competences in some of our tactics/activities that make up your chosen strategy. Planning for strategy implementation is usually ignored due to that excitement after choosing our strategy. It is important to plan for this critical stage. An implementation plan is very critical at this stage. It must be in line with that strategy's tactics and the generic steps for effective strategy implementing. What it contains; What activities are to be done; When they will be done (Timing); Who will do them (Persons responsible)? What resources will be required? What will be the performance indicators? Objectively verifiable indicators (OVIs), Means of verification/evaluation, Key Result Areas (quantitative and qualitative indicators)

Coherent and integrated Work Plans can then be developed from this Implementation Plan's schedule of tactics/activities/actionable steps. A good strategic choice with wrong tactics/work plans is likely to fail, and vice-versa.

The process is not necessarily a sequence of activities but all the aspects and activities are closely interrelated and interdependent.

1.Articulate the strategy and communicate measurable objectives for the enterprise.

2. Determine key managerial tasks. A new strategy means new priorities and new activities across the organisation. Every activity (other than the most functional) must be reviewed against its relevance to the new strategy.

3. Delegate/assign tasks and authority. Restructure or modify the existing structure if required. Establish procedures for cooperation and coordination.

4. Allocate resources to Strategic Business Units. Align budgets & performance. Ideally your capital budgets should be decentralised, so each division can both allocate and manage the budgets to deliver the division's strategic initiatives

5. Determine clearly the tasks and goals of managers. Structure follows strategy. A transformational strategy may require a transformation to structure. Does the structure of your organisation allow strategy to cascade across and down the organisation in a way that meaningfully and efficiently delivers the strategy? Organisations that try and force a new strategy into an out-dated structure will find their strategy implementation eventually reaches a deadlock.

6. Determine performance indicators. Performance measures should be placed against strategic goals across the organisation and each division and staff member. All staff will have job functions that will have an impact on strategy. Most staff will have impact across a series of strategic goals (eg. financial, customer service, sales, product). Ensure employees are aware of their role and influence on strategy delivery and performance. Likewise performance incentives should be directly linked to performance against strategy. They should include a combination of individual, team and corporate performance measures that ensure staff recognise their direct and indirect impact on strategy performance.

7. Refine Information System

8. Training and development of managers **:** Strategy involves change. Change is difficult and human tendency is to resist it. So not matter how enlightened and inspiring your new strategic vision, it will come up against hurdles.

9. Establish control mechanisms. Strategies must be adaptable and flexible so they can respond to changes in both our internal and external environments. Strategy meetings should be held regularly throughout the year, where initiatives and direction are assessed for performance and strategic relevance

10. Evaluate outcomes, determine gaps and take corrective action.

13.8 EVALUATION OF STRATEGY

Strategic evaluation is the assessment process that provides executives and managers performance information about programs, projects and activities designed to meet business goals and objectives. The decision makers obviously want to ensure that the strategic choice is implemented properly.

Strategy Evaluation is as significant as strategy formulation because it throws light on the efficiency and effectiveness of the comprehensive plans in achieving the desired results.

Strategic Evaluation is significant because of various factors such as - developing inputs for new strategic planning, the need for feedback, appraisal and reward, development of the strategic management process, judging the validity of strategic choice etc.

The process of Strategy Evaluation includes-

1. **Establish Performance Targets, standards and tolerance limits-** While fixing the benchmark, strategists encounter questions such as - what benchmarks to set, how to set them and how to express them. In order to determine the benchmark performance to be set, it is essential to discover the special requirements for performing the main task. The performance indicator that best identify and express the special requirements might then be determined, to be used for evaluation. The organization can use both quantitative and qualitative criteria for comprehensive assessment of performance. Quantitative criteria includes determination of net profit, ROI, earning per share, cost of production, rate of employee turnover etc. Among the Qualitative factors are subjective evaluation of factors such as - skills and competencies, risk taking potential, flexibility etc.
2. **Measurement of performance -** The standard performance is a bench mark with which the actual performance is to be compared. The reporting and communication systems facilitate the process of performance management. If appropriate means are available for measuring the performance and if the standards are set in the right manner, strategy evaluation becomes easier. But various factors such as managers contribution are difficult to measure. Similarly divisional performance is sometimes difficult to measure as compared to individual performance. Thus, variable objectives must be created against which measurement of performance can be done. The measurement must be done at right time else evaluation will not meet its purpose. For measuring the performance, financial statements like - balance sheet, profit and loss account must be prepared on an annual basis.
3. **Analyzing Deviations -** While measuring the actual performance and comparing it with standard performance there may be variances which must be analyzed. The strategists must mention the degree of tolerance limits between which the variance between actual and standard performance may be accepted. The positive deviation indicates a better performance but it is quite unusual exceeding the target always. The negative deviation is an issue of concern because it indicates a shortfall in performance. Thus in this case the strategists must discover the causes of deviation and must take corrective action to overcome it.
4. **Execute modifications and refinements/Take Corrective Action -** Once the deviation in performance is identified, it is essential to plan for a corrective action. If the performance is consistently less than the desired performance, the strategists must carry a detailed analysis of the factors responsible for such performance. If the

strategists discover that the organizational potential does not match with the performance requirements, then the standards must be lowered. Another rare and drastic corrective action is reformulating the strategy which requires going back to the process of strategic management, reframing of plans according to new resource allocation trend and consequent means going to the beginning point of strategic management process.

13.9 CRITERIA FOR EVALUATION

Evaluations can be based on objective and subjective factors. The criteria used will depend on the purpose of evaluation. Quantitative or Qualitative approaches may be used for the purpose of evaluation.

Quantitative Criteria: To evaluate the effectiveness of strategy the current performance of the firm is compared with the past performance or with it's competitors on factors like profits, dividends, stock prices, return on capital, market share, sales growth, cost of production, distribution costs, employee turnover etc. There may be many more factors. Therefore, the firm must define very clearly the critical success factors – the factors responsible for success in business or in terms of effective strategy implementation. These factors must be described in measurable terms so that it may be known whether a particular success factor is being attained.

Qualitative Criteria:

Consistency – It is important to know whether the comprehensive and integrated plan is is consistent with objetives, environmental assumptions and internal conditions. The standards of performance must be linked with critical success factors and the goals must be consistent with social responsibility. Consistency with environmental assumptions means determining whether the plan would optimally exploit domestic and international opportunities, whether R&D and production are consistent with technological developments. Coordination of policies, resource allocation structure and procedures

Appropriateness: Strategic choice needs to be evaluated against appropriateness regarding resource capabilities, risk preference and time horizon

Workability : It is important to comprehend whether the comprehensive plan is :

Feasible: in terms of available resources and management capabilities. The plan must be reasonable and achievable without giving rise to any issues on the way that may not have a solution.

Stimulation – The comprehensive plan must ensure commitment and consensus among managers and executives that the plan will work and can be successfully implemented. All the aforesaid qualitative criteria must be addressed before a new strategy is implemented. If there is not enough consensus regarding one or more of these issues the strategist may

reassess the plan and fine tune it or explore alternatives that are better suited for the organization.

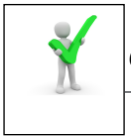
These criteria basically serve the purpose of ensuring that all aspects of the process have been adequately integrated.

13.10 CONTROL OF STRATEGY

Execution must be controlled and evaluated if the strategy is to be successfully implemented. Therefore, the third crucial organizational element in the process of implementation strategy is the control system.

Strategic control focuses on two questions: Is the strategy being implemented according to plan? And is it producing the desired results**?** Therefore, strategic control: monitoring strategic progress, evaluating deviations and taking corrective action is also very important. These are the key tasks in strategy implementation.

The final stage of evaluation and control calls for generating and using timely information to identify deviations and the reasons for variance so that corrective action may be taken. If everything is on track then performance must be rewarded.



Check Your Progress- B

Q1. If the gap between expected results and ideal outcomes are not being closed, what should the strategists do?

Q2. Why is evaluation of strategy and it's implementation necessary?

Q3. How should performance targets be set?

Q4. How is performance measured?

13.11 SUMMARY

The implementation process involves integration of all activities in allocating resources, organizing, giving responsibilities to key managerial personnel, set policies and procedures and put in place a system that will stimulate, evaluate and control a strategy. Strategists must take decisions regarding allocation of resources to various departments and divisions. Budget preparations are done at the corporate level to help achieve organizational goals.

Work is divided among individuals and groups and procedures are defined so that all parts of the organization work together in close cooperation and coordination. Leadership implementation is accomplished through changes in current leadership and developing appropriate leadership styles and conducive environment.

The last phase of the strategic management process is evaluation. Top decision makers ensure that strategic choice is properly implemented and the enterprise is on track to meeting the objectives and goals.

Evaluation and control take place both at the corporate and the SBU levels. Quantitative and qualitative assessment criteria is used for evaluation. The control process involves several criteria, performance management, feedback and assessment of performance deviations so that corrective action may be taken.



13.12 GLOSSARY

Strategy Implementation: refers to the sum total of all activities and plans required for executing a strategy

Performance Indicators: are a system of measurement of outputs.

Resource Allocation: refers to identification of resource requirements by different departments and divisions of a firm and channelizing the same for effective implementation of strategy.

Critical Success Factors: are those areas and components of strategy where the organization must excel to gain an edge over competition.



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13.14 SUGGESTED READINGS

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13.15 TERMINAL QUESTIONS

Q1. The McKinsey framework suggests that seven components must fit together to make a strategy work effectively. Explain these seven components.

Q2. What is the link between implementation and choice of strategy?

Q3. "There is not necessarily a sequence of activities in the process of implementation". Explain, with examples?

Q4. What is qualitative evaluation of strategy? What is it's purpose?

Q5. Describe briefly the evaluation process and corrective actions that can be taken.

UNIT 14 STRUCTURAL IMPLEMENTATION

14.1 Introduction

14.2 Objectives

14.3 Strategy and Structural Implementation

14.4 Structure for Strategies

14.5 Strategy and Structure

14.6 Organisation Systems

14.7 Summary

14.8 Glossary

14.9 Answer to Check Your Progress

14.10 Reference/ Bibliography

14.11 Suggested Readings

14.12 Terminal & Model Questions

14.1 INTRODUCTION

In the previous unit you learnt about how strategies and policies are put into action by adopting right set of programs and procedures. In this unit you would be learning how strategy and the structure must be knitted together seamlessly. They are various structures on which organisation can be structured. Broadly these are segregated into unitary and federal structure. In unitary structure, there is a composite office and in such business segment the units are producing similar or related commodities therefore organisation structure is relatively simple. However, Federal Structure comprises of semi autonomous, quasi autonomous units and sometimes unrelated units that are divided into some logical basis. Accordingly, organisations craft structures for them based on their strategies and sometimes they devise strategies based on their structure.

14.2 OBJECTIVES

After reading this unit you will be able to;

- study the relationship between strategy and structure.
- relate various organisation structure with the strategies and vice versa.
- match the structure to the strategy.

- know various issues pertaining to strategy issues.

14.3 STRATEGY AND STRUCTURAL IMPLEMNTATION

The structure of an organization has an important role in crafting and executing strategy. There should be unanimity and harmony between strategy and the organization structure adopted by the firm. They both should be in perfect tandem with each other. Effective implementation of strategy needs appropriate and relevant organization structure. There are various factors on which structure of an organization depends , these are nature of the industry, size of the firm, competitive position in the industry, characteristics of the market and economy, economic and industrial position, human resources available, core competency of an enterprise and other numerous factors that interact with each other in short and long run. Therefore, organizational structure is a system in which task, functions, activities are divided and subdivided in a way that determines the hierarchy of an organization. Organizational structure gives shape to an organization and it explains how the activities shall be carried out in an organization. It will also narrate how the human resource shall behave and to whom they shall be accountable. In nutshell, the organizational structure guides an organization how each part act in organizational set up.

Now, let us take a look of how the organization structure is defined by management experts and authors.

Prasad defines organizational structure as “Structure is a pattern in which various parts or components are interrelated and interconnected. It is a pattern of relationships among various components or parts of the organization. This prescribes the relationships among various activities and positions. Since these positions are held by various persons, the structure is the relationships among people in the organization”

Dalton et al have defined organization structure as follow “Organization Structure refers to the differentiation and integration of activities and authority, role and relationships in the organization. Differentiation is the differences in cognitive and emotional orientations among managers in different functional departments, and differences in formal structure among these departments. Integration refers to the quality of the state of collaboration that is required to achieve unity of efforts by the organization.”

Further, Kazmi defines organization structure as; An organization structure is the way in which the tasks and subtasks required to implement a strategy are arranged. The diagrammatical representation of structure could be organizational chart but a chart show only the ‘skeleton’. The ‘flesh and blood’ that brings to life an organization is the several mechanisms that support the structure.

Thus, organization structure prescribes the way in which various tasks are grouped together to create departments, branch, workgroup and units with an objective of

allocating responsibilities for different functions and processes and thereby portraying the relationships among the workgroups so created.

Thus, for successful strategy implementation, various contextual variables needs to be assessed structurally for crafting flexible, innovative and responsive organization in order to achieve a sustainable competitive advantage.

Hence, the basic question which needs to be addressed for successful strategy implementation in context to organisation structure are;

What shall be the appropriate structure that is suitable for the particular strategy?

Or

What strategy shall be opted in the existing structure?

The effective strategist tries to assign duties and responsibilities into meaningful groups without duplicating the works and considering all the nitty-gritty of jobs conducted in order to reinforce the strategic direction appropriately among the levels.

14.4 STRUCTURES FOR STRATEGIES

There are various structures which are identified in organizations; however, the following are the common structures that are dealt in this unit which shall be discussed in context of strategy choice and implementation.

14.4.1 ENTREPRENEURIAL STRUCTURE OR SIMPLE STRUCTURE OR SMALL SCALE UNITS STRUCTURE

This is simplest form of organization structure which is appropriate for small scale enterprises and units. All the authority of decision making is vested with the single owner who performs all the functions of the owner as well as a manager. Therefore, entrepreneur or the owner is at the helm of affairs which gives the flatness to the structure. This flattened structure offers low degree of differentiation of subtasks and hence activities are coordinated actively, timely and effectively. This structure helps in quickly adapting with changes and challenges. However such structures loose this characteristic once the organization grows in size.

Advantages

1. Simple Structure provides quick decision making.
2. Simple Structure helps in building good intrapersonal relationship among employees and between owner and employees.
3. Organization with this structure can quickly adapt to changes.
4. Such organizations achieve better goal congruence because of centralized decision making and power.

5. The unity of command is straight, clear and concise.
6. Maintenance of discipline is easy.

Disadvantages

1. This organization structure is not suitable for large organizations.
2. This structure does not offer scope of specialization as it is one man show and the owner performs variety of functions hence, operational efficiency is low.
3. From strategic point of view, this structure focuses more on routine functions rather than on strategic decisions.

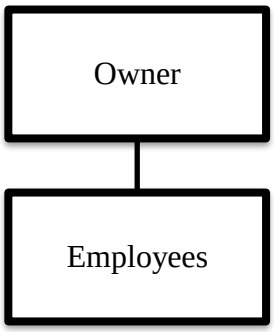


Fig 14.1 Entrepreneurial Structure or Simple Structure

14.4.2 FUNCTIONAL STRUCTURE

Functional structure is adopted when organization started growing in size and numbers and accordingly various functions performed are grouped on the basis of similar activities and expertise. The functional departments so grouped are production and operations, personnel marketing, finance and accounting, engineering, research and innovation, information technology etc. This structure helps in maximizing economies of scale and specialization. Organizations adopting stability and expansion strategies generally adopt this organization structure.

Advantages

1. It caters high degree of specialization because a unit generally focuses on the one aspect of the entire activities.
2. It brings order and clarity in the organization as all are clear with the tasks to do and this fosters efficiency in the work accomplished.
3. It manages functional interest within departmental units.
4. This structure supports in utilizing resources efficiently.

5. It helps in bringing managerial efficiency as persons working within a department are specialists of their respective jobs. This also helps in brining coordination at the various levels.
6. It helps in preserving strategic control at the top management level.

Disadvantages

1. Such organization faces difficulty in coordination among different functional units.
2. Departmental heads gives more importance to their departmental objectives and therefore, this may hinder organization in achieving overall objective as laid down by the corporate executives.
3. Increased cost and extraordinary time delays are noticed in such structure as additional coordination efforts are required on the part of top officials.
4. Such structures may create interdepartmental rivalries and conflicts.

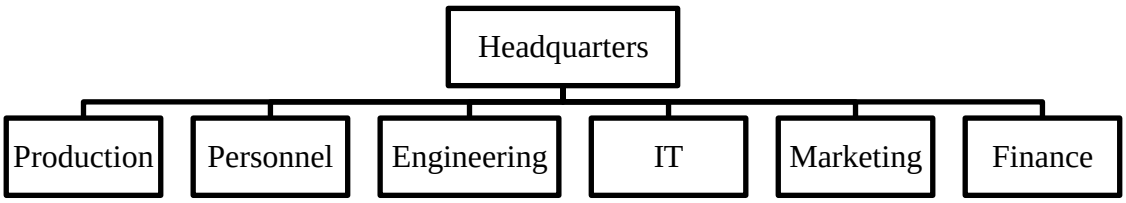


Fig 14.2 Functional Structure

14.4.3 DIVISIONAL STRUCTURE

When an organization expands its operations then one additional level of management is created that is based on certain divisions. In such structures, coordination among sub units magnifies impulsive response per se environmental changes. Each unit is complete in itself and it has the resources to function independently. Each unit is governed by executive who is responsible for allocation of resources including capital and human resources. Basically, these divisions are created on the basis of products or geographical locations and sometimes on the basis of product lines or customers served. In case of product division, each product division has its own functional structure which generally caters to varied customer base and

varied competition. However, in case of geographical divisionalisation , regional offices are treated as separate offices.

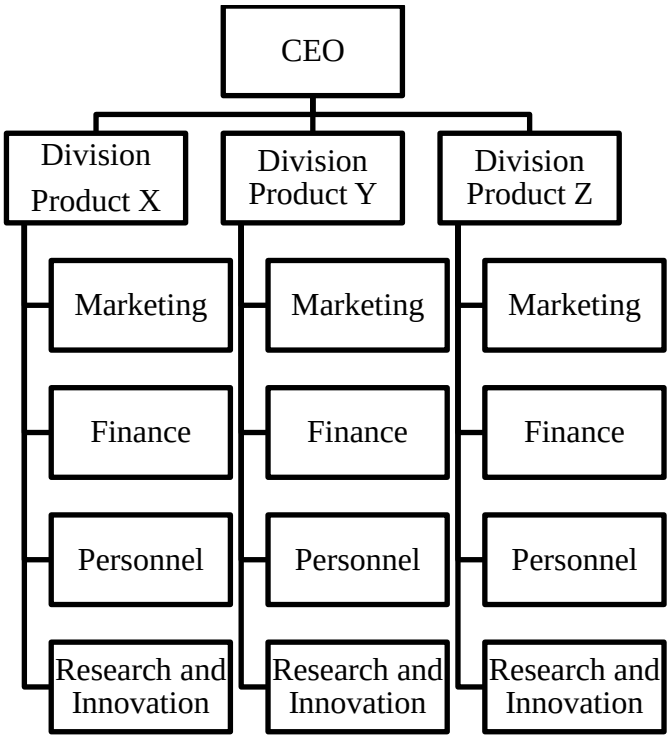


Fig 14.3Divisional Structure

Advantages

1. It evaluates departments as autonomous profit centers.
2. Helps in grouping of functions as per divisions, thus narrowing complexity of operations.
3. Organization can quickly respond to the environmental changes.
4. It considers each division as autonomous profit centres.

Disadvantages

1. Such organization may face problems in allocation of resources among various divisions.
2. Proper alignment of corporate objectives and divisional objectives is difficult.
3. Accountability and authority is inconsistent in approach.
4. Conflicts may arise between specialized product areas.
5. Barriers in communication between functional specialists.
6. Lack of clarity of responsibilities of functional areas leads to duplication of work.
7. It is costly because all the facilities and resources are required for each division.

8. Staff across the divisions may not work with same efficiency, so comparison in terms of results is difficult.

14.4.4 STRATEGIC BUSINESS UNIT STRUCTURE

Strategic Business Unit is a part of a business that is considered as separate for strategic purpose. In SBUs, activities of a company are divided on some logical basis like nature of product, terrestrial basis, profit basis etc. These are termed to the units which are producing identifiable, differentiative products which compete with similar products elsewhere. They are also defined as independent profit centre. These are internal oriented and generally focuses on cost leadership, product differentiation and segmental focus. In SBU structure, similar activities, similar markets and technologies are clubbed in the homogenous groups. Further, this structure helps in achieving goals with synergistic efforts within the SBUs. The strategies in these SBUs are governed by the corporate level strategies which may differ depending upon the nature of operations. Though each SBUs have its own business and functional level strategies for utilizing the resources in a view of achieving strategic advantage. These SBUs are treated separately for strategic management purpose, hence these SBU can leverage specializations, core competencies, technologies and resources for magnifying profits of a concern.

Advantages

1. It synergistically magnifies efficiency and market focus and efficiently manages the business portfolio of a well diversified company.
2. It helps in establishing effective coordination between divisions.
3. It is quite suitable for large organizations.
4. It establishes accountability of each strategic business unit.
5. It helps in giving identity to each product in the product portfolio of the company.
6. These SBUs can easily react to the environmental changes.
7. SBU structure supports decentralization and each SBU are in the direct command of the CEO.

Disadvantages

1. Inter –synergies among SBU is challenging.
2. With the increase in divisions for individual SBU, expenses gets extraordinary inflated.
3. Relative assessment of SBUs in terms of output is challenging.
4. Conflicts between corporate level and SBU Level can magnify problems.
5. Defining autonomy to each SBU heads is difficult.

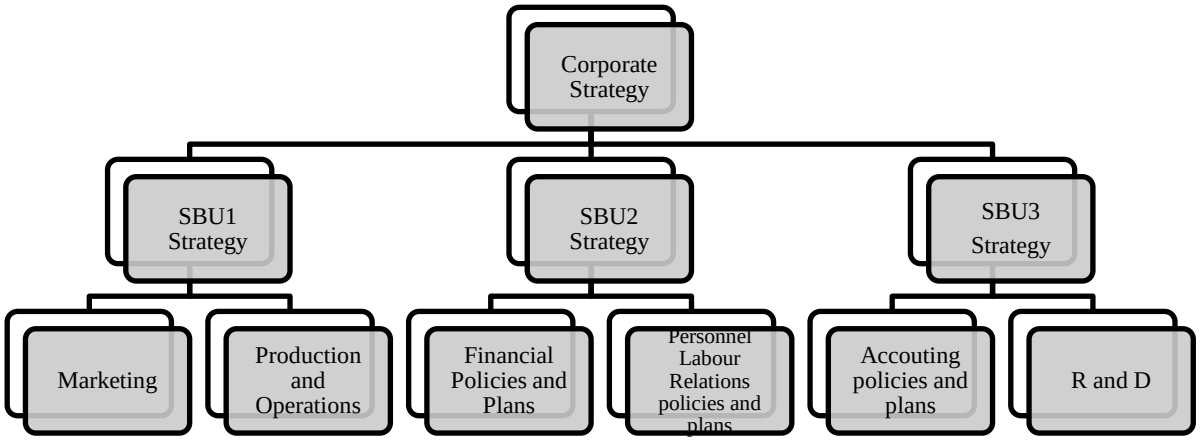


Fig 14.4 Strategic Business Unit Structure

14.4.5 MATRIX STRUCTURE

Matrix Structure is the combination of two or more organization structure. It is basically combinations of functional and divisional structures. This structure is generally used in Construction, Aerospace, Marketing, IT etc. It blends the departments of the organization, say marketing, finance, personnel, and operations existing in functional structures with the project groups. Thus, functional specialists of various departments are allocated in each project temporary or permanently depending upon the nature of the firm. Therefore, each functional specialist may be accountable to two managers - their normal functional manager as well as the team leader of the project. Prasad explains this Structure as "Matrix Structure is the realization of two dimensional structures which emanates directly from the two dimensions of the authority. Two complementary structures-pure project structure and functional structure –are merged together to create matrix structure" Further, Davis and Lawrence have also explained matrix structures very structurally as;

Matrix Organization= Matrix Structure+ Matrix Systems + Matrix Culture +Matrix Behaviour

In case of environmental uncertainties and changes it is imperative that differentiation is high and accordingly matrix structure is most suitable.(Jeyarathnam) . However, it is complex as vertical and horizontal flows of authority and communication exists thus resulting into a matrix. It is generally opted in large and multi-project organizations, where they can relocate employees whenever and wherever required.

Advantages

1. This structure is highly suitable in case of fluctuating workloads.

2. It helps in individuals in utilizing skills in various dimensions where their skills are highly needed and valued.
3. It helps in fostering motivation and creativity among the team members.
4. This structure supports in effective utilization and sharing of resources across departments and projects.

Such structure is extremely dynamic as it supports movements more readily across the boundaries, creating a good, cooperative, work environment.

Disadvantages

1. Such structure mat creates confusion and conflicts between Project Heads and Functional Heads.
2. It fosters narrow point of view from the end of management.
3. Quick decision making is not possible and in some cases may increase costs.
4. Ambiguity exists in the chain of command for individual team members.
5. Workloads are quite high in such structure as employees have to look after the project as well as their functional department.

14.4.6 NETWORK STRUCTURE

Network structure is also known as modular or virtual structure. In this company ties up with other specialized enterprise or companies for the functions like manufacturing, distribution, marketing, research, logistics, accounting etc.

In a virtual organization, complementary resources existing in a number of co-operating companies are left in place, but are integrated to support a particular product effort for as long as it is justifiable to do so." (Goldman et al., 1995)

"Virtual organizations are distributed 'business processes'. These processes may be 'owned' by one or more organizations acting in partnership. For a specific project, resources are assembled to perform a business process on behalf of the project owner(s), and then disassembled on completion of the contract." (Wolff, 1995)

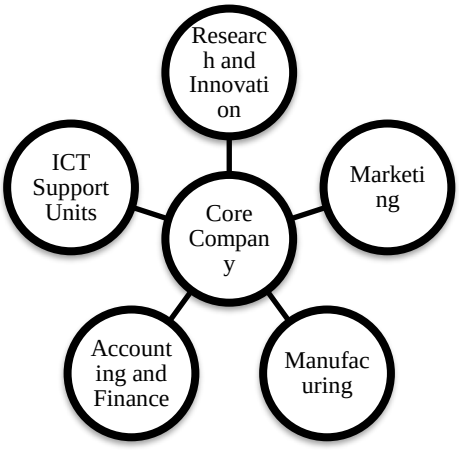


Fig 14.5 Network Structure

Thus, in this structure company outsource the major activities to the specialized firms, thereby company avail economies of scale and specialized services for the major functions. The network structure requires fewer staff and resources at the head office, however with the outsourced facility, the business is scattered at the far-flung places with the specialized workers working as outsource agents.

Advantages

1. Core competencies of the firm are preserved. Organization can focus on its specialized areas.
2. Such organizations are very adaptable to environmental changes.
3. Such organization lowers costs and helps in providing flexibility to the concern.
4. Such organization has fewer staff so removes over departmentation at various levels.
5. Network form of organization may foster learning by encouraging combination of information and knowledge among employees.
6. Such organizations are highly flexible.

Disadvantages

1. Such organizations may experience lack of coordination among outsourced units.
2. Overspecialization of work may result into extraordinary delays in achieving goals and targets.
3. Conflict may rise between central office and outsource units.
4. Secrecy of the internal operations and matters are not possible.
5. Such organizations are heavily dependent upon the other organizations.
6. Network structure is more agile than other structures.

14.4.7 OTHER STRUCTURES

14.4.7.1 Product Team Structure

In Product Team Structure, activities are grouped as per the products or services. The functional units are grouped as per the product lines followed. In such structure, strategies are specifically chalked out for product divisions and groups.

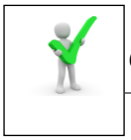
14.4.7.2 Geographic Structure

In geographic structure**,** all the tasks and activities are grouped on the geographical basis. It organizes the reporting and functional system across multiple locations. This structure is generally used in the organizations which operate over wide geographic locations like retail

and hotel chains, transportation and other large national and international organizations. The Indian Railways is divided among eastern western, northern and southern zones and hence this is a good example to quote for such structure. This structure is useful when companies are going for diversification and expansion nationally and internationally.

14.4.7.3 Holding Company Structure

Such organization structure resembles the divisional structure wherein corporate entity in the centre controls the various divisions and business, which are generally unrelated. Each subsidiary business under the central entity has its own functional structure. It is mostly appropriate when companies follow unrelated diversification in terms of products and services. These divisions and business are vested with the autonomy in operations and management as every business differs in their terms of strategic advantage profile. The basic advantage is that the capital of the holding and subsidiary companies can be pooled together, whenever required. Because of this feature, the company can adopt large scale projects for magnifying its profitability. Competition between holding and subsidiary companies can be removed if they are in the same line of business. Such companies may achieve economies of scale because of large scale of operations.



Check Your Progress- A

Q1. List the various organization structures.

Q2. What are the ways to match strategy with structure?

Q3.Write the key features of divisional and functional structure.

Q4. Which of the following is the simplest form of organization structure which is appropriate for small scale enterprises and units?

a) Network Structure
b) Matrix Structure
c) Strategic Business Unit
d) Simple Structure

Q5. Which of the following carries the advantage of project type and functional organizational structure?

a) Network Structure
b) Matrix Structure
c) Strategic Business Unit
d) Simple Structure

14.5 STRATGEY AND STRUCTURE

Various research studies have proved that with appropriate and well crafted organization structure, strategy can be effectively implemented. Many a times structure needs to be revisited with the set of strategies chalked out or sometimes strategies needs to be recreated in the view of prevailing structure. Thus, these two go hand in hand and they have been

woven around firmly. Since, structure has to support organizational strategies; therefore, there should be meticulous alignment of strategy and structure.

Structure describes about the assignment of tasks and responsibilities among the various subunits, divisions and employees, thus structure entrusts on people, processes, activities, culture, technology and other essential resources of an organization. Therefore, structure needs to be well designed and tailored so that organization can achieve strategic advantage over its competitors and in a broader perspective; organization is able to achieve its mission and goals with appropriate structure. Alignment of strategy and structure requires assessment of environmental forces as these forces impact the size of operations, divisions, activities, products and customer bases. Further, strategy and structure relationship is a two way process. It is not always strategy influences structure but many times structures do influence strategy while crafting decisions. A company can take synergistic advantages and accomplish results if it factors in organizational structure aspect while crafting its strategy. (Srivastava and Verma)

Chandler Alfred(1962) studied 100 US firms from 1909-1959 in his notable work "Strategy and Structure" and assessed that structure follows strategy . His classic study showed how changes in strategy-namely product- market diversification, required subsequent alterations in structure-particularly divisionalization. He stated that the most efficient results are obtained at least expense when coordinate related efforts ad segregate unrelated efforts. This was later reconfirmed by Britain (Chanon, 1973), France (Pooley-Dias, 1972) and Germany (Thanheiser, 1972) Rumelt (1974) that the match between the strategy and structure influences performance of the firms. The above assessed strategy in terms of breadth of markets either as diversified or undiversified whereas structure aspect was assessed largely according to its divisionalized or departmentalized form and nature of controls.

Recently, Oke and Ajagbe (2015) in the 'Review of organization strategy and structure' found that for the proper implementation of strategies appropriate structure should be in place or existing structure should be amended to aid the strategy implementation process. They found that the strategy and structure are interrelated and each depends upon each other for proper functioning. They stated that if strategy and structure are not properly aligned then it will impact negatively on the firm. Thus, when organizational structure is changed then strategies shall also be changed to fit in the new structure and *vice versa* and if firms are unable to maintain the strategic fit then firms are unable to face external threats and therefore they shall be exposed to internal inefficiencies.

The same has been stated by (Miles and Snow, Mayer and Coleman 1978) that organizations constantly modify and refine mechanism by which they achieve their purposes-rearranging their structure of roles and relationships and their managerial processes. Efficient organization establishes mechanism that complements their market strategy, but inefficient organizations struggle with these structural and process mechanism. Galan and Sanchez-Bueno (2009) after reviewing 10 years data from 1993 to 2003 with context to Spanish

organizations concluded that strategy leads structure and structure leads strategy however the former is stronger than the latter.

Thus, researches have established that strategy and structure are firmly interrelated. Further, before designing structure of an organization, it is important that all the task and activities are identified and their relationship in value analysis shall be explored by the manger. Particularly, business level strategies are supported through functional structure. Cost leadership strategy requires centralized functional structure. In case of small firms, focus strategies are well suited. The following structures are generally adopted for the following strategies;

Strategies	**Structure generally followed**
Large Sized companies adopting strategy for matching with environmental changes	Divisional structure
Companies with highly diversified structure	Product/Market Division Form of Organization Structure
Companies with unrelated businesses	Holding Company Structure
Firms adopting stability or pace expansions	Functional structure
Product or client based strategy	Divisional structure
Companies adopting outsourcing strategies	Network Structure
Strategy adopted by large companies operating across different industries or geographic regions.	Matrix Structure

Further, in case of cost leadership strategy, functional structures are adopted in case of Differentiation; Matrix structure is generally followed whereas in case of focus strategy functional structure is majorly followed.

Let us now take few examples of structure adopted by the companies across the globe.

Starbucks Coffee Company is one of the largest coffeehouse chains in the world. The firm's industry leadership is partly attributed to the appropriateness of its organizational structure. Starbucks has a matrix organizational structure, which is a hybrid mixture of different features from the basic types of organizational structure. The main features of Starbucks Coffee's organizational structure are Functional structure, Geographic divisions, Product-based division and Teams. The functional feature helps company in appropriate top to down

monitoring and control. Divisional structure for the (a) China and Asia-Pacific, (b) Americas, and (c) Europe, Middle East, Russia and Africa. The Product Organization structure helps in concentrating on product lines. Using team structure, company is able to provide value to customers.

Companies like Coca-Cola have built flexible structures which, wherever possible, encourage teamwork.

Apple's organizational structure has helped in adopting innovation easily and frequently. This has helped the company in creating an excellent IT based new products like Apple Watch. The following are the most significant characteristics of Apple's organizational structure:, these are Spoke-and-Wheel Hierarchy, Function-based grouping and Product-based grouping. On the other hand, Amazon.com Inc. has a functional organizational structure which is based on Global function-based groups (most significant feature), Global hierarchy and Geographic divisions

Now, let us take an example of Matrix Structure. ONGC follows this structure as the entire organisation is divided into functional business groups like exploration, drilling, operations, and technical. These groups are assisted by common service departments. Thus, a matrix organisation with administrative and functional hierarchy has been created in ONGC which it makes it one of the most efficient companies of the country and one of the best Mahanavaratna PSU.

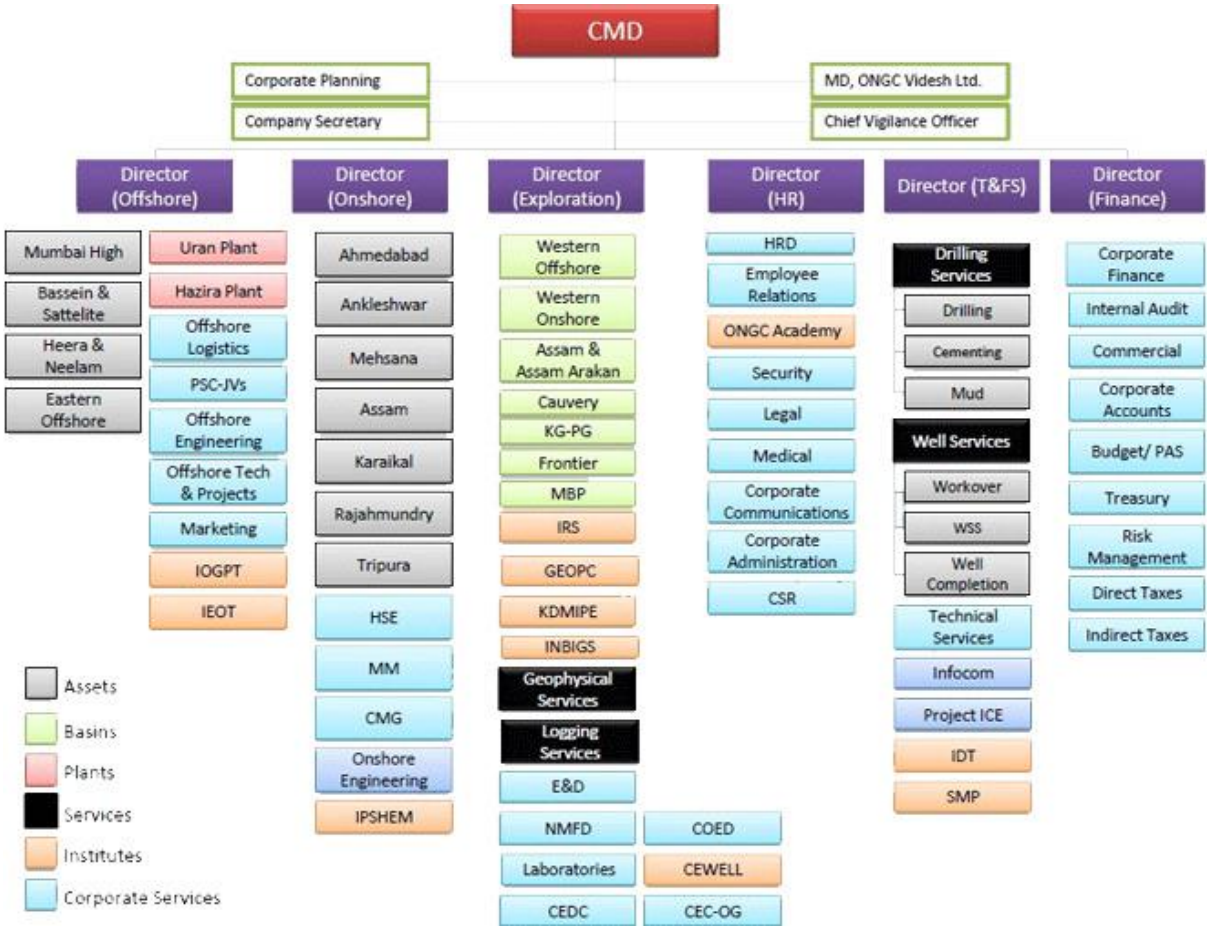


Fig No 14.6 Organizational Chart of ONGC

Source: ONGC Website

Visa is an internationally known brand name; it is not like a conventional organization. It is referred as ‘invisible organisation’ by its founder. It is known for the network of independent card issuers (such as banks) across the countries which collaborates together to provide a seamless and hassle free operation for card users. The founder, Dee Hock has also given as term the term 'chaordic' organization, which means blend of ordered structure and chaotic.

Thus, in the present scenario where political boundaries have crumbled up, the era of collaboration has emerged. Friedman stated that in the flat world more and more business will be done through collaboration within and between companies. The next layers of value creation whether in technology, marketing, biomedicine, or manufacturing are becoming so complex that no single firm or department is going to be able to master them alone.

Therefore, in the times to come virtual organizations structure shall come up. Organizations have started responding to flattening of the world. With the flattening of the world and upcoming of virtual organization or collaboration or network structure, the companies need to develop strategies to exploit the new possibilities and cope up with the new requirements.

14.6 ORGANISATIONAL SYSTEMS

Organizational systems look organization into holistic perspective considering each unit and sub unit responsibilities and authority. The idea is to assess the organization and its interaction with the environment as a collection of systems and the tries to analyze the relationships between those systems so as to determine how they affect the whole organization. Company's internal systems sometimes contribute or many a time detract from the larger relationship but this needs to be studied in the holistic perspective for conducting the relevant analysis. However, all such internal systems should be aligned in tandem with the organization's mission and vision. Each system of an organization is created in components and sub-systems that interrelate and contribute to the overall purpose of the organization.

The entire organizations systems are divided into six broad categories, these are;

1. **Information Systems**
2. **Control Systems**
3. **Appraisal System**
4. **Motivation System**
5. **Development System**
6. **Planning System**

1. **Information System**– It is a system in which information is collected, organised, stored and communicated. This is of vital information as managers require information at varied levels for performing their tasks, analysing problems pertaining to the business, crafting strategies and creating technological support across all the departments and units. Particularly, the role of MIS is designing organization's Information and Technology Systems so that the flow of information gives edge to mangers in chalking out all kind of decisions including strategic, tactical, and operational with all kinds of information i.e. strategic, tactical or operational. Strong Decision Support Systems and Executive Support System helps in building right corporate levels strategies. Strategies like diversification and retrenchment require intensive informational support for timely and creative action.
2. **Control System**- Control is a process by which manger attempts to direct the efforts of an organization to achieve the targets and benchmarks. Control Systems encompasses clearly defined control procedures and steps that is intended to take organization to predetermined goals. It ensures that actual results are matched up with

the planned standards or targets. Particularly, talking about management control system, it refers to the design, installation and operations of management planning and control systems which emphasizes on organization structure or relationships and on process or set of activities that are undertaken by the managers.(Lal Jawahar) Kazmi quotes that strategies which intends short term efficiency of operations particularly stability would be more fruitful with greater formal controls whereas strategies like expansion require long term efficiency that would be effective with more informal controls.

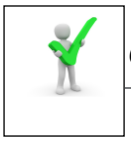
3. **Appraisal System**- Appraisal System tries to assess the performance of mangers in terms of achievements of organizational goals so that strategic implementation is well carried out. Appraisal system helps in salary determination, performance rewards and incentives, trainings, management development, promotion and transfers.The effectiveness of a performance appraisal can be judged in how well it achieves its strategic objectives. Cost leadership, differentiation, stability strategies requires rigorous appraisal system that aid in achieving the desired objectives.

4. **Motivation System-** The Motivation System is important for energizing and activating behavior towards strategies adopted. It inspires employees across various units and sub units towards the process of strategy development and implementation to orient their mindset toward a strategic way of thinking.

5. **Development system-** The Development System is a systematic process of growth and development of executives and human resources. The system intends to develop knowledge, skills and performance of the human capital and aims in establishing the programme and development opportunities for its present and potential managers. It includes management development as well as organizational development as two major dimensions for operations. Management development focuses on the manager to grip over the process or 'core' aspects of managing such as planning, execution, prioritization and control processes. Organizational Development is concerned with the long-term effort led and supported by the executives in steering, empowering, nurturing and improving organization through change in policies, power, leadership, control, or job redesign with the special emphasizes on the culture within the organization.

6. **Planning System-**This system focuses on formulating strategies rather than on implementation. It is mostly concerned with the steering the fortunes of a firm with strategic planning and mobilizing resources. It is majorly concerned with determining the organization's mission; formulating policies, choosing strategies, and

implementing the chosen strategies. It is concerned with determining the strategies that are to be used in achieving the organization's mission and vision.



Check Your Progress-B

Q1. Explain the relationship between strategy and structure.

Q2. What do you mean by Organization Systems?

Q3. State True or False .

a) Appraisal system is always complex in nature.
b) The entire organization systems is divided into four categories.
c) Large Sized companies adopting strategy for matching with environmental changes generally follows simple structure.
d) Firms adopting stability or pace expansions generally follow functional structure.

14.7 SUMMARY

In this unit you learnt that organization structure has an important role in crafting and executing strategy. There should be unanimity and harmony between strategy and the organization structure adopted by the firm. You came to know that organization structure should be designed in wake of functions, core competencies, key result areas and critical activities. The structure should be integrated with strategy so that it can provide adequate support to strategy and with the changes in strategies even the organisation structure should

be changed for achieving the desired outcomes. Restructuring structures as per the strategies crafted helps in improving, bringing teamwork among the groups and infusing synergy at every level.



14.8 GLOSSARY

Organization Structure- Organizational Structure is a system in which task, functions, activities are divided and subdivided in a way that determines the hierarchy of an organization. Organizational structure gives shape to an organization

Strategic Business Unit -Strategic Business Unit is a part of a business that is considered as separate for strategic purpose.

Organizational systems- Organizational systems look organization into holistic perspective considering each unit and sub unit responsibilities and authority.

Network structure-Network structure is also known as modular or virtual structure. In this company ties up with other specialized enterprise or companies for the functions like manufacturing, distribution, marketing, research, logistics, accounting etc.



14.9 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

4. Ans-d

5. Ans-b

Check Your Progress –B

4.

a) False
b) False
c) False
d) True



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14.12 TERMINAL QUESTIONS

Q1. "An appropriate organization structure is important for implementing strategy successfully." In view of this statement, elucidate and explain the nature of interaction between strategy and structure.

Q2. What are the key features of Matrix and Strategic Business Unit Structure?

Q3. Using examples explain the strategy-structure relationship.

Q4. Which organisation structure is followed in the organisation you are working with or the organisation which is known to you? List its merits and demerits.

Q5. How structure brings strategic advantage to the companies.

UNIT 15 BEHAVIOURAL IMPLEMENTATION

15.1 Introduction

15.2 Objectives

15.3 Strategic Leadership

15.4 Organisational Culture

15.5 Ethics and Strategy

15.6 Inculcating Values and Ethics

15.7 Ethics, Values, Culture, and Leadership

15.8 Power

15.9 Summary

15.10 Glossary

15.11 Reference/ Bibliography

15.12 Suggested Readings

15.13 Terminal & Model Questions

15.1 INTRODUCTION

In this unit you will learn about behavioural aspects like strategic leadership and organisational culture that implicitly influence behaviour of people in the organisation. Leadership plays a critical role in the success or failure of an organisation to judge and it has been considered one of the most important elements affecting organisational performance. Further, modification of values is frequently required for strategic execution. A particular strategy, say of expansion, may be suboptimal if existing values do not match to these requirements

15.2 OBJECTIVES

On completion of this chapter you should be able to:

- Understand the concept of behavioural implication.
- Understand the importance and role of organization culture.

- Understand clearly the impact of organization culture on implementation of strategy.
- Understand the relation between culture and strategy.
- You will be able to realize the significance of the term values.
- Understand the importance of values in strategy implementation.

15.3 STRATEGIC LEADERSHIP

Strategic thinking lives though dialogue or dies through writer's cramp.-David Moore

Strategic leadership is the process of transforming an organisation with the help of its people so as to put it in an identified position. Thus, there are two aspects that are involved in strategic leadership. First one, it completely changes the organisation such as it size, management practices, culture and values, and people in such a way that the, organisation becomes special and provides unique opportunity. Secondly strategic leadership process concentrate on people, because they are the source for transforming various inputs, for example, physical and financial resources of the organisation into outputs that are meaningful to the society and provides benefit to the company. Thus, the steps for strategic leadership are as followed:

1. Strategic leadership deals with keeping the vision and mission in sight-and with effectiveness. It is less oriented towards organisational efficiency in-terms of cost-benefit analysis.

2. Strategic leadership is important for the transformational aspect and, therefore transformational leaders emerge in the organisation. Transformational leadership is the set of abilities that allow a leader to recognize the need for change and to create a vision, to guide that change and to execute that change effectively.

3. Strategic leadership inspires and motivates people to work together with a common goal and purpose.

4. Strategic leadership has external focus rather than internal focus. This external focus helps the organisation to relate itself with its surrounding.

The role of appropriate leadership in strategic success is highly noteworthy. It has repeatedly been observed that leadership plays a critical role in the success or failure of an organisation to judge and it has been considered one of the most important elements affecting organisational performance. For the manager, leadership is the devotion of action through which the goals and objectives of the organisation are accomplished.

ERA	FOCUS ON
Personality	Traits and qualities and great personalities
Influence	Relationship between individuals
Behaviour	Actions of leaders
Situation	Situation in which leader operates
Contingency	Dependence on behaviour, personality influence exerted by leader on subordinates and situation
Transactional	Role differentiation and social interaction between the leader and subordinates
Anti-leadership	Absence of a real concept of leadership
Culture	Culture of the entire organisation

Table15.1: ALBERT S.KING traces the historical development of leadership theories and identifies nine evolutionary eras, each era focusing on a specific theme of leadership.

Sziglayi and Wallace have suggested an integrative model of leadership based on three different theoretical approaches of leadership: trait (or personality), behavioural, and situational theories. Their integrative model of leadership includes four factors on the basis of which behavioural scientists and practicing managers can attempt to comprehend the phenomenon of leadership. These four factors are: the leader (individual characteristics, leadership style, dimension and reinforcing power); the subordinate (individual characteristics, and perception), the situation (nature of task, nature of group, organisational factors, sources of influence other than the leader), and the performance outcomes.

From the above, it can be seen that leadership has proved to be an indefinable concept. Yet, the different attempts at explaining the phenomenon of leadership have increased our understanding of the issue and provided significant insights into its complications.

Several conclusions can be drawn from theory regarding the manner in which leadership could be implemented by schemers.

On the basis of its present state of knowledge, it can be said that the leader must;

- Develop new qualities to perform excellently
- Be a visionary, willing to take risks, and be highly adaptable to change exemplify the values, goals, and culture of the organisation, and
- Be aware of the environmental issues affecting the organisation
- Pay consideration to strategic thinking and intellectual activities

- Adopt a collective view of leadership in which the leaders influence is isolated across all levels of the organisation.
- Lead by authorising others and place an increasing emphasis on statesmanship
- Adopt a new perception on power to build subordinates. skills and confidence to make them agents of change

Create leadership at lower levels and facilitate the alteration of followers into leaders.

15.4 ORGANISATIONAL CULTURE

Organisational culture is another element which affects strategy operation as it provides a framework within, which the behaviour of the employees takes place. Though there are different views in regard of how to create an organisational culture, generally, it is defined as a set of norms that the members of an organisation share in common. For example, organisational culture has been demarcated as follows;

"Organisational culture is the set of assumptions. Beliefs, values and norms that are shared by an organisation's members. Thus, there are two types of elements which define the culture of an organisation: abstract elements and material elements.

1.Abstract - elements are internally oriented and include values, beliefs, attitudes, and feelings.

2.Material elements are externally focused and include building, personnel dresses, products, etc.

Vijay Sathe has demonstrated some common things to exhibit the components of organisational culture:

- Shared things (e.g. the way people dress)
- Shared saying (e.g.., let's go down to work)
- Shared actions (e.g., a service-oriented approach)
- Shared feelings (e.g., hard work is not rewarded here)

There are three factors that seem to contribute to the building up of a strong culture.

These are: (a) a founder or an influential leader who established desirable values, (b) a Sincere and dedicated commitment to operate the business of the organisation according to these desirable values, and (c) a genuine concern for the well-being of the organisation's Stakeholders

15.4.1 IMPACT OF CULTURE ON CORPORATE LIFE

The fact that organisations may have a strong or weak culture affects their efficiency to perform strategic management. Culture plays a very important role in building relationships

with organisation environment and its strategy and simultaneously it affects the managers as well. Culture is having the two sides of a coin as its strength that can also be a weakness, as a strength, culture can facilitate communication, decision-making and control, and create cooperation and commitment. As a weakness, culture may hinder the smooth implementation of strategy by creating resistance to change.

An organisation's culture could be characterised as weak when many subcultures exist, few values and behavioural norms are shared, and traditions are rare. In such organisations, employees do not have a sense of commitment, loyalty, and a sense of identity. Rather than being members of organisation these are wage-earners. There are several traits showed by organisations that have a weak or unhealthy culture. Some of these are: politicised organisational environment, hostility to change, promoting bureaucracy in preference to creativity and entrepreneurship, and unwillingness to look outside the organisation for best practices.

Organisational culture is very important factor which affects the different organisational processes including implementation of strategy; strategy implementation involves completion of different processes. In particular, corporate culture affects the following aspects of the organisation:

1. Objective Setting

Culture provides shape to the people and people are the basic building blocks of the organisation. The objectives of the organisation must reflect, at least in part, the objectives of its members, particularly those who are the key decision makers. Thus for one organisation the aim may be profit maximisation but the same objective may be unworthy for another organisation; mean, and petty for other organisations.

2. Work Ethics

Ethics can be defined as conformity to the principles of human conduct. According to common usage, moral, good, right, honest, etc. are more or less used as synonymous to ethical act. Work ethics in an organisation is said to be derived from its culture. Thus, corporate culture— determines the ethical standards for the organisation as a whole and for its individual members.

3. Motivational Pattern

Culture works as a bridge to develop a motivational pattern in each employees of the organisation. Culture determines in what manner people approach their jobs and even life in general. If organisational culture, is moving towards achievement, people will find it quite motivating and put their utmost energies for the work. In its absence. High achievement-oriented people are not willing to work as efficient as they are doing it before, Therefore; for implementing strategies. Particularly growth strategies. Organisational culture should be achievement oriented.

4.Organisational Processes

Various organisational - processes like planning, decision making, controlling, etc. are defined by the organisational culture because these processes are permitted out by the people.

15.4.2 RELATION BETWEEN STRATEGY AND CULTURE

The parameter on which an organization works depends upon two things that is strategy and culture. They are interrelated to each other in other words they complement each other. Like for a better implementation of a strategy within an organization we have to mould it according to the cultural factors of the organization to make it work.

They can be compared in four ways which are as following;

1. To ignore corporate culture.

2. To acquire such a strategy who fits the corporate culture.

3. To adapt such a corporate culture who fits the strategic requirements.

4. To change the strategy so that it can fit the corporate culture.

Taking about the above four points we see that how they complement each other in various ways. Firstly, if in the making of a strategy the strategist completely ignore the corporal culture because the culture of an organization took an ample amount of time to develop and it is hard to change it according to the new strategy in a short period of time for the better implementation of the strategy. Another method to the above is to change strategy implementation to suit corporate culture. Strategy makers may have flexibility in organisational design.-organizational systems and methods for strategy implementation. These variables can be changed to sub serve the interests of corporate culture. Moreover in such a case, each specific situation in the organisation calls for an innovative solution. The third solution or method is to change the strategy itself if it does not fit with the corporate culture. By changing strategy mid-way is- not a very desirable form. Therefore corporate culture should -be viewed as a determinant of strategic choice. The last method in relating strategy is to change corporate culture to suit strategic requirements. This is the most deserving choice in the present Indian business environment which is becoming more and more ruthless day-by-day bringing a change in old methods. In fact many companies have failed simply because they were not able to embrace suitable strategies due to corporate cultural restrictions.

Anyway, cultural change process is slow attempt can be made to change the culture. This change may be brought by making strategic task simple, enhancing managerial capability to apply changes, arid exhibiting a strong and focused leadership.

The strategy makers have four methods to develop a strategy supportive culture:

- To disregard the corporate culture. The first method may be acquired when it is nearly impossible to change culture. This is applicable because it is really difficult to change an ambiguous phenomenon like corporate culture. Added to, cultural changes, when applied in a short duration of time, may be excruciating for members of an organisation.
- To modify strategy implementation to suit corporate culture. It is easier to change execution to suit the requirements of corporate culture. This is possible because the behavioural facet of implementation offer a range of various alternatives to strategy makers in terms of structure, systems of corporate culture. However, each bearing in the organisation would call for an innovative solution and would test the adequacy of managers as strategists.
- To alter the corporate culture to suit strategic demands. As said earlier, it is immensely difficult to change corporate culture. But in some cases it may be obligatory. For example, the post-liberalisation spate of takeovers and obtainment in the Indian industry led to a place where many quondam multinational addendum were taken over by family business groups. This led to a process often protracted and painful-of cultural transition. But such a alteration may be brought about by a careful understanding of present culture, developing strategic tasks explicit, taking risks of cultural change, amplify managerial capability, behavioural employment of Leadership, Culture, Politics, Power, moral and values to apply changes, and, most importantly, show a strong, absolute leadership.
- To modulate the strategy to fit the corporate culture. Instead of changing the culture to suit strategy, it is better and more economical to acknowledge the cultural aspect while developing the strategy in the first place. One of the considerable factors is relating to past strategic actions which should take care that strategic changes are not extravagant but cumulative, allowing the cultural disturbance to settle down to create an extraordinary environment for strategy implementation. However, if a fortified cultural barrier occurs after strategy implementation, it may be better to leave the strategy or use a combination of the above three accessions.

15.5 ETHICS AND STRATEGY

Ethics of an individual, especially those of key strategy makers, have major impact on the strategy of the organisation. While extreme values shape organisational strategies, instrumental values show how these strategies are to be imposed. Depending on the control of extreme values in strategists, they are meant for organisational transformation. Let us see how this works.

15.5.1 ETHICS AND STRATEGY IMPOSITION

Strategy imposition is mostly altered by instrumental values of the people in an organisation. However, when we say people, the question arises: who- are- these -people in an organisation, the answer of this question is very important because that will determine the shape of strategy imposition.

From strategic management point of view, an organisation is divided into four groups: board of directors, chief executives, other managers, and corporate planning staff. Out of these groups, chief executive and managers under are mostly responsible for strategy imposition.

After all, ethics are held by individuals which are a part of their personalities. Therefore, it is most likely that ethics of, various individuals are not the same. Though organisational culture represents a group of personal values, 'it is only depictive and not at all comprehensive.

• Similar-Values

Since an organisation -is a collection of people and environmental ethics that represent the collective morals of its members, there are some relation between these two. These relation in ethics do not require any reconciliation or change because both have already been incorporated.

•Various weak Values

In this case, part of the organisational and personal ethics differs but the variation is related to weak values either extreme or instrumental. A weak value has low priority in the ranking of values whether organisational or personal. In fact, every individual has a set of ethics arranged in ranking. Because of hierarchical nature of ethics, they differ in terms of importance. Since there are individual variations, ranking of ethics also varies. For example, an individual may attach very high importance to honesty and integrity and does not reunite on these issues. Another individual may place it at low level and may reunite on these issues. Therefore, weak and strong ethics are relative and person-oriented. Reunion takes place through normal socialization process which includes acquirement of organisational ethics and norms by employees with a view, to stick to those. This socialization process, however, is a one way traffic rather than traffic in which an individual is able to modify organisational ethics to some extent.

•Various-Strong ethics

Difficulty in strategy implementation occurs when there is variations of ethics which are strong for the organisation or individual. If ethics are strong to the organisation any variation may lead to separation of individuals whose ethics are at variations. Another alternative available to the organisation is to design its structure and processes in such a way that these match with the ethics of an individual whose ethics are at variations. In such a situation the organisation will retain its core ethics while allowing change in others. This type of change is required when the individuals are quite important for the success of the strategy under imposition.

15.5.2 CORPORATE POLITICS AND USE OF POWER

All corporate cultures involve a political aspect and, thus, all organisations are political in nature. Strategy makers should understand the organisations are a microcosm of the society in which they exist. Organisational members bring with them their likes and dislikes, views and opinions, preconception and inclinations when they enter organisations. Managerial behaviour cannot be purely logical and, therefore, an understanding is to be attained of how politics work and the use of power is to be made. Power is described as .the ability to influence others and corporate politics is the carrying out of activities not advice by policies for the purpose of influencing the distribution of benefit within the organisation politics is related to the use of power but it is not similar to it. Mostly, we tend to view politics and power negatively as means for domination, alteration, and subjugation. But these can be viewed in a positive way also. In this sense, politics and power may be thought of as a method for the achievement of organisational agenda.

Henry Mintzberg is of also of the view that corporate politics is neither inherently good nor bad. Though many a times corporate politics lead to divisiveness that is not good for an organisation, yet there are times when it should change up in order to bring changes. These are occasions when the organisation is evolving from a phase of stability and entering into a period enquiring some basic changes. Strategy implementation is basically about change management. Thus, corporate politics has a definite role to play in strategy imposition. Endorse the need for creating political tension and a political harmony. Mintzberg says that the organizations must pull apart before it can pull together again. It can be said that strategy makers need to know when to use politics and dominance to get things done and when to shut politics and encourage harmony.

15.5.2.1 Power within an organisation is derived from five types of sources:

1. Reward power arises from the skills of managers to reward positive outcomes.

2. Coercive power arises from the skills of managers to penalise negative outcomes

3. Legitimate power arises from the skills of managers to use position to influence behaviour

4. Referent power arise from the skills of managers to create a liking among subordinates due to charisma or personality

5. Expert power arises from the manager’s competence, knowledge, and expertise that is appreciated by others.

Power is the potential ability to impact behaviour and change the course of events by overcoming resistance and make people to do things they would not otherwise do. Power and impact are subjects often approached critically with disdain and anxiety. It is considered more socially correct to be censorious of power than to speak of how to get more of it and use it to your advantage. And yet power is essential to change, progress, and improvement. As WARREN BENNIS and BURT NANUS, noted authorities on the subject of leadership, have

explained, Power is at once the most necessary and the most distrusted element demanding to human progress.

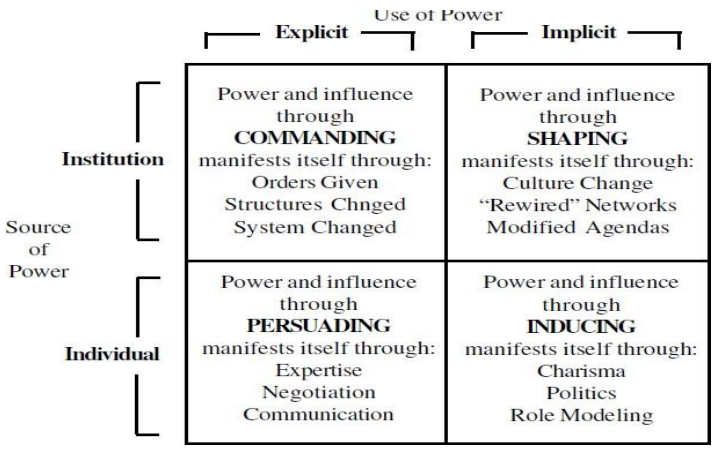


Fig 15.1 USE AND SOURCE OF POWER

SOURCE:HRC Group, Strategic management briefing papers (1989)

Now, let us know the above four aspects in detail;

•Commanding

Here, power comes from institutional sources is used explicitly: based on formal command, a manager gives orders and uses rewards or punishments to apply them. We call this combination of source and use of power commanding. This type of power is readily misapply; when misapply, it manifest itself in ways that range from petty partiality to fascism. Normally, such misuse of power is disliked and discouraged. However, it would be a blatant overstatement to say that explicit use of institutionally obtained power is always bad. There are many cases in which such power is very appropriate the classic example being military action. Military operations depend on a command and controlled structure of power in which the source of dominance is specified by the institution and the use of dominance is often necessarily clear. But the use of commands is not restricted to military applications. The command and control approach to execute a plan of action is neither inborn right nor inborn wrong for business organizations. It's use hinge on the situation at hand. In the simple and/or stable situations in which strategic programming is practicable, a command-and control approach to imposition may be not only reasonable but desirable. In such a place, institutionally obtained power used in an undisguised manner may be very effective in keeping an organization on track and moving. Although, as we have also discussed, the number of organizations that are able to depends particularly on strategic programming is shrinking. This suggests that, for most leaders to be as effective as possible, they will need to use forms of influence well beyond formal authority. Those who are higher in an organization can have a much greater force on the organization's structure (both macro and micro), as well as its resourcing and control systems. Controlling these organizational component s is not as

obvious as issuing commands, but it can have an even greater impact. Commands usually apply to a small subset of the organization, while changing the context and systems of an organization may have a much farther-reaching effect. By using institutionally admittedly authority to alter these elements of the organisation, managers can escort immense amount of power to help bring about sensible changes. Though less obtrusive than commands, changes in the formal elements of organization structure and systems are still fairly clear and obvious uses of institutionally acquired power. Research has shown that these clear and proper use of institutionally acquired power are often less effective than other methods that are less heavy-handed and more realistic. For instance, one study found that of seven forms of power surveyed, coercive power (the one close to our commanding category) was the least successful. Research findings such as these advices that most managers need to take actions that involve the use of power in other ways. We advocate that managers develop and apply all the different amalgamations of sources and uses of power. Moving away from the northwest corner and drawing on other forms of power from overall this exhibit is what we call using a full portfolio proceed to power. By developing a full portfolio, one can become less dependent on commanding and other uses of obtrusive formal authority. You should recognize that we are not denouncing the use of power altogether. While we stress the need for lesser reliance on commanding, at the same time we stress the increased use of other forms of power. For example, we will debate that one of the most effective uses of institutional power is shaping rather than commanding.

•Shaping

An organization's networks and culture are the basic elements of its surrounding that provide the backdrop against which everyday behaviour plays out. We are often unaware of exactly how these elements of context influence us, although when we do stop and think about it, most of us will agree that their impact is very much. This being the case, there is an opportunity for leaders who can shape networks and culture, if less obvious impact on their organizations persists than they might have by relying on their formal authority. For example, research has shown that in today's complementing organizations networks are emerging as specifically important sources of power. One study concluded that one of the most important differences between powerful managers and less successful manager was their connection to and use of a network of resource person unbiased web of relationships with superiors, subordinates, peers, and other key components.

• Persuading and Inducing

So far, we have been concentrating on the upper half of diagram, which may have given you the mistaken intuition that power depends on organizational position and other sources of institutional authority, while it is an indisputable fact of life that rank has its privileges, not all forms of power came from institutional sources. In fact, researchers have found that personal power is usually more effective than position power (the upper half of the exhibit).

In the lower half of the diagram, you can see other forms of power that stem from within the individual. These forms of power are available to persons at all levels of the organization, regardless of their rank or formal domination. When used explicitly, individual power tends to obvious itself through acts of expertise, negotiation, and communication. When used in a less unconcealed manner, individual power is seen through acts of charisma, politics, and providing a role model that others wants to follow.

Politics is related with the use of power and relates to managing alliance, consensus building, and the creation of commitment to organisational purpose and mission. The nature of organisation itself creates the conditions for corporate politics to clear itself. Through the creation of an organisation structure, not only are the ranking, position, and relationships created, but structure leads finally to conflicts, coalitions, drives, and ambitions among the people who constitute an organisation. Most of the managers are aware that the higher they move, the pyramid of the organisational structure narrows down steadily, there are fewer top position available as one moves higher. These causes steer for power resulting a political play. Since material rewards, promotions, pride and ego are involved, each organisation, more or less, is affected by corporate politics. For every one manager that involves in corporate politics and the use of power as bad, there is another manager who feels that it is good. So, despite some well-meaning managers avoiding it, politics remains a part of the organisation. Political reflection and use of power, therefore, are a part of behavioural implementation by strategy makers.

The typical approaches to a strategic use of politics and power may involve in one or more of these actions:

• Accept the inevitability of politics being there in the organisation, to understand how an organisation's power structure works, who has real power and influence, and who are the individuals and groups whose opinions has weight and cannot be disregarded

• To be sensitive and alert to political signals emerging from different parts of the organisation

• To know when to treat softly and real on alliance management and consensus building, and when to push through decisions and actions by a critical and judicious use of Machiavellian methods.

• To lead strategy and not to dominate it, being patient till a consensus arises

• To let most negative decisions arise as a group consensus rather than as a discreet from the top.

• To gather support for acceptable proposals and to let the unacceptable ideas die.

•To reward organisational commitment and penalise negative or indifferent methods.

•To follow principled politics and use openness and honesty to counter unprincipled politics.

In the Indian context, the presence of politics and use of power is perhaps more visible than in other cultures. This may be due to the universal enviousness exhibited in Indian organisations. Managers have not only to deal with-and be pretentious by-intercorporate politics, but also intercorporate politics, between opponents. At a higher level, Indian industry is bedevil with politics between associations and federations of business, public versus private sector, small versus large sector, multinational versus local firms, and technocrats versus bureaucrats. In such an environment, strategy makers have to be aware of not only internal political analysis but also the politics and power play resent in other organisations, specifically government departments and ministries, with whom they have to deal. Talking about corporate politics and use of power, we have been walking a very dangerous path between moral and amoral uses of politics and power. It is easy for strategy makers to often forget the contrast between use of politics and power for the benefit of self, organisation, or the society. What blurs the contrast is a lack of personal values and a sense of business ethics.

15.5.2.2 Personal Values and Business Ethics

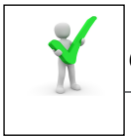
Only personal values and knowledge of business ethics can help a strategy maker to differentiate between moral and amoral use of politics and power as a means to attain organisational goals. We try to answer these questions: what are personal values and business ethics? Why and how are they important? And what is the relation of values and ethics to strategy?

Personal values refer to the inception of what an individual or groups regards as important. A value is a view of life and a judgement of what is important and what is not. Yes, it is very much important part of a person's personality and a group's morale. Thus, a perspective to labour welfare is a value which may induce an industrialist to do much more for workers than the labour laws prescribed. Service-mindedness is a value, which when cherished in an organisation, exhibits in better customer satisfaction. Personal values are consumed from parents, teachers, and elders, and as an individual grows, values are acquired and refined in the light of new knowledge and experiences. Within organisations, values are transmitted by the founder-entrepreneur or a commanding chief executive, and these remain in some form a long time after that person is not there, rarefied in the light of new knowledge and experiences. Within organisations, values are sorted by the founder-entrepreneur or a commanding chief executive, and these remain in some form a long time after that person is not there. In the discipline of management studies business ethics is the study of how personal moral norms apply to activities and aims of a commercial enterprise. It is not a different moral standard, but the study of how the business environment poses its own unique problems for the moral person who acts as the negotiator of this system. Practically, business ethics operates as a system of values and involve primarily with the relationship of business goals and techniques to particularly human ends. Here, "particularly human ends", means viewing the needs and ambition of individuals not merely as individuals but as a part of society. It also means elevation of the personal dignity of human beings. A major task of leadership is to involve personal values and impart a sense of business ethics to the

organisational members. At one end, values and ethics shape the corporate culture and direct the way how politics and power will be used and, at the other end specify the social responsibility of the organisation.

The twin issues of personal values and business ethics have come to gain the centre stage in management. There is an extension in the awareness around the world about ethical practices in business. International organisations such as the World Bank and IMF are worried about whether the aid provided by them is used for the intentional purposes and not wasted away by corrupt government officials. Transparency International comes out with an annual rating of countries on an index of corruption that serves as a medium for foreign investors and international donor agencies. Within India, there are important social, cultural, political, technological, and economic factors influencing the state of personal values and business ethics within industry. Corporate governance has gained worldwide attention as a means to induce ethical behaviour in business. Business ethics has traditionally been appraised to integrate core values, such as, honesty, trust, respect, and realness into strategic management, policy-making, practising management, and decision-making. It has been known as a set of legally driven codes, in the form of a list of do's and don'ts for the company executives, that has to be complied. A proper change is occurring in considering business ethics as central to managing organisations. Companies are formulating value-based, globally known codes for ethical understanding and proper decision-making at all levels even as they face immense external challenges. Business ethics is being known as a major source of competitive advantage. In 1999 a study by the DePaul University of 300 companies found that companies making an explicit adherence to follow an ethic code provided more than twice the shareholder value than those who did not.

A previous study of 1997 had found that companies with a defined commitment to ethical principles performed better than the others. What this means is good ethics is also good business. Companies recognised as ethical organisations are able to gain investment and human capital, retain talent, transform themselves in the markets, and create recognition of customer friendly. A chairman of a successful company in India said: Value-based organisations have explained that even so called soft concepts can be extremely powerful. Money can't buy reputation and integrity they both have to be earned. Organisations based on strongly-held shared values amongst their customers and employees (and in that order) have been able to professionalise and invent their market potential through strong brand loyalty and relationship building with their customers.



Check Your Progress- A

Q1. What do you mean by Strategic Leadership?

Q2. How do you assess the Impact of Culture on Corporate Life?

Q3. Write a note on Corporate Politics and use of Power.

15.6 INCULCATING VALUES AND ETHICS

Once the values and ethical codes are articulated, strategists have to set about inculcating them. Several actions could be taken for this to be fulfilled. A representative list of such actions is given below.

• Considering values and moral in recruitment and selection to ensure compatibility of the character attribute of potential employees to the ethical system of the organisation.

• Assimilating the statement of values and code of ethics into employee training and educational programmes. Example-setting by top management in terms of actions and behaviour that strengthen the values.

• Communication of the value and code of ethics through ample publicity and explanation of acquiescence procedures.

• Constant monitoring of compliance by advanced staff and top management

• Consistent fostering of values within the organisation through their integration into policies practices, and actions.

• Paying special attention to those parts of the organisation that are vulnerable to ethically-sensitive activities, such as, acquiring and procurement, dealing with government and other outdoor agencies.

15.6.1 RECONCILING DIVERGENT VALUES

Strategists have to resolve divergent values and modify values, if necessary. A typical situation of value discrepancy may arise while setting objectives and determining the precedence of different objectives. One group of strategists (may be, a alliance) is interested in production- oriented objectives such as standardisation and bunch production while another group may hassle marketing related objectives, like product quality and variety, and small-lot production. These interests may be justifiable in the sense that they arise from their functional prejudice. It is for the chief executive now to bring together the divergent values. Obviously, this can be done best in the light of tactical requirements and environmental considerations.

Modifying values to create stability: Modification of values is frequently required for strategic execution. A particular strategy, say of expansion, may be suboptimal if existing values do not match to these requirements. In such cases, modification of values is necessary. But what was said of communal culture is true for values too: they are difficult, if not impossible, to change. A sensible use of politics and power, redesigning of corporate culture, and making systematic changes in organisation can help to modify values steadily.

Of late this absence of a uniform national philosophy and sense of value based on ethical considerations is being more and more noticed by management philosophers and sundry models are being advanced that will, optimistically lead to the development of value-based ethical principles in Indian industries.

15.6.2 THE CHAKRABORTY MODEL

Chakraborty bases his model on Vedantic values and considers them as the long lived national ethos of India. His model of ethical morality is temporarily structured on the following:

The basic concept is to harness secular complexity to the guiding hand of sanctified simplicity. This is achieved by referring to the four goals of the human system:

- Dharma (rectitude and justice)

- Artha (money and wealth)
- Kama (wishes and needs)
- Moksha (emancipation of the spiritual core).

The secular goals of artha and karma are incorporated into the model within the bounds of dharma or ethic moral aptness and moksha or liberation of the inner spirit core.

• To make Vedanticspirinomics a reality, the following correctives may be sought from sacrosanct simplicity.

• To aim and endeavour for a pure-mind, significance emotions, feelings, impulses; the matter of the heart, so to say, should take predilection over intellect/sharpening.

• Work must be done without personal claims to self-centred results (i.e. rewards) as the primary motivating force. This in effect means desireless effort (nishkam karma).

• The principled level of a society at a particular moment depends on the state of karma-account of each of the participants in the public.

• The most important objective for a human being, both for is own sake and for the sake of society is to perk up his karma.

• Human traits comprises (a) and outer active, involved all dynamic self-called prakriti, and (b) an inner, sluggish witness and silent self-called purusha. Even when one works in the middle of turbulent or hectic external circumstances, the inner purusha exists all the time as a lasting background of stillness. The practice of this depth alertness is a vital process for effective self-management.

• The switch over theory of generating the means of human provisions and economic wealth is obtained through a systemic framework connecting the human and the cosmic. This is expressed by the concept of yagnartha karma, i.e. work done is a sacrifice. In end result, care and concern flow in this theory not only from an awakened honourable conscience, but from a more extensive cosmic and spiritual conscience.

• Creativity in future must, on the whole, be directed towards serving the simple living high thinking goal for humanity in compliance with the Vedantic transformational purpose of unfolding the higher self or core self within which is poorna or that which is unconventionally whole and self-sufficient.

• The credibility of a leader rests finally on the attribute of uncongenial love, springing from the higher self. Consequently, human development should be based on the following concept:

Awareness of personality begins with the sentiment of separateness from all, but has its zenith in the feeling of unity with all. The life in which the consciousness of accord is primary and separateness the secondary aspect, and therefore the personality is large and bright in truth-this is the soul of life. This perception of unity is ekatmanubhuti.

These principled considerations lead to the concept of a business ashram as a credible Indian concept of an ethical view of business. Some achievable concrete outcomes of widespread embracing of this business ashram vision would be the following.

i. There should be a growing tendency in the direction of products with longer life cycles as against the ever shorter ones today.

ii. Organizations should be apt to contract rather than expand, as is the current penchant.

iii. Localized, decentralized economic deeds should increase faster than centralized ones. production and distribution should be more space-specific.

iv. The need for high speed, long distance, incessant travel should gradually demur.

v. Employee relations are likely to become more supportive and less adversarial, as a corollary of greater identification with slighter sized enterprises and the spirit of trusteeship inferred amongst owners/top managers.

vi. Competitive advertising, preying upon credulous customers, is likely to turn down.

vii. Growth fuelled by greed and achieved through planning, financial mergers, and heavy debt financing are likely to be less and less preferred.

viii. Local assets for local markets to meet local needs being once again the principal thrust, the furious search for strategic advantage, strategic intent, strategic response, and so on for international markets should slow down.

ix. Mental illnesses due to overconsumption outside and starvation within should fall.

x. Living in society is likely to become simpler and less energy demanding. Change for the sake of change will appear to be less reasonable.

xi. Loyalty and thankfulness to organizations and colleagues may once again become important quality of professionalism.

xii. Reduction in greed and interpersonal challenge should give basic human values like sharing and modesty a better chance of coming into their own.

xiii. Networking, interpersonal on inter-organizational, may rest on something more venerable and genuine than the self-centred influential motives of the present.

xiv. More and more decisions are likely to be subjected to the test of whether their possessions are likely to be morally, ethically, and ecologically positive or negative.

xv. With the gradual replacement of the slogan of external utilization by the gospel of inner living, creativity will tend to be channelled more into arts such as music, fiction, and painting rather than into the ever-increasing abundance of superfluous goods and products.

xvi. In education, realization and optimism should regain their lost importance, as against the existing primary of information and careerism.

xvii. The human being is likely to be less obligated to fit or mould himself/herself to technological imperatives. Rather, technology will be acknowledged or rejected by the values of the spiritualized human being.

xviii. Coalition and empowerment of the individual will/energy with the ultimate Divine will gradually become a well-known experiment-based reality. This process will lead to increasingly error-free, morally correct decisions.

15.7 ETHICS, VALUES, CULTURE, AND LEADERSHIP

A major change has become evident in corporate attitude to business ethics since the eighties. Prior to the eighties business ethics tended to be reflected in the aspiration to do good work i.e. showing munificent intentions cost effectively. This form of corporate paternalism was no longer considered adequate in the eighties. Rather, the attitude on business ethics centred on the personal actions of the individual rather than just the image of the organization. It inferred not only that relationships between organizations are governed by implicit or precise codes of behaviour but that the constituents of business extend beyond customers and shareholders to include all those who work for the organizations, communities and, in effect, everyone directly affected by the organization's activities. But what would these codes of ethics, that in effect are a quantification of business ethics, have? This is where differences arise. The cause for this difference is not difficult to locate. To estimate Michael Hoffman, a respected professor of philosophy and business ethics:

Our current century has been weaned away on relativism (denial of ethical absolutes), on pragmatism (the faith that somethings is right if it works), on positivism (equating knowledge with noticeable experience), and on behaviourism (interpreting human actions as totally determined and predictable). The unifying thread of all this is the reduction of everything considered true and meaningful to substance reality or physical experience. Science and materialism have flourished and ethics and values have been relegated to matters of sentiment, attitude and sentiment.

15.8 POWER

Another, widely invasive element, influencing the decision-making process in an organization is the exercise of power. For the intention of strategic analysis, power is best understood as the extent to which individuals or group are able to influence, induce or coerce others into following certain courses of action. This is the method by which one set of expectations will dominate policy-making or seek conciliation with others. Hierarchy provides people with formal power over others and is one method by which senior managers persuade policy. It is, however, important to remember that this type of power has very restricted effect if used in separation. Influence can be an important source of power and may

arise from personal qualities (the charismatic leader) or because a high level of harmony exists within the group or company (i.e. people are willing to support the existing viewpoint). Indeed, there is strong hold for the view that the most important task of managers is to shape the culture of the organization to suit its strategy. However, the level to which an individual or group can use his/its influence is resolute by a number of other factors. In many situations, prior commitments to principles may be reasonably central to the organization's mission. Thus a no severance policy may be interpreted to counter actions proposed by senior management (such as productivity levels).

• Knowledge/skills: Individual can derive power from their expert knowledge or skills. Certain individuals may be viewed as exceptional to the company, and some would jealously guard this privileged position by creating a charm around their jobs. This can be a dangerous personal strategy, since others within the organization may be either spurred to attain the skills or to devise methods of bypassing them. The powers of many organizations, computer specialists were endangered by the advent of minicomputers which provided others the means of bypassing those specialists.

• Control of the environment: It is well known that events in the company's environment are likely to persuade its performance. Hence, the more uncertain the environment, the more likely the company to be reliant upon individuals within the organization with specialist knowledge of that phase of the environment. This is particularly true when the environment is aggressive. That is probably why more than anything else, financial and marketing managers are seen as leading in the policy determination of a company.

• Exercising discretion: This is a most considerable source of power within an organization and is often overlooked. Whatever the tactical decision taken, its execution cannot be inhibited in all its minutest details, and even the dynamics of the situation change between the time a decision is taken and its function. It is therefore up to the implementers to infer and execute the particular parts of that policy, and in doing so, use their own personal judgment. This is a major source of power for middle management in organizations.

15.8.1 METHODS OF ASSESSING POWER

It is useful to analyse and arrive at some simple guidelines on how to measure power in an organization. Following Prefer, it is suggested that the best way to deal with this complex situation is to step back from the information and look for the indicators of power.

There are four major indicators each for the internal and the external sources of power.

• Internal Sources

The status of the individual or group, as indicated by position within the hierarchy, individual salaries, and job grades of the group, standing of the individual or group. The claim on resources as intentional by the department's budget, or the number of employees within the group, in particular, tends in the proportion of possessions claimed by the group. The less powerful group would perpetually find its resources windswept by the more powerful.

• External Sources

The status of an external party, such as a supplier. This is often indicated by the way such a party is discussed among company employees and whether they respond quickly to its anxiety. Resource dependence can be measured unswervingly. For example, the fraction of the company's business tied up with any one customer or supplier and the ease with which the supplier, financier, or customer can be replaced at short notice. Negotiating whereabouts: Whether external parties are dealt with at arm's time-span or are actively mixed up in consultation with the company. Thus a customer who is invited to consult over the value of a contract is in a more prevailing position than a similar party that is given a permanent price on a take it or leave it basis. Symbols are equally precious clues, i.e. whether the management team wines and dines some customer or supplier, or the level of person in the company who deals with the scrupulous supplier. The concern and consideration paid to correspondence with outsiders will tend to fluctuate from one party to another.

15.9 SUMMARY

In this unit you learnt that Strategic leadership is the process of transforming an organisation with the help of its people so as to put it in an identified position. Thus, there are two aspects that are involved in strategic leadership. You also learnt that organisational culture is another element which affects strategy operation as it provides a framework within, which the behaviour of the employees takes place. Though there are different views in regard of how to create an organisational culture, generally, it is defined as a set of norms that the members of an organisation share in common. Further, all corporate cultures involve a political aspect and, thus, all organisations are political in nature. Strategy makers should understand the organisations are a microcosm of the society in which they exist. Organisational members bring with them their likes and dislikes, views and opinions, preconception and inclinations when they enter organisations.



15.10 GLOSSARY

Strategic leadership: Strategic leadership is the process of transforming an organisation with the help of its people so as to put it in an identified position.

Organisational culture: Organisational culture is another element which affects strategy operation as it provides a framework within, which the behaviour of the employees takes place.



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15.13 TERMINAL QUESTIONS

Q1. What do you mean by behavioral implementation?

Q2.What are the major issues involved in Behavioral implementation?

Q3.Discuss the Chakraborty Model on Vedantic values and describe its relevance in strategic management.

Q4. Write a detailed note on Ethics, Values, Culture, and Leadership.

Q5. Discuss the Relationship between Strategy and Culture.

UNIT 16 FUNCTIONAL AND OPERATIONAL IMPLEMENTATION

16.1 Introduction

16.2 Objectives

16.3 Functional Policies and Plans

16.4 Difference between Policy and Procedure

16.5 Role of Functional Policies and Plans

16.6 Development of Functional Policies and Plans

16.7 Summary

16.8 Glossary

16.9 Reference/ Bibliography

16.10 Suggested Readings

16.11 Terminal & Model Questions

16.1 INTRODUCTION

In the previous unit you learnt about behavioural implementation and in this unit you will learn about another aspect that is functional and operational implementation. Functional Strategies are devised by specialist in each functional area of business. They spell out the spell out the specific tasks that must be performed to implement business strategy. Companies may vary in organizational responsibilities and also devise varieties of functional strategies. Marketing specialists focus on determining the appropriate markets for business offerings and on developing effective marketing mixes. The marketing mix includes four strategic elements: price, product, promotion, and channels of distribution. Financial specialists are responsible for forecasting and financial planning evaluating investment proposals, securing financing for various investments, and controlling financial resources. Financial specialists contribute to strategy formulation by assessing the potential profit impact of various strategic alternatives and evaluating the financial condition of the business.

16.2 OBJECTIVES

On completion of this unit you should be able to:

- You will understand the concept of functional and operational policies and plans.
- You will be able to differentiate between policy and procedure.
- You will understand the role of functional policies and operational plans in strategy implementation.
- You should be able to understand the nature of organizations and the ways in which they convert inputs to produce goods and services.
- You should be able to understand that the purpose of the purchasing, marketing, finance and production functions.

16.3 FUNCTIONAL POLICIES AND PLANS

Integrated strategic planning system has significant dimension that coordinates the various plans from the top level of the organisation down through the lower levels. Such plans are coordinated at different levels so that planning efforts at a lower level contribute to the higher level efforts. Thus, integration of various functions, their plans and efforts leads to effective implementation of strategy. The integration can be achieved if various functional plans are derived directly from strategic plans and that too at the level of their formulation. However, this may not always happen, particularly in the absence of proper guidelines. For, an organisation is a growing concern whose operational patterns have already been established which –may not contribute to the type of integration needed at various levels. Further, the functional plans are prepared by almost at any level of the organisation. For example, the marketing manager develops overall marketing objectives, policies, action programmes, budget, etc. His subordinates, in turn, develop supporting marketing plans covering each area of marketing operation-distribution, sales promotion, marketing plan-which are incorporated into overall plan of the organisation. Similar exercises are done in other functional areas which are incorporated into master plan for implementation. At all these levels, coordination is necessary which is not achieved automatically but through the development of policies. Policies are guides to action. They are in the form of detailed statements or general understanding which provides guidance in decision making to members in respect of any course of action. They specify how the task assigned to the organisation might be accomplished and provide a basis for lower level managers on which to make decisions about the use of resources which have been allocated. But a policy does not tell the managers how to handle a specific activity; it is only a general guide to action. It limits the choices of managers in most of the cases but it does not limit them entirely.

16.4 DIFFERENCE BETWEEN POLICY AND PROCEDURE

Before we proceed to the discussion of development of functional policies, it is necessary to make a comparison of policy and procedure. A procedure is a series of related tasks that make up the chronological order and the established way of performing the work to be accomplished. Thus, a procedure provides guidelines to organisational members about how to accomplish a work. A policy also provides guidelines for actions. Thus, there is a likelihood that a confusion arises between policy and procedure as both provides a framework for future course of action. However, this guiding feature is different in policy and procedure.

The major difference between the two can be identified as follows:

- Policy provides guidance for managerial thinking as well as action. As a result, it does not tell a manager, how to do the things; it merely conduits his decision-making along a particular line by eliminating his span of consideration. On the other hand, a procedure simply provides guidelines to the action by recommending how an action can be performed step by step.
- A policy is more flexible as compared to a procedure. Policy is more flexible because it prescribes the areas of decision to managers, while procedure prescribes the exact sequence of the activities without scope of any distinction. This difference between policy and procedure may be understood by an example. An organisation may have a policy' of yielding vacation to its employees. For implementing this policy, certain procedure may be followed through which an employee may get leave and related benefits. A manager can refuse the leave to the employee concerned depending on the organisational situation. But the employee will have to follow certain procedure of applying for leave, completion of certain procedures to avail the benefits if leave is granted.
- Policy is more pronounced at higher levels while actions are more prevalent at lower levels. At higher levels, managers are more concerned with looking into the totality of the organisational functioning and, therefore, they should recommend policies so that uniformity is maintained for particular action. People at lower levels are involved mostly in routine work which can be better accomplished if the set standards are prescribed without leaving' any possibility of discretion. Since external situations play more important role in policy formulation and its implementation, managers at higher levels have to make many decisions which are not similar to the previous ones. Therefore, they have authority to vary an action conferring to the needs. At lower levels, no such problems arise.

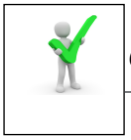
16.5 ROLE OF FUNCTIONAL POLICIES AND PLANS

Functional policies play important role in strategy implementation. A functional policy can be defined as it is basically formulates strategy , control them and reinforce implementation of functional strategies and as well as the corporate strategy.

Control and reinforcement of strategy implementation are facilitated by functional policies in the following ways:

- Through the functional policies, top management can confirm that strategy is implemented by all parts of the organisation as policies cover almost entire activities of the organisation.
- Policies specify the manner in which things can be done and limit option for managerial action. Thus, the top management of the organisation can be assured that all personnel of the organisation will direct their efforts in a way relevant for strategy implementation.
- Policies provided strategies for managerial decisions. This aspect of the policies serves the strategy implementation in two ways. First, there will be consistency throughout the organisation in managerial action. Second, there will be considerable time savings in decision making as managers are well aware of what kind of strategies are required in a particular situation.
- Functional policies provided basis for control in specific areas as policies lead to consistent pattern of behaviours: This, in turn, it acts as the basis for controlling.
- Policies provide coordination across different functions. As it is very important for managers to coordinate among different functions and it is very important for strategy implementation.

All functions of an organisation are interdependent and interlinked. Therefore, what is happening in one function has its relevance for other- functions. All functions can contribute positively and effectively when they are performed in a coordinated way.



Check Your Progress- A

Q1. What do you mean by Functional Policies and Plans?

Q2. What is the difference between Policy and Procedure?

Q3. What is the need of the functional strategies required in the business?

16.6 DEVELOPMENT OF FUNCTIONAL POLICIES AND PLANS

Managers develop policies which are decision guides that help the organisation and make the strategy work. Therefore, the critical component involved in analytical exercise for policy making is the ability to factor the grand strategy into policies that are compatible, workable and just theoretically sound. It is not enough for the managers to decide to change the strategy. What comes next is equally important: How do we get there? When? And how efficiently? A manager answers these questions by preparing policies to implement the strategy. For example, if an organisation chooses to go for diversification, the policy maker has to decide what to diversify into, where to diversify, how much money will be needed, from where the money will come and what changes are needed in various functions of the organisation. The decisions on all these aspects are much easier if proper policies have been formulated.

The amount of policy making in the formal sense will vary with the size and complexity of the organisation. If the organisation is small one with simple business, only a few policies will be sufficient. Moreover, the policies are generally understood and verbal. However, in large and complex organisations, large number of policies is needed, in whatever forms, the policies are developed, and they must be judged on the following criteria:

1. Do they exist in the areas critical to the success of the organisation?

2. Do they reflect present or desired organisational practices and behaviour?

3. Are they clear, definite, and explicit leaving no scope for misinterpretation?

4. Are they consistent with one another and do they reflect the timing needed to accomplish the goals?

5. Are they practical in given existing or expected situations?

16.6.1 INTEGRATION OF FUNCTIONAL POLICIES

When various functional policies have been developed for implementation of the strategy, implementation is not necessarily complete; if these policies are not properly integrated, they may not contribute properly towards strategy implementation. Integration in functional policies is necessary because they are interdependent; a particular policy affects other policies and, in turn, is affected by other policies. Functional policies may be considered like horses in a chariot. A chariot may have very good horses but it may not move forward even by an inch if some of the horses are pulling it forward and others are pulling it backward. The chariot may move forward at a high speed if all horses pull it forward at the same time. The considerations that guide strategists in the integration of functional policies may be as follows:

1. Need for internal consistency;

2. Relevance to developing organisational capabilities;

3. Making trade-off decisions;

4. Intensity of linkages; and

5. Timing of implementation of policies.

1. Internal Consistency

There is a need to be sure that there is internal consistency in the policies developed for various functions. Since various functions are interdependent, a decision for functionally dependent factors cannot be made without regard to their impact on other areas of business. Otherwise, sub optimisation is likely to result. For example, a major production decision variable is that of plant capacity. This decision depends heavily on, besides other things long-range sales forecast and the structure of distribution channel (marketing function), cost of capital and sources of funds (finance function) and availability of relevant human resources (personnel function). Thus, plant capacity decision cannot be made in isolation of other factors.

2. Relevance to Organisational Capabilities

Integration of various functional policies should focus on developer organisational capabilities to implement the strategy effectively. For synergistic effects occur across functional areas and distinctive competence emerges as a result of deploying resources to the areas where the organisation wishes to build up its strategic advantages. This can be observed in the case of companies which intend to be a market leader, low cost producer, or technologically superior competitor, or the largest organisation. In all these alternative cases or a combination there of integration of various functional policies would be necessary, though there may be difference in emphasis. For instance, the company which wants to become a market leader would have to offer products of the best possible quality at competitive prices through an efficient distribution system supported by aggressive promotional efforts, as is the case with Hindustan Lever. For Reliance Industries which is to be the largest company in petrochemical sector, the emphasis has to be on high technology, mobilisation of large resources but not necessarily emphasizing distribution and promotion. Thus, integration of policies should aim at developing competencies relevant to the company's objectives as defined through strategy formulation.

3. Making Trade-off Decisions

In integrating various functional policies, the organisation faces the situation of trade-off decisions because of the inherent nature of each organisational function. The demand for Optimizing a particular function may be in one way, for another function, in another way which may be conflicting to each other. For example, production function's optimisation may lie in the most modern technology, a costly affair; finance function's optimisation may be least cost technology. Both are contradictory. Similar contradictions may be observed in other functional areas also. Therefore, there has to be a trade-off among various functional areas which may sub optimise some functional areas but may optimise the organisation. It is based on the maxim in trade-off decision, the principle is what you get is more important than what you lose. This is true in the case of integration of policies.

4. Intensity of Linkages

All functions of an organisation are interdependent and interlinked; some directly, others indirectly. Types of linkage determine the level of integration of various functions. For instance, if the strategy is built on offering newer products, there would be greater linkage between R&D and production function; if the .strategy is built on low-cost mass consumption items, there would be close linkage between production and marketing. Thus, intensity of linkages is not constant but moves according to the strategy.

5. Timing of Implementation of Policies

There should be integration in timing in putting different policies into action. This may bring better result for the organisation as a whole. For instance, if a con1pany is facing resource

crunch, it may be better to put off those plans and actions which may have long-term effect on it like R&D. Similarly, if the company is moving into high-tech area, more emphasis has to be placed on training and development.

16.6.2 FUNCTIONAL APPROACH

Functional approach of organisational analysis takes into account various functional areas and evaluates these for identifying strengths and weaknesses. The major functional areas are production/operations, marketing, finance and accounting, and human resources. Each of these major areas is divided into subareas, for example, marketing is divided into sales promotion, physical distribution, sales volume,' and soon. Similar is the case with other functional areas. Besides these functional areas, organisation's general management factors are also taken into, consideration. Thus, in functional approach of organisational analysis, following factors are evaluated to identify strengths and weaknesses:

- Production/operations,
- Marketing,
- Finance,
- Human resources, and
- General management.

In the discussion that follows, various features of these factors, indicating strengths and weaknesses have been presented. While using these features in respect of various factors, two points should be taken into consideration:

1. These features provide a normative and suggestive list; in actual practice, these factors may vary depending on the nature of organisations.

2. Since organisational analysis is meant to relate strategy to environment, it is always future oriented. Therefore, these factors should not be evaluated on static basis but on dynamic basis in the context of environment. In fact, in many cases, the present strengths may turn to be weaknesses because of environmental changes. Various factors have been presented, here, in a sequence for the sake of convenience in analysis and not in order of their importance.

16.6.3 PRODUCTION/OPERATIONS

Production / Operations processes are the mediating factors for converting raw materials into finished products. There are various factors which affect the internal operations of the organisation and these factors should be taken into account while appraising the organisation's capabilities in these areas;

- Allocation and Use of Resources

The degree of an organisation's success or failure depends on the degree of effective allocation and use of resources. Resources do not mean only money, building, and plant but also the scarce resources of management talent, capability, and technical skills. An organisation making well balanced allocation and use of its resources is in a better position to face challenges from the environment. The allocation and use of resources can be balanced by taking into account the need for various activities contributing to the objectives, their criticality, and resource requirements.

- Rationalisation of Resources.

Another important aspect of using resources is their rationalisation. This problem is more important in the context of multiunit organisations. For example, a multiunit organisation may have many plants and offices with duplication of various efforts. The extent to which the duplication is avoided, the company becomes strong as cost of duplication is a burden on the organisation.

- Locational Pattern

Though locational pattern is affected by a large number of factors, both economic and noneconomic, it affects the operational efficiency of the organisation. Such locational pattern can be analysed both for plants as well as for administrative offices. The extent to which organisation's plants and offices are located at favourable places, it stands to benefits and that is a strength for it. For example, opening of plants in backward areas may offer various advantages because of incentives from the government, but opening of administrative offices may not offer the similar advantages. This is the reason why many companies go for backward areas for establishing production facilities but open offices in well developed areas, for example, Fort area in Mumbai or Chowranghee area in Kolkata.

- Production Capacity and its Use

The use of production capacity affects the profitability of the organisation. High use of production capacity is strength but a low use of this is a weakness because the organisation's cost of production in this case may be very high.

- Cost Structure

The cost structure of the product affects the organisation's profitability. If the cost of product is high, it is a weakness. Moreover, the extent to which cost cannot be controlled is also weakness of the organisation. Thus, low cost with high level of controllability is a strength and high cost with low level of controllability is weakness.

- Cost Volume Profit Relationship

While cost structure gives the general idea of high or low cost, Cost volume profit relationship suggests the profitability of the organisation at various levels of production. If the relationship is such that it gives break even at high level of production with low margin of safety, it is weakness for the organisation, on the other hand, if break-even point is low with high margin of safety, it is strength for the organisation.

- Operation Procedures

Efficient and effective operation procedures like production design, scheduling, output, and quality control affect the internal efficiency of the organisation. As such, these are the strengths for the organisation, and opposite of these will be weakness because these will affect organisational efficiency adversely.

- Raw Materials Availability

The extent to which the raw materials are critical and scarce and are supplied from a very limited sources, the organisational functioning is adversely affected. In such a case, the organisation does not have any control or has very limited control over the supply of raw materials. Hence, its dependence on the limited sources of supply of raw materials is a weakness. If the company is procuring its materials from well diversified sources and the materials are easily available indigenously, its dependence is less which is a strength for it.

- Inventory Control System

An efficient inventory control system which pinpoints on the various aspects of materials provides strength to the organisation because it can control and regulate the procurement of materials in such a way that its cost is minimum and there is no unnecessary hindrance in the production. A defective and non-existent inventory control system is a weakness.

- Research and Development

Research and development is an important area where management should concentrate because of two reasons. First technical collaboration with any foreign organisation lasts up to five years with an extension of three years in exceptional cases. The government stipulates that local organisations, should develop its R&D during this period. Second, there are special tax benefits on the expenditure of R&D and products developed out of the organisation's R&D efforts. In order to take the advantages, the organisation must take R&D activities and, must evaluate as how these are contributing to the organisational product development. R&D activities can be evaluated in terms of amount spent on them, number of products developed,

or number of patents registered by inside R&D. A high score on these items is strength of the organisation.

- Patent Rights

Organisations holding certain patent rights under which they can use some well- established brand names have certain advantages because they have not to incur any extra expenditure for promoting the brand.

16.6.4 MARKETING

Marketing factors are of prime status for a business organisation as it relates itself to its environment through marketing functions. The managers should evaluate the organisation in the light of various marketing factors taking into account how these factors are donating or not contributing to the achievement of organisational purposes and how long they will continue to do so if the same position continues.

Prominent marketing factors taken for evaluation are as follows.

- Competitive Competence

Business organisations have to work in a competitive field, except in the case of protective markets where markets are not clear by individual company or market factors but by non-market factors. The organisation's competitive competence can be appraised on the basis of trends in the market shares for which the information can be made available from various outside sources as well as through the organisation's own marketing research department.

- Product Mix

Product mix chooses the various sources of revenue to the organisation. This is true not only for a diversified organisation but even for a single class. If the revenue is coming from a single product or from very partial number of products for a diversified company, this may be its weakness.

- Product Life Cycle

Product life cycle is an effort to recognise distinct stages in the sales history of the product. Corresponding to these stages are the various marketing opportunities and threats. Normally every product and brand has to pass through a life cycle: introduction stage, growth stage, maturity stage, and declining stage. Products at declining stage are the weak point for the organisation and adequate precaution must be taken.

- Marketing Research

Marketing research provided the information for taking various marketing decisions in the light of the environmental demand. The efficient and effective marketing research system is a

strength for the organisation because it will enable to relate the organisation with its environment through suitable strategy.

- Channel of Distribution.

An effective channel of distribution is a strength of the organisation because it not only distributes the products at the point where these are needed but also provided the feedback, regarding the changes in the market forces. However, a centralised distribution channel may be a weak point because it may weaken the organisation's position at the time of emergency of it.

- Sales Force

An effective and efficient sales force closed with key customers is a strength for the organisation because it may withstand any threat that is possesed by the environment. However, sales force concentrating sales efforts to a few customers may be considered as its weakness.

- Pricing

Pricing is a factor which affects both sales as well as revenue to the organisation, particularly in caprice sensitive markets. Though there can be different pricing strategies in different markets and at different product life stages, these must match with the product and market.

- Promotional Efforts

Various promotional efforts affect the positioning of the products in the market. They also affect the brand images as well as the general image of the organisation. Effective promotional efforts are a strength for the organisation and their absence a weakness.

16.6.4.1 Marketing Strategies—Competition Based

Marketers have to change strategies to fight competition, to gain and retain market shares. The right tool for analysing market situation is SWOT analysis. Based on the SWOT analysis competitors can be classified as follows:

1. On the basis of their ability to engage and sustain warfare—strong and weak

2. On the basis of percentage of market share—close and distant held by a competitor These competitors can, in turn, be assigned following competitive positions.

Market leader—the firm with largest market share and strong in designing and implementation plans.

Market challenger—close and strong competitors to market leader, who aggressively or mildly challenge him

Market follower—the distant and weak competitor who is content in following leaders and challenger.

Market Nicher—the independent, non-fighter, who carves his niche for peaceful and profitable specialized operations

Companies in different competitive positions work different strategies. The possible moves of a leader, challenger, follower and nicher are:

- Grow strong—become invincible
- Defend—develop protection against attack
- Offend—weaken or destroy competitor
- Play safe—select less competitive areas and cultivate.

Leader

Expansion strategy

- Market penetration strategy

- Increase use of the product
- Find new uses for the product

- Market development strategy

- Convert non-users to users
- Find new markets in other places

- Product development strategies

- Create new products/services
- Modify existing products

Defending strategy

- Continuous innovation and quality platform Position defence - Product—Line complete Flanking defence - Varieties of Variants

Pre-emptive defence - Price reduction through sales promotion Counter offensive defence - Match with ads and others at tacks Mobile defence - Concentrate in successful markets Contraction defence- Prune brands

Market Challenger: A market challenger may choose to attack

- The leader
- The followers
- The nichers.

Market follower

The options are:

Following closely — imitate immediately Following at a distance — slow imitation Following selectively — imitation in select areas

Market—Nicher

- The niche has growth potential
- The niche is of negligible interest to major competitors
- The firm has the required skills and resources to serve the niche effectively
- The firm can defend itself against and attacking major competitor through the customer good will it has built up.

16.6.4.2 Designing a Promotion Strategy

There are many successful companies which proved professional with faster growth due to high power promotion of their brands and products. A good example is reliance group in India. It has built brand loyalty with a different mix of a media.

Choosing Pull or Push Strategy for sales promotion:

(a) Push strategy – A promotion strategy when it is mainly aimed at channels of distribution is called a push strategy. Marketers promote their products heavily among distributors wholesalers and retailers. Retailer promotes to customers. This includes trade shows, personal selling and contests. Producer Distributor Wholesaler Retailer Consumer

(b) Pull Strategy –In pull strategy, promotion is directed towards ultimate consumers. Manufacture tries to stimulate demand and attracts consumers to buy his product.

16.6.5 FINANCIAL STRATEGY

Finance area deals primarily with raising, administering, and distributing financial resources to various activities so that a proper balance is maintained and the organisation achieves its objectives. Since the objective achievement is often expressed in monetary terms, the areas of finance and accounting have assumed added importance. The extent to which the organisation has effective financial management and accounting system, it is strong. The strengths and weaknesses in the areas of finance and accounting can be ascertained in the following ways.

• Capital Cost

The various sources through which the organisation raises its financial funds determine the capital cost. A proper balancing of various sources of financing ensures that the overall cost of capital for the organisation is low. While determining the sources for funds, various factors can be taken into account, such as debt/equity norm, capital market position, profitability of

organisation, and various conditions attached with funds. A low capital cost is a strength and high capital cost is weakness.

- Capital Structure

Capital structure of an organisation determines the scope for flexibility in raising additional capital needed, maintaining financial leverage, and maintaining minimum capital cost. An effective capital structure is strength which provides for greater flexibility for raising funds and appropriating various sources of funds so as to take advantages of trading on equity.

- Financial Planning

Financial planning is the determination, in advance, of the quantum of capital requirement and its forms. Thus, it determines what types of assets will be required to run the business and how much capital will be required for this, time when the capital is required, and from where the necessary capital will be available. If the organisation plans all these things well in advance, it stands to benefit and thus, it is its strength.

•Tax Benefits

Tax benefits are partly the result of efficient financial planning and partly the result of environmental variables, particularly government policy. If the organisation is planning its investment pattern properly, it takes the advantages of tax benefits under the provisions of Sections 32A. 801, 80HH, 35 (2ia), and 35(28a). Advantages under these provisions may reduce the tax liability of the organisation to a very low level or even zero level, consequently improving its liquidity. Similar advantages may accrue in indirect taxes also.

•Pattern of Shareholding

The pattern of shareholding decides the type of threats the organisation may fare regarding its takeover by another company or group. If the shareholding is widely distributed, the company and its present management can run things smoothly and can think in long term perspective. Thus, wider shareholding provides strength to the organisation but concentration of shareholding even in the hands of financial institutions may be a weakness.

Many types of financial analyses are used in strategic decision making these include ration analysis, break –even analysis and present value analysis. Financial strategies are needed:

1. To raise capital with short-term debt, long-term debt, preferred stock, or common stock.

2. To lease or buy fixed assets.

3. To determine an appropriate dividend pay-out ratio.

4. To use LIFO (Last –in, First –out), FIFO (First-in First –out), or a market-value accounting approach.

5. To extend the time of accounts receivable.

6. To establish a certain percentage discount on accounts within a specified period of time.

7. To determine the amount of cash that should be kept on hand.

16.6.5.1 Ratio Analysis

(i) Ratio analysis has been accepted as an effective tool of financial analysis. The systematic use of ratios leads to interpreting financial statements of a business enterprise. Ration is expressed in terms of proportion or percentage relationship between two sets of phenomena. For instance, the proportion (ratio) of gross profit to sale. Analysis of financial ratios as a tool of strategic analysis may be utilized in two ways: Firstly – an analyst may compare the present ratio with the past and the expected future. For instance, the current ratio i.e. the ratio of current assets to current liabilities – for the present year may be compared with current ratio of the preceding year to ascertain the level of improvement or deterioration. This trend analysis may be the pace setter or the eye opener for future performance of the organization. Secondly – ratios may trend analysis may be the pace setter or the eye opener for future performance of the organization. Secondly – ratios may also be utilized to compare the performance of the firm with an identical firm in the same industry or the other industry. This comparison will provide the basis of assessing the strength and weaknesses of other competitors in the market.

Ratios may be classified under four broad heads:

1. Liquidity
2. Activity
3. Profitability
4. Capital structure / Leverage Ratio.

Profitability ratios may be of two kinds:

(i) Return on sales (ROS) and

(ii) Return on Assets (ROA)

Return on Investment (ROI) is not different from Return on Assets (ROA). In a multi-product organization, a Return on Investment (ROI) is not different from Return on Assets (RoA). In a multi-product organization, a lower Return on Assets indicates a weak product or suboptimal product or a few strong and weaker products which lower down ROA or even ROI.

Capital Structure / Leverage Ratios

Financial solvency of the firm may be computed by establishing relationship between borrowed funds and owner's capital. Debt /Equity ratio seeks to establish this relationship. "This ratio reflects the relative claims of creditors and shareholders against the assets of the firm". Long – term Debt D/E Ratio =Shareholders Equity

Earnings per Share (EPS)

Another way of computing the profitability of a company from shareholder's view point is the Earnings per share. It measures the profit available to equity holders. Profit available to equity holders are represented by the net profits after taxes and preference divided by the number of ordinary shares.Net Profit – (Interest + Tax + Preference dividend)

EPS = (No. of ordinary Shares I year + Ordinary Shares II Year) ÷ 2Price Earning Ratio It may be worked out as follows: Market Price of the Share Price Earnings Ratio =EPS Net Present Value (NPV) analysis.

This method involves calculation of the present value of estimated cash inflows using the cost of capital as the discounting rate and subtracting from the aggregate present value of inflows the present value of cash outflows using the same discounting rate. IF NPV is positive or equal to zero, the investment project is accepted as economically viable. If it is negative the proposal is rejected. Using this, strategic investment proposals may be ranked in the descending order of the net present values. The market value of shares may increase with projects with positive NPVs are accepted.

16.6.6 HR STRATEGIES

In organisational analysis, often, human resources are not given adequate importance because of the perception that these resources do not contribute to organisational success. This perception was valid in pre liberalised era, when most of the organisations were operating in protected markets. However, post liberalisation, the competitive scenario has changed from sellers' market to buyers' market in which organisations are using human .resources as a means for developing competitive advantage. In this context, Ghoshal has observed as follows:

A growing number of managers in India and abroad have begun to, recognise that the fundamental basis of competition has begun to change. The scarce resource, and the primary source of competitive advantage, is no longer physical or financial capital, but human capital. As large asset based companies like TISCO see the market value of pygmies like Infosys soar past theirs, the notion of competing through people has been transformed from a fashionable and politically correct statement to a serious cause for concern.

The importance of analysing human resources is as follows:

• Human resources handle all physical and financial resources in an organisation. Without their efforts, these nonhuman resources remain idle. In this context, Likert observes that "all the activities of any enterprise are initiated and determined by the persons who make up that institution: plants, offices, computers, automated equipment's, and all else that a modem firm uses are unproductive except the human efforts.

• Human resources are the source of creative energy. In today's dynamic world, creativity is vital to every organisation. Creative thinking is the process of bringing a problem before one's mind clearly by imagining, visualising, supposing, musing, contemplating, or the like, and then originating an idea, concept, realisation, or picture along new or unconventional lines. People in the organisation are the only source of such creativity. They can produce unlimited ideas. There is no apparent limit to what people can accomplish when they are motivated to use their potential to create new and better ideas. No other resource in the organisation can do that.

Human resources can be used as a means for developing competitive advantage which may be in the form of lower cost of production, development of products for special needs, unique means for marketing the products, developing means for raising funds at lower cost, etc. Since all these are done by human resources, they can be geared to achieve all these. In analysing human resources, following factors are taken into consideration:

• Quality of Personnel

Quality of personnel employed by an organisation is a key determinant of its success. The quality of personnel includes their knowledge, skills, attitudes, and motivation to work. If all these characteristics are favourable, these are strengths as these can be used as a means for translating physical and financial resources into outputs in a better way.

• Personnel Turnover and Absenteeism

Personnel turnover, particularly at managerial and technical levels, is a big problem for organisations in today's context. In knowledge based industries like information technology, consultancy, etc., this problem is even more acute. Since organisations build their strategies around the personnel available at present or available in future, retention of personnel is a significant issue. To the extent, an organisation is able to retain its key personnel, it has strength. Coupled with personnel turnover is personnel absenteeism. Those organisations which are able to manage personnel turnover and absenteeism have strengths.

• Industrial Relations

Industrial relations is a basic element for the success of the organisation particularly in the age of frequent industrial relations problems. Better industrial relations is strength for the organisation. The state of industrial relations can be measured taking into account the breakdown in work because of employee agitation or non-cooperation, number of industrial disputes, number of grievances from the employees, employee absenteeism and turnover, and their willingness to accept change in the organisation. The HR strategy of many multinational companies to take part time temporary employees or leasing temporary employees from learning companies. Employees specially working in IT firms in India are working on one to five year projects and re-experiencing 'Pink – slip syndrome' as to what to do after the project is completed. The worst hit are those employees who are sacked from their jobs after September, 11 2002 attack of world trade centre. The number of employees who work only part – time is steadily increasing. Part-timers are attractive to a company because the firm does not need to pay fringe benefits, such as health insurance and pension plans.

Telecommuting, office at home, flexi time and career breaks are the order of the day firms also resort for employing from diverse cultures. Pharma companies like Hoechst and cosmetic firms like Avon could turn around unprofitable inner city markets by taking local persons to manage local markets.

• Information systems strategy

Corporations are increasingly adopting information system strategies in that they are turning to information systems technology to provide business units with competitive advantage. In 1989, Wal-Mart started building a huge database of customer information in its data warehouse systems located at its headquarters at Bentonville, Arkansas. The company collected sales and customer related information for each store and fed that information into the warehouse systems. In the early 1990s, Wal-Mart continued to employ new technologies to facilitate better analysis of customer data as they became available. Wal-mart's IT experts used 3-D visualization tools to make accurate estimates of products most likely to be bought by customers on the basis of parameters such as ethnicity, geographic location, weather patterns, local sports affiliations, and around 10,000 other varied parameters. Wal-Mart made around 90% of its stock replenishments every month, based on the analysis of customer data generated through the data warehouse. To make shopping at Wal-Mart a pleasant experience, Wal-Mart installed customer information kiosks in its stores in 1996. The kiosks helped customers find out the price of any product and get a brief description of it. In 1996, Wal-Mart launched its website – www.walmart.com – to provide information to its customers on all the products it stocked and to enable online sales.IT played an important role in improving the efficiency of operations at Wal-Mart.

• Logistics Strategy

Logistics strategy deals with the flow of products into and out of the manufacturing process. Three trends are evident: centralization, outsourcing, and the use of the Internet. To gain logistical synergies a cross business unit, corporations began centralizing logistics in the Head-quarters group. This centralized logistics group usually contains specialists with expertise in different transportation modes such as rail or trucking. They work to aggregate shipping volumes across the entire corporation to gain better contracts with shippers. Companies like Amoco Chemical, Georgia – Pacific, Marriott, and Union Carbide view the logistics function as an important way to differentiate themselves from the competition, to add value, and to reduce costs.

16.7 SUMMARY

Functional implementation deals with the development of policies and plans in different areas of functions which an organisation undertakes. Every business organisation is built around two basic functions: production and marketing; to be in business, every organisation has to produce goods or services and sell these to the customers. The resources that are used to perform and pay for these two basic functions constitute two other significant functions-finance and personnel. Thus, an organisation has to formulate policies and plans in these functions to implement its strategy successfully.



16.8 GLOSSARY

Policy-Policy provides guidance for managerial thinking as well as action.

Procedure: A procedure is a series of related tasks that make up the chronological order and the established way of performing the work to be accomplished.

Functional Policy: A functional policy can be defined as it is basically formulates strategy , control them and reinforce implementation of functional strategies and as well as the corporate strategy.

Production / Operations processes are the mediating factors for converting raw materials into finished products.

Ration-Ration is expressed in terms of proportion or percentage relationship between two sets of phenomena.



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16.11 TERMINAL QUESTIONS

Q1. Discuss the role of functional policies and operational plans in strategy implementation.

Q2. Assess the role of functional policies and operational plans in strategy implementation.

Q3. What are the functional strategies required in key functional areas of business?

Q4. Critically analyse financial management and accounting system as strategic decisions.

Q5. Discuss the purpose of the purchasing, marketing, finance and production functions.

Block IV
Strategic Evaluation and Control

UNIT 17 STRATEGIC EVALUATION

17.1 Introduction

17.2 Objectives

17.3 Meaning and Nature of Strategy Evaluation

17.4 Need for Strategy Evaluation and Corrective Adjustments

17.5 Characteristics/Requirements of an Effective Strategy Evaluation System

17.6 Components of Effective/Ideal Strategy Evaluation System

17.7 The Principles of Strategy Evaluation

17.8 Benefits and Difficulties in Strategy Evaluation

17.9 Participants in Strategic Evaluation

17.10 Techniques of Strategy Evaluation

17.11 Barriers in Strategic Evaluation

17.12 Summary

17.13 Glossary

17.14 Reference/ Bibliography

17.15 Suggested Readings

17.16 Terminal & Model Questions

17.1 INTRODUCTION

Strategy Implementation with identifying deviations process can be clarified / evaluated through Strategy Evaluation. When Strategy is formulated it cannot possibly see all the problems or events arise in future when the same is executed. Thus it becomes crucial for the Managers to assess the process of implementing strategy then to reconsider the strategy execution process. Pros and Cons of Strategy evaluation are evaluated in this unit.

17.2 OBJECTIVES

After studying this lesson, you should be able to:

- Define strategy evaluation.

- Understand the nature of strategy evaluation.
- Discuss the importance of strategy evaluation and corrective adjustments.
- Identify the characteristics of an effective strategy evaluation system and the barriers to it.

17.3 MEANING AND NATURE OF STRATEGY EVALUATION

Once the requirement for performance of strategy has been completed, the next step to be performed by the enterprise is the evaluation of strategy. Strategic evaluation is that phase of the strategic management process in which employees try to persuade that the strategic choice is properly implemented and is meeting the set goals of the enterprise. In fact, in strategy evaluation, employees analyse or evaluate the progress in the performance related to strategy implementation, they try to find out any deviations of definite performance from the chosen strategy that has been put into action, and then they take suitable actions for making the strategy work. Strategy evaluation is one kind of continuous process on strategy. Strategy evaluation requires an effective computerized information system for providing employees with Prompt feedback in order to enable them to accurately act on the data. In practice, strategy evaluation during (and/or after) implementation requires a control system – both are integral parts of the monitoring system of the organization. Both the systems help the employees monitor the progress of a strategic plan.

Strategy evaluation and control systems help Subordinates to find out;

i. Whether the implementers of strategy are taking accurate decisions based on organization policies;
ii. adequate resources have been administrated and being used intelligently;
iii. the events in the independent environment are accruing as foreseen;
iv. the long-term and short-term goals are being met; and
v. The strategy-implementers are on the right path. The evaluation process alerts the implementers to any sudden events in the above mentioned issues. Thus, they can take disciplinary actions either to be back on the track or make changes in other relevant aspects of strategy.

Richard Rumelt propound four criteria that could be used to evaluate a strategy:

- Consistency
- Consonance
- Feasibility
- Advantage

1. Consistency: A strategy cannot present uncertain goals & policies. Organizational conflict and intra department dispute are often symptoms of managerial paradox, but these problems may also be a sign of strategic disagreement. There are three guidelines to help resolve if organizational problems are due to inconsistencies in strategy:

- Strategies may be unpredictable, if managerial problems maintain despite changes in personnel and if they favour things to be issued based rather than people placed.
- If success for one organizational department means, or is explained to mean, failure for other departments, then strategies may be uncertain.
- If policy dispute & issues continue to be brought to the top management for resolution, then strategies may be uncertain.

2. Consonance: Consonance refers to the demand for strategists to explore sets of trends as well as individual trends in evaluating strategies. A strategy must perform an adaptive response to the external environment and to the demanding changes occurring within it. Organization face difficulty in matching a firm's key internal and external factors in the formulation of strategy due to most trends are the result of interactions among other trends that is Feasibility. For example, reason for day care outburst came out as a combined result of many trends that included a rise in the moderate level of education, expanded inflation, and an increase in women workforce. Although single economic or demographic trends might appear reliable for many years.

3. Feasibility: A strategy must neither exhaust available resources nor conceive unsolvable sub problems. The final extensive test of strategy is its feasibility. That is, can the strategy is Solicited within the physical, human, & financial resources of the organization. The financial resources of a business are the easiest to quantify also are normally the first constraint against which strategy is appraised. It is sometimes repressed that ingenious approaches to financing are often possible. Devices such as captive subsidiaries, sale leaseback arrangements, and confining plant mortgages to long term contracts have been used absolutely to help win key positions in all of sudden broaden industries. A less quantifiable, but actually more rigid, limitation on strategic choices is imposed by individuals and organizational effectiveness. In evaluating a strategy, it is important to examine whether an organization has validated in the past that it possess the abilities, competencies, skills, and talents needed to carry out a given strategy.

4. Advantage: A strategy must administer for the creation and/or preservation of a competitive improvement in a selected area of activity. Competitive improvement normally are the result of excellence in one of this three areas: resources, skills and position. The idea that the positioning of one’s resources can enhance their mixed effectiveness is familiar to military theorists, chess players, and diplomats. Position can also play a crucial character in an organization’s strategy. Once gained, a good position is definable meaning that it is so

costly to capture that rivals are deterred from full-scale attacks. Positional advantage tends to be self-sustaining as long as the key internal or environmental factors that underlie in it remains established. This is why fortified firms can be almost impossible to dismount, even if their raw skill level are average. The fundamental characteristic of good position is that it privilege the firm to recover advantage from policies that would not similarly benefit rivals without the same position. Therefore, in evaluating strategy, organizations should consider the nature of positional advantages correlate with a given strategy.

17.4 NEED FOR STRATEGY EVALUATION AND CORRECTIVE ADJUSTMENTS

Strategy-managers need to frequently evaluate or monitor the progress in the strategic actions initiated for strategy implementation. Systematic review provides satisfactory information for finding out any deviations in the actual activities from the planned activities.

Based on these information, managers can then undertake relevant actions.

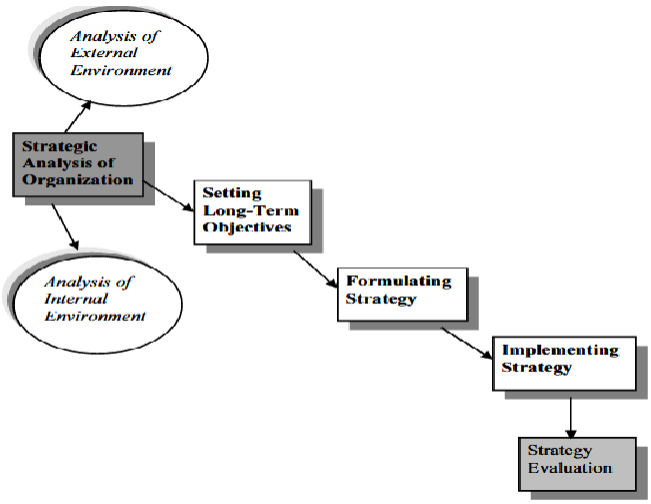


Fig 17.1 Strategic Analysis of Organization

- Obtaining data for corrective actions:
  Organizations are constantly facing aggressive environment. The key internal and external factors change instantly and dramatically. Strategy Implementation is affected by these changes. Regular evaluation of strategy while being implemented provides relevant data for taking corrective actions.

- Keeping track on progress of activities:
  Strategy evaluation helps managers to keep track of progress in the implementation of strategy. If progress seems to be gradual or something wrong has occurred or new developments has taken place in the extraneous situations of the organization, it becomes indispensable to undertake corrective actions and arrangements.

- Detection of flaws:
  Nobody could assure that a particular strategy will work or that it is the soundest strategy. Therefore, strategy should be evaluated for critical defect. The strategy managers, through review of results and future possibilities determine whether the strategy is working. If any defect is detected in the implementation of strategy they take certain steps to achieve the same.

- Making managers proactive:
  Installation of an evaluation system puts the managers in a systematic ambush, which constrain them not to neglect the priority of assessing the impact of changes in the organizational environments. It reminds them not to be confident about the present accomplishment. It makes them feel that success today is no guarantee for success tomorrow.

- Developing a sense of commitment:
  When all managers & employees are convoluted in the process of evaluating strategy on an enduring basis, they become attached to keeping the company moving regularly towards achieving objectives. Adjustments or modifications may be needed in the vision or mission, or objectives or strategies or in the approaches to beheading of the strategies. If corrective actions or adjustments are not initiated properly and on time, it may invite catastrophic ramification for the organisation

17.5 CHARACTERISTICS/REQUIREMENTSOF AN EFFECTIVE STRATEGY EVALUATION SYSTEM

A strategy-evaluation system in order to be effective and successful must meet certain requirements. These requirements are the basic characteristics of an effective evaluation system. Below the major requirements of a quintessential strategy-evaluation system:

- Economical: The activities related to evaluation of strategy must be economical. If they are not cost-effective wastage would surround. A balance needs to be cultivated in obtaining information –not too much or not too little. Very often, too much data and too many controls do more impairment than satisfactory.

- Meaningful: The strategy-evaluation activities must be consequential in the sense that they have to be pertinent specifically to the objectives against which strategy has been embraced.
- Providing useful information: The information possessed through evaluation must be useful. Worthless information is useless to management in decision-making process.
- Providing timely information: The strategy-evaluation system should be fortified in such a way that it can provide information to relevant managers on time. Premature delivery of information may mean 'no information' because they cannot be used whenever they were needed.
- Providing a true picture of events: The strategy-evaluation movement should be able to provide true picture of what is happening in the organization regarding the implementation of strategy. Being directed towards right person: The strategy-evaluation system should be conducted to the right person who really matter in taking actions based on data. Thus, it should try to expedite rather than simply accommodating information for information's sake.
- Being elaborate and detailed: In large organizations, strategy-evaluation system should be perfected and precise. This is needed because existence of many departments/divisions require effective coordination

17.6 COMPONENTS OF EFFECTIVE/IDEAL STRATEGY EVALUATION SYSTEM

There are three major components of an ideal strategy-evaluation system:

- Reviewing underlying bases of strategy
- Measuring organizational performance
- Taking corrective actions

1. Reviewing underlying bases of strategy:

Internal strengths and weaknesses along with external opportunities and threats form the bases for a strategy. The opportunities, threats, strengths and weaknesses are not likely to remain authentic for long time. So, when implementation of a strategy takes a long time (some strategies may even take several years for full implementation), these bases of strategy should be abstracted. A review would reveal many issues like the following:

(a) How competitors have answered to the firm's strategies;

(b) How competitors have changed their strategies in response of (our) company's strategies; (c)Whether strengths and weaknesses have changed;

(d)Whether new opportunities by now have materialized or new threats have surfaced; (e)Above all, whether the already-identified opportunities, threats, strengths and weaknesses are still as they were at the time of SWOT analysis.

A review of the bases of strategy empowers the managers to identify the real reasons for unsatisfactory results. It may so happen that indecisive strategy has been chosen or strategy has been enforced very poorly, or sudden changes in the external factors (such as changes in demand, changes in technology, new policies by government, actions by competitors, or sudden natural disaster like cyclone or flood) have restricted the company from achieving the objectives. Review helps in discovering these changes.

2. Measuring organizational performance:

The other fundamental or activity of the strategy-evaluation framework is the assessment of organizational performance. Managers need to compare the planned activities against the actual progress toward achieving declared objectives. That is, actual results are compared with the planned results. Then, deviations are detected, if there is any. Evaluation is also made of individual performance. Progress toward achieving original objectives is evaluated.

Balanced Scorecard Approach: Using Key Performance Measures

Rather than evaluate a corporation using a few financial measures, Kaplan and Norton argue for a "balanced scorecard," that includes non-financial as well as financial measures.

This approach is especially useful given that research indicates that non-financial assets explain 50% to 80% of a firm's value. The balanced scorecard blend financial measures that tell the results of actions already taken with operational measures on customer satisfaction, internal processes, and the corporation's innovation and improvement activities—the drivers of future financial performance. Thus steering controls are combined with output controls. In the balanced scorecard, management develops goals or objectives in each of four areas:

- Financial: How do we appear to shareholders?
- Customer: How do customers view us?
- Internal business perspective: What must we excel at?
- Innovation and learning: Can we continue to improve and create value.

Each goal in each area (for example, avoiding bankruptcy in the financial area) is then authorise one or more measures, as well as a target and an initiative. These measures can be thought of as key performance measures—measures that are indispensable for achieving a desired strategic option. For example, a company could include cash flow, quarterly sales growth, and ROE as measures for success in the financial area. It could incorporate market share (competitive position goal), customer satisfaction, and percentage of new sales coming from new products (customer acceptance goal) as measures under the customer perspective. It could combine cycle time and unit cost (manufacturing excellence goal) as measures under the internal business perspective. It could encompass time to develop next generation products (technology leadership objective) under the innovation and learning perspective.

3. Taking corrective actions

Corrective actions are not necessary if there are no momentous differences between the planned results and the actual results. In such a latitude, managers will continue the present course of action. Mangers will take disciplinary actions only when significant aberration exist. Actions need to be attempted on the basis of the nature of deviations and the causes of such deviations, It may be necessary to make corrections in objectives, strategy itself, organization structure, human resources deployed for strategy implementation, policies, resource allocation, reward systems, etc.

Process of Making Corrective Adjustments

Whatsoever the area for making corrections or alterations, the organizational leaders must first decide when to make alterations, and then they must specify what alterations need to be made. This is a leadership challenge. Although the operation of making alterations is situation- specific, the leaders may follow the following general guidelines for making corrective adjustments:

1.Gather information by yourself and also by subordinates who are proficient and trustworthy.

2.Critically analyse the information and try to excavate your understanding of the situation.

3.Identify as many substitute options as possible for making alterations and explore their details for clear compassionate of the issues.

4.Evaluate the diagnosed alternative options to find out the convenient one of the most relevant to the situation.

5.Based on the information generated through the above steps, prepare a transitional set of action proposals (recommendations) for consideration.

6.Assemble a meeting of the subordinates/team members and others who matter, and ask them to review the preliminary action proposition and give their suggestions.

7.Try to build a unanimity among the managers and employees.

8.Finalize the recommended actions for alterations. Since the process of making corrective alterations varies according to situations, business leaders can adopt any process as the situation demands. However, the success in making alterations depends mostly on the clear understanding of the situation and the leaders' use of good business judgment.

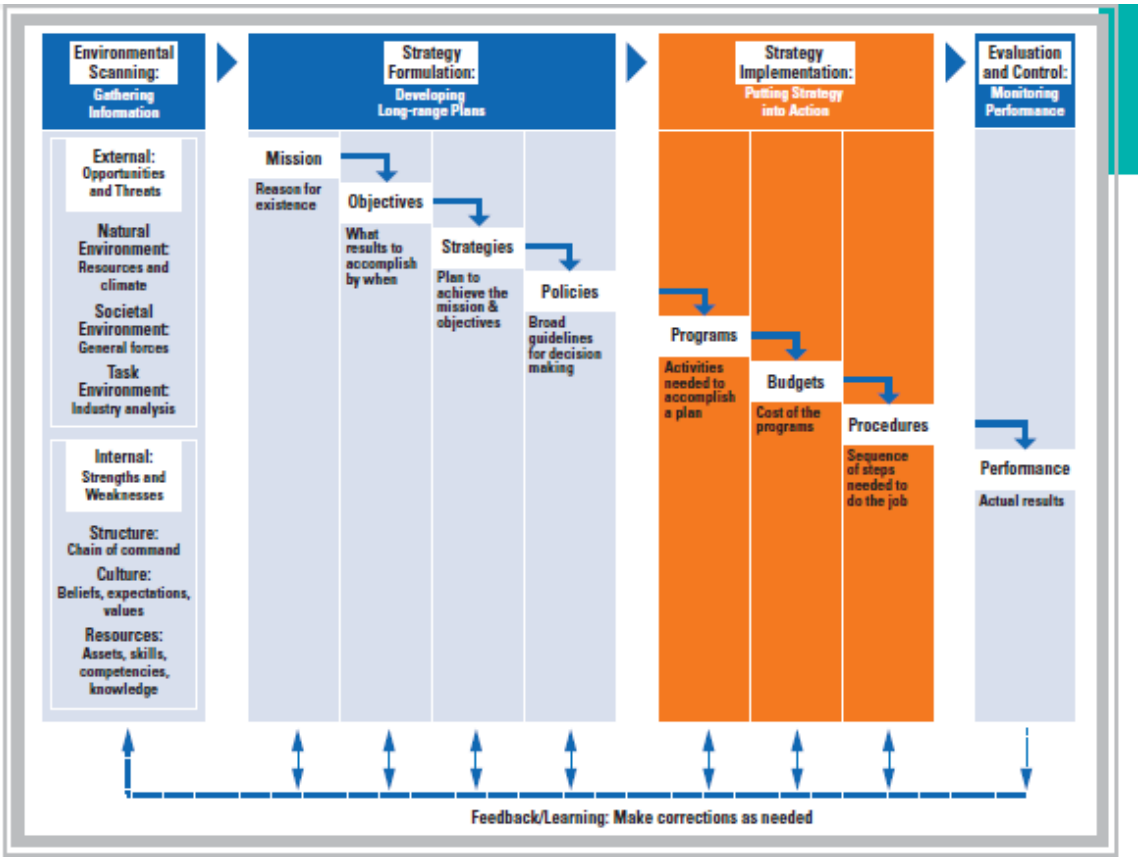


Fig 17.2 Components of an ideal strategy-evaluation system
Source-Wheelen , Hunger and Rangarajan, Strategic Management and Business Policy, pp 222



Check Your Progress-A

Q1. What do you mean by Strategy Evaluation?

Q2. What is the need for strategy evaluation and corrective adjustments?

Q3. What are the Components of Effective Strategy Evaluation System?

17.7 THE PRINCIPLES OF STRATEGY EVALUATION

For our determination a strategy is a set of objectives, policies, and plans that, taken together, characterize the scope of the enterprise and its approach to survival and success.

Alternatively, we could say that the appropriate policies, plans, and objectives of a business explicit its strategy for coping with a complex aggressive environment. One of the fundamental presumption of science is that a theory can never be proven to be unquestionably true. A theory can, however, be declared unconditionally false if it fails to stand up to testing. Similarly, it is impossible to validate conclusively that a Particular business strategy is optimal or even to guarantee that it will work. One can, nonetheless, test it for critical flaws. Of the many tests which could be justifiably applied to a business strategy, most will fit within one of these broad criteria:

•Consistency: The strategy must not present mutually conflicting goals and policies.

•Consonance: The strategy must represent an adaptive response to the external environment and to the demanding changes occurring within it.

•Advantage: The strategy must provide for the creation and/or maintenance of a competitive advantage in the selected area of activity.

•Feasibility: The strategy must neither overtax available resources nor create unsolvable Sub problems.

17.8 BENEFITS AND DIFFICULTIES IN STRATEGY EVALUATION

17.8.1 BENEFITS OF STRATEGY EVALUATION

Critical to the organization's well-being because it will provide benefits as follows

- Providing leadership
- Providing intelligence to everybody
- Inspiring determination in everybody

Observant management to potential/actual problems in a timely fashion Inaccurate strategic decisions can have severe negative impact on organizations

17.8.2 DIFFICULTIES IN STRATEGY EVALUATION

Strategy evaluation is becoming progressively difficult with the transition of time, for many reasons. This is because, in the past:-

- Domestic and world economies were more balanced
- Product life cycles were protracted,
- Product development cycles were lengthened,
- Technological advancement was moderate,
- Change occurred less repeatedly,
- There were fewer challenger,

17.9 PARTICIPANTS IN STRATEGIC EVALUATION

- Role of Board of Directors

Board of directors of a company, being the custodian of shareholders' property, is directly accountable to-them. Thus, board should be directly involved in strategic evaluation and control. However, since board does not engage in day-to-day management process, it figure out the performance of the company distressed after certain intervals in the meetings.

Therefore, the role of board of directors is limited to interpretation and administrating those aspects of the organisational functioning which have long-term connotations. Such aspects are overall financial performance, overall social concern and performance, and certain key management proceeding having momentous impact on organisation's long-term durability generally, the evaluation and control information used by the board is concise but encyclopaedic as compared to control reports used at lower levels.

- Role of Chief Executive

The chief executive of an organisation is authoritative for long term performance. Therefore, his role is quite compelling in strategic evaluation and domination. Though he is not involved in evaluation of routine consummation which is left to other managers, he intensify his attention on critical discrepancy between prepared and substantial. Generally, he applies the predominant of management by omission which is a system of identification and communication of that signal which is critical and needs the attention of a high-level manager. Depending on the size of the organisation, the chief executive's role diversify in the context of assessment and management on day-to-day basis. In a smaller organisation, the chief executive may, perhaps, be interested in daily construction and cost figures, but in a

large organisation, these become inconsequential for him from his control point of view. Thus, in a large organisation, the chief executive is more involved on controlling through return on investment, value added, and other indicators which measure performance of overall organisation.

- Role of Other Manager: Besides board of directors and chief executive, other managers are also convoluted in strategic evaluation and control. These are finance managers, SBU managers, and middle-level managers. Their role in strategic evaluation and control is as follows:

  1. Finance managers are primarily distressed with finding out deviations between planned and actual performance communicate in monetary terms. These are done through financial analysis, budgeting, etc.

  2. SBU managers are responsible for overall assessment and domination of their respective strategic business units. In fact, they are the chief executives of their own SBUs except that they report to the chief executive of the organisation from whom they seek directions.

  3. Middle-level managers, mostly functional managers and subunit managers are responsible for assessment and domination of their respective functions and sub-units. These managers are more concerned with day-to-day operational control and prepare reports to be used by higher- level managers. For example_ a production manager is more interested in governing production volume, production cost, product quality, etc.

- Role of Organisational Systems in Evaluation

Strategic evaluation operates in the background of various organisational systems. An organisation evolves various systems which help in integrating various parts of the organisation. The major organisational systems are: information system, planning system, motivation system, appraisal system, and development system. All these systems performance their role in strategic evaluation and control some of these systems are jointly and precisely related and some are indirectly related to evaluation and control. For example, information system is closely linked to evaluation as it administrate clue as to how the organisation is proceeding. Development system, on the other hand, is not closely linked to evaluation system but is attempted as a post-control action. In the light of this, let us see how various organisational systems play their role in strategic evaluation and control.

- Information System

Evaluation and control action is guided by acceptable information from the inauguration to the end. Management information and management control systems are closely interdependent; the information system is constructed on the basis of control system. Every

manager in the organisation must have adequate information about his achievements, requirement, and how he is contributing to the achievement of organisational intentions. There must be a system of information tailored to the distinct management needs at every level, both in terms of sufficiency and seasonableness. Control system ensures that every manager gets adequate information. The criterion for adequacy of information to a manager is his liability and authority that is in the context of his liability and authority, what type of information the manager needs. This can be determined on the basis of careful analysis of the manager's functions. If the manager is not using any information for taking certain action, the information may be meant of informing him only and not collapsing within his information requirement Thus, an effective control system ensures the flow of the information that is required by an executive, nothing more or less. There is another aspect of information for control and other function, that is, the timeliness information. Appealingly speaking, the manager should be supplied information when he needs it for taking action. For correcting the deviation, timely action is require by the concerned manager. For this purpose he must have the information at proper time and covering the functioning of a period which is subject to control. The control system functions effective, on the basis of the information which is supplied in and on this basis, identifies what action can be taken.

- Planning System

Planning is the footing for control in the sense that it provides the integrated spectrum on which control function is based. In fact, these two terms are often used well-adjusted in the designation of the department which transmit production planning, scheduling and routing. It emphasizes that there is a plan which directs the demeanour and movement in the organisation. Control measures these demeanour and movement and suggests measures to remove deviation, if any. Control further signify the existence of certain objective and specification. These goals are provided by the planning process. Control is the result of particular plans, objectives, or policies. Thus, planning offers and affects control. Not only that, the planning is also affected by control in the sense that many of the information provided by control is used for planning and preplanning. Since planning and control systems are intimately interlinked, there should be proper integration of the two. This integration can be achieved by developing flexibility of strategic objectives and performance measures. Establishing performance measures which are strategically important is quite compelling because often it is said 'what you measure is what you get. In developing performance measures, two considerations must be taken into account. First, the performance measures should target on whether short-term advantageousness, or growth and technological predominance, or logistic efficiency, or some other objectives should be of primary concern. Second, the measures should relate to the managerial domain of each of the managers as each of them is responsible to exercise control in his own domain.

- Motivation System

Motivation system is not only associated to evaluation and control system but to the consolidated organisational processes. Since the basic objective of evaluation and control is to safeguard that organisational objectives are accomplished, "motivation plays a constitutional role in this process. It invigorate managers and other employees in the organisation to achieve improved, which is the key for organisational success.

- Appraisal System

Appraisal or performance appraisal system associates systematic evaluation of the respective with regard to his/her performance on the job and his/her potential for development. While evaluating a respective, not only his/her performance is taken into deliberation but also his/her abilities and potential for superior performance. Thus, appraisal system provides evaluation for control system about how respectives are performing.

- Development System

Development system is concerned with establishing personnel to perform better in their present positions and likely future positions that they are normally to occupy. Thus, development system gives direction at increasing organisational competency through people to achieve better results. These results, then, become the basic for evaluation and control.

17.10 TECHNIQUES OF STRATEGY EVALUATION

The following are the various aspects in techniques of strategy evaluation;

- Internal Forces: Strategy evaluation should begin with an exploring of the internal forces that will influence your company's ability to follow the vital or important plan. Your evaluation should consider the value of company belongings such as financial assets, proprietary information and the people who are accessible to guide the company to meet its goals / objectives. This evaluation will help you recognize how these assets can be developed to broaden the company's effectiveness. All of these internal forces that are combined to foresee your company apart from your competitors.
- External Forces: The next approach for strategy evaluation is to scrutinize the external forces that will leverage your company's ability to complete its set objectives / mission. The constitutional external force your company must face are you customers. Customers purchasing the products and services what your company produces will determine the success of your company. Is your company meeting the expectations / likelihood of your customer base? Along with the consideration of your customers, you must evaluate the strengths and weaknesses of your competitors. Do your competitors have discriminating capabilities that will pull your customers away?
- Measuring Performance: The Evaluation/interpretation process will help you regulate if the strategy you have advanced / developed is leading the company to meet its objectives and goals. Begin this evaluation performance by evaluating if the results

that has been accomplished through companies operations has been successful or not. Evaluate if the sales force has been successful in meeting all of the sales targets. If you have a manufacturing facility, are production targets being met? Also evaluate if your company has been able to harvest a higher percentage of the market.

- Correcting Performance: After your interpretation or evaluation has considered all of the company's historical performance data, the next step is to figure out what corrective measures / dimensions should be taken to insure company's operations are correctly regulated with the strategic plan. Many times making corrections to strategic operations will force changes that will cause objections / aspiration, yet change is a fundamental element of the controlling process. You must ensure the company will be able to meet all of its short and long term strategic objectives or goals. Adjusting strategic operations is a necessary technique of strategy evaluation.

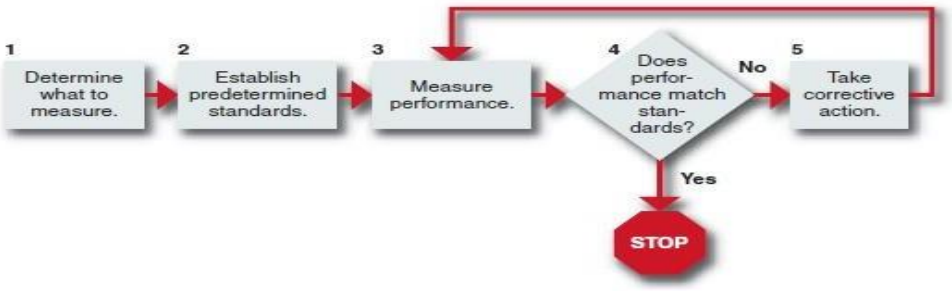


Fig 17.3 Evaluation and Control Process

Source-Wheelen , Hunger and Rangarajan, Strategic Management and Business Policy, pp 222



Check Your Progress-B

Q1. List the benefits and difficulties in Strategy Evaluation?

Q2. What are the participants in Strategic Evaluation?

Q3. What are the various techniques of Strategy Evaluation?

17.11 BARRIERS IN STRATEGIC EVALUATION

Strategic evaluation being an appraisal process for the organisation as a whole and people who are involved in this strategic management process, either at the stage of strategy formulation or strategy implementation or both, is not free from certain obstacle / boundary and problems. These obstacle and problems centre around two factors: motivational and operational.

Let us see what these problems are and how these problems may be overcome.

1. Motivational Problems
   The first problem in strategic interpretation is the motivation of managers or (strategists) to figure out whether they have called / elected correct strategy after its results are available. Often two problem; are involved in motivation to evaluate the strategy: psychological problem and lack of direct relationship between administration and rewards.

2. Psychological Barriers
   Managers are occasionally motivated to evaluate their strategies because of the psychological barriers of accepting their mistakes or confusions. The strategy is formulated by top management which is very assured about its impression of achievement. It hardly appreciates any mistake it may communicate at the level of strategy formulation. Even if something goes wrong at the level of strategy formulation, it may put the criticism on the operating management and tries to find out the accountability or faults at the level of strategy implementation. This over-conscious access of top management may prohibit the objective review of whether correct strategy has been picked or chosen and implemented. This may result into holding in taking correct substitute action and bringing the organisation back at satisfactory level. This happens more in the case of retrenchment strategy,

particularly divestment strategy where a particular business has failed because of strategic mistake and in order to save the organisation from further damage, the business has to be sold.

3. Lack of Direct Relationship between Performance and Rewards

Another complication in motivation is to review strategy' the lack of direct relationship between performance achievements and incentives / rewards. It is true that performance achievement itself is an authority of motivation but this cannot always happen. Such a situation barely motivates the managers to review their strategy accurately. This happens more in the case of family-managed Businesses where professional managers are always considered as outsiders and top positions, particularly at the board level, are restrained for insiders. Naturally very glistening managers are not motivated to review correctness or otherwise of their strategy. The family managers of such organisations are even more prone to psychological problem of not reviewing their strategy and admit their mistakes. Thus, what is required for motivating managers to evaluate their performance and strategy is the right type of motivational climate or changes in the organisation. This climate / changes can be set by associating performance and rewards as intimately as possible. This linking is required not only for the top level but for the lower level in the organisation too. Many forward-looking companies. Though few in number, have taken this step when they have adopted the policy of taking board members from outside their families and friend groups. These companies have taken this-step not only to satisfy the requirements of financial institutions of broad basing the directorship but they have taken this step to motivate their top level managers. Naturally top managers in such companies can take any step to fulfil the organisational requirements including the evaluation of their strategy.

4. Operational Problems

Even if managers agree to evaluate the strategy, the problem of strategic evaluation is not over, though a beginning has been made. This is so because strategic evaluation is an ambiguous process; many factors are not as clear as the managers would like these to be. These factors are in the areas of determination of evaluative criteria, performance measurement, and taking suitable corrective actions. All these are involved in strategic evaluation and control. However, ambiguous nature is not unique to strategic evaluation and control only but it is unique to the entire strategic management process.

17.12 SUMMARY

Strategy evaluation is one kind of continuous process on strategy. Strategy evaluation requires an effective computerized information system for providing employees with Prompt feedback in order to enable them to accurately act on the data. In practice, strategy evaluation during (and/or after) implementation requires a control system – both are integral parts of the monitoring system of the organization. Further, strategic evaluation being an appraisal process for the organisation as a whole and people who are involved in this strategic management process, either at the stage of strategy formulation or strategy implementation or both, is not free from certain obstacle / boundary and problems.



17.13 GLOSSARY

Strategic Evaluation: Strategic evaluation is that phase of the strategic management process in which employees try to persuade that the strategic choice is properly implemented and is meeting the set goals of the enterprise.

Balance Score Card: The balanced scorecard blend financial measures that tell the results of actions already taken with operational measures on customer satisfaction, internal processes, and the corporation's innovation and improvement activities—the drivers of future financial performance.



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17.16 TERMINAL QUESTIONS

Q1. What is the nature and importance of Strategy Evaluation?

Q2. Who are the key participants involved in strategy evaluation and control?

Q3. What are the various barriers in Strategic Evaluation and Control?

Q4. What are the various techniques of Strategy Evaluation?

UNIT 18 STRATEGIC CONTROL

18.1 Introduction

18.2 Objectives

18.3 Types of Strategic Control

18.4 Techniques of Evaluation and Control

18.5 Budgetary Control

18.6 Role of PERT and CPM in Strategic Management

18.7 Characteristics of control system

18.8 Strategic Leap Control

18.9 Evaluation Techniques for Operational Control

18.10 Budgeting Systems

18.11 Summary

18.12 Glossary

18.13 Reference/ Bibliography

18.14 Suggested Readings

18.15 Terminal & Model Questions

18.1 INTRODUCTION

In the previous unit you learnt that when strategy is formulated it cannot possibly see all the problems or events arise in future when the same is executed. Thus it becomes crucial for the Managers to assess the process of implementing strategy then to reconsider the strategy execution process. In this unit you will learn about the next important aspect in strategic management that is strategic control. Control and evaluation support Manger in the assessing the progress of plans, policies and strategies.

18.2 OBJECTIVES

After reading this unit, you will be able to;

- Compare and contrast different control capabilities in terms of their advantages and disadvantages
- Decide which control techniques (or combination of techniques) would be most suitable
- Describe a practical framework for evaluating strategies;
- Identify and explain the characteristics of an effective control system

18.3 TYPES OF STRATEGIC CONTROL

Control of strategy can be symbolizes as a form of shepherd control. Ordinarily, a significant time span occurs between initial implementation of a strategy and achievements of its intended results. During that time, numerous projects are undertaken, investments are made, and actions are undertaken to implement the new strategy. Also during that time, both the environmental situation and the firm's internal situation are developing and evolving. Strategic controls are necessary to steer the firm through these events.

They must provide the basis for correcting the actions and directions of the firm in implementing its strategy as developments and changes in its environmental and internal situations take place.

The four basic types of strategic controls are:

1. Premise control
2. Implementation control
3. Strategic surveillance
4. Special alert control.

18.3.1 STRATEGIC CONTROL AND OPERATIONAL CONTROL

From time to time, companies need to undertake a critical review of their overall marketing goals to effectiveness. In this world, there is accelerated obsolescence of objectives, policies, strategies and programmes. Each company should therefore periodically reassess its strategic approach to the market place (within and outside the organization) Strategic control takes into account the changing assumptions that regulate the strategy by continuously evaluating the strategy during the process of implementation and it also takes the required corrective action as and when required. Thus strategic control is like an alarm before the calamity can happen. Operational control is the process of ensuring that specific tasks are carried out effectively and efficiently. The operational control aims at evaluating the performance of the organization. Most of the control systems in organization are operational in nature. Some examples of operational control are: Budgetary control, Quality control, Inventory control,

Production Control, Cost control etc. Operational control are programmed or decided in advance. They are self-regulatory in nature. They are impersonal in nature. Techniques, tools, procedures are used as means of control. Considerations of environmental influences and adapting accordingly play little role in operational control system.

18.4 TECHNIQUES OF EVALUATION AND CONTROL

There are several techniques of assessment and authority. There are certain techniques, which are meant for strategic control, and some other techniques meant for operational control.

18.4.1. EVALUATION TECHNIQUES FOR STRATEGIC CONTROL

Strategic control takes into account the uncertain assumptions that determine the strategy by constantly evaluating the strategy during the process of implementation and it also takes the appropriate corrective action as and when needed. Thus strategic control is like an anxiety long before the calamity can happen. It is undertaken to find out whether or not the strategy is implemented properly.

1. Premise Control Strategies are based on certain establishment, on certain assumptions with respect to the organization as well as the surroundings. Any change in either of them affects the strategy itself to a very large expansion. For this reason one must keep watch and control over these premises /assumptions. Premises control is required to identify the main acceptance on which the strategy is based and keep a close watch on them, to see if there is any change in the assumptions and if these changes are making an impact on the strategy to be adopted. The corporate planning staff are kept responsible for the surveillance and control of the premises, they are thus required to regularly check the effectiveness of the premises constantly.

2. Implementation control only strategy implementation gives results to plan, projects and programmes being set up. The strategist has to lay down the belongings to be allocated at every stage. Implementation control deals with the evaluation whether the plans, projects and programmes one leading the organization towards its predetermined goal. This is done through identification and close monitoring or control of each plan.

3. Strategic Surveillance Strategic surveillance is done to inspect the organization as a whole. It sees whether any event either within or outside the company intimidate the strategies course of action in any way.

4. Special alert control In case of emergencies / compulsion the company needs to take quick and correct decision in order to recover the strategy in transaction. Special alert control can be exercised through the formulation of emergency / eventuality strategies by giving the job immediately to the crisis management teams who is capable and experienced in handling such emergencies e.g. unfortunate floods, share prices crash or real estate prices crash etc.

5. Strategic leap control-Today modern industry is highly competitive, volatile and unstable. Companies are required to make strategies surge / leaps so that they can make significant changes. Strategic lead control can assist companies by helping to define the new strategic requirements and to cope with emerging environmental realities.

There are four different techniques used in ensuring strategic leap control in the organization.

a. Strategic issue management it is aimed at identifying one or more strategic issues and appraise their crunch / impact on the organization. A strategic issue is a forthcoming development either inside or outside of the organization which is likely to have an impact on ability of the company to meet its objectives. By managing on the basis of strategic issues, the strategists can avoid being overtaken by surprising environmental changes and design contingency plans to shift strategies whenever needed.

b. Systems Modeling Computer based models reproduce the essential appearance of the company and its environment. Through systems designing organizations may exercise pre-action control by assessing the impact of the environment on the company by embracing a specific strategy.

c. Strategic field analysis it is a method of examining the nature and expansion of synergies that exist or are inadequate between the components of a company. Whenever synergies exist, the strategists can determine the ability of the company to take the advantage. Alternatively, the strategists evaluate the company's ability to generate synergic where they do not exist.

d. Scenarios- These are different perceptions about the likely environment a firm would face in the future.

6. Responsibility centres-Responsibility Centres can be established to monitor definitive functions, projects or divisions. Responsibility centres are used to disengage a unit so that it can be evaluated separately from the rest of the corporation. Each responsibility centre therefore has its own budget and is evaluated on its use of budgeted resources. A responsibility centre is headed by the manager responsible for the centres performance.

They are of 5 various types for the same

a. Standard cost centres primarily used in manufacturing facilities, standard costs are computed for each operation on the basis of classical data. In evaluation of the centre's performance, its total standard costs are multiplied by the units produced; the result is expected cost of production, which then compared to the actual cost of production.

b. Revenue Centres- Production in terms of units or rupee sales is measured without consideration of resource costs (e.g. salaries). The centre is thus judged in terms of

effectiveness rather than efficiency. The effectiveness of a sales region is determined by the comparison of its actual sales to its projected year's sales.

c. Expense centres- Resources are measured in rupees without consideration of service or product costs. Thus, budgets will have been prepared for engineered expenses (those costs that can be calculated) and for discretionary expenses (those costs that can only be estimated).

d. Profit centres- Performance is measured in terms of the difference between revenues (which measure production) and expenditures (which measure resources). A profit centre is typically established whenever an organizational unit has control over both resources and its products or services.

e. Investment centres Investment centres is measured in terms of the differences between its resources and its services or products. Investment centres can also be measured in terms of its contribution to shareholder value.

18.4.2 OPERATIONAL CONTROL

Operational control is the process of ensuring that specific tasks are carried out accurately and promptly. The operational control aims at evaluating the performance of the organization. Most of the control systems in organization are operational in nature.

(A).Internal Analysis The internal analysis deals with the strengths and weakness of the firm. It involves following techniques.

a.Value chain analysis it places intensity on inter-related activities performed in a progression for production and marketing of a product or service. It divided the total task of a firm into identifiable activities, which can then be evaluated for judging their effectiveness.

b.Quantitative analysis

It considers the financial and non-financial quantitative parameters such as physical units or volume for the purpose of judging effectiveness. The quantitative analysis techniques are widely used for evaluation, as they are easy to administer. Some of quantitative techniques are– ratio analysis, market ranking, advertising recall rate etc.

c. Qualitative analysis they support the quantitative analysis by including those factors, which are not measurable in terms of numbers. Some of the qualitative techniques are – market surveys, experimentation and observation etc.

(B).Comprehensive Analysis This analysis adopts a total approach of judging the performance of a firm and it does not focus on a specific area or function. It includes following techniques

a.Key factor rating In this case, the key areas of the organization are identified and then the performance in such areas is evaluated.

b. Balanced scoreboard In this techniques, the four key performance measures are identified– customer perspective, internal business perspective, innovation and learning perspective and the financial perspective. This technique adopts a balanced approach to evaluate performance of the organization as a whole as a wide range of parameters are considered.

c.Network techniques In this normally PERT (Programme Evaluation Review Technique) and CPM (Critical Path Method) are used for the purpose of planning and scheduling activities. This techniques focus on the critical path or the sequence of events, which requires the maximum possible time, so that the critical path can be properly monitored for the purpose of completion of the project or activities in time.

d.Management by Objectives (MBO) it involves subordinate managers in planning and controlling activities. In this case the superior and subordinate managers jointly decide common goals, and jointly frame plans. The subordinate then implements the plan, and finally the performance of the plan is jointly reviewed by the superior and subordinate managers.

3. Memorandum of Understanding (MOU) Memorandum of Understanding is an agreement between a public enterprise and the Government where clearly specify their commitments and responsibilities.

4. Budgetary control- It is used to indicate the appraisal of performance by a comparison of the actual with the budget and corrective action for the same. Here budgets are used as an instrument of control.

5. Zero-based Budgeting Here annual budgets, revaluation of plans, projects and programmes decide whether any change in resource allocation is required to achieve the company's goals.

18.5 BUDGETARY CONTROL

Budgetary control is a significant tool in the hands of management. Budgetary control is the establishment of budget relating to the responsibility of executives in a business and the continuous comparison of actual with budgeted results to secure by individual action. Budgetary control is not a type of costing but is extensively used in all types of industries and business establishments as a system of control through responsible persons such as executive's departmental heads and foreman. Budgetary control system is an integral part of the management control.

18.5.1 MERITS OF BUDGETARY CONTROL

The following are the merits of Budgetary Control;

- Brings economy in working: It brings adaptability and recession in the working of the business enterprises.
- Buck-passing avoided: It establishes provincial and departmental responsibility. It thus prevents buck- passing when the budget figures are not met.
- Establishes co-ordination: It co-ordinates the various distribution of a business namely, the production, marketing, financial and administrative divisions. It forces executives to think as a group. This result in smoother operation of the entire plant.
- Guards against undue optimism: It guards against improper optimism leading to over expansion because the targets are fixed by the executives after careful thought.
- Acts as a safety signal: It acts as a safety signal for the management. It shows when to proceed cautiously and when manufacturing or merchandising expansion can be safety undertaken. It serves as an automatic check on the judgment of the executives as losses are revealed in time which is a caution to the management to stop wastage.
- Decrease in production costs: Seasonal variations on production can be reduced by developing new fill in products. This result in decreasing the cost of production by increasing volume of output.
- Adoption of standard costing principles: The use of budget figures as measures of operating performance and financial position the adoption of the standard costing principles.
- Optimum mix: It helps managements in obtaining the most profitable combination of different factors of production. This results in a more economical use of capital.
- Favours with credit agencies: Managements who have developed a well ordered budget plan and who operate accordingly, receive greater favours from Credit Agencies.
- Optimum capitalization: It is the only means of predetermining when and to what extent financing will be necessary avoiding the possibility of both over and under capitalisation.

18.5.2 LIMITATIONS OF BUDGETARY CONTROL

The following are the limitations of Budgetary Control;

- Budgetary control starts with the formulation of budgets which are bare estimates. Therefore, the adequacy or otherwise of Budgetary Control system to a very large extent depends upon the adequacy or accuracy with which estimates are prepared.
- Budgetary are meant to deal with business conditions which are constantly changing. Therefore, budgets estimates lose much of their usefulness under changing conditions because of their rigidity. It is necessary that budgetary control system should be kept adequately flexible.

- The system of budgetary control is based on quantitative data and represent only an impersonal appraisal to the conduct of business activity unless it is supported by proper management personal administration.
- It has often been found that in practice the organizations of budgetary system become too heavy and therefore, costly especially from one point of view of small concern.
- Budgets and budgetary control have given rise to a very unhealthy tendency to be regarded as the solvent of all business problems. This has resulted in a very Luke worm humane effort to deal with such problems and ultimately result in failure of budgetary control system.

Hence, it is a part of human that all controls are resented to budgetary control which places restrictions on the authority of executive is also resented by the employees.



Check Your Progress-A

Q1. Discuss overarching strategic control approaches.

Q2. What are the participants in Strategic Evaluation?

Q3. What are the limitations of budgetary control?

Q4. What are the evaluation techniques for Strategic Control?

18.6 ROLE OF PERT AND CPM IN STRATEGIC MANAGEMENT

The techniques of PERT and CPM were developed in USA during the late 1950s in order to plan and control activities. These are two widely used networking techniques. PERT-Programme Evaluation Review Technique was developed by the Special Projects Office of the U.S. Navy, was first formally applied to the planning and control of the Polaris Weapon System in 1958. This technique worked well in expediting the successful completion of that programme. PERT helps the management to answer the following questions, when they face with huge projects:

1.When will project be completed?

2.When will each individual part of the project start and finish?

3.Of the many parts in a project, which ones must be finished on time to avoid delaying the project?

4.Can resources be shifted to critical parts of the project from the non-critical parts without affecting the overall completion time of the project?

5.Among the hundreds of the parts of the project, where should the management concentrate its efforts at a given time?

18.6.1 CPM- CRITICAL PATH METHOD

It was developed by Du Pont Company for the purpose of scheduling. CPM is concerned with the reconciliation enumerates the relationship between applying more men or other resources to shorten the duration of a given project and the increased cost of these resources. Both the PERT and CPM techniques are based on the same principles. The only difference is that-

- CPM is based on a single estimate of time required for the completion of activities. The CPM technique is used for projects like construction and maintenance projects.
- PERT is based on expected completion time, computed from three estimates of time-the optimistic time the pessimistic time and the most likely time. The PERT technique can be used for more complicated projects like engineering and tolling projects.
- PERT is used when time is important and there is not much concern for cost and CPM is used when resource allocation is to be optimized and overall cost has to be minimized.

PERT and CPM breaks down projects into events and activities and then carefully follows them. It is time event network analysis system in which the various events in a programme or projects are identified with a planned time established for each event. These events are placed in a network showing the relationship of each event to the other events. PERT and CPM techniques can be used for planning, scheduling and executing large projects which involves a number of interrelated activities. PERT and CPM help to plan and control both time and cost of the projects. The following are the steps involved in PERT and CPM:

- At first the estimated time for each and every activity is determined. In case of PERT three estimates of time – optimistic, pessimistic and the likely time are determined. These estimates are often included in PERT because it is difficult in many engineering and development projects, to estimate time accurately in case of certain complex activities.
- The next step is to calculate the critical path, that is, the sequence of events which takes the longest time. Identifying the critical path at the start of the programme or projects helps to monitor the particular sequence of activities on this path so as to ensure that the total project gets completed as per the schedule.

18.6.2 MAJOR ADVANTAGES

- PERT and CPM help managers to plan, as it is difficult to make a time-event analysis without planning. The subordinate manager must also plan for the event for which he is responsible.
- These techniques focus on the critical path or the sequence of events, which requires the maximum possible time, so that the critical path can be properly monitored so that the project completes as per the schedule.

18.7 CHARACTERSTICS OF CONTROL SYSTEM

The following are the characteristics of effective control system;

- Strategy evaluation activities must be economical; too much information can be just as bad as too little information. Control should involve only the minimum amount of information needed to give a reliable picture of events. Too many controls create confusion.
- Strategic evaluation activities should be meaningful, they should relate to a firm's objectives. Controls should monitor only meaningful activities and results, regarding of measurement difficulty.
- Controls should be timely so that corrective action can be taken before it is too late.

- Strategy evaluation should be designed to provide a true picture of what is happening For example, in a severe economic downturn, productivity and profitability ratios may drop alarmingly, although employees and managers are actually working harder. Strategy evaluation should portray this type of situation fairly.
- The strategy evaluation process should not dominate decisions, it should foster mutual understanding, trust, and common sense. No department should fail to cooperate with another in evaluating strategies.
- Strategy evaluations should be simple, not to cumbersome and not too restrictive. Complex strategy evaluation systems often confuse people and accomplish little. The test of an effective evaluation system is its usefulness, not its complexity.
- Long term as well as short term controls should be used.
- Emphasis the reward of meeting or exceeding standards rather than punishment for failing to meet standards.

There is no one ideal strategy evaluation system. The unique characteristics of an organization, including its size, management style, purpose, problems and strengths, can determine a strategy evaluation and control system's final design.

Control may be depicted as a six-step feedback model as follow:

1. The establishment of standards of performing: Standards are specific points against which actual performance will be judged. As such they are more detailed expressions of Strategic objectives and are the bases of role prescriptions. Establishing standards for organizational subcomponents is the first step in management control, and establishing them for individuals is the first step in operational control.

2. The statement of acceptable tolerances: The standard is a single point on a continuum of possible behaviours, but it is not always necessary to perform exactly to that point. Normally, deviation from standards will be tolerated within certain control limits.

3. Measurement of actual performance: Measurement is the third step in management or operational control. It involves the identification of role behaviour either for components of individuals. Measurement techniques vary from situation to situation and are often imprecise.

4. Comparison of standards and performance: While comparing standards and performance might appear to be a simple task, it is quite complex in the more qualitative performance areas because of the inability to quantify either standards or performance.

5. Action: Where performance is satisfactory- that is, congruent with standards-no action is necessary. But where it is not, corrective action must be taken.

6. Preventive action: As Bill Greenwood has observed, it is insufficient simply to correct problems. Rather, action must be taken to assure these problems do not occur again. This model focuses on results (output). In fact, most control systems- strategic, management, or operational- focus on results. Often, the consequence of utilizing these feedback control

systems is that the unsatisfactory performance continues until the malfunctioning is discovered.

18.7.1 REDUCING THE PROBLEMS

One technique for reducing the problems associated with feedback control system is feedforward control. First suggested by Harold Koontz and Robert W. Bradspies, feedforward control focuses on the inputs to the system and attempts to anticipate problems with outputs. With respect to strategy and planning, feedforward control has wide applicability.

For example, the feedforward principle underlies the concept of simulation modelling.

- Simulations of performance can be made in any number of Strategic situations to test for changes in basic assumptions. In fact, any situation with identifiable inputs which can be modelled can and should utilize the feedforward approach. Management control becomes a distinct concern when decentralization occurs. Where management control is imposed, it functions within the framework established by the strategy. Management control focuses on the accomplishment of the objectives of the various sub strategies comprising the master strategy and the accomplishment of the objectives of the intermediate plans. Normally these objectives (standards) are established for major subsystems within the organization. Such as SBUs, projects, products, functions, and responsibility centres. Allowable tolerances vary from organization to organization. Typical management control measures include ROI, residual income, cost, product quality, efficiency measures, and so forth.
  These control measures are essentially summations of operational control measures. When corrective or preventive action is taken, it may involve very minor or very major changes in the strategy. Often, top management strategists may be removed from their positions as the consequence of poor performing as indicated by these control measures.
- Operational control systems are designed to ensure that day-to-day actions are consistent with established plans and objectives. Operational control is concerned with individual and group role performance as compared with the individual and group role prescriptions required by organizational plans. Such control systems are normally concerned with the past (unless feedforward systems are being utilized). Operational control focuses on events in a recent period. Operations control systems are derived from the requirements of the management control system. Specific standards for performance are derived from the objectives of the operating plans, which are based on intermediate plans, which are based on strategy. Performance is compared against objectives at the individual and group levels.

Corrective or preventive action is taken where performance does not meet standards. This action may involve training, motivation, leadership, discipline, or termination. It is important to know who the participants are and what role they will play in strategic evaluation and

control. This will answer the question: who evaluates the strategy and how do they do it, going beyond the role of evaluators, we are also interested in knowing who the appraisers are and how they help in strategic evaluation.

The various participants in strategic evaluation and control and their respective roles are described below. Theoretically, every organisation is ultimately responsible to its shareholders-lenders and the public in the case of private companies, and the government in the public sector companies.

- The role of shareholders, in practice, however, is limited. This is especially true of the general public where the individual holding is too small to be of any effective value in strategic evaluation.
- Lenders such as financial institutions and banks which have an equity stake are typically concerned about the security and returns on their shareholding rather than in the long-term assessment of strategic success.
- The government, through its different agencies, does play a significant role in the strategic evaluation and control of public sector companies. The Board of Directors enacts the formal role of reviewing and screening executive decision in the light of their environmental, business and organisational implications. In this way, the board is required to perform the functions of strategic evaluation in more generalized terms. But there is a lot of variation among Indian companies in the way in which the Board may perform its control functions. In some companies, the Board may have the real authority to oversee strategic evaluation, while in other companies its authority may be usurped by other like chief executive or a higher de facto authority, such as the family council, in the case of family-owned companies, the headquarters in the case of MNC subsidiaries, or the controlling ministry in the case of public sector companies.
- Chief executives are ultimately responsible for all the administrative aspects of strategic evaluation and control. Ideally, a chief executive should not sit in judgement over the performance of the organisation under his or her control. Rather, the chief executive should be evaluated on the basis of his/her performance. This leads to the question that who should evaluate the chief executive. Normally, the evaluation of a person should be done by an individual or a group to whom he reports. In cases where the chief executive is accountable to no one in particular (this is possible in the case of an entrepreneurial organisation), it is difficult to allocate this responsibility apart from relying on self-evaluation. But in the other cases, the ownership pattern can determine who should evaluate the chief executive. Thus, the family council in family-owned companies and majority shareholders in other cases could evaluate a chief executive's performance.
- The SBU or profit-centre heads may be involved in performance evaluation at their levels and may facilitate evaluation by corporate-level executives.
- Financial controllers, company secretaries, and external and internal auditors form the group of persons who are primarily responsible for operational control based on

financial analysis, budgeting, and reporting. Audit and executive committees, setup by the Board of the chief executive, may be charged with responsibility of continuous screening of performance.

- The corporate planning staff or department may also be involved in strategic evaluation. Middle-level managers may participate in strategic evaluations and control as providers of information and feedback, and as the recipients of directions from above, to take corrective actions. While evaluating organisational units one cannot avoid relying on the performance evaluation of individuals. This creates certain barriers in strategic evaluation and control.

18.7.2 FIVE MAJOR TYPES OF BARRIERS IN EVALUATION

The limits of control, difficulties in measurement, resistance to evaluation, tendency to rely on short-term assessment, and relying on efficiency versus effectiveness.

- Limits of control: By its very nature, any control mechanism presents the dilemma of too much versus too little control. It is never an easy task for strategists to decide the limits of control. Too much control may impair the ability of managers, adversely affect initiative and creativity, and create unnecessary impediments to efficient performance. On the other hand, too less control may make the strategic evaluation process ineffective and redundant.
- Difficulties in measurement: The process of evaluation is fraught with the danger of difficulties in measurement. These mainly relate to the reliability and validity of the measurement techniques used for evaluation, lack of quantifiable objectives or performance standards, and the inability of the information system to provide timely and valid information. The control system may be distorted and may not evaluate uniformly or may measure attributes which are not intended to be evaluated
- Resistance to evaluation: The evaluation process involves controlling the behaviour of individuals and, like any other similar organisational mechanism, is likely to be resisted by managers.
- Short-termism: Managers often tend to rely on short-term implications of activities and try to measure the immediate results. Often, the long-term impact of performance on strategy and the extended effects of strategy on performance is ignored. This is so as immediate assessment seems to be the easy way out and taking the long-term implications into account may be seen as too tedious.
- Relying on efficiency versus effectiveness: It is instructive to remember that efficiency is doing the things rightly while effectiveness is doing the right things. There is often a genuine confusion among managers as to what constitutes effective performance. Measuring the wrong parameters may lead to a situation where the right type of performance does not get rewarded. In fact, sometimes performance that does not really contribute to the achievements of objectives may be rewarded if assessed on the basis of efficiency alone.

18.7.3 EVALUATION TECHNIQUES FOR STRATEGIC CONTROL

The fundamental quality of strategic control is to frequently appraise the changing environment to uncover events that may significantly affect the course of an organisation's strategy. Techniques for strategic control can be divided into two groups on the basis of the type of environment faced over the organisations. The organisation's that deploy in a comparatively secure environment may use strategic momentum control, while those which face a equivalent turbulent environment may find strategic leap control more appropriate.

Strategic momentum control: These types of evaluation techniques are aimed at assuring that the assumptions on whose basis strategies were invent are still valid, and finding out what needs to be done in order to allow the organisation to maintain its subsist strategic momentum. There are three techniques which could be used to achieve these aims: responsibility control centres, underlying success factors, and generic strategies.

1. Responsibility control centres form the core of management control systems and are of four types: revenue, expense, profit, and investment centres. Each of these centres is designed on the basis of the measurement of inputs and outputs. The study and application of responsibility centres is done under the discipline of management control systems.

2. The underlying success factors enable organisations to focus on the Company Success Factors in order to examine the factors that contribute to the success of strategies. By managing on the basis of the CSFs, the strategists can continually evaluate the strategies to assess whether or not these are helping the organisation to achieve its objectives.

3. The generic strategies approach to strategic control is based on the assumption that the strategies adopted by a firm similar to another firm are comparable. Based on such a comparison, a firm can study why and how other firms are implementing strategies and assess whether or not its own strategy is following a similar path. In this context, the concept of strategic group is also relevant. A strategic group is a group or firms that adopts similar strategies with similar resources. Firms within a strategic group, often within the same industry, and sometimes in other industries too, tend to adopt similar strategies.

18.8 STRATEGIC LEAP CONTROL

Where the environment is relatively unstable, organisations are required to make strategic leaps in order to make significant changes. Strategic leap control can assist such organisations by helping to define the new strategic requirements and to cope with emerging environmental realities.

There are four techniques used to evaluate strategic leap control: strategic issue management, strategic field analysis, systems modelling and scenarios.

1. Strategic issue management is aimed at identifying one or more strategic issues and assessing their impact on the organisation. A strategic issue is a forthcoming development, either inside or outside the organisation, which is likely to have an important impact on the ability of the enterprise to meet its objectives. By managing on the basis of strategic issues, the strategists can avoid being overtaken by surprising environmental changes and design contingency plans to shift strategies whenever required.

2. Strategic field analysis is a way of examining the nature and extent of synergies that exist or are lacking between the components of an organisation. Whenever synergies exist the strategists can assess the ability of the firm to take advantage of those. Alternatively, the strategists can exercise the firm's capacity to generate synergies where they do not exist.

3. Systems modelling is based on computer-based models that simulate the essential features of the organisation and its environment. Through systems modelling, organisations may exercise pre-action control by assessing the impact of the environment on organisation because of the adoption of a particular strategy.

4. Scenarios are perceptions about the likely environment a firm would face in the future. Its use could be extended to evaluation by enabling organisations to focus strategies on the basis of forthcoming developments in the environment. Several of the above techniques for strategic control with the possible exception of responsibility centres-are or a relatively recent origin. The development of these techniques is an evidence of the expanding body of knowledge in strategic management. As the use and application of strategic management gains approval, it is quite likely that organisations would start using such techniques. Operational control, however, uses more familiar techniques which have traditionally been used by strategists.

18.9 EVALUATION TECHNIQUES FOR OPERATIONAL CONTROL

The classification of evaluation techniques in the three parts: internal analysis, comparative analysis, and comprehensive analysis.

Internal analysis: Internal analysis, which consists of value-chain analysis, quantitative (financial and non-financial) analysis, and qualitative analysis, deals with the identification of the strengths and weaknesses of a firm in absolute terms.

1.Value chain analysis focusses on a set of inter-related activities performed in a value-chain analysis for the purpose of operational evaluation lies in its ability to segregate the total tasks of a firm into identifiable activities which can then be evaluated for effectiveness.

2.Quantitative analysis takes up the financial parameters and the non-financial quantitative parameters, such as, physical units or time, in order to assess performance. The obvious

benefit of using quantitative factors (either financial or physical parameters) is the ease of evaluation and the verifiability of the assessment done. These are probably the most- used methods for evaluation for operational control. Among the scores of financial techniques described in all standard texts in the area of finance are traditional techniques, such as, ratio analysis, or newer techniques, such as, economic value-added (EVA) and its variations, and activity-based costing (ABC). These are proven methods so far as their efficacy for evaluating operational effectiveness is concerned. Apart from the financial quantitative techniques, there are several non-financial quantitative techniques available for the evaluation for operational control, such as: computation of absenteeism, market ranking, rate of advertising recall, total cycle time of production, service call rate, or number of patents registered per period. Many more techniques can be evolved by firms to suit their specific requirement.

3.Qualitative analysis supplements the quantitative analysis by including those aspects which is not feasible to measure on the basis of figures and numbers. The methods that could be used for qualitative analysis are based on intuition, judgement, and informed opinion. Techniques like surveys and experimentation can be used for the evaluation of performance for exercising operational control.

18.9.1 COMPARATIVE ANALYSIS

This consists of historical analysis, industry norms, and benchmarking. It compares the performance of a firm with its own past performance, or with other firms.

1. Historical analysis is a frequently used method for comparing the performance of a firm over a given period of time. This method has the added benefit of enabling a firm to note how the performance has taken place over a period of time and to analyse the trend or pattern. Such an analysis can offer the firm a better perception of its performance as compared to an absolute assessment.

2. Industry norms is a comparative method for analysing performance that has the advantage of making a firm competitive in comparison to its peers in the same industry. Being a comparative assessment, evaluation on the basis of industry norms enables a firm to bring its performance at least up to the level of other firms and then attempt to surpass it.

3. Benchmarking is a comparative method where a firm discover applications in an area and then tried to bring its own performance in that area in line with the best applications. Best practices are the benchmarks that should be adopted by a firm as the standards to exercise operational control. Through this method, performance can be evaluated continually till it reaches the best practice level. In order to excel, a firm shall have to exceed the benchmarks. In this manner, benchmarking offers firms a tangible method to evaluate performance.

18.9.2COMPREHENSIVE ANALYSIS

This includes balanced scorecard and key factor rating. The analysis adopts a total approach rather than focusing on one area of activity, or a function or department.

1.Balanced score card method is based on the identification of four key performance measures of customer perspective, internal business perspective, innovation and learning perspective, and the financial perspective. This method is a balanced approach to performance measurement as a range of parameters are taken into account for evaluation.

2. Key factor rating is a method that takes into account the key factors in several areas and then sets out to evaluate performance on the basis of these. This is quite a comprehensive method as it takes a holistic view of the performance areas in an organisation, besides the several techniques referred to above, we could mention four other techniques that are used by some companies to assess performance. These are the network techniques, parta system, management by objectives, and the memorandum of understanding.

1. The parta system is an indigenous system adopted usually by Marwari firms to keep track of daily cash generation. Parta is the pre-determined budget of the net cash inflows from operation before tax and dividend. The parta is decided in between the family group and company head, and actual performance is compared to this budgeted parta on a daily basis, thus making parta an effective operational control device.

2. Network techniques such as programme evaluation and review technique (PERT), critical path method (CPM), and their variants, are used extensively for the operational controls of scheduling and resource allocation in projects. When network techniques are modified for use as a cost accounting system, they become highly effective operational controls for project costs and performance.

3. Management by Objectives (MBO) is a system, proposed by Drucker, which is based on a regular evaluation of performance against objectives which are decided upon mutually by the superior and the subordinate. By the process of consultation, objective-setting leads to the establishment of a control system that operates on the basis of commitment and self-control. Thus, the scope of MBO to be used as an operational control is quite extensive.

4. Memorandum of understanding Just like MBO is a commitment to objectives between individuals; a memorandum of understanding (MoU) is an agreement between a public enterprise and the Government, represented by the administrative ministry in which both parties clearly specify their commitments and responsibilities. Having done that, the enterprises are evaluated on the basis of the MoU. Though a MoU is usually thought of as a technique used solely in the context of public enterprises, its use can be extended to any situation where an external agency is required to evaluate a firm’s performance. Thus, a multinational company can set a MoU with its subsidiary and a family business group council can use a MoU to evaluate its constituent companies. With the greater professionalization of private firms, especially in the family business sector, the use of MoUs can be helpful. But in India the usage of MoU is traditionally confined to the evaluation of performance in a public enterprise. Operational control systems guide, monitor, and evaluate progress in meeting

annual objectives. While strategic controls try to direct the company over an extended time period (usually five years or more), operational controls provide post-action evaluation and control over short time periods usually from one month to one year. To be effective, operational control systems must take four steps common to all post-action controls:

- Set standards of performance.
- Measure actual performance.
- Identify deviations from standards.
- Initiate corrective action or adjustment.

18.10 BUDGETING SYSTEMS

The budgetary process was the forerunner of strategic planning. Capital budgeting in particular provided the means for strategic resource allocations. With the growing use of strategic management, such allocations are now based on strategic assessment and priorities, not solely on capital budgeting. Yet capital and expenditure budgeting, as well as sales budgeting, remain important control mechanisms in strategy implementation. A budget is simply a resource allocation plan that helps managers coordinate operations and facilitates managerial control of performance. Budgets themselves do not control anything. Rather, they set standards against which action can be measured. They also provide a basis for negotiating short-term resource requirements to implement strategy at the operating level. Most firms employ a budgeting system, not a singular budget, in controlling strategy implementation. A budgeting system incorporates a series of different budgets fitting the organisation's unique characteristics. Because organizations differ, so do their budgets.

Yet most firms include three general types of budgets-revenue, capital, and expenditure- in their budgetary control system.

- Revenue Budgets: Most firms employ some form of revenue budget to monitor their sales projections (or expectations), because this reflects a key objective of the chosen strategy. The revenue budget provides important information for the daily management of financial resources and key feedback as to whether the strategy is working. For evaluative purposes, the revenue budget may be derived from revenue forecasts arrived at in the planning process, or it may be linked to past revenue patterns. For example, most hotel/motel operators emphasize daily revenue compared to revenue for the same day in the previous year as a monitor of sales effectiveness. A revenue budget is particularly important as a tool for control of strategy implementation. Revenue budgets provide an early warning system about the effectiveness of the firm's strategy. And if the deviation is considerably below or above expectations, this budgetary tool should initiate managerial action to re-evaluate and possibly adjust the firm's Operational or strategic posture.

- Capital Budgets: Capital budgets outline specific expenditures for plant, equipment, machinery, inventories, and other capital items needed during the budget period. To support their strategies, many firms require capital investment or divestiture. A firm committed to a strong growth strategy may need additional capacity or facilities to support increased sales. On the other hand, a firm intent on retrenchment may have to divest major parts of its current operations to generate additional resources. In both cases, the firm is concerned with management of significant financial resources, probably over an extended time period. For effective control, a capital budget that carefully plans the acquisition and expenditure of funds, as well as the timing, is essential. Two additional budgets are often developed to control the use of capital resources. A cash budget forecasts receipts and disbursements of cash-flow during the budget period. And a balance sheet budget is usually developed to forecast the status of assets, liabilities, and net worth at the end of the budget period.
- Expenditure Budgets: Numerous expense/cost budgets will be necessary for budgetary control in implementation of strategy in various operating units of the firm. An expenditure budget for each functional unit and for sub-functional activities can guide and control unit/individual execution of strategy, thus increasing the likelihood of profitable performance. For example, a firm might have an expenditure budget for the marketing department and another for advertising activities. In such budgets, Rs./dollar variables will be the predominant measure, although non-dollar/Rs. measures of physical activity levels may occasionally be used as a supplement. For example, a production budget might include standards for expenditures as well as standards for output level or productivity. These non-dollar/Rs. variables might also include targets or milestones that provide evidence of necessary progress in particular strategic programs. An expenditure or operating budget is meant to provide concrete standards against which operational costs and activities can be measured and, if necessary, adjusted to maintain effective strategy execution. The expenditure budget is perhaps the most common budgetary tool in strategy implementation. If its standards are soundly linked to strategic objectives, then it can provide an effective communication link between top management and operating managers about what is necessary for a strategy to succeed. It provides another warning system alerting management to problems in the implementation of the firm's strategy.

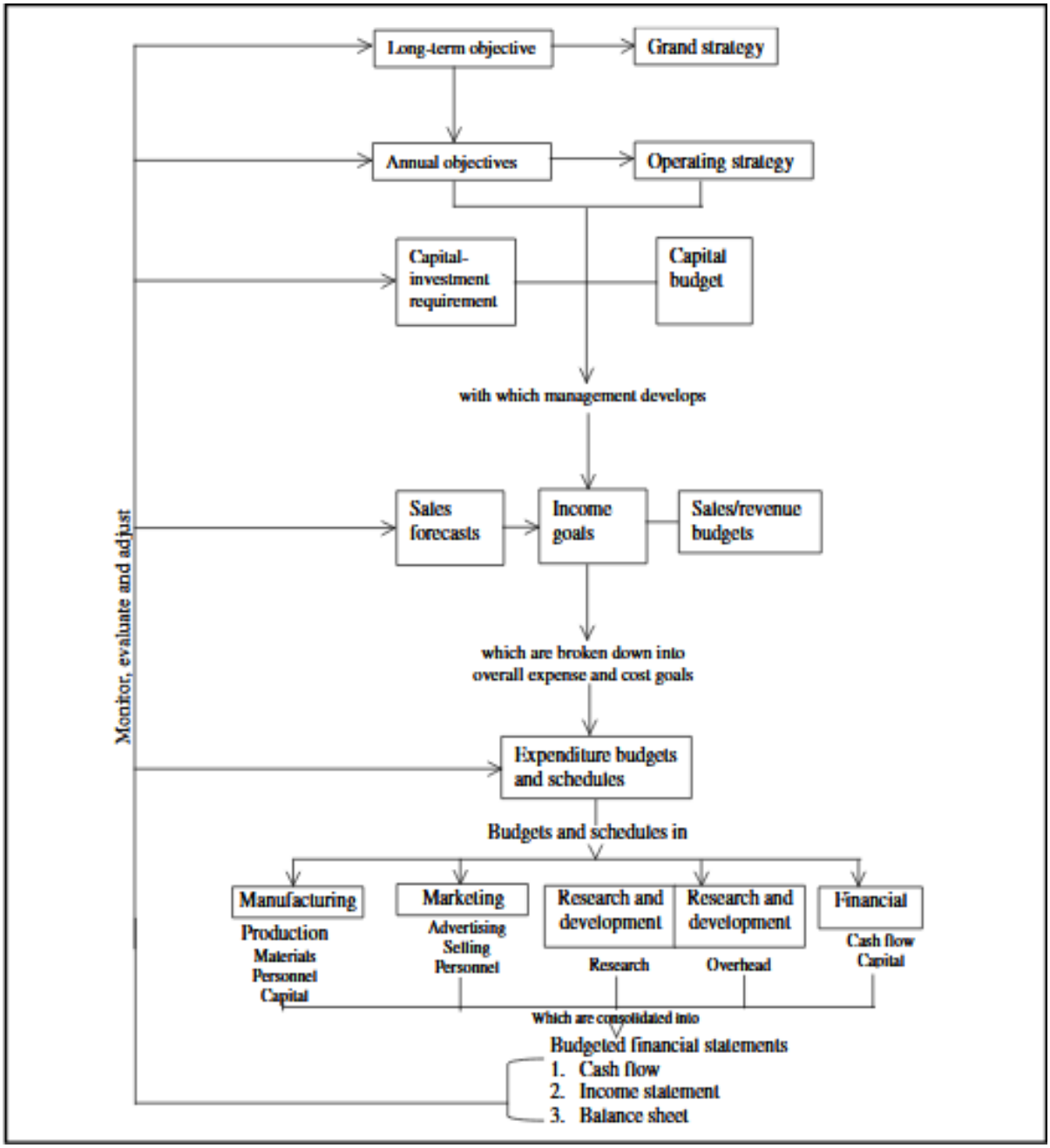


Figure 18.1: BUDGETING SYSTEM

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18.11 SUMMARY

Control of strategy can be symbolizes as a form of shepherd control. Ordinarily, a significant time span occurs between initial implementation of a strategy and achievements of its intended results. Strategic control takes into account the changing assumptions that regulate the strategy by continuously evaluating the strategy during the process of implementation and it also takes the required corrective action as and when required. Further, Budgetary control is the establishment of budget relating to the responsibility of executives in a business and the continuous comparison of actual with budgeted results to secure by individual action. Techniques for strategic control can be divided into two groups on the basis of the type of environment faced over the organisations. The organisation's that deploy in a comparatively secure environment may use strategic momentum control, while those which face a equivalent turbulent environment may find strategic leap control more appropriate**.**



18.12 GLOSSARY

Responsibility centres- Responsibility centres are used to disengage a unit so that it can be evaluated separately from the rest of the corporation. Each responsibility centre therefore has its own budget and is evaluated on its use of budgeted resources.

Profit centre- A profit centre is typically established whenever an organizational unit has control over both resources and its products or services.

Operational control- Operational control is the process of ensuring that specific tasks are carried out accurately and promptly.

Memorandum of Understanding- Memorandum of Understanding is an agreement between a public enterprise and the Government where clearly specify their commitments and responsibilities.

Budgetary control- It is used to indicate the appraisal of performance by a comparison of the actual with the budget and corrective action for the same. Budgetary control is the establishment of budget relating to the responsibility of executives in a business and the continuous comparison of actual with budgeted results to secure by individual action.

CPM-CPM is based on a single estimate of time required for the completion of activities. The CPM technique is used for projects like construction and maintenance projects.

PERT-PERT is based on expected completion time, computed from three estimates of time- the optimistic time the pessimistic time and the most likely time. The PERT technique can be used for more complicated projects like engineering and tolling projects.

Benchmarking- Benchmarking is a comparative method where a firm discover applications in an area and then tried to bring its own performance in that area in line with the best applications. Best practices are the benchmarks that should be adopted by a firm as the standards to exercise operational control.



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18.15 TERMINAL QUESTIONS

Q1. Discuss Strategic Control and Operational Control.

Q2. What are the various types of strategic control?

Q3. Why strategic evaluation and control is important?

Q4. Compare and contrast various control techniques in terms of their prons and cons.

UNIT 19 STRATEGY AND TECHNOLOGY MANAGEMENT

19.1 Introduction

19.2 Objectives

19.3 Technology Management

19.4 Several Concepts of Technology Management

19.5 Strategy Management

19.6 Theoretical History

19.7 Strategic Planning

19.8 Summary

19.9 Glossary

19.10 Answers to Check Your Progress

19.11 Reference/ Bibliography

19.12 Suggested Readings

19.13 Terminal Questions

19.1 INTRODUCTION

Technology Management a.k.a. (also known as) Technical Management; is used to plan, develop and implement technical capabilities, to complete organizational strategy and operational objectives. Technical management usually refers to the management of the technology industry; managers generally have a high level of technology, while leading their own management team to complete a technical task. In the actual operation of technology management, the emphasis is on the technical distribution, technical direction and technical monitoring of the manager's team. Managers use their own technical knowledge and ability to improve the efficiency of the entire team, and then complete the technical jobs.

19.2 OBJECTIVES

After going through this unit, you will be able to know about;

- Technology Management and its concept.

- Strategy Management, its' principles and concepts.
- History of Strategy Management.
- Strategic Planning.

19.3 TECHNOLOGY MANAGEMENT

19.3.1 IMPORTANT POINT TO VIEW

Three important points:

1. Emphasize organizational goals

2. The development of technical capabilities

3. Activities and organization of links

19.3.2 CONCEPT

Technology usually refers to the production practice experience and the principles of natural science developed a variety of process operation methods and skills. Modern Technology Management is based on the laws and policies of science and technology, scientific research and all the technical activities of the planning, coordination, control and incentives and other aspects of management.

Technology Management is a subsystem of the whole enterprise management system. It is a general term for a series of management activities such as planning, organization, command, coordination and control of enterprise technology development, product development, technological transformation, technical cooperation and technology transfer.

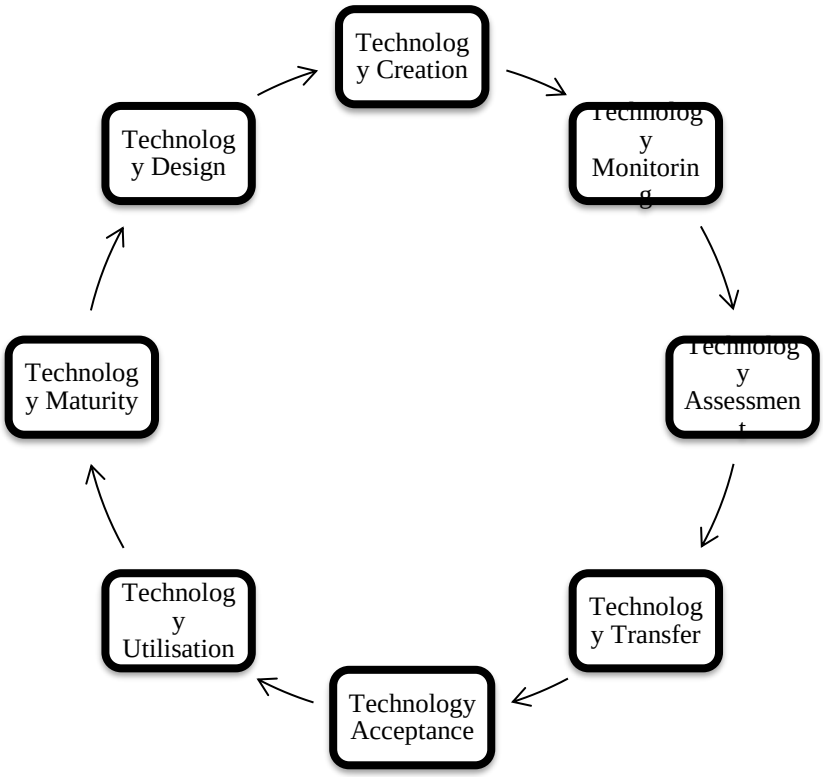


Figure 19.1: STMS (Strategic Technology Management System)

The purpose of Technology Management is to establish scientific procedures according to the regularity of scientific and technical work, to make plans and rational use of enterprise technical force and resources to transform the latest scientific and technological achievements into realistic productive forces as soon as possible to promote enterprises Technological progress and the realization of economic benefits.

Technology Management system is based on the very underlying theory of technology management to promote the technological progress of enterprises for the purpose of the enterprise technology development, product development, technological transformation, technical cooperation and technology transfer and other work analysis and evaluation, to improve the program and guide the implementation of intellectual service activities.

19.3.3 THE GOAL OF TECHNOLOGY MANAGEMENT IS:

(1) To carry out scientific and technological forecasting, planning and organization and implementation;

(2) To improve product design, trial production of new products;

(3) To develop and implement technical standards, product quality supervision and inspection;

(4) Organization of information exchange;

(5) Establish and improve the technical operating procedures;

(6) Technological transformation, technology introduction and equipment renewal;

(7) To do the production technology preparation and daily technical management;

(8) Do the technical and economic demonstration work.

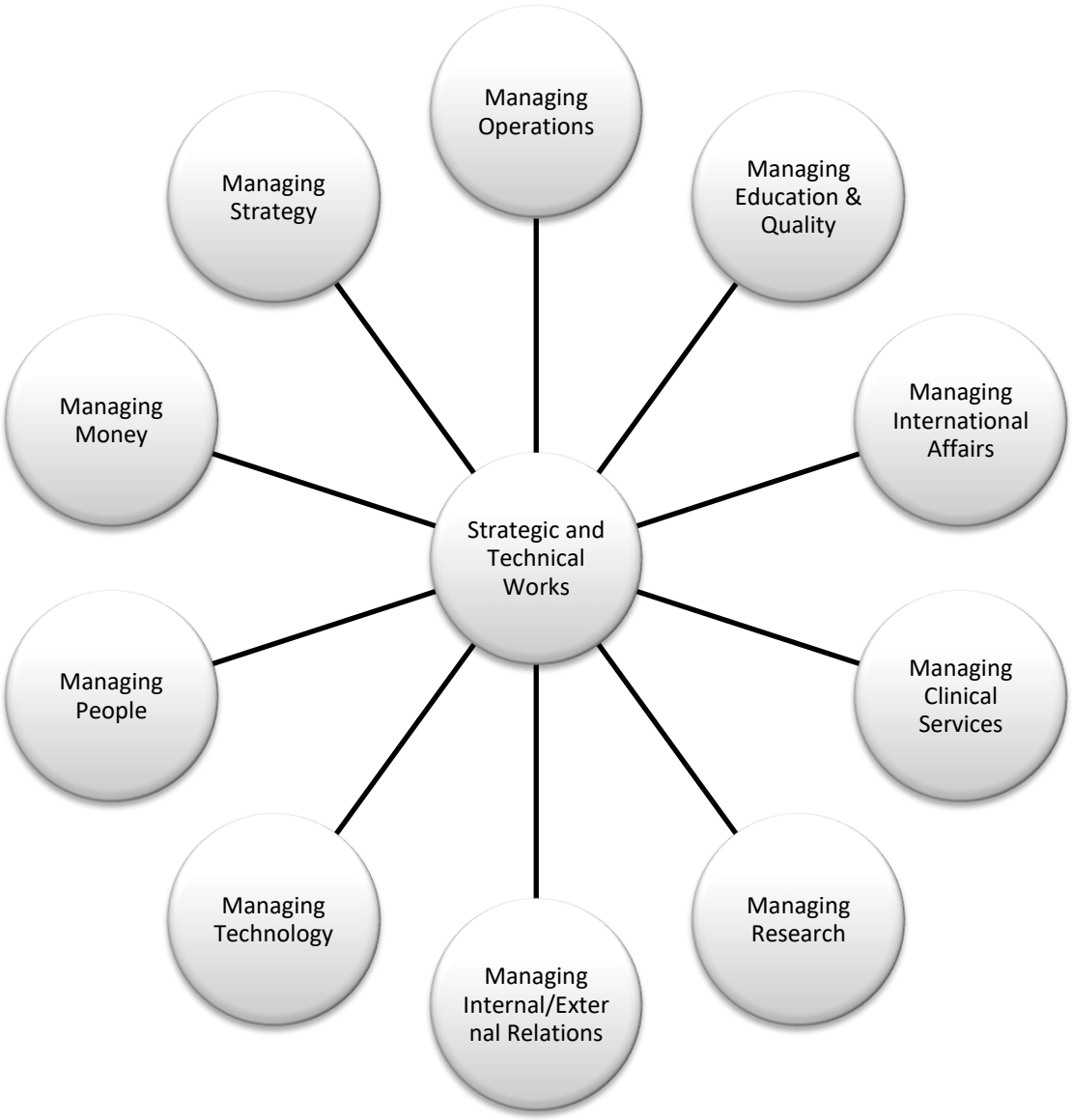


Figure 19.2: Multiple Strategic and Technical works

19.4 SEVERAL CONCEPTS OF TECHNOLOGY MANAGEMENT

Several Concepts of Technology Management are;

1- Process Rules

Process rules are based on raw material quality and product quality standards, under the guidance of national technical policy, according to their own production and technical conditions developed by the technical documents. Enterprise process specifications include:

i. Process, that is, a series of machines, equipment and processes together, the original, auxiliary materials according to a certain product quality standards for processing, processing of the production process.

ii. The production of various operating machinery technical data, refers to a variety of different performance of the operating machinery, in the processing of different original and auxiliary materials in the case of quality, in order to achieve the predetermined product quality standards and the production of technical parameters.

2- Technical Determination

The technical measurement of the enterprise is to systematically check, test and analyze the quantity and quality of the processing machine (processing) in the production process of the enterprise and their mutual relations.

Determination of the main content of the material flow measurement, finished and semi-finished product quality measurement, mechanical equipment, the determination of the three operating parameters.

3- Scientific Research

Scientific research points to the use of scientific means and equipment to explore the mysteries of objective natural phenomena in order to obtain scientific knowledge of natural phenomena, and reveal the intrinsic link between them, to create a new technology to provide a theoretical basis. Scientific research is usually divided into three basic categories viz. basic, applied and development research.

4- Technological Innovation

Technological innovation usually refers to local improvements in production technology, such as improvements in equipment structure, improvements in production processes and methods of operation, and savings in raw materials. Technological innovation is generally only a partial process, the improvement of individual equipment.

5- The Introduction Of Technology

Technology introduction is a country in order to develop its own level of economic science and technology, through a variety of ways. From other countries to get hold of advanced technical achievements, including a variety of technology, equipment manufacturing technical information, key equipments or complete sets of equipments.

6- Technological Transformation

The technological transformation refers to the application of scientific and technological achievements in various fields (products, equipment and technology) under the prerequisite of technological progress. The use of advanced technology to transform backward technology, the use of advanced technology and equipment instead of backward technology

and equipment, to improve product quality, energy conservation, and comprehensively improve the economic efficiency of enterprises.

7- Technical File Management

The technical archives are the drawings (product drawings, process drawings, infrastructure drawings) that are preserved in the production, construction and scientific research activities of the well-preserved wells, all kinds of instructions, experimental records and topics, research papers , related photographs, video recordings, tapes and other technical documents. Technical archives management refers to the management of a series of activities such as the collection, collation, classification, custody, identification, statistics and service of technical files.

19.4.1 TASKS

Technology management task is to promote scientific and technological progress, and constantly improve the enterprise's labor productivity and economic efficiency.

(1) The correct implementation of any country's technical policy

Technical policy is based on the development of modern enterprise production and objective needs, according to the philosophy of science and technology to develop, are to guide a variety of technical work policy. Many technical problems and economic problems are inseparable from the relevant technical policies of the state. China's modern enterprise a lot of technical policies, including product quality standards, process procedures, technical procedures, inspection system, which, the product quality standards is the most important.

(2) To establish a good production technology order to ensure the smooth progress of production. Good production technology order is to ensure the smooth production of the necessary prerequisites. Enterprises through technical management, so that a variety of machinery and equipment and tools to maintain a good technical condition for the production to provide advanced and reasonable process, and to strictly enforce the production of technological accountability and the quality monitoring system, timely solution to the production of technical problems, So as to ensure the smooth progress of production.

(3) To improve the technical level of enterprises

Modern enterprises through various means and means to improve the technical quality of workers and technical staff, the production equipment, processes, methods of operation continue to tap the potential, innovation and transformation, the promotion of effective production technology experience; efforts to learn and use New technology, new technology, give full play to the role of technical staff and workers, and comprehensively improve the scientific and cultural level of all production personnel and technical level, in order to accelerate the modernization process.

(4) To ensure safe production

The safety of workers and machinery and equipment is the basic guarantee for the smooth production of modern enterprises and is also a basic requirement of the socialist system. If the

enterprise cannot ensure the safety of production, the health as well as safety of the workers cannot be ensured completely, the state's property will suffer losses, the company's production and business activities will be greatly affected, so that security is efficiency. The safety of production should be based on the joint efforts of all aspects of the enterprise, from the technical to take effective measures to develop and implement safety and technical procedures, so as to ensure production safety.

(5) Extensive research activities, and strive to develop new products

In the market economy, modern enterprises must promptly produce products in line with social needs in order to obtain the corresponding economic benefits. This requires enterprises to launch the broad masses of technical staff and workers, extensive scientific research activities, efforts to research technology, and actively develop new products, and continuously meet the demand, open up new markets.



Check Your Progress-A

Q1. Explain strategic technology management systems with diagram.

Q2. Explain the purpose of Technology Management, with the tasks involve in it.

Q3.Choose the correct alternative.

i) Local improvements in production technology, such as improvements in equipment structure, improvements in production processes and methods of operation, and savings in raw materials is called:

a. Technical File Management
b. Technological Transformation
c. The Introduction Of Technology
d. Technological Innovation

Q4: Fill in the blanks

i) . …… are based on raw material quality and product quality standards, under the guidance of national technical policy, according to their own production and technical conditions developed by the technical documents.

ii) …….. reflects the usage of scientific means and equipment to explore the mysteries of objective natural phenomena in order to obtain scientific knowledge of natural phenomena, and reveal the intrinsic link between them, to create a new technology to provide a theoretical basis.

Q5: State true or false:

i) Technology management task is to promote scientific and technological progress.

19.5 STRATEGY MANAGEMENT

19.5.1 INTRODUCTION

Strategy management refers to a business or organization in a certain period of global, long-term development direction, goals, tasks and policies, as well as resource allocation to make decision-making and management art.

From the standpoint of the futuristic progress of the enterprise, the strategy is expressed as a plan (Plan), and from the perspective of the past development process, the strategy is a pattern (Pattern). From the point of view of the industry, planning from the performance of a position (Position). From the enterprise level, the strategy is expressed as a concept (Perspective). In addition, the strategy is also expressed as a strategy used by enterprises in the competition (Ploy). This is a more comprehensive view of the business strategy, the famous 5P model (Mintzberg, et 1998).

- Plan.
- Ploy.
- Pattern.
- Position.
- Perspective.

What exactly is strategic management? It simply refers to the management of enterprise strategy, including strategy formulation / formation [Strategy Formulation (or) formation] and strategy implementation (Strategy Implementation), viz two parts. Strategic management is first a “top-down” process, which requires senior management with relevant competencies and literacy.

Strategic management includes a series of judgments on uncertainties when a company completes a specific goal, and the company develops a strategy based on environmental testing activities.

Strategic management is an uncertain process because the company has a different understanding of the differences between risk and opportunity.

Strategic management refers to the enterprise to determine its mission, according to the organization's external environment and internal conditions to make the strategic organizational objectives, in order to make sure the correct implementation of the objectives and to achieve the plans for progress, and rely on the internal capacity to put this plan and decision-making. In the implementation process to control a management process which is dynamic in nature. Strategic management master Michael Porter believes that an effective strategic management must have five key points:

Unique value orientation, well designed for the customer value chain, clear choice, interactive, persistent.

19.5.2 KEY PROBLEM

Strategic management system design is essentially around the three core issues of enterprises to refine the design process, the three core are: where is the business? Where does the business go? When do we compete (action)? “Where is the business” refers to the location of the organization, it’s strengths and weaknesses. How we choose from a wide range of market participants in the target market and customers to provide services to meet their needs. “Where enterprises go” is the future direction of business development. “When do we act” means when we can act to beat our competitors, which requires companies to analyze their competitors and how to get higher value strategies, such as what new technology is used or what type of value-added services And so on

19.5.3 DEFINITION OF CORPORATE STRATEGY

Throughout the different views of different scholars and entrepreneurs, strategic management can be summarized into two types, namely, generalized strategic management and strategic management in the narrow sense.

Broad strategic management reflects towards the usage of strategy to manage the entire enterprise, and its representative is Anso Fu.

In the narrow sense of strategic management, it includes the following definitions:

- It is the business to develop long-term strategies and hence implement these activities strategically.
- It is the process of administrating the vision towards the process of dealing with itself and the environment.

Strategic management definitions can be divided into the following types:

1. Plan strategy definition

2. Model strategy definition

3. Positioning strategy definition

4. Conceptual strategy definition

19.5.4 THE IMPACT OF THE STRATEGY

Strategy is not “empty things”, nor “nothingness”, but directly about whether the enterprise can continue to develop and continue to profit the most important decision-making system. Strategic management is based on the strategic planning of organizations, the achievement of the enterprise's strategy to monitor, analyze and control, especially for the enterprise resource allocation and business direction to be bound, and ultimately promote the business process to achieve business goals

19.5.5 EFFECT

- Awareness to the study of the business and organizational environment.
- Awareness towards the implementation of the strategy formulated.
- Daily operation and planning control
- Attention to the evaluation and updating of the strategy

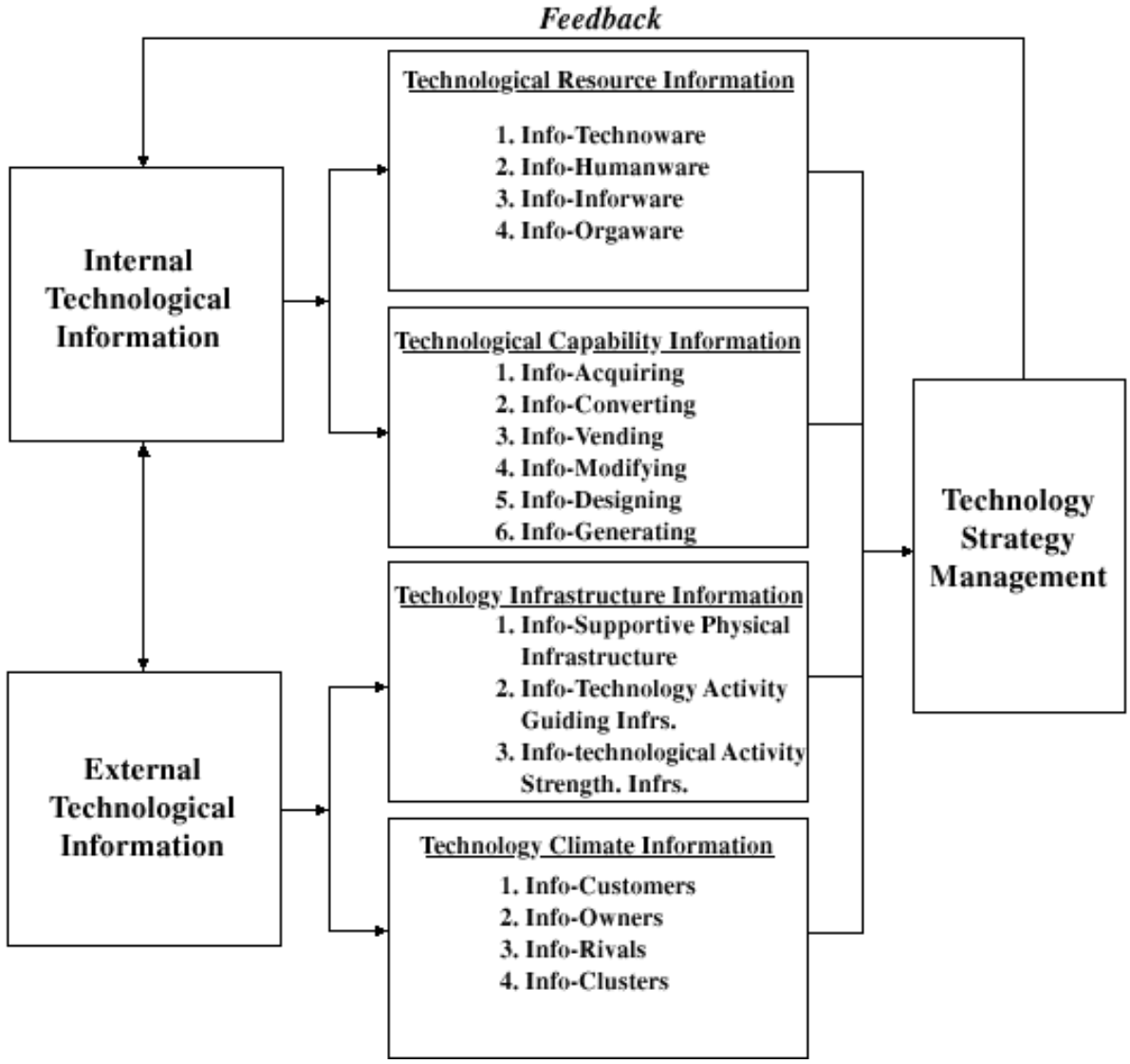


Figure 19.3: Strategy and Technology Management

19.6 THEORETICAL HISTORY

19.6.1 EARLY REMARKS

Ansoff, originally published in 1976, "from strategic planning to strategic management", a book put forward the "corporate strategic management".

He believes that: the strategic management of enterprises refers to the business day - to - day business decisions and long-term planning and decision-making combined with the formation of a series of management business.

Steiner - in his 1982 book "Corporate Policy and Strategy", a book that:

Enterprise strategic management is to determine the corporate mission, according to the external environment and internal business elements to determine business goals, to ensure

the correct implementation of the objectives and make the enterprise mission can finally achieve a process which is dynamic in nature.

19.6.2 CLASSIFYING STRATEGIC MANAGEMENT

1- In a generalized form it can be said that the strategic management reflects towards the usage of strategic management of the entire organization; its representative is Anso Fu.

2- In a narrow sense it reflects towards the administration of strategic management, implementation, control and revision of the management, its representative is Steiner. Mainstream position can be seen as a narrow sense of strategic management.

3- A narrow sense of strategic management concept; viz. the strategic management includes the following points:

- Strategic management is a series of significant management decisions and actions that determine long-term problems, including the development, implementation, evaluation and control of corporate strategies.

It is a business to build up long-term strategy and then implement these various kinds of strategy activities.

- It is the process of administrating the mission and vision, towards the process of dealing with itself and the environment.

19.6.3 EARLY STRATEGIC THINKING STAGE

At this stage, although there is no complete strategic theory system, but has produced a very good strategic thinking. Professor Michael Potter of Harvard University in the United States made a concise summary of this, summed up the early stages of strategic thinking of the three views.

The First Viewpoint of Enterprise Strategic Thinking: At the starting of the 20th century, Fayeer integrated the management activities within the enterprise , dividing the various activities in industrial enterprises into six categories: technical activities, commercial activities , financial activities, security activities, accounting activities and management activities Five functions of management: planning, organization, command, coordination and control, in which the planning function is the primary function of enterprise management. This can be said that the earliest emergence of corporate strategic thinking.

The Second Viewpoint of Enterprise Strategic Thinking: In 1938, the American economist Chester Barnard in the "manager of the functions", a book, the first organizational theory from the management theory and strategic theory separated, that management and strategy is mainly related to the leaders jobs. In addition, he also suggested that the focus of management is to create the efficiency of the enterprise. The other management has to spotlight on the usefulness of the enterprise, that is, how to make business organizations and the environment to adapt. This idea of "matching" with the organization and the environment is the basis of modern strategic analysis.

The Third View of Enterprise Strategic Thinking. In the 1860s, Andrews at Harvard University defined four aspects of strategy, dividing the strategy into four constituent

elements, namely, market opportunities, firm strength, personal values and aspirations, and social responsibility. Which market opportunities and social responsibility is the external environment factors, the company strength and personal values and desire is the internal factors. He also argues that companies should formulate unique capabilities to gain a competitive advantage by better deploying their own resources.

19.6.4 TRADITIONAL STRATEGIC THEORY STAGE

In 1965, Ansoff published the first book on the "strategy of corporate strategy", a modern enterprise strategy theory research starting point. Since then, many scholars have been actively involved in the study of corporate strategic theory, in this period there have been many different theoretical schools.

1. Design school. This school is based on Professor Andrews and his colleagues as the representative. The design school believes that the formation of corporate strategy must be responsible for the senior management of the enterprise, and the formation of the strategy should be a well-designed process, it is neither an intuitive thinking process, nor a normative analysis process; strategy should be clear, concise, Easy to understand and implement.

2. Planning school. The planning school is an outstanding representative of Ansoff. The planning school argues that the formation of a strategy is a controlled, conscious, and normative process. Strategic action is the process of adapting to its environment and the resulting internal structure of the process.

3. Positioning school. Its outstanding representative is Michael Porter. Positioning school that enterprises in the development of the strategy must be done in two aspects of the work: First, the industry in which the industry structure analysis; Second, the relative competitiveness of enterprises in the industry position analysis.

4. Creative school. Creative school that the formation of the strategy is a intuitive thinking, looking for inspiration process.

5. Cognitive school. The cognitive school argues that the formation of a strategy is based on the cognitive process of handling information, acquiring knowledge and building concepts - the latter being the most direct and important factor in the strategy, and at which stage progress is not important The

6. Learning school. The difference between the learning school and the previous school is that it believes that the strategy is formed through progressive learning, natural selection, can appear in the organization, and the formation and implementation of the strategy are intertwined with each other.

7. Power school. The power of the school that the strategy to develop not only pay attention to the economic environment, competitive forces and other economic factors, but also pay attention to interest groups , power sharing and other political factors.

8. Cultural school. Cultural school that the corporate strategy is rooted in the corporate culture and the social values behind it, the formation process is a business organization in a variety of useful factors to integrate to play a role in the process.

9. Environmental School. The environmental school emphasizes how business organizations gain survival and development in their environment, but their role plays a role that raises environmental concerns.

10. Structural school. The structural school sees the organization as a structure - an organism composed of a series of acts and features; and the development of strategy as a system of integration - a combination of other schools of thought.

19.6.5 COMPETITIVE STRATEGY THEORETICAL STAGE

In the process of enterprise strategic theory, 10 kinds of strategic schools have played a certain role in a certain period of time. However, with the development of enterprise strategy theory and enterprise management practice, the research focus of enterprise strategic theory has gradually shifted to the aspect of enterprise competition. Especially since the 1980s, western economics and management circles have put the theory of enterprise competitive strategy in academic research Of the leading position, which effectively promoted the development of enterprise competitive strategy theory. Looking back on the past 20 years of development, the theory of enterprise competitive strategy has emerged three major strategic schools: industry structure school, core competence school and strategic resource school.

(A) Industry structure school. The founder and representative of the industry structure school is Professor Michael Porter. Porter's outstanding contribution is to achieve the industrial organization theory and enterprise competitive strategy theory of innovative compatibility, and the strategic development process and the strategic implementation process organically united. Porter believes that the most important part of the enterprise environment is the enterprise to compete in one or several industries, industry structure greatly affect the establishment of competition rules and for enterprises to choose the competitive strategy. To this end, the industry structure analysis is to establish the cornerstone of competitive strategy, understand the industry structure is always the starting point of strategic development. To this end, the Porter creative establishment of five competitive force analysis model, he believes that an industry's competitive state and profitability depends on the five basic competitive forces between the interaction, that is, to enter the threat, alternative threats, the buyer bargaining power for Party bargaining power and the competition of existing competitors, and each of which is subject to a number of economic and technological factors affected by the economic factors. In this guiding ideology, Porter put forward the three most competitive basic competitive strategies to win the competitive advantage: the total cost leading strategy, the differentiation strategy and the specificity strategy .

(B) The core competence school. In 1990, Prahalad and Hamel published the “Enterprise Core Competence” in the Harvard Business Review. Subsequently, more and more researchers began to invest in the theory of enterprise core competence. The so-called core competencies , is the core of all the ability, the most fundamental part, it can radiate outside, acting on other abilities, affecting the other ability to play and effect. In general, the core competencies have the following characteristics:

1. Core competencies can enable enterprises to enter a variety of related markets to participate in the competition;

2. Core competencies can enable enterprises to have a certain degree of competitive advantage;

3. Core competencies should not be easily imitated by competitors.

Core competence school that the modern market competition is not so much competition based on the product, as it is based on the core competencies. Whether the success of the business operation is no longer dependent on the product of the enterprise, the structure of the market depends on its behavioral response ability, that is, the market trend forecast and the rapid response to the changing customer demand, therefore, the enterprise strategy The goal is to identify and develop core competencies that competitors are difficult to imitate. In addition, enterprises to obtain and maintain a sustained competitive advantage, it must be in the core competencies, core products and the final three levels of competition. At the core competency level, the goal of the enterprise should be to establish a leadership position in the special design and development of product performance to ensure that the enterprise has a unique advantage in product manufacturing and sales.

(C) Strategic resource school. Strategic resource schools believe that the main content of corporate strategy is how to cultivate the company's unique strategic resources, and to maximize the ability to optimize the allocation of this strategic resource. In the practice of enterprise competition, each enterprise's resources and capabilities are different; the same industry enterprises do not necessarily have the same resources and capabilities. In this way, the strategic resources of enterprises and the use of this strategic resource capacity differences, has become the source of competitive advantage . Therefore, the choice of enterprise competitive strategy must be conducive to the maximum development and development of strategic resources, and strategic management of the main task is to cultivate and develop their own strategic resources owned by the unique use of the ability, that is, core competencies, and the core The formation of the ability of enterprises need to continue to accumulate the necessary resources for the development of strategies, companies need to continue to learn, continuous innovation, and constantly go beyond. Only after the core competencies reach a certain level, enterprises can through a series of combinations and integration to form their own unique, not easy to imitate, substitute and possession of strategic resources in order to obtain and maintain a sustained competitive advantage.

Although Porter's industry structure analysis and later core competencies and resource perspectives are different in the focus of corporate strategy research, given the fact that the market is characterized by the buyer's market as the main economic feature and the complexity of the environment The background of strategic research, and the market competition as the main content of strategic research in order to seek to establish and maintain the competitive advantage of enterprises as a strategic goal, we can collectively refer to them as a competitive strategy.

19.7 STRATEGIC PLANNING

19.7.1 STRATEGY ANALYSIS

19.7.1.1 Strategic Management Trends

Into the 21st century, the turbulent business environment has shaken the business of strategic planning beliefs. With the rapid increase of environmental uncertainty, enterprises are increasingly difficult to maintain a sustained competitive advantage, and the traditional strategic theory cannot do anything, the voice of the traditional theory of rebellion is growing. It is in this context, with the environmental uncertainty, future unpredictability, system complexity and development of non-equilibrium based on the "post-modern" enterprise development strategy theory came into being.

"Postmodern" enterprise development strategy theory is not a systematic theory, is still in the process of formation and evolution, is not perfect. Is called "postmodern", because in philosophy and sociology, "postmodern" means that the rational, inevitable, certainty of the rebellion and deconstruction, post-modern enterprise development strategy theory stressed that it is uncertain Nature, randomness , intuition, chance, trial and error, emergency, learning, self-organization and self-adaptability and other characteristics, long loose consultation that its main point of view is as follows.

19.7.2 STRATEGY OF THE DEVELOPMENT PROCESS

Realistic strategies are often not the result of reason and planning, but the result of trial and error. Uncertainty of the environment will inevitably lead to enterprises continue to try and modify their own countermeasures, the accumulation of these test strategies to form a strategy. Especially when the enterprise's knowledge and experience cannot cope with external complex environment, may wish to feel the stones across the river, from trial and error to find a solution. At the same time, since the outside world is so complex and varied, the primary responsibility of senior managers is not to develop a strategy programmatically, but to manage organizational learning. Through the study, especially organizational learning (Organizational Learning), enterprises can deal with uncertainty, in a gradual learning process to create a business strategy. Since the new century, the learning organization theory further argues that learning only for adaptation and survival is not enough and must be creatively learned in order to make the enterprise an organic, highly flexible, flat and humane sustainable development organization.

19.7.3 STRATEGY IS AN INTENTION

Hammell and Prahalad have put forward the "strategy is a kind of intention" famous assertion, more and more fit the current business environment. The so-called intention, refers to a final pursuit of the goal. Intention is only an intuition or desire, not specific clarity, of course, not to mention the perfect, but it played a "compass" role. In a real business environment that is fraught with high degree of uncertainty and the existence of a large number of contingencies, it is impossible for the best strategy to give the firm a well-

established established route in a rapidly changing market. Therefore, as the direction and navigation of the "compass", than the specific and detailed "map" much more important.

19.7.4 STRATEGY IS A CONTINGENCY PROCESS

(H.Mintzberg) and Waters (J. Waters) pointed out that the appropriate strategy formulation and decision-making process, depending on the extent of environmental fluctuations, a good strategy should be able to give enterprises a variety of options, and with Corresponding emergency measures. Businesses can make a clear tradeoff for these choices while adapting to rapid changes in the marketplace. In order to improve the ability to respond, companies should exercise their own "self-organization", "adaptive" organization. The emphasis and admiration of "self-organization" became the main feature of many corporate management theories in the late 1990s. These theories completely abandon the mechanical strategic model and organizational model, replaced by a more exciting and revolutionary organic model - self-organization model. Self-organization and adaptive theory argue that the procedures and results of strategic planning should be closely linked to reality; the organization's spontaneous learning and innovation can enable enterprises to better adapt to complex and changing environments.

19.7.5 PLANNING MODEL

4C strategic model. Dr. Jiang Ruxiang, shows an operational framework and model that explores the continued prosperity of the business and answers four basic questions about how to make the business flourish: first, how to pool employees. Second, how can business be sustained in time? Third, how to beat competitors based on customer value? Fourth, how does the company gain core competencies on the basis of the customer and the employee's base point?

- The first C is Convergence - the crowd

Specific topics include vision, core values and strategic objectives.

- The second C is Coordination - the business chain

The specific content of the three-tier business through the integration of the chain, access to today, tomorrow and future business strategic arrangements!

- The third is Core business - focus on core business.

The specific content is the core business for the profit zone to build enterprises more competitive advantage.

- The fourth is Core competence

The specific content is based on the core competitiveness of enterprises as a starting point to build sustainable competitive advantage.

The design of human resources management system is often different from the enterprise development strategy, the different stages of organizational development, the status of

personnel in different situations and different, consulting practice will be summarized as three main oriented human resources management system:

1- Based on the ability of human resources management system;
2- Performance-based human resources management system;
3- Based on the role / responsibility of human resources management system.

19.7.6 SIX PRINCIPLES OF STRATEGY MANAGEMENT

1- To adapt to environmental principles from the environmental impact of a large extent will affect the business objectives and development direction. The strategy must be developed to focus on the interaction of the business with the external environment in which it is located.

2- The whole process of management strategy is a process, including the development of the strategy, implementation, control and evaluation. In this process, the various stages of mutual support, complement each other, ignoring any one stage, corporate strategic management cannot be successful.

3- The overall principle of the overall strategic management of enterprises as a whole to deal with, to emphasize the overall optimal, rather than the local optimal. Strategic management does not emphasize the importance of a local or department, but through the development of the purpose of the enterprise, the objectives to coordinate the activities of various units, departments, so that they form a concerted effort.

4- The principle of full participation since the strategic management is global, and there is a formulation, implementation, control and revision of the whole process, so the strategic management is not just business leaders and strategic management of the matter, in the strategic management of the whole in the process, all employees of the enterprise will participate.

5- The principle of feedback to amend the strategic management of the management of the time involved in a larger span, generally more than five years. The implementation of the strategy is usually divided into multiple stages, so the implementation of the overall strategy step by step. During the implementation of the strategy, environmental factors may change. At this point, companies only keep track of feedback to ensure the strategic adaptability.

6- From the outside to the principle of excellence in the development of strategy is from outside to inside rather than from the inside out.

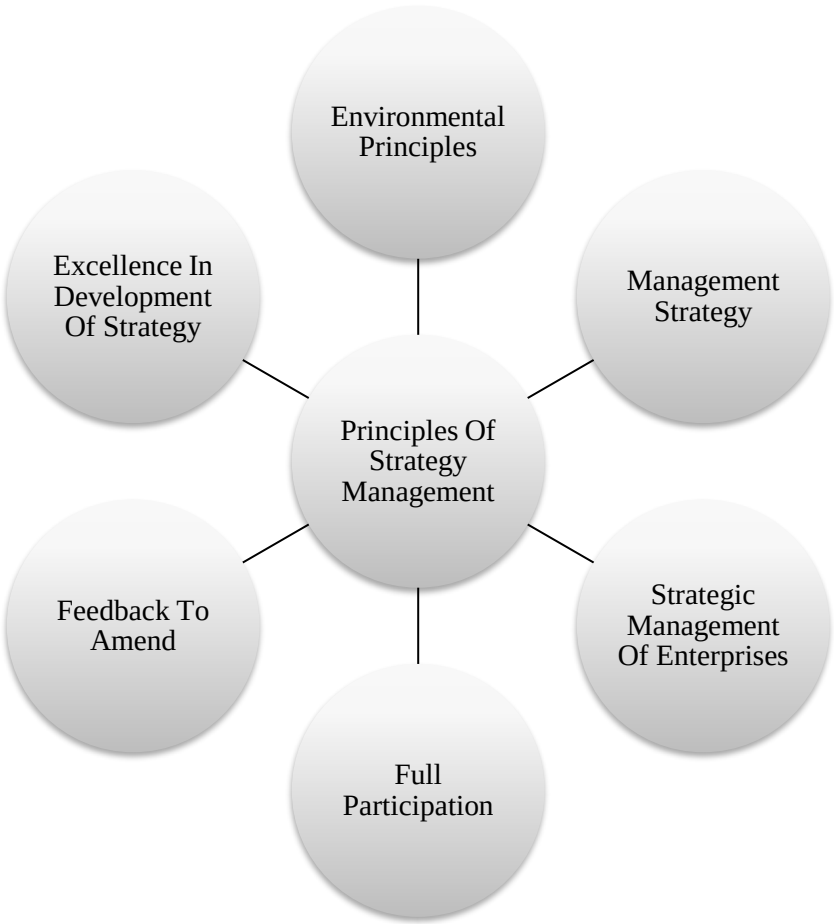


Figure 19.4: Principles of Strategy Management

19.7.7 REASON FOR THE FAILURE

Lack of long - term development planning, frequent changes in strategy;

Blind pursuit of market hot spots, corporate investment over diversification;

Strategic decision-making arbitrariness, lack of scientific decision-making mechanism;

The understanding and analysis of the market and the competitive environment blindly, the lack of quantitative analysis of the objective;

The corporate strategy plan is written in writing and there is no clear and practicable strategic objective;

Enterprise strategic planning is difficult to get strong support in the high-level, there is no specific action plan.

The choice of strategy allows our business to more accurately identify who their customers are, what things can be done, what things cannot be done, so the core of strategic management can also be said to prevent “poles apart” things happen in the enterprise. We are doing a multiple choice, to assess what kind of choice for our long-term useful, what choice is beneficial to the real benefits, and then decide how we do, because the goal is accurate and clear is the enterprise to quickly add value and enhance the root cause of one.

Generally, the strategy management consulting mainly includes: the clear direction of the development strategy of the short and long term, the evaluation and refinement of the strategic positioning, the stage of the development of the strategy and the measures, the clear business focus and the choice of the time environment.

Improving the Scientific Level of Social Management is the Scientific Summary of the Historical Experience of Socialism with Chinese Characteristics. From the beginning of reform and opening up to the social construction and economic, political and cultural construction and the formation of “four in one” of the overall pattern of socialist modernization, put forward the strategic goal of building a socialist harmonious society, our party and the country has always attached great importance to social management , In the social management of law, system, capacity building and other aspects of the perseverance of the practice of exploration, to maintain the stability of society and promote the development of society. Practice has proved that only by sticking to the scientific management of social management in order to ensure that the cause of socialism with Chinese characteristics thriving.

Improving the scientific level of social management is the concentrated reflection of the realistic demand of socialism with Chinese characteristics. From the domestic situation, the current China is not only in the development of an important strategic opportunity, but also in the social contradictions highlights the period. Since the founding of new China, especially since the reform and opening up has made great achievements for the social management has laid a solid foundation for the material, but our country is still in and will be long in the primary stage of socialism, the main contradiction is still the people's growing material culture The contradiction between the rapid growth of the economy and the unbalanced development, the contradiction between the constraints of resources and environment and the rapid and rapid growth of public demand and public services are not in place, and the contradiction between the shortage of basic public goods is increasing Highlighting the stability and development of society has brought great pressure. This shows that only a comprehensive increase in the level of scientific management of social management in order to grasp the rare opportunities to meet the severe challenges to consolidate and strengthen the great cause of socialism with Chinese characteristics.

Improving the Scientific Level of Social Management is the Inevitable Requirement for the Long - term Development of Socialism with Chinese Characteristics. To improve the scientific level of social management is not only the long-term need for social construction to protect and improve people's livelihood, to achieve social harmony and stability, but also to achieve the “second five” economic and social development goals and tasks to ensure economic and social coordination, health and sustainable development of the only way; The long-term need to realize the goal of building a well-off society in an all-round way is the only way to realize the goal of building a prosperous, democratic, civilized and harmonious modernization. It is not only the long-term need to safeguard the fundamental interests of the overwhelming majority of the people, but also the only way for the party and the country to keep a long time and cause.

19.7.8 FOUR ELEMENTS

Strategic management mainly refers to the strategy development and strategy implementation process. In general, strategic management consists of four key elements:

Strategic Analysis - Understanding the environment in which the organization is located and the relative competitive position;

Strategic choice - strategy formulation, evaluation and selection;

Strategic implementation - take measures to play a strategic role;

Strategic evaluation and adjustment - the effectiveness of the test strategy.

1- The main purpose of strategic analysis is to evaluate the key factors affecting the development of enterprises, and determine the strategic selection steps in the specific factors.

The strategic analysis consists of three main areas:

First, to determine the mission and objectives of the enterprise. They are the basis for corporate strategy formulation and evaluation.

Second, the external environment analysis. Strategic Analysis To understand what changes are taking place in the environment in which the business is located (including the macro and microcosmic environment), these changes will bring more opportunities or threats to the business.

Third, the internal condition analysis. Strategic analysis should also understand the relative position of the enterprise itself, what resources and strategic capabilities; also need to understand the interests of enterprises and related stakeholders in the strategic development, evaluation and implementation process, these stakeholders will What reaction, these reactions will have on the organization of what kind of impact and constraints.

2- The strategic analysis of the stage clear the “enterprise current situation”, the strategic selection stage to answer the question is “where the enterprise”.

First, strategic options are needed. In the development of the strategic process, of course, the more options to choose the better. Enterprises can be from the overall objectives of the enterprise protection, the enthusiasm of the middle and lower management personnel to play and the strategic plan of the various departments of the coordination of many points of view, select the top-down approach, bottom-up approach or combination Method to develop a strategic program.

The second step is to assess the strategic options. Evaluation options usually use two criteria: First, consider whether the selected strategy to play the advantages of the enterprise, to overcome the disadvantages, whether the use of the opportunity to weaken the threat to a minimum; Second, consider whether the selected strategy can be related to business interests Accept it. It should be noted that there is virtually no optimal selection criteria, and the values and expectations of management and stakeholder groups influence the choice of strategy to a large extent. In addition, the assessment of the strategy will eventually be implemented on the financial indicators of strategic earnings, risk and feasibility analysis.

The third step is to choose strategy. The final strategic decision to determine the strategy to be implemented.

If there are inconsistencies in the evaluation of multiple strategic scenarios with multiple indicators, the final strategy options can take into account the following:

(1) Choose the strategy according to the enterprise goal. Enterprise goals are a concrete manifestation of the corporate mission, and therefore, the choice of business goals to achieve the most favorable strategic program.

(2) To hire external institutions. Hire external consultants to carry out strategic selection work, the use of experts extensive and rich experience, to provide a more objective view.

(3) Submitted to the higher authorities for approval. For the strategic plan of the lower-level institutions, the submission of the higher-level management department can make the final selection plan more in line with the overall strategic objectives of the enterprise.

Finally, strategic policies and plans. Develop policies and programs on research and development, capital requirements and human resources.

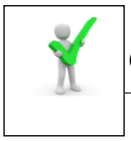
3- The strategy is to implement the strategy into action.

Mainly related to the following issues: how to allocate and use existing resources among the various departments and levels within the enterprise; what external resources and how to use it in order to achieve business goals; in order to achieve the established strategic objectives, How to deal with the possible redistribution of interests and the adaptation of corporate culture, how to carry out corporate culture management , to ensure the successful implementation of corporate strategy and so on.

4- Strategic evaluation is through the evaluation of business performance, look at the strategic nature of the strategy and effectiveness.

Strategic adjustment is based on the development of enterprise changes, that is, with reference to the actual business facts, changing business environment, new thinking and new opportunities, the timely development of the strategy to adjust to ensure the strategy of business management guidance. Including adjusting the company's strategic outlook, the company's long-term development direction, the company's target system, the company's strategy and the implementation of corporate strategy and so on.

The practice of enterprise strategic management shows that strategic development is important and strategic implementation is equally important. A good strategy is only a prerequisite for the success of the strategy, an effective corporate strategy is the implementation of the strategic objectives of the smooth realization of the guarantee. On the other hand, if the enterprise is not able to develop a suitable strategy, but in the implementation of the strategy, to overcome the shortcomings of the original strategy, it may eventually lead to strategic improvement and success. Of course, if for an imperfect strategic choice, in the implementation and cannot be reversed to the right track, only the failure of the results.



Check Your Progress- B

Q1. In 4C strategic model 4C stand for;

Q2. In famous 5P model, each P stands for;

Q3. Choose the correct alternative.

Corporate strategy is rooted in the corporate culture and the social values behind this school.

i) Cultural School
ii) Power School
iii) Structural school
iv) Learning School

Q4. State True or False:

Strategic resource schools believe that the main content of corporate strategy is how to cultivate the company's unique strategic resources, and to maximize the ability to optimize the allocation of these strategic resources.

19.8 SUMMARY

Technology Management is a subsystem of the whole enterprise management system. Emphasize organizational goals; development of technical capabilities; Activities and organization of links are important point to view in Technology Management. There are various goals of Technology Management. Technology management task is to promote scientific and technological progress, and constantly improve the enterprise's labor productivity and economic efficiency. Strategy management refers to a business or organization in a certain period of global, long-term development direction, goals, tasks and policies, as well as resource allocation to make decision-making and management art. Strategic management is the process of managing the vision of the process of dealing with itself and the environment.4C stands for the following; the first C is Convergence - the

crowd, the second C is Coordination - the business chain, the third is Core business - focus on core business and the fourth is Core competence.



19.9 GLOSSARY

Strategies: a strategy is a general direction in which an objective is to be sought.

Technology Management: a.k.a. (also known as) Technical Management; is used to plan, develop and implement technical capabilities, to complete organizational strategy and operational objectives.

Strategy management: refers to a business or organization in a certain period of global, long-term development direction, goals, tasks and policies, as well as resource allocation to make decision-making and management art.



19.10 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

Answers

Q3. Technological Innovation

Q4. i) Process rules

ii) Scientific research generally

Q5. True

Check Your Progress –B

Answers

Q3. Cultural School

Q4. True



19.11 REFERENCES

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19.12 SUGGESTED READINGS

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19.13 TERMINAL QUESTIONS

Q1. Explain Competitive Strategy Theoretical Stage.

Q2.Describe the phrase “Strategy is a Contingency Process”

Q3. Discuss the goals of Technical Management.

Q4. Discuss various concepts of Technology Management.

Q5. Discuss Strategy of the development process.

Q6. Discuss Competitive Strategy Theoretical Stage.

Q7. Discuss planning model of Strategy Management

UNIT 20 BLUE OCEAN STRATEGY

20.1 Introduction

20.2 Objectives

20.3. Meaning of Blue Ocean Strategy

20.4 Relevance of Blue Ocean Strategy in the present scenario

20.5 Red Ocean Strategy *VS.* Blue Ocean Strategy

20.6 Value Innovation: The Cornerstone of Blue Ocean Strategy

20.7 Principles of Blue Ocean Strategy

20.8 Some Successful cases of Blue Ocean Strategic Moves

20.9 Summary

20.10 Glossary

20.11 Answer to Check Your Progress

20.12 Reference/ Bibliography

20.13 Suggested Readings

20.14 Terminal & Model Questions

20.1 INTRODUCTION

In the previous unit you learnt about the strategy and technology management. You learnt that technological strategies tries to explore about the technologies as well as primarily focuses on the people who directly manages them. You also learnt that these days there has been tremendous awareness about the need and importance of technological intervention in the strategic decision making. Further, you learned that strategy and technology are inseparable in a scenario where company's capability in terms of success is also judged on the technical and technological parameters.

In this unit, you will study about the strategy which is ahead of the competitive advantage and it provides a systematic approach which makes competition irrelevant for the players in the market. This strategy provides a new dimension to strategic management where through strategic moves like "value innovation", value is created for buyers as well as sellers and new demands are created and a market is emerged which is far ahead of competition. Blue Ocean Strategy somewhere tries to explore opportunities in unexplored areas which has a potential of growing demand.

20.2 OBJECTIVES

After reading this unit you will be able to;

- Understand the meaning of Blue Ocean Strategy.
- Explain the significance of Blue Ocean Strategy.
- Understand the framework of Blue Ocean Strategies.

20.3 MEANING OF BLUE OCEAN STRATEGY

The Blue Ocean Strategy is the term coined by INSEAD Professors W. Chan Kim and Renee Mauborgne which denotes to the strategic move of moving towards a market place where there competition is nonexistent or even competition is very less. Further, market place is bagged by unending demand and high profitable growth opportunities. This strategy emphasizes a new dimension in strategic management that revolves around identifying a niche segment that is beyond competing.

This Strategy is not only for few businesses rather it can be applied to all sectors or businesses. The boom in the industries like automobiles, music recording, cinematography, aviation, petrochemicals, pharmaceutical, and the likes narrates the saga of new vistas explored by the entrepreneurs.

Kim and Mauborgne have very skilfully defined and explained Red Oceans and Blue Oceans in terms of 'market captured and unexplored'.

Boundaries of "Red Oceans Industry is well defined and accepted, and the competitive rules of the game are known. Here, companies try to outperform their rivals to grab a greater share of existing demand. As the market space gets crowded, prospects for profits and growth are reduced and later products become commodities, and cut throat competition turns the red ocean bloody."

Blue Oceans are defined by "untapped market space, demand creation and the opportunity for highly profitable growth. Although some blue oceans are created well beyond existing industry boundaries, most are created from within red oceans by expanding existing industry boundaries. In Blue Oceans, competition is irrelevant because the rules of the game are waiting to be set".

Thus, Blue Ocean is referred to a market place where competition is still to evolve; the products are at the nascent stage and the prices for the product are still to be carved out. It tries to create an uncontested market space. Blue oceans make competition redundant and after a point of time open up a new business world of competitive cooperation. Further, Red Ocean denotes those markets where companies compete for the snatching market share and firms tries to sustain themselves by adopting policies capable enough for sustaining in the saturated markets. Thus, the fight for increased market share turns the entire market space bloody.

In nutshell, it is the strategy that intends to build the value for the company, its buyers, its employees and all the stakeholders by creating new demand for the products or services and hence this strategy captures the advantages of the first mover. Thus, one outmanoeuvre competition in the industry by identifying new products or services or even by targeting new set of customers, new product extensions and line extensions.

20.4 RELEVANCE OF BLUE OCEAN STRATEGY IN THE PRESENT SCENARIO

'The concept of Blue Ocean Strategy has been formulated by Kim and Mauborgne on the basis of study of 30 industries and their 150 strategic moves over 100 years. 'Industries ranged from hotels, cinema, retail, airlines, energy, computers, broadcasting, and construction to automobiles and steel (as mentioned in the book Blue Ocean Strategy). They explored the convergence as well as divergence among so created groups of Red Ocean and Blue Ocean Strategy'. Therefore, Blue Ocean Strategy is more important in the today's world where there is cut throat competition within industry and sometimes even between industries. The competition in 21st century is intensive, surmounted by neck to neck strategic moves with pressure on cost, profits and quality. In such a scenario crafting Blue Ocean is need of the hour, even ever before. With the emergence of global players and online markets, the competition and the forces are ever intensified. In such a scenario the companies need to go beyond competing in order to sustain. They have to conquer new opportunities, seize new ventures, explore new place for long term survival and growth and they have to move beyond the conventional competition by beating such strategies. Thus, blue ocean strategy tries to explore the common aspects that may create blue oceans. Further with the advent of social media and rigorous advertising than ever, has created tremendous consumer awareness and it is rarely difficult for firms to stay always above BEP with minimum expenses. Creating Blue Ocean is ubiquitous in all the industries; say it is health care, pharmaceutical, electronics, IT, financial services, energy, aviation, chemical, FMCG, Music, Textiles, Tourism and the like. Thus, in various industries, this strategy helps in creating a business sphere where sum of the winnings and losses of the various players is not zero and where the losses are not being counted negatively. Accordingly, this will help organisations in analysing the market and help in assessing new product or service in wake of demand which will in turn magnify profits. Further, with expanding demand and profits, the new wealth will be created in the economy that will in turn help in the economic growth of a country.



Check Your Progress-A

Q1. What do you mean by Blue Ocean Strategy?

Q2. Do you find any significance for enterprises operating in Indian Environment?

Q3. "The opportunity to take small businesses online is seen as the next big e-commerce wave". Relate this statement with Blue Oceans carved in e-commerce industry?

Q4. Fill in the Blanks with appropriate word or words.

a) _____ is the term named by Kim and Mauborgne which denotes to the strategic move of moving towards a market place where competition is nonexistent.

b) _____ boundaries are well laid and guidelines of competition are recognised.

c) In _____ Oceans the fight for increased market share turns the entire market space bloody.

20.5 RED OCEAN STRATEGY *VS.* BLUE OCEAN STRATEGY

The market space is characterized with two types of markets; one is Red Oceans and the other is Blue Oceans. Red Oceans, as mentioned earlier, represents those industries which are competing with each other for their survival and growth thereby curtailing the opportunities of profits and growth for all the competitors whereas Blue Ocean denotes industries which are creating new markets for them and are moving with significant market share. In such a market space demand is created rather than fought for. The rules of game shall be defined by the entrants.

Thus, Blue Ocean Strategy is about driving down the costs synergistically with the driving up for its buyers in order to bring leap in the value for the organization as well as for its customers.

Blue Ocean strategy focuses on the value innovation so that the company could break the traditional trade-off and ensure competitive advantages, which is relevant for current competitive situations at the global level.

Point of Difference	**Red Ocean Strategy**	**Blue Ocean Strategy**
Markets	Red Ocean Strategy hits the extant market space where companies attempt to snatch higher share.	Blue Ocean Strategy tries to explore and create an uncontested market space.
Demand	Red Ocean Strategy tries to outperform the competitors to snatch a greater share within the existing demand. It has to exploit the existing demand for sustaining in the market.	Blue Ocean Strategy in itself aims to create and capture new demand as there are no entry barriers for new entrants.
Customers	Red ocean Strategy focuses on current or existing customers.	Blue Ocean Strategy tries to convert non-customers into prospective customers.
Prospects	Embarking on shrinking prospects in profits and growth is the key feature of Red Ocean Strategy.	Blue Ocean Strategy opens window of opportunities in terms of profits and growth for the new entrants.
Competition	Red Ocean Strategy attempts to beat competition by adopting value-cost trade-off strategies .	Blue Ocean Strategy attempts to make competition irrelevant by breaking 'the value-cost trade-off

		practices'.
Differentiation	Red Ocean Strategy stands on the strategic choice of creating differentiation on the basis of cost or features for sustaining in the market.	Blue Ocean Strategy focuses on creating differentiation using low cost and unexplored options for building value successfully.
Value Creation	Red Ocean Strategy manages to build value by applying efforts through value chain analysis in its operations.	Blue Ocean Strategy is grounded with the 'value innovation by low cost and differentiation dynamics'.
Industry's Structural Conditions	Red Ocean Strategy is based on Structuralism View or Environmental determinism which assumes well established industry's structural conditions.	Blue Ocean Strategy assumes reconstructionist view where market peripheries and industry structure is not well defined.
Aligns the system	Red Ocean Strategy aligns the whole system including all processes and practices in the organization with either differentiation or cost.	Blue Ocean Strategy capitulate the entire system including all processes and practices i.e. operational and functional strategies in the organization in pursuit of differentiation as well as cost.
Innovation	Red Ocean Strategy emphasizes on the innovation in terms of technology, product and cost	Blue Ocean Strategy emphasizes on value as well as innovation synergistically.

20.6 VALUE INNOVATION: THE CORNERSTONE OF BLUE OCEAN STRATEGY

The Strategy is carved on the central concept of '*Value Innovation'*.. The Blue Ocean Strategy adopts aggressive approach by making competition irrelevant and thus creating value by reducing cost and by focusing on the innovation that are the integral aspects for the achieving pinnacles of success in the business world. Both value and innovation goes hand in hand as value without innovation depicts myopic view of value creation and innovation with value tend to be only technology driven, or only market pioneering or even only futuristic. Therefore, value innovation is a new way of perceiving and implementing strategy where companies aligning innovation with utility, price and cost positions would excel. Further, if companies just not proceed with this conviction then other companies will catch hold of the

opportunities that are created by technology innovators and market pioneers. Blue Ocean Strategy tries to create greater value to the customers at the reasonable cost synergistically whereas traditional strategy generally bring greater value to customers with high cost or consequently create reasonable value at lower cost.

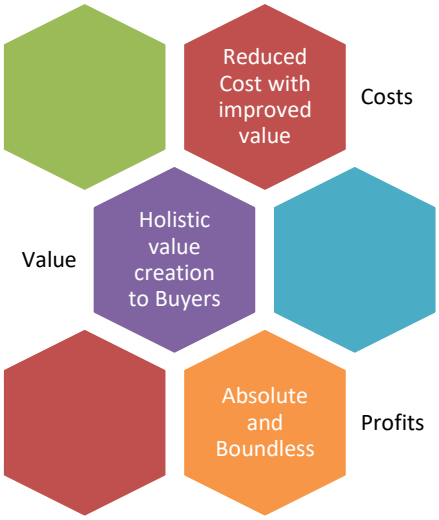


Fig-20.1 Corner Stones of Blue Ocean Strategy

Thus, value innovation firmly holds on value-cost trade off in short as well as in long run and hence this concept is far ahead of innovations. Innovations pertaining to product, technological and processes can be achieved at the micro or sub system level without impacting the overall or corporate strategy. But in Blue Ocean, company may lower its cost structure to reinforce existing cost leadership with changing the utility proposition of its offering. Accordingly, this strategy requires paradigm shift from competitors to alternatives, from customer to non-customers, from strategic focus to synergistic focus and from price value to buyer's value.

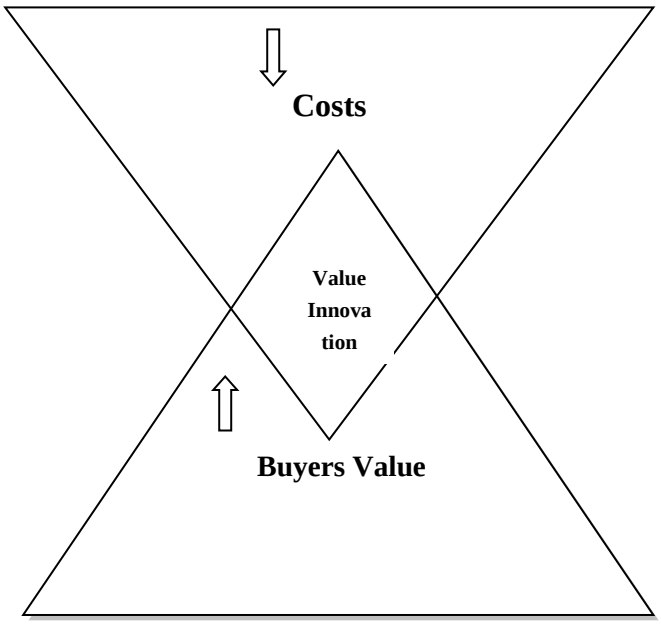


Fig 20.2 Value Differentiation: The Cornerstone of Blue Ocean Strategy

(Kim and Mauborgne, 2005 as depicted in *Blue ocean strategy: How to create uncontested market space and make the competition irrelevant*. Boston, Mass.: Harvard Business School Press, Page Number 16, Chapter 1)

As depicted in the figure, value innovation is carved out where all the practices and process of the company favorably affect both its cost structure and its value proposition to the consumers. Cost savings are achieved by removing or reducing the factors on which competition in the industry prevails. Buyer's value is constructed when new products or products with new features or aesthetics are offered to the consumers which industry has never offered before. Value innovation is created when the entire system gets oriented including all processes and practices i.e. operational and functional for underpinning profits and growth.

Four Actions Framework is also developed by Kim & Mauborgne for reconstructing buyer's value elements for sowing the seeds of a new value curve. The New Value Curve is a tool through which the Blue Ocean is evolved from the Red Ocean by redefining the market boundaries by the firm. The value curve is a "graphic depiction if company's relative performance across its industry's factors of competition." Kim & Mauborgne, 2005. Thus, value curve is graphical representation of products when compared on the range of factors rated on the scale from low to high.

'Value Curve is depicted on the Strategy Canvas which is both a diagnostic and an action framework for building a Blue Ocean Strategy. The horizontal axis depicts the key factors the industry competes on and invests in. The vertical axis of the strategy canvas is a rating scale that depicts the current state of play of key competing factors of company and its competitors.' Key elements of company in terms of features, resources, price, quality ,

service, technology and delivery is rated on the parameters of relatively low, low, medium, high, relatively high which are ascertained after continuous and extensive research within and outside the company.

Strategy Canvas helps in reconstructing the buyer value by questioning the current practices, processes, strategies and products and also by shifting focus from competitors to alternatives. Further, Strategy Canvas also laid foundation for shifting from customer to non-customers and above all from innovation to value innovation.

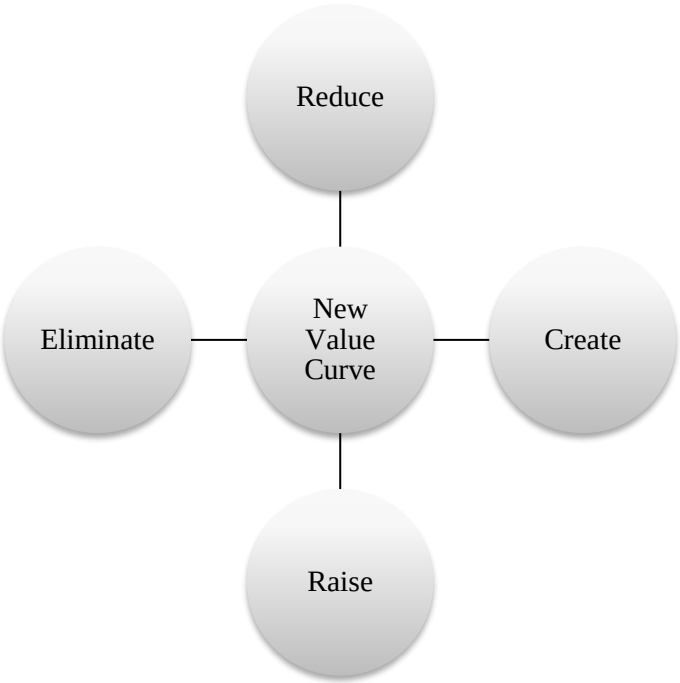


Fig 20.3 The Four Actions Framework

(Kim and Mauborgne, 2005 as depicted in *Blue ocean strategy: How to create uncontested market space and make the competition irrelevant*. Boston, Mass.: Harvard Business School Press, Chapter2 , Page No. 29)

For constructing new value curve, the following parameters should be taken care of by the company. These are;

- *Factors that the Industry takes for granted should be removed.*
- *Factors should be reduced well below the benchmark of the industry.*
- *Factors should be raised well above the benchmark of the industry.*
- *New factors should be whipped up that the industry has never offered before*.

20.7 PRINCIPLES OF BLUE OCEAN STRATEGY

The principles for the blue ocean strategy are categorized into two parts, one is formulation principles and the other is execution principles. Formulation principles defines the various approaches that helps in formulating Blue Ocean Strategy effectively while Execution principle deals with the implementing Blue Ocean Strategy in a sustained way. First to Four Principles are grouped under Formulation Principle and remaining two are grouped under Execution Principle.

1. The first principle of Blue Ocean Strategy is to explore new opportunities in order to broaden the market peripheries for creating Blue Oceans. This principle addresses the search risk for alternatives available and identifies the feasible option that is commercially viable, profitable and sustainable for blue ocean opportunities. Thus, the principle emphasizes on reducing search risk with six paths framework for reconstructing market boundaries. First path tries to peep into the possibilities in the alternative industries. These alternatives differ from the substitute in the sense that substitutes provides the same utility and the buyers perceives them as similar or comparable to the other product, so that having more of one product makes them desire less of the other product. However, alternatives include products or services that have different functions and forms but for the same purpose. So one needs to address the questions like: 'a) What are the alternative industries to your industry? B) Why customers trade across them?' Second path tries to look across strategic groups within industries. Strategic group denotes the players within the industry that pursue similar or related strategies and defies on price and performance. Michael porter also states that firms pursuing the same strategy directed to the same target market constitute a strategic group. Thus you need to address the following questions for exploring strategic group within the industry; 'a) What are the strategic groups in your industry? B) Why do customers trade up for the higher group, and why do they trade down for the lower one?' Therefore, identifying customer decisions may provide the road for reconstructing market boundaries. Third path look across the chain of buyers. Kim and Mauborgne have segregated buyers into purchasers, users and influencers and the definitions for these groups should be crystal clear for identifying blue oceans. These buyers group's expectations need to be differentiated for redesigning the value curves. The questions to be addressed for exploring blue ocean strategy are 'a) What is the chain of buyers in your industry? Which buyer group does your industry typically focus on? If you shifted the buyer group of your industry, how could you unlock new value?' Fourth Path is looking across complementary products and service offerings by finding untapped value. The questions to be addressed for exploring blue ocean strategy for this path; 'What is the context in which your product or service is used? What happens before, during, and after? Can you identify the pain

points? How can you eliminate these pain points through a complementary products or service offering?'

Fifth path instructs about looking across functional or emotional appeal to buyers.

'Does your industry compete on functionality or emotional appeal? If you compete on emotional appeal, what elements can you strip out to make it functional? If you compete on functionality, what elements can be added to make it emotional?'

Six Path is looking across the time where detecting and analyzing trends in right strategic perspective may help in creating blue ocean. The questions to be addressed for exploring blue ocean strategy for this path; 'What trends have a high probability of impacting your industry, are irreversible, and are evolving in a clear trajectory? How will these trends impact your industry? Given this, how can you open up unprecedented customer utility?'

2. The Second Principle focusses on the Big Picture instead on the numbers. This focuses on thinking outside the box instead on just focusing on number game. According to the description of the authors, the second principle lay emphasis on preparing strategy canvas instead of wasting time and energy on merely planning process. The bigger picture of the company can be sketched using strategy canvas depicting the current position and strategic profile of the company along with the industry conditions and competitor's strategic and advantage profile. The big picture can be visualized and sketched by using four steps;

   Step1: 'Visual Awakening by comparing with one's competitors'.

   Step 2: 'Visual Exploration using six paths to create blue oceans and finding clear advantages of alternative products'.

   Step 3: 'Visual Strategy Fair using strategy on the basis of factors so explored and collecting feedback from the customers, employees, suppliers and other stakeholders on the alternatives available for crafting strategies suitable for the company'.

   Step 4: 'Visual Communication to the employees and other stakeholders for the successful implementation'.

3. The Third Principle is about reaching beyond the existing demand. The demand for the new market space need to be assessed for new offering so that it may reduce the risk associated in venturing in new market space. It states that companies should reach beyond existing demand for originating a new segment of customers which didn't existed before. The idea of the Kim and Mauborgne is to shift from non-customers to existing customers, commonalities to differences and desegementaion to segmentation and also shift from general ventures to specific ventures. The sphere of existing demand shall be broadened tapping noncustomers, refusing customers and unexplored customers for creating win-win situation for customer as well as for company. The companies may target three tiers of customers; the first tier of customers are "Soon to be customers" who are near to the market. Second Tier represents the one who will refuse to use industry's offerings and the Third Tier is unexplored customers who are farthest from the market space. Understanding the nature of these customers the firm can enlarge their market.

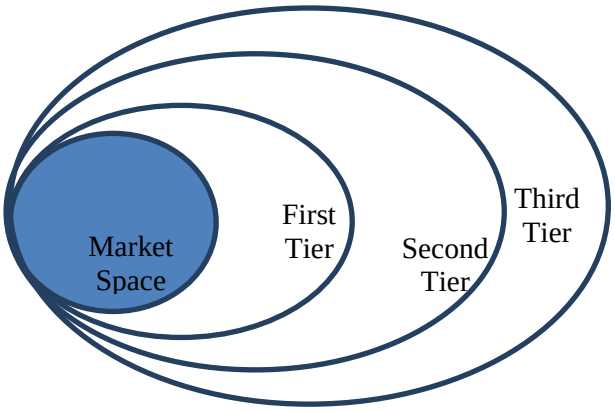


Fig 20.4 Tiers of Customers

(Kim and Mauborgne, 2005 as depicted in *Blue ocean strategy: How to create uncontested market space and make the competition irrelevant*. Boston, Mass.: Harvard Business School Press, Page No. 104)

4. The Fourth Principle brings advantages of viable business model that produces and maintains profitable growth opportunities. It is about the getting the strategic sequence right. The sequence for crafting blue ocean strategy starts from assessing buyer utility from the products or services to finding price easily accessible to the buyers. The next step is to managing cost for attaining profits at the strategic price you set and then identifying the problems which you can ascertain while implementing the strategic idea so created. These sequence steps helps in laying the foundation stone for the Blue Ocean Idea Index which rates the companies on these four above mentioned sequence.
5. Fifth Principle of Blue Ocean Strategy states about overcoming key organizational hurdles. Thus, the objective of this principle is to reduce the organizational risk by assessing and removing the problems which may accrue while implementing blue ocean strategy. Accordingly, this principle states about the shift from conventional wisdom to tipping point leadership. Conventional wisdom emphasizes on drastic change that require more resources, money, time and energy to achieving profits and growth. Instead of focusing on conventional wisdom, tipping point leadership is reducing organizational risk by mobilizing an organization to overcoming the key organizational hurdles at low cost. It is built on people, acts, activities that radically influence organization's performance.
6. Last but very important principle is building execution in the strategy. It emphasizes on communicating the nitty-gritty of the Blue Ocean Strategy to the employees so that all the efforts are aligned with the new strategy. Further, there is a need to build healthy organizational culture, commitment and trust with voluntary cooperation and

congenial support from the leader. This focuses on 'three Es these are Engagement, Explanation and Expectation'. Further, clarity in these E's may contribute in strategy formulation process clearly. Further, right set of attitude and enlighten behavior with self-initiation may help in executing Blue Ocean Strategy fairly.

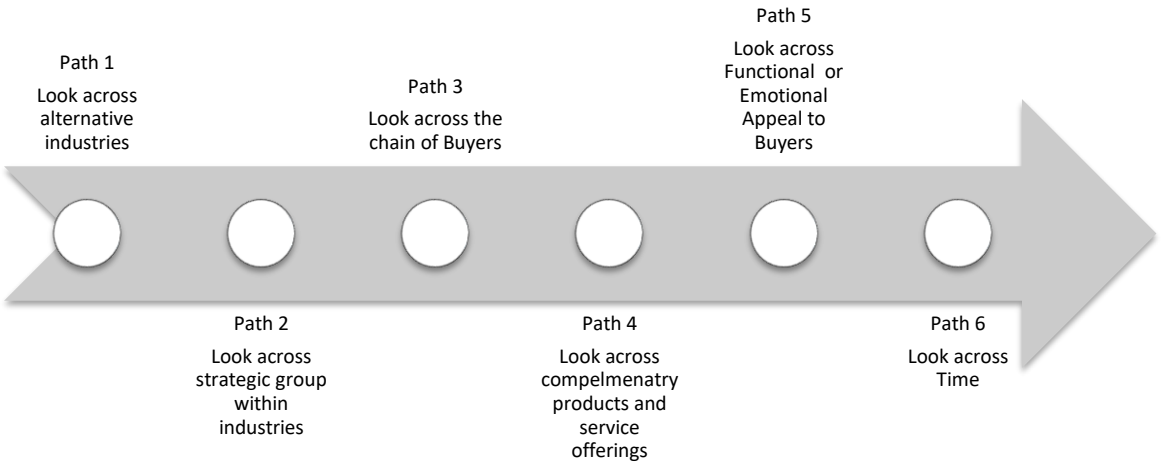
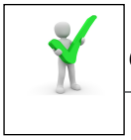


Fig 20.5 Principles for the Blue Ocean Strategy



Check Your Progress- B

Q1. What are the key differences between Red Ocean and Blue Ocean Strategy?

Q2. What do you mean by Four Action Framework under Blue Ocean Strategy?

Q3. What do you mean by Value Differentiation in Blue Ocean Strategy?

Multiple Choice Questions-

Q4. **Which of the following sentences best states the differences between the red and blue oceans strategies?**

a) Red Ocean focuses on new customers whereas Blue Ocean focuses on existing customers.
b) Blue Ocean represents those industries that are competing with each other whereas Red Ocean represents industries that support each other.
c) Red Ocean focuses on social ventures whereas Blue Ocean focuses on green ventures.
d) Red Oceans represents those industries which are competing with each other for their survival whereas Blue Ocean denotes industries which are creating new markets for them and they are moving with significant market share.

Q5. What term is used to describe the competitive space where products are not yet well defined, competitors are not structured and the market is relatively unknown?

a) Red sea
b) Blue ocean
c) Blue lagoon
d) Red ocean

Q6. **Which principle of Blue Ocean Strategy brings advantages of viable business model that produces and maintains profitable growth opportunities?**

a) First Principle
b) Second Principle
c) Third Principle
d) Fourth Principle
e) Fifth Principle

20.8 SOME SUCCESSFUL CASES OF BLUE OCEAN STRATEGIC MOVES

OYO Rooms

OYO Rooms is one of the finest examples of Blue Ocean which narrates saga of creating Blue oceans in Indian Hospitality Segment. The OYO Rooms were founded in the year 2013 and was formerly known as Oravel.com. This venture created Blue Ocean with the use of technology. It helps the travelers in finding budget hotels which are on car with star hotels in value offering.



Source- https://commons.wikimedia.org/wiki/File:OYO_Rooms_Logo.jpg

Oyo started with the single hotel in Gurgaon and currently, they have chain of leased and franchised hotels in various cities all across the country. Ritesh Agarwal, the founder had an inspiring journey initiated in creating Blue Ocean by creating the world's first tablet based property management app where all its partnered hotel owners stay connected with the app. OYO also provide recommendations for solo travelers, couples, business travelers, women, etc.

The business concept of OYO Rooms eliminates extravagant features of 3-star and five star hotels having stylish lounges, sports club, spa, and the like and tries to retain standardized services and hygiene of sophisticated hotels thereby significantly curtailing the price per room as compared to three to five star hotels. Value innovation is therefore created by offering superior customer value and simultaneously reducing the business cost. 'OYO explored new business space by attracting 3 star customers to trade down while non-star customers trade up to Oyo Rooms', thereby unlocking both segment of customers'. Canos Business Mangament Group cited that "Oyo is a evident case of Blue Ocean because in comparison to either the existing star hotels or non-star hotels, Oyo has chosen to differentiate themselves by eliminating some existing features, reducing some features, raising some and simultaneously creating few new features. Traditionally companies focus on outserving the competition but Blue Ocean advocates differentiation through Elimination, Reduction, Raising and Creating".

OLA

OLA has emerged as one of the most popular mobile application for travelling and transportation. It has provided a mobile driven technology platform that provides city transportation for customers which intends to be convenient, quick and hassle free. It has got wide range of cabs from economic to superior luxury cars. It also provides Auto-rickshaws to Shuttle buses for daily commute.

Ola tried to create a Blue Ocean of Online Cab Company which on contract basis has a tie up with the local cab-vendors or owners. They also provided an online platform for cab rides to meet the cab vendors or cab runners for a fixed charges. They created value by providing a cell phone with preloaded apps for distance and fare calculation to the drivers and vendors who have valid permit to run the vehicle. Thus, the essence of the blue ocean so carved out by the Ola was easy customer availability to vendors and easy availability of vehicle to the customers.

Apple i tunes

Another example of blue ocean strategy is Apple's itunes when Apple opened up novel digital music space as a provider and distributer of contents. Apple created a new market space where high quality songs can be downloaded at a fair and justified price just moving far away from CDs. Apple established a Blue Ocean of creating user-friendly system for online music contents creation and distribution through i-tunes on their i-pods. An entirely new system of market was evolved which changed the taste and preferences of the customers.



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Apple tried to beat the competition by making it irrelevant and creating synergistic impact in value propositions for customers in several dimensions. Apple tried for creating iTunes and the Apps Store for making it convenient for the customers to buy songs at the reasonable prices, thus moving beyond the market boundaries. i-pad and i-phones has gradually started moving ahead of competitive positions and has started replacing traditional modes of computing. Apple focused on people to purchase apps from App Store, motivated people to use iPads to read books, iPods to listen music and iphone to communicate.

20.9 SUMMARY

In this unit you learnt that Blue Ocean is referred to a market place where competition is still to evolve; the products are at the nascent stage and the prices for the product are still to be carved out. It tries to create an uncontested market space. Blue oceans make competition irrelevant and open up a new business world of moving ahead of competition and laying a parallel road to competitive cooperation. Commitment, trust and voluntary cooperation are not merely attitude of behaviour rather they are imperative mantras for implementing Blue Ocean Strategy. Blue Ocean Strategy Formulation is a continuous and dynamic process which requires achieving maximum economies of scale and market coverage. For exploring differentiations in cost, product and value, you have to dive in the Blue Ocean for initiating to create benchmarks, for distancing yourself from your imitators and competitors and for ending up the business rivalries. Through Blue Ocean Strategy a win- win situation is created for consumers, buyers, stakeholders and society at large where break in value is attained for improved efficiency.



20.10 GLOSSARY

Blue Ocean- denotes to the strategic move of moving towards a market place where there is no competition or very less competition and which is bagged by unleashing demand and high profitable growth opportunities.

Strategy Canvas – It helps in reconstructing the buyer value by questioning the current practices, processes, strategies and products by shifting focus from

competitors to alternatives and from customer to non-customers and from innovation to value innovation.

Tipping Point Leadership- It guides leaders and managers as to how an organization can overcome the key organizational hurdles that can interrupt the implementation of Blue Ocean Strategy.

Value Innovation-Value Innovation is a new way of perceiving and implementing strategy where companies aligning innovation with utility, price and cost positions and if companies just not proceed with this conviction then other companies will catch hold of the opportunities that are created by technology innovators and market pioneers.



20.11 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

4.
a) Blue Ocean Strategy
b) Red Oceans industry
c) Red

Check Your Progress –

Q4. d

Q5. b

Q6. d



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20.13 SUGGESTED READINGS

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20.14 TERMINAL QUESTIONS

Q1. Is blue ocean strategy more or less relevant today than when Blue Ocean Strategy was first published?

Q2.Do you think that Blue Ocean Strategy can be created within the Red Oceans across the different industries?

Q3. Explain the various principles of Blue Ocean Strategy in detail.

Q4. In what sense Red Ocean Strategy differ from Blue Ocean Strategy?

Q5. What do you mean by Blue Ocean Strategy? Give four examples of Blue Ocean created by the companies.

UNIT 21 NEW APPROACHES IN STRATEGIC MANAGEMENT

21.1 Introduction

21.2 Objectives

21.3 Porter's Generic Strategies

21.4 Boston Consulting Group (BCG) Matrix

21.5 General Electric (GE) Matrix

21.6 Directional Policy Matrix (DPM)

21.7 Grand Strategy Matrix (GSM)

21.8 Ecological Threat and Opportunity Profile (ETOP)

21.9 Hofer's Product Market Evolution Matrix

21.10 Summary

21.11 Glossary

21.12 Answer to Check Your Progress

21.13 Reference/ Bibliography

21.14 Suggested Readings

21.15 Terminal & Model Questions

21.1 INTRODUCTION

The businesses around the world are changing and the way of doing business is also changing. The strategies adopted by entrepreneurs around the world have also been mostly the same. The complexity in doing business today has given rise to emerging areas in the field of strategy. Every company is on its toes to think horizontally and vertically in every direction to gain an edge over the competitor. The advanced approaches to strategic management helps a business in understanding different strategies from different points of view and it also helps a business plan its future course of action in a better manner.

21.2 OBJECTIVES

After reading this unit you will be able to;

- Know about Models, Matrices and Strategies that are relevant in the strategic management.
- Apprise about the dimensions and benefits of these Models, Matrices and Strategies.

21.3 PORTER'S GENERIC STRATEGIES

Porter's Generic Strategies depict how an organization seeks an upper hand over its chosen scope. There are three/four generic strategies, bringing down cost, differentiation or focus. An organization seeks an upper hand, either through lower costs than its competitor or by separating its product from that of the competitor. An organization additionally picks one of two sorts of degree, either center (offering its items to chose portions of the market) or all inclusive, offering its item crosswise over many market sections. The generic technique mirrors the decisions made in regards to both the sort of upper hand and the degree. The idea was depicted by Michael Porter in 1980.

Michael Porter wrote in 1980 that technique targets either cost initiative, separation, or core interest. These are known as Porter's three nonexclusive systems and can be connected to any size or type of business. Watchman asserted that an organization should just pick one of the three or hazard that the business would squander valuable assets. Porter detailed the association between cost minimization procedures, item separation methodologies, and market center techniques.

Porter depicted an industry as having different portions that can be focused by a firm. The expansiveness of its focusing on alludes to the aggressive extent of the business. Competitive advantage could be achieved by – pricing strategies or by differentiating the product. Accomplishing upper hand comes about because of a company's capacity to adapt to the five strengths superior to its opponents. Porter stated: "Accomplishing upper hand requires a firm to make a choice...about the sort of upper hand it tries to achieve and the scope inside which it will achieve it." He likewise expressed: "The two essential sorts of upper hand [differentiation and lower cost] consolidated with the extent of exercises for which a firm looks to accomplish them prompt three generic methodologies for accomplishing better than expected execution in an industry: cost initiative, separation and core interest. The concentration system has two variations, cost centric and differentiation centric." According to Porter:

- a firm is focusing on clients in most or all sections of an industry in light of offering the least value, it is following a cost authority system;

- a firm targets clients in most or all portions in light of characteristics other than cost (e.g., through higher item quality or administration) to charge a higher value, it is seeking after a separation technique. It is endeavoring to separate itself along these measurements positively with respect to its opposition. It tries to limit costs in ranges that don't separate it, to remain cost aggressive; or
- a firm concentrates on one or a couple of fragments, it is following a concentration methodology. A firm might be endeavoring to offer a lower taken a toll in that extension (cost centric) or separate itself in that degree (differentiation centric).

The idea of decision was an alternate point of view on methodology, as the 1970s worldview was the quest for piece of the pie (size and scale) impacted by the experience bend. Organizations that sought after the most elevated piece of the overall industry position to accomplish cost focal points fit under Porter's cost administration nonexclusive system, yet the idea of decision with respect to differentiation was a new viewpoint.

Observational research on the benefit effect of advertising procedure showed that organizations with a high piece of the overall industry were frequently very beneficial, yet so were many firms with low piece of the pie. The least beneficial firms were those with direct piece of the overall industry.

Porter recommended joining numerous strategies is effective in just a single case. Joining a market division technique with an item separation methodology was viewed as a compelling method for coordinating an association's item system (supply side) to the attributes of your objective market fragments (demand side). Be that as it may, blends like cost initiative with item separation were viewed as hard (however not inconceivable) to actualize because of the potential for struggle between cost minimization and the extra cost incurred in differentiation.

Since that time, experimental research has shown organizations seeking after both separation and minimal effort systems might be more effective than organizations seeking after just a single procedure.

21.3.1 COST LEADERSHIP STRATEGY

This methodology additionally includes the firm winning piece of the overall industry by speaking to cost-cognizant or value delicate clients. This is accomplished by having the most minimal costs in the objective market section, or possibly the least cost to esteem proportion (value contrasted with what clients get). To prevail at offering the least cost while as yet accomplishing gainfulness and an exceptional yield on speculation, the firm should have the capacity to work at a lower fetched than its adversaries. There are three principle approaches to accomplish this.

The principal approach is accomplishing a high resource usage. In benefit ventures, this may mean for instance an eatery that turns tables around rapidly, or a carrier that pivots flights quick. In assembling, it will include generation of high volumes of yield. These methodologies mean settled expenses are spread over a bigger number of units of the item or administration, bringing about a lower unit cost, i.e. the firm would like to enjoy benefits of scale and experience bend impacts. For modern firms, large scale manufacturing winds up plainly both a methodology and an end in itself. More elevated amounts of yield both require and result in high piece of the pie, and make a section obstruction to potential contenders, who might be not able accomplish the scale important to coordinate the organizations low expenses and costs.

The second measurement is accomplishing low immediate and circuitous working expenses. This is accomplished by offering high volumes of institutionalized items, offering essential no nonsense items and restricting customization and personalization of administration. Generation costs are kept low by utilizing less parts, utilizing standard segments, and restricting the quantity of models created to guarantee bigger generation runs. Overheads are kept low by paying low wages, finding premises in low lease regions, building up a cost-cognizant culture, and so forth. Keeping up this methodology requires a persistent scan for cost diminishments in all parts of the business. This will incorporate outsourcing, controlling generation costs, expanding resource limit use, and limiting different expenses including circulation, R&D and promoting.

The third measurement is control over the esteem chain enveloping every utilitarian gathering (fund, supply/acquisition, advertising, stock, data innovation and so forth.) to guarantee low expenses. For supply/acquisition chain this could be accomplished by mass purchasing to appreciate amount rebates, pressing providers on cost, initiating aggressive offering for contracts, working with merchants to keep inventories low utilizing strategies, for example, Just-in-Time buying or Vendor-Managed Inventory. Wal-Mart is well known for crushing its providers to guarantee low costs for its products. Other acquirement points of interest could originate from particular access to crude materials, or in reverse mix. Remember that on the off chance that you are responsible for every single utilitarian gathering this is reasonable for taken a toll initiative; in the event that you are just responsible for one practical gathering this is separation. For instance Dell Computer at first accomplished piece of the pie by keeping inventories low and just building PCs to arrange by means of applying Differentiation systems in supply/obtainment chain. This will be cleared up in different segments.

Cost administration techniques are reasonable for expansive firms with the chance to benefit from economies of scale and vast creation volumes and enormous piece of the overall industry. Independent ventures can be "cost centered" not "cost pioneers" on the off chance that they appreciate any points of interest helpful for low expenses. For instance, a neighborhood eatery in a low lease area can draw in value delicate clients in the event that it offers a constrained menu, quick table turnover and utilizes staff on the lowest pay permitted

by law. Advancement of items or procedures may likewise empower a startup or little organization to offer a less expensive item or administration where occupants' expenses and costs have turned out to be too high. An illustration is the accomplishment of ease spending carriers who, in spite of having less planes than the significant aircrafts, could accomplish piece of the pie development by offering modest, straightforward administrations at costs substantially less expensive than those of the bigger occupants. Toward the starting minimal effort spending carriers picked "cost centered" methodologies yet later when the market develop, enormous aircrafts begun to offer a similar ease characteristics, thus cost center progressed toward becoming cost administration!

21.3.2 DIFFERENTIATION STRATEGY

Separate the items/benefits somehow with a specific end goal to contend effectively. Cases of the fruitful utilization of a separation technique are Hero, Asian Paints, HUL, Nike athletic shoes (picture and brand check), BMW Group Automobiles, Perstorp BioProducts, Apple Computer (item's plan), Mercedes-Benz autos.

Differentiation strategy is proper where the objective client fragment is not value touchy, the market is focused or soaked, clients have certain requirements which are conceivably under-served, and the firm has exceptional assets and abilities which empower it to fulfill these necessities in ways that are hard to duplicate. These could incorporate licenses or other Intellectual Property (IP), special specialized ability (e.g. Apple's plan aptitudes or Pixar's activity ability), capable staff (e.g. a games group's star players or a financier company's star merchants), or imaginative procedures. Fruitful separation is shown when an organization achieves either a top notch cost for the item or administration, expanded income per unit, or the customers' unwaveringness to buy the organization's item or administration (mark faithfulness). Separation drives gainfulness when the additional cost of the item exceeds the additional cost to get the item or administration however is insufficient when its uniqueness is effortlessly imitated by its rivals. Effective brand administration likewise brings about saw uniqueness notwithstanding when the physical item is the same as contenders. Along these lines, Chiquita could mark bananas, Starbucks could mark espresso, and Nike could mark tennis shoes.

Separation technique is not appropriate for little organizations. It is more fitting for enormous organizations. To apply separation with traits all through transcendent power in any one or a few of the utilitarian gatherings (fund, buy, promoting, stock etc.). This point is basic. For instance GE utilizes fund capacity to have any kind of effect.

21.4 BOSTON CONSULTING GROUP (BCG) MATRIX

Boston Consulting Group (BCG) Matrix is a four celled grid (a 2 * 2 framework) created by BCG, USA. It is the most eminent corporate portfolio examination instrument. It gives a realistic portrayal to an association to look at changed organizations in it's portfolio on the

premise of their related piece of the overall industry and industry development rates. It is a two dimensional examination on administration of SBU's (Strategic Business Units). As such, it is a relative examination of business potential and the assessment of condition.

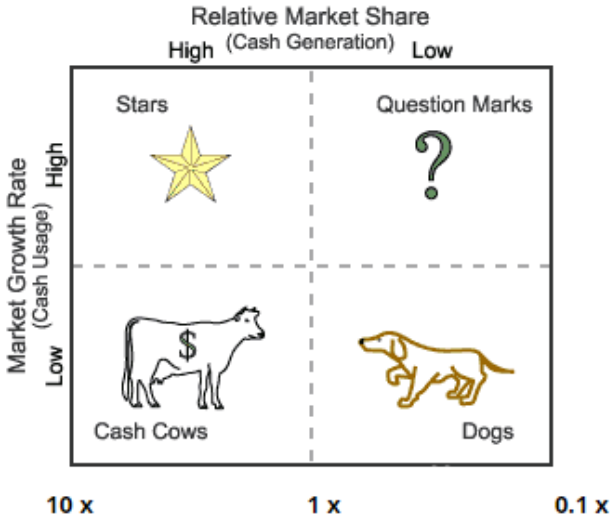


Fig21.1. BCG Matrix

As indicated by this grid, business could be delegated high or low as per their industry development rate and relative piece of the pie. The investigation requires that both measures be computed for each SBU. The measurement of business quality, relative piece of the overall industry, will gauge similar preferred standpoint demonstrated by advertise strength. The key hypothesis fundamental this is presence of an affair bend and that piece of the pie is accomplished because of general cost initiative.

BCG network has four cells. The horizontal axis represents the relative market share and the vertical axis represents the market growth rate. While, if all the SBU's are situated in various ventures, at that point the mid-point is set at the development rate for the economy. Assets are dispensed to the specialty units as indicated by their circumstance on the lattice. The four cells of this lattice have been called as stars, money cows, question marks and puppies. Each of these cells speaks to a specific sort of business.

Stars-Stars speak to specialty units having expansive piece of the overall industry in a quickly developing industry. They may create money but since of quickly developing business sector, stars require gigantic speculations to keep up their lead. Net income is normally humble. SBU's situated in this cell are appealing as they are situated in a strong industry and these specialty units are exceedingly focused in the business. In the event that fruitful, a star will turn into a money dairy animals when the business develops.

Money Cows-Cash Cows speaks to specialty units having a substantial piece of the overall industry in a develop, moderate developing industry. Money dairy animals require little

speculation and create money that can be used for interest in different specialty units. These SBU's are the partnership's key wellspring of money, and are particularly the center business. They are the base of an association. These organizations typically take after dependability systems. At the point when money dairy animals free their allure and move towards decay, at that point a conservation approach might be sought after.

Question Marks-Question marks speak to specialty units having low relative piece of the pie and situated in a high development industry. They require immense measure of money to keep up or pick up piece of the overall industry. They oblige regard for decide whether the wander can be feasible. Question marks are for the most part new merchandise and enterprises which have a decent business imminent. There is no particular system which can be embraced. On the off chance that the firm supposes it has overwhelming piece of the overall industry, at that point it can embrace development system, else conservation procedure can be received. Most organizations begin as question marks as the organization tries to enter a high development showcase in which there is as of now a piece of the overall industry. On the off chance that disregarded, at that point question marks may progress toward becoming pooches, while if tremendous speculation is made, at that point they have capability of getting to be stars.

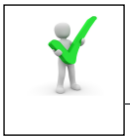
Dogs speak to organizations having frail pieces of the overall industry in low-development markets. They neither create money nor require tremendous measure of money. Because of low piece of the overall industry, these specialty units confront cost inconveniences. These business firms have frail piece of the overall industry due to high costs, low quality, incapable showcasing, and so on. Unless a puppy has some other vital point, it ought to be exchanged if there is less prospects for it to pick up piece of the pie. Number of pooches ought to be maintained a strategic distance from and limited in an association.

21.4.1IMPEDIMENTS OF BCG MATRIX

The BCG Matrix creates a structure for distributing assets among various specialty units and makes it conceivable to think about numerous specialty units initially. Yet, BCG Matrix is not free from impediments, for example,

- BCG framework arranges organizations as low and high, however for the most part organizations can be medium too. In this way, the genuine idea of business may not be reflected.
- Market is not obviously characterized in this model.
- Higher market share usually result in high benefits. The expenses in such a case is also higher.
- Market share and growth are not the only indicators of measuring productivity. This model disregards and neglects different markers of benefit.

- On occasion, pooches may enable different organizations in increasing aggressive to advantage. They can gain significantly more than money dairy animals now and again.
- This four-celled approach is considered as to be excessively shortsighted.



Check Your Progress-A

Choose the correct alternative.

Q1. What does Cash Cow symbolize in BCG Matrix?

a) Remain Diversified
b) Invest
c) Stable
d) Liquidate

Q2. What does Question Mark symbolize in BCG Matrix?

a) Remain Diversified
b) Invest
c) Stable
d) Liquidate

Q3. What does Star symbolize in BCG Matrix?

a) Introduction
b) Growth
c) Maturity
d) Decline

Q4.The BCG Matrix is based on

a) Industry attractiveness and Business strength
b) Industry growth rate and Business strength
c) Industry attractiveness and Relative market share
d) Industry growth and Relative market share

Q5.Which of the accompanying key choices is the odd one out?

a) Cost leadership
b) Focus
c) Hybrid
d) Differentiation

Q6.Which of the below mentioned best depicts a strategy of differentiation, according to Porter's generic strategies model?

a) When an organisation has a widely recognised brand name
b) When an organisation's products or services offer features that are not offered by competitors' offerings
c) When the products are perceived to offer greater satisfaction and for which customers are, consequently, prepared to pay premium price
d) When an organisation has a competency that distinguishes it from other organisation in its industry

Q7.Which of the accompanying is not a criticism of Porter's generic strategy model?

a) The basis for the distinction between 'broad' and 'narrow' target markets is unclear. Is it defined in terms of market turnover, customer groups or geographical size.
b) Radical changes in technology can undermine an organisation's cost advantages if they are technology dependent
c) Differentiation and cost leadership are not mutually exclusive
d) A differentiation-based strategy will involve a firm incurring higher costs and so price it out of the market

Q8.Which of the below mentioned is not an option for an organisation pursuing a market development strategy?

a) Attracting customers directly from competing products
b) Targeting new market segments
c) Seeking new uses for existing products
d) Selling in new geographical areas

21.5 GENERAL ELECTRIC (GE) MATRIX

The GE network is considered by many to be an augmentation, and even a change of that model. Like the BCG, the GE Matrix encourages you to decide how to assign resources yet it permits greater adaptability.

The GE framework was created by Mckinsey and Company consultancy amass in the 1970s. The nine cell lattice measures specialty unit quality against industry engaging quality and this is the key contrast. Though BCG is constrained to items, specialty units can be items, entire product offerings, an administration or even a brand. You can plot these picked units on the matrix and this will assist you to figure out which procedure with applying.

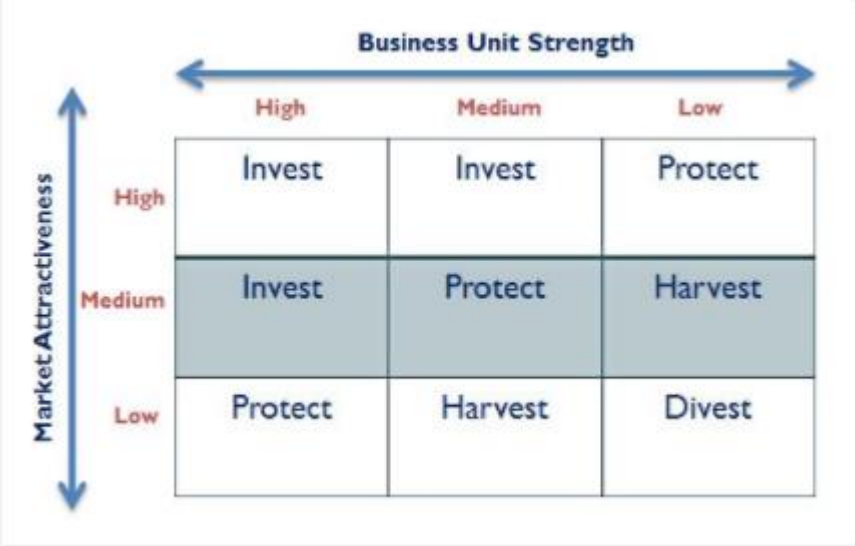


Fig21.2 : GE Model

Before you can plot anything on the network however first you have to choose how you will decide both industry appeal and specialty unit quality.

Industry Attractiveness:

Components you could construct this in light of include:

- Market estimate
- Market development
- Pestel elements
  - Political
  - Economical
  - Social
  - Technological
  - Ecological
  - Legal
- Porter's five forces
- Competitive rivalry
- Buyer power
- Supplier power
- Threat of new entrants
- Threat of substitution

You have to choose which elements you will use as a deciding variable as these will be connected to ALL specialty units.

Step 1: Decide on deciding components
Step 2: Give each element a weighting number in light of its extent (make the aggregate weight of all variables mean 1.00 or 10.00 for instance)
Step 3: Rate every specialty unit against each element on a scale. For instance 1 – 5 where 1 is to a great degree appealing and 5 is to a great degree ugly.
Step 4: Give every specialty unit a weighted rating on each element by duplicating its rating by the weight for that component.
Step 5: Total up all the weighted evaluations for every specialty unit.

Business Unit Strength:
Components to decide how solid a unit is contrasted with others in its industry include:

- Piece of the overall industry
- Development in piece of the overall industry
- Brand value
- Net revenues contrasted with rivalry
- Strength of the distribution channel

Presently you have the estimations you can plot your specialty units on the GE lattice and relying upon where they are plotted will decide your procedure from one of the accompanying:

Develop/Invest:
Units that land in this segment of the framework by and large have high piece of the pie and guarantee significant yields later on so ought to be put resources into.

Hold/Selectivity:
Units that land in this segment of the framework can be vague and should just be put resources into if there is cash left over in the wake of putting resources into the beneficial units.
Harvest/Divest:
Poor performing units in an ugly industry wind up in this area of the lattice. This should just be put resources into in the event that they can profit than is put into them. Else they ought to be exchanged.

As should be obvious this model is extremely helpful for examining your specialty units against various components as opposed to the 2 dimensional approach of the BCG. In doing as such you will have a beginning stage in which to manufacture your procedure for apportioning assets and extending items.

21.6 DIRECTIONAL POLICY MATRIX (DPM)

The embodiment of Directional Policy Matrix (DPM) is that it is a decision between at least two great choices. In building up a showcasing technique the decision to be made is of which sections of the market you ought to create strategies to seek after.

The Directional Policy Matrix (DPM) is an apparatus for helping you figure out what your favoured portions are. In finishing a DPM you comprehend what you ought to put resources into and the bearing your association should take. The directional approach grid encourages you decide if choices made in the everyday running of the association are to it's greatest advantage.

The Directional Policy Matrix measures the engaging quality of a fragment and the capacity of the association to bolster that section.

Engaging quality of a Market Segment

Assessing the engaging quality however should not be limited to the following factors:

- Size of the section (number of clients, units or $ deals)
- Development rate of the section (a vital variable)
- Overall revenues of the section to the business association
- Progressing acquiring energy of the section
- Required piece of the pie to equal the initial investment.

Capacity of the Association

Assessing the capacity of the association to address the issues of the fragments ought to incorporate, yet not be constrained to, these factors examined against the competition:

- Aggressive capacity of the association against the advertising blend (item/benefit, place, cost and advancement)
- Access to conveyance channels
- Capital and human asset venture required to serve the fragment
- Brand relationship of the association according to the fragment
- Current piece of the overall industry/likely future piece of the pie.

Scoring the Directional Policy Matrix

To score the DPM you have to know the objective of your advertising procedure. This might be, yet not restricted to:

- Benefit lift
- Piece of the overall industry lift

- Estimation of the association in the event that it were available to be purchased.

Finish scoring the directional approach network in four stages:

Attractiveness Factors			**Capability Factors**		
Factor	**Weight**	**Maximum Score**	**Factor**	**Weight**	**Maximum Score**
Size of the segment	0.2	10	Competitive capability of the organisation	0.3	14
Growth rate of the segment	0.4	18	Access to distribution channels	0.3	14
Profit margins of the segment	0.1	5	Capital and human resource investment required to serve the segment	0.2	10
Ongoing purchasing power of the segment	0.1	5	Brand association of the organisation in the eyes of the segment	0.1	5
Attainable market share	0.1	5	Current market share/ likely future market share	0.1	5
Required market share to break even	0.1	5			
Total	**1.0**	**48**	**Total**	**1.0**	**48**

Table 21.1: DPM Matrix and its weights

- Weight the relative significance of each variable of allure and ability as far as its commitment to the objective of the advertising system out of 1.
- Assign the particular weight of an aggregate score of 48 focuses to each component. e.g. in the event that the weighting for a variable was 0.2 then the aggregate focuses accessible for that component is 0.2X48=10 (gathered together)
- Score each fragment with respect to alternate portions in how much each section meets the criteria of the variable. e.g. For the engaging quality component 'Size of fragment', in the illustration Table 1, score the biggest portion 10 and the littlest section 1.
- Plot the resultant score in exceed expectations and make an air pocket outline diagram where the span of the air pocket speaks to the extent of the portion for more prominent visual lucidity with regards to translating the investigation.

Translating the Directional Policy Matrix

The directional arrangement grid recommends strategies for each of nine divisions, as appeared in the figure underneath.

Segment Attractiveness

Capability				
	Strong	Cash Generation	Growth Leader	Leader
	Average	Try Harder	Custodial Growth	Phased Withdrawal
	Weak	Disinvest	Phased Withdrawal	Double Or Quit
		Unattractive	**Average**	**Attractive**

Fig 21.3 Directional Policy Matrix

The strategies for every division descriptor are:

Pioneer – Focus your assets on fragments in this division.

Development pioneer – Grow by focussing simply enough assets here.

Money Generator – Milk fragments in this division for development somewhere else.

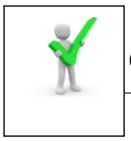
Staged withdrawal – Move money to fragments with more noteworthy potential.

Custodial – Do not confer any more assets to fragments in this division.

Invest more energy – Determine if there are courses in which you can fabricate your ability for fragments in this segment for low levels of money.

Twofold or quit – Invest in your ability or escape portions in this division.

Divest – Liquidate or move resources utilized as a part of portions in this area as quick as possible.



Check Your Progress- B

Q1. Explain the DPM. Enunciate the BCG model. Do you find similarities between the two?

Q2. How do you evaluate the strategic alternatives using GE nine-cell matrix?

Q3. Select a high profile industry such as IT or Automobiles. Do the portfolio analysis using GE or DPM matrix?

Q4. Describe the GE nine-cell matrix for analysis corporate portfolio? How does it help in identifying the strategies for business organization?

21.7 GRAND STRATEGY MATRIX (GSM)

Great Strategy Matrix has ascended into a proficient instrument in planning elective frameworks. This matrix is basically in perspective of four basic parts:

- Fast Market Growth
- Moderate Market Growth
- Solid Competitive Position
- Powerless Competitive Position

These segments outline a four quadrant grid in which all affiliation can be situated such that recognizable proof and determination of suitable procedure turns into a simple errand. Besides, this lattice helps in receiving the best strategy in light of the present advancement and centered state of the firm. A colossal scale firm confined into various divisions can moreover plot its divisions in this four quadrant Grand Strategy Matrix for figuring the best technique for every division.

The key zone of administration is to reasonably choose the methodology strong with the associations' market and forceful position. The Grand Strategy Matrix makes it a pleasant work. It helps in intelligent examination of firms' present position and decision of best method according to the revealed centered position and business focus.

Completely four segments of the Grand Strategy Matrix can be depicted as two evaluative measurements to be specific market development and aggressive position. In every quadrant of the network the well-suited procedures are enrolled in successive request for every affiliation or division keeping in observe the interest in each quadrant of the system.

Quadrant I

The quadrant one of the Grand Strategy Matrix is inferred for those associations which are in a strong forceful position and succeeding with snappy market advancement. Firms arranged in this quadrant are in mind boggling key position and they need to concentrate on current markets and items. Focus on current markets uncovers the appropriation of methodologies, for example, advertise infiltration and market improvement and similarly fixation on current items calls for reception of item advancement system. These organizations or divisions should keep on pondering upon current upper hand and should maintain a strategic distance from losing the concentration from the upper hand expanded over the time.

If quadrant one firms have intemperate assets, than, it is insightful to embrace the extension program and enjoy in reverse, forward, or flat combination. Be that as it may, and a watchful point of view should be done before expecting such consolidations with the goal that any reflection from the present high ground can be kept up a key separation from. The quadrant one firm moreover requires recognizing the hazard related for the most part on the off chance that it is focused on a solitary product offering. The best system to embrace for this situation

is connected enhancement since it can be useful in diminishing the hazard related with the slim product offering. One of the primary points of enthusiasm to the quadrant one firms is that they can stand to abuse the external open entryways and enhance the wealth in different scopes of dealings.

Quadrant II

Firms and divisions falling in quadrant two of the Grand Strategy Matrix are depicted with a weak centred position in rapidly creating business segment. The present market position of these associations must snap in the minds of the organization and they need to weigh up the associations' accessible business focus generally. The open entryway slacking here is that such firms are working in a creating industry yet the issue zone is that they are contending incapably. An inside and out examination is important to distinguish the hazy areas of inadequacy and the purposes for such ineffectualness. Besides, selection of neutralizing measures is additionally imperative so capacity to contend viably is invigorate and firm can find its space in the more forceful condition.

Since quadrant two firms are in a snappy market development industry, in this way, a serious procedure, all the more suitably, can be named the main alternative to receive. The problem in embracing the escalated procedure emerges when the organizations is missing unmistakable capability or upper hand. In this circumstance the most fortunate substitute is even joining.

If the quadrant II firm does not find any sensible system to get than divestiture of a couple of divisions can be considered as another option. Such a course of action may benefit the coveted subsidizing to purchase back the offers or to put resources into the present wander in different divisions to fortify the aggressive position. Additionally, as final resort, liquidation ought to be considered with the goal that another business can be acquired.

Quadrant III

The quadrant three firms are working in a direct improvement industry with an aggressive position which is weak. These organizations are inclined to additionally decay which may come about conceivably in liquidation. To stay away from such circumstances quadrant three firms needs present uncommon changes in every one of the regions of dealing with the organization. The administration needs to change its rationality and ought to essentially embrace new methodologies of representing the firm. The administration ought to cause some broad expenses in the general patch up of the association.

Deliberately conservation (resources diminishment) would be the best choice to be viewed as first. Besides differentiating the general business through moving the assets ought to be

assessed as another decision (related or irrelevant enhancement). The last elective is again divesture or liquidation.

Quadrant IV

The associations falling in quadrant IV are portrayed as having a solid focused position however are working in a moderate development industry. These organizations need to mission for the promising development regions and to misuse the open doors in the creating markets as they have the qualities to influence extended activities in creating organizations.

Ideally quadrant four firms have constrained prerequisites of assets for inner development though they appreciate the high money streams because of the aggressive position they are described for. In this way, these organizations can regularly chase for related or irrelevant broadening productively. Because of accessibility of inordinate assets quadrant IV firms can likewise seek after joint endeavors.

21.8 ECOLOGICAL THREAT AND OPPORTUNITY PROFILE (ETOP)

The Environmental components are very unpredictable and it might be troublesome for technique supervisors to order them into flawless classes to decipher them as circumstances and dangers. Lot of examination is drawn where a certain something or segment is differentiated and distinctive things after which the scores touched base at are included and positioned for each variable and aggregate weight age score ascertained for organizing each of the elements.

This is accomplished by conceptualizing. Lastly the system trough utilizes his judgment to put different natural issues in clear point of view to make the ecological danger and opportunity profile. In spite of the fact that the procedure of isolating different natural components into particular segments and assessing them as circumstances and dangers is recommended by a few creators, it must be painstakingly noticed that every segment is not selective of the other.

Each of the central point relating to a specific division of condition might be separated into sub-segments and their belongings examined. The field drive examination runs convey glove with ETOP, as here in like manner the dedication as to conditions and perils posed by the earth is furthermore an essential bit of study.

ETOP Preparation:

The course of action of ETOP includes partitioning nature into various segments and after that examining the effect of every division on the association. A thorough ETOP requires

subdividing each natural area into sub components and afterward the effect of each sub figure on the association is depicted as an announcement.

A synopsis ETOP may just demonstrate the main considerations for straightforwardness. The table 1 gives a case of an ETOP orchestrated a set up association, which is in the Two Wheeler industry.

The standard business of the association is in Motor Bike creating for the household and fares markets. This case identifies with a theoretical organization yet the representation is practical based n the present Indian business condition.

Environmental sectors	**Effect of every segment**
Social	Customer slant for motorbike, which are rich, easy to ride and strong.
Political	No basic part.
Economic	Creating fortune among urban buyers; Exports potential high.
Regulatory	Bicycle industry a push zone for conveys.
Market	Industry advancement rate is 10 to 12 percent for every year, For motorbike improvement rate is 40 percent, as it were, Unsaturated ask.
Supplier	By and large ancillaries and related associations supply parts and portions, REP licenses for imported unrefined materials available.
Technological	Imaginative up level of industry ahead of time. Import of mechanical assembly under OGL list possible.

Table 21.2: Environmental Threat and Opportunity Profile (ETOP) for an organization

As appeared in the table motorbike producing is an appealing recommendation because of the numerous open doors working in the earth. The organization can profit by the blossoming request by exploiting the different government methodologies and concessions. It can in like manner abuse the high passages potential that starting at now exists. Since the association is a developed maker of motorbike, it has an awesome supplier and likewise creative condition. In any case, separate the implications of this ETOP for another maker who is needing to enter this industry.

In spite of the fact that the market condition would in any case be positive, much would rely on upon the degree to which the organization can guarantee the supply of crude materials and parts, and approach the most recent innovation and have the offices to utilize it. The readiness of an ETOP gives a reasonable picture to association to figure techniques to exploit the open doors and counter the dangers in its condition. The key directors should keep concentrate on the accompanying measurements,

1. Issue Selection:
Focus on issues, which have been picked, should not be missed since there is a likelihood of landing at wrong needs. A portion of the inept issues might be those identified with piece of the pie, focused estimating, client inclinations, mechanical changes, financial approaches, aggressive patterns, and so on.

2. Exactness of Data:
Information ought to be gathered from great sources generally the whole procedure of ecological checking may go squander. The significance, significance, sensibility, fluctuation and minimal effort of information are a part of the basic components, which must be kept in center.

3. Effect Studies:
Effect studies ought to be directed concentrating on the different open doors and dangers and the basic issues chose. It might incorporate investigation of plausible consequences for the organization's qualities and shortcomings, working and remote condition, focused position, accomplishment of mission and vision et cetera. Attempts should be taken to make assessments more objective wherever possible.

4. Flexibility in Operations:

There are number of hazards exist in a business circumstance thus an organization can be significantly profited purchase formulating proactive and adaptable methodologies in their arrangements, structures, methodology and so on. The ideal level of adaptability ought to be kept up.

A few of the key components for expanding the adaptability are as per the following:

(a) The system for adaptability must be expressed to empower administrators receive it amid one of a kind circumstances.
(b) Strategies must be looked into and changed if required.
(c) Exceptions to chose procedures must be dealt with previously. This would empower supervisors to disregard techniques when it is essential.
(d) Flexibility might be very exorbitant for an association as far as changes and packed arrangements; in any case, it is similarly critical for organizations to address earnest difficulties.

21.9 HOFER'S PRODUCT MARKET EVOLUTION MATRIX

Charles W. Hofer developed a network on the item life cycle portraying the diverse sorts of creating items that is not delineated by the other portfolio grids. The different phases of item/ market evolution is identified and then the products are plotted in the matrix based on their competitive position. Strategic issues can be identified by developing and comparing the present and future matrix.

Development	A B		
Growth			
Shake Out			C
Maturity	D	E F	
Decline			
Stages of Product Development	Strong	Average	Weak
		Competitive Position	

Exhibit 21.3: Product/Market Evolution Portfolio Matrix

In the above exhibit, the product B enjoys a greater competitive position, still its market share is not great. The product life cycle may not be true for every product in Hofer's Matrix. There are many a products in the market who despite seeing a fall gain there lost ground by sustainable efforts, such as Colgate, etc. The horizontal axis measures the competitive position and the vertical axis measures the different stages of product/ market evolution.

Hofer's matrix talks about key specialty units in an organization who are in charge of execution. The focused position of the vital specialty units is then assessed which using the same techniques which are used in the McKinsey Matrix. Each strategic business unit is represented by using the two axis of the matrix.

The present matrix enables the company to analyse the portfolio and determine whether the portfolio is balanced or unbalanced. A balanced portfolio will signify that the portfolio has 'cash cows', 'stars' and a few 'question marks', which are recently launched in the market or are in the process of becoming a 'star'. Whereas there can also be quite a few portfolios which are unbalanced. Such portfolios need better management and effective monitoring to put it back on track.

21.10 SUMMARY

These new approaches in Strategic Management do not ensure success of every decision, but they definitely go a long way in helping a business understand the environment in which it is operating. Understanding and synthesising the environment helps the organisation to adopt better strategies to suit its long-term goals. Over and above all, howsoever good the strategy is, can be rendered ineffective if it is not implemented in a safe and sound manner. The success of any strategy depends on how well it is operationalised.



21.11 GLOSSARY

Acquisition: When one company, the acquirer, purchases and absorbs the operations of another, the acquired.

Benchmarking: An analysis of competitor strengths and weaknesses; used to evaluate a firm's relative competitive position, opportunities or improving, and success/failure in achieving such improvement.

Best Practices: The business methods and procedures utilized by firms considered the leader in an industry.

Business Model: A company's business model is management's storyline for how the strategy will be a moneymaker.

Company Mission: The unique purpose of a firm that sets it apart from firms of its type; identifies scope of operations including markets, customers, products, distribution, technology, etc. in manner that reflects values and priorities of the firm's strategies.

Competitive Advantage: Advantages that a firm has over its competitors.

Competitive Position: The position that a firm has or wishes to achieve within its industry as measured against its competition.

Competitive Reaction: Anticipated reaction of competition to a firm's strategic initiatives.

Concentric Diversification: A strategy of growing a firm by acquiring other firms which are similar to and synergestic with the acquiring firm in terms of markets, products or technology.

Conglomerate Diversification:A strategy of growing a firm by acquiring other firms for investment purposes; usually little or no anticipated synergy with the acquired firm.

Consolidation: The merger of business units and/or property portfolios.

Core Competencies: The competencies of a firm required fulfilling its value proposition with its customers; competencies may be competitively unique to an industry but not necessarily a single firm.

Cost Advantage (Disadvantage): Operating advantage enjoyed by an entrenched firm, which would be difficult for entering firms to capture, regardless of size. May relate to patent protection, proprietary technology, learning curve, experience curve, government subsidies, favorable locations or access to key raw materials.

Differentiation Strategy: One of three generic strategies in which a firm strives to create and market unique products/services for various customer groups. See also Focus Strategy and Low Cost Strategy.

Diseconomy of Scale: When a company has become so large that additional production creates reduced marginal revenue. See also Economy of Scale.

Distribution Channel: The means by which products or services are moved from production to customer.

Distinctive Competence: A competence that provides a firm with a competitive advantage in the marketplace.

Diversified Company: A company that has enough different products so it does not depend on success of one product or type of product.

Divestiture: The sale of all or major part of a firm

Driving Forces: The most dominate forces because they have the biggest influence on what kinds of changes will take place in the industry's structure and competitive environment.

Early Entrants: Firms entering new markets or developing new products before other firms (Also known as "first movers").

Economy of Scale: A reduction in costs through larger operating units, spreading fixed costs over large numbers of items/units.

External Environment: The conditions and forces that define a firm's competitive position and influences its strategic options. Also called Competitive Environment.

Focus Strategy: One of three generic strategies in which a firm tries to appeal to one or more customer groups focusing on their cost or differentiation concerns.

Focused (Market Niche) Strategy Based on Lower Cost: Concentrating on a narrow buyer segment and out competing rivals by serving niche members at lower cost than rivals.

Functional Strategies: Strategies for each firm's function or division; integrates into Grand Strategy and ties to Long-Term Objectives.

Generic Strategies: Three approaches to strategic planning based on different fundamental ideas about how to appeal to the customer.

Grand Strategy: A firm's comprehensive plan of key actions by which it plans to achieve it Long-Term Objectives; usually considers factors such as market development, product development, innovation, horizontal and/or vertical integration, diversification, joint ventures and strategic alliances, turnaround, divestiture, liquidation, etc.

Growth Industry: An industry growing at the same rate as the nation's economy.

Horizontal Integration: The acquisition of similar firms operating at the same stage of the production/marketing chain as the acquiring firm. Utilized to expand into new markets and/or eliminate competition.

Joint Venture: A third party commercial operation established by two or more firms to pursue a particular market, resource supply, or other business opportunity. Created

and operated for the benefit of the co-owners.

Key Success Factors: The product attributes, competencies, competitive capabilities and market achievements with the direct bearing on company profitability.

Late Entrants: Firms entering new markets or developing new products after other firms have established them (Also called "Latecomers").

Low Cost Strategy: One of three generic strategies in which a firm attempts to establish itself as the cost leader in the industry.

Market Leader: the Company that has control over a certain market.

Market Share: The revenues generated by a firm as a percentage of total revenues; usually measured by industries, markets, or products.

Mature Industry: An industry growing slower than the overall economy or actually declining.

Merger: Combination and pooling of equal companies, with the newly created company often taking on a new name.

Outsourcing: Contracting and activity to another firm.

Portfolio Approach: A method of looking at each of the "businesses" of a firm as elements in a total portfolio.

Product Life Cycle Analysis: A forecasting technique which analyzes/predicts the performance of a product/service during each stage of its development.

Retrenchment: In a turnaround situation, cost cutting and asset reduction to improve a firm's fortunes.

Strategic Alliances: Cooperative agreements between firms that go beyond normal company-to-company dealings but fall short of merger or full joint venture partnership with formal ownership ties.

Strategic Analysis: Contrasts a firm's Company Profile with its External Environment to identify a range of possible strategic alternatives; screened against the Company Mission statement to determine desired opportunities.

Strategic Business Units: The organization of a firm by "groups" of divisions that serve similar strategic interests of the firm. Utilized by larger firms with multiple

divisions.

Strategic Decisions: Management decisions related to the future of a firm's operations; made at the corporate, business, functional, and individual level.

Strategic Vision: The Company's direction and future product/customer/market/technology focus.

Strength: A skill, resource, or other advantage that a firm has relative to its competitors that is important to serving the needs of customers in its marketplace.

Sustainable Competitive Advantage: Competitive advantages that can be maintained over a fairly long period of time. See also Competitive Advantage.

Switching Costs: The costs incurred by a customer in changing from one firm to another to meet their requirements.

Trend Extrapolation: A forecasting technique utilizing linear or exponential smoothing or averaging of historical values.

Value-Chain: Separate activities, function and business processes that are performed in designing, producing, marketing, deliveries, and supporting a product or service.

Vertical Integration: The acquisition of suppliers (backward integration) or distributors (forward integration) utilized to expand operations, achieve greater market share, increase the efficiency of capital, and/or improve economies of scale. See also Horizontal Integration.

Weakness: A limitation or lack of skills, resources, or capabilities that impedes a firm's effective performance.



21.12 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

Answer

Q1. c

Q2 a

Q3 b

Q4 a
Q5 a
Q6 c
Q7 d
Q8 a



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21.14 SUGGESTED READINGS

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21.15 TERMINAL QUESTIONS

Q1. How do you evaluate the strategic alternatives using the BCG criteria?
Q2. Take a company of your choice and carry out ETOP?
Q3. What are the advantages of using BCG matrix as a portfolio tool? How does it help in identifying the strategies for business organization?
Q4. Discuss the generic strategies given by Porter? How relevant these strategies are in the present competitive environment?
Q5. What is ETOP? Prepare an ETOP for a motor bike manufacturing company?
Q6. Discuss the condition under which the organization can attain cost leadership? How is it achieved?
Q7. Explain the relationship between Porters generic strategies and Industry forces?
Q8. How ETOP is prepared? Does it provide any insight to the strategist in choosing a particular strategy?
Q9. Discuss the framework for analyzing company portfolio using Hoffers Matrix (Product market evolution matrix).
Q10. What type of criteria do you adopt to evaluate strategic alternatives? Discuss the framework for evaluating strategic alternatives?
Q11. Explain Grand Strategy Matrix in detail with suitable examples from the external environment?

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