

Intermediate Course

Study Material

Paper 7B

Strategic Management



BOARD OF STUDIES
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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Edition	:	July, 2019
Website	:	www.icaai.org
E-mail	:	bosnoida@icaai.in
Committee/	:	Board of Studies Department
ISBN No.	:	
Price	:	₹
Published by	:	The Publication Department on behalf of The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi 110 002, India.
Printed by	:	

BEFORE WE BEGIN....

The traditional role of a Chartered Accountant restricted to accounting and auditing, has now changed substantially and there has been a marked shift towards strategic decision making and entrepreneurial roles that add value beyond traditional financial reporting. The primary factors responsible for the change are the increasing business complexities on account of plethora of laws, border less economies consequent to giant leap in e-commerce, emergence of new financial instruments, emphasis on corporate social responsibility, significant developments in information technology, to name a few. These factors necessitate an increase in the competence of chartered accountants to take up the role of not merely an accountant or auditor, but a global solution provider. To wards this end, the scheme of education and training is being continuously reviewed so that it is in sync with the requisites of the dynamic global business environment; the competence requirements are being continuously reviewed to enable aspiring chartered accountants to acquire the requisite professional competence to take on new roles.

Under the Revised Scheme of Education and Training, at the Intermediate Level, you are expected to not only acquire professional knowledge but also the ability to apply such knowledge in problem solving. The process of learning should also help you inculcate the requisite professional skills, i.e., the intellectual skills and communication skills, necessary for achieving the desired professional competence.

The Chartered Accountants, with their education and skills have strong expertise in the area of accounting, auditing, taxation and business laws. Today, the situation has evolved as they are increasingly occupying key strategic roles in organizations. From routine backend jobs they have reached the boardrooms. In many organizations' Chartered Accountants are managing the complete organizational affairs as Chief Executive Officers, Managing Directors and like. Strategy is also important at other levels of management. Even practicing Chartered Accountants need to appreciate, understand and implement strategy as they have to manage things professionally and work through highly complex and competitive environment,

Thus, strategic management is important for Chartered Accountants. With the changing scope of the chartered accountancy profession and the multifarious nature of the work profile of professionals, the students need to learn newer and

different concepts and acquire multidimensional skills. With this focus the subject of strategic management has been included in the education and training of chartered accountancy. Chartered Accountants who are expected to reach high in the corporate ladder need to be sound in the concepts and principles of strategic management.

The coverage and treatment of the subject in the study material is just a fraction of the available body of knowledge. The study material is meant to be a small window to watch and enjoy the world of business organizations. You are advised to take a keen interest in the subject not merely for passing the examination but for making your own professional career path more manageable and meaningful.

The study material has been designed having regard to the needs of home study and distance learning students in mind. The students are expected to cover the entire syllabus and do practice on their own for better understanding and learning.

The study material deals with the conceptual theoretical framework in detail. The content for each chapter/unit at the Intermediate level has been structured in the following manner:

1. Learning Outcomes – Learning outcomes which you need to demonstrate after learning each topic have been detailed in the first page of each chapter/unit. Demonstration of these learning outcomes would help you to achieve the desired level of technical competence.

2. Chapter Overview – As the name suggests, this chart/table would give a broad outline of the contents covered in the chapter.

3. Introduction – A brief introduction is given at the beginning of each chapter/unit which would help you get a feel of the topic.

4. Content – The concepts are explained in a student-friendly manner with the aid of examples, diagrams and caselets. These value additions would help you develop conceptual clarity and get a good grasp of the topics. Caselets based on real life situation would help you understand the concept and its application in a better manner.

Summary – A summary of the chapter is given at the end to help you revise what you have learnt.

6. Test Your Knowledge – This comprises multiple choice questions, questions with descriptive answers and scenario based questions. Questions have been included that test the breadth and depth of your understanding of the topic.

Happy Reading and Best Wishes!

SIGNIFICANT CHANGES IN THIS EDITION OF STUDY MATERIAL

This edition contains certain updations over the previous edition. Students with previous edition of the material may note that there are a few modifications in form of simplification, creation of bullet points, removal of typos, etc. Students may note the following:

1. Inclusion of multiple choice questions, scenario based questions and additional descriptive questions.
2. Inclusion of figures on:
 - ◆ Strategic Analysis (Chapter 2)
 - ◆ Experience Curve (Chapter 2)
3. Modifications in following figures:
 - ◆ A company's actual strategy is partly planned and partly reactive. (Chapter 1)
 - ◆ Levels of Strategic Management. (Chapter 1)
 - ◆ Strategic Management Model (Chapter 3)
 - ◆ Principal Combinations of efficiency and effectiveness (Chapter 8)
4. Addition in the explanations in each of the five forces in Porter's five forces model. (Chapter 5)
5. Deletion of questions requiring brief answers and statement (correct/incorrect) type questions.

SYLLABUS

PAPER – 7B: STRATEGIC MANAGEMENT (50 Marks)

Objective

To develop an understanding of strategic management concepts and techniques and acquire the ability to apply the same in business situations.

Contents

1. Introduction to Strategic Management

- Business Policy
- Meaning and Nature of Strategic management
- Business Strategy
- Strategic Levels in Organizations
- Strategic Management in Government and Not-for-profit organization

2. Dynamics of Competitive Strategy

- Competitive Landscape
- Strategic Analysis
- Industry and Competitive Analysis
- Core Competence
- Competitive Advantage
- Internal and External Analysis
- SWOT Analysis
- Globalization

3. Strategic Management Process

- Strategic Planning

- Strategic Intent - Vision, Mission and Objectives
- Strategy Formulation

4. Corporate Level Strategies

- Concepts and Nature of Corporate Strategy
- Strategic Alternatives at Corporate Level
 - Stability
 - Growth/Expansion
 - Business Combinations – Merger and Acquisition
 - Strategic Alliances
 - Retrenchment/Turnaround
 - Combination

5. Business Level Strategies

- Competitive Strategies at Business Level
- Michael Porter's Generic Strategies
- Best-Cost Provider Strategy

6. Functional Level Strategies

- Marketing Strategy
- Financial Strategy
- Operations Strategy
- Human Resource Strategy
- Research and Development

7. Organisation and Strategic Leadership

- Organisation Structure
- Strategic Business Unit

- Strategic Leadership
- Strategy Supportive Culture
- Entrepreneurship and Intrapreneurship

8. Strategy Implementation and Control

- Strategy Implementation
- Strategic Change
- Strategic Control
- Strategy Audit
- Business Process Reengineering
- Benchmarking

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INTRODUCTION TO STRATEGIC MANAGEMENT



LEARNING OBJECTIVES

- ❑ Learn what business policy and strategy is all about.
- ❑ Know the framework and importance of strategic management.
- ❑ Learn how strategy operates at different levels of the organization.
- ❑ Understand the importance of strategic management in Government and Not-for-profit Organizations.

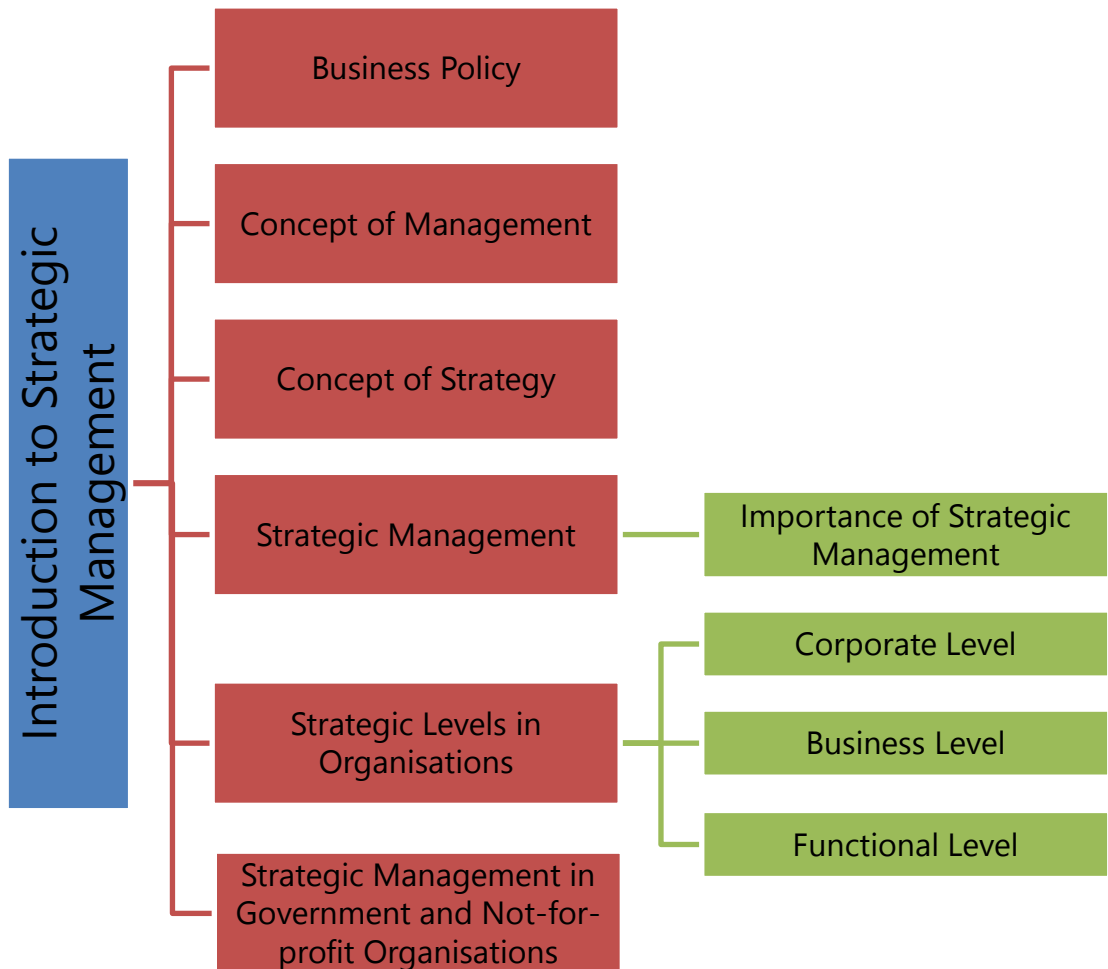
“The company without a strategy is willing to try anything.”

Michael Porter

“Strategy is not the consequence of planning, but the opposite : its starting point.”

Henry Mintzberg

CHAPTER OVERVIEW



1.1 INTRODUCTION

This chapter is an attempt to highlight the concepts and significance of 'business policy' and 'strategic management'. With the increased competition, the management of business has acquired strategic dimension. All executives and professionals, including the Chartered Accountants, working towards growth of their businesses must possess sound knowledge of business policy and strategic management.



1.2 BUSINESS POLICY

The origin of business policy can be traced back to 1911, when Harvard Business School introduced an integrative course in management aimed at the creation of general management capability among business executives. This course was based on interactive case studies which had been in use at the school for instructional purposes since 1908. However, the introduction of business policy in the curriculum of business schools / management institutes came much later. In 1969, the American Assembly of Collegiate Schools of Business, a regulatory body for business schools, made the course of business policy, a mandatory requirement for the purpose of recognition of business schools/management institutes.

During the next few decades, business policy as a course spread to different management institutes across different nations and became an integral part of management curriculum.

According to William F Glueck, evolution of business policy arose from the developments in the use of planning techniques by managers. Starting from day-to-day planning in earlier times, managers tried to anticipate the future through preparation of budgets and using control systems like capital budgeting and management by objectives. With the inability of these techniques to adequately emphasize the role of future, long-range planning came to be used. Soon, long-range planning was replaced by strategic planning, and later by strategic management, a term that is currently used to describe the process of strategy formulation, implementation and control.

Business policy, as defined by Christensen and others, is “the study of the functions and responsibilities of senior management, the crucial problems that affect success in the total enterprise, and the decisions that determine the direction of the organization and shape its future.

The problems of policy in business, like those of policy in public affairs, have to do with the choice of purposes, the moulding of organizational identity and character, the continuous definition of what needs to be done, and the mobilization of resources for the attainment of goals in the face of competition or adverse circumstance”.

Business Policy tends to emphasise on the rational-analytical aspect of strategic management. It presents a framework for understanding strategic decision making in organisations. Such a framework enables a manager to make preparations for handling general management responsibilities effectively.



1.3 CONCEPT OF MANAGEMENT

To understand the concept of strategic management, we need to have a basic understanding of the term management. The term 'management' is used in two senses such as:

- (a) It is used with reference to a key group in an organisation in-charge of its affairs. In relation to an organisation, management is the chief organ entrusted with the task of making it a purposeful and productive entity, by undertaking the task of bringing together and integrating the disorganised resources of manpower, money, materials, and technology into a functioning whole.

An organisation becomes a unified functioning system when management systematically mobilises and utilises the diverse resources efficiently and effectively. The survival and success of an organisation depend to a large extent on the competence and character of its management. Management has to also facilitate organisational change and adaptation for effective interaction with the environment.

- (b) The term 'Management' is also used with reference to a set of interrelated functions and processes carried out by the management of an organisation to attain its objectives. These functions include Planning, Organising, Directing, Staffing and Control. The functions or sub-processes of management are wide-ranging but closely interrelated. They range all the way from determination of the goals, design of the organisation, mobilisation and acquisition of resources, allocation of tasks and resources among the personnel and activity units and installation of control system to ensure that what is planned is achieved.

Management is an influence process to make things happen, to gain command over phenomena, to induce and direct events and people in a particular manner. Influence is backed by power, competence, knowledge and resources. Managers formulate organisational goals, values and strategies, to cope with, to adapt and to adjust themselves with the behaviour and changes in the environment.



1.4 CONCEPT OF STRATEGY

A typical dictionary defines the word 'strategy' as something that has to do with war and ways to win over enemy. In the context of business, the application of this term is not much different. Businesses have to respond to dynamic and often hostile external forces while pursuing their mission and objectives.

The very injection of the idea of strategy into business organizations is intended to unravel complexity and to reduce uncertainty caused by changes in the environment. Strategy seeks to relate the goals of the organization to the means of achieving them. Strategy is the game plan that the management of a business uses to take market position, conduct its operations, attract and satisfy customers, compete successfully, and achieve organizational objectives.

To the extent the term strategy is associated with unified design and action for achieving major goals, gaining command over the situation with a long-range perspective and securing a critically advantageous position, its implications for corporate functioning are obvious.

We may define the term 'strategy' as a long range blueprint of an organization's desired image, direction and destination, i.e., what it wants to be, what it wants to do and where it wants to go. Following are also important other definitions re to understand the term:

Igor H. Ansoff : The common thread among the organization's activities and product-markets that defines the essential nature of business that the organization has or planned to be in future.

William F. Glueck : A unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved.

Strategy is consciously considered and flexibly designed scheme of corporate intent and action to mobilise resources, to direct human effort and behaviour, to handle events and problems, to perceive and utilise opportunities, and to meet challenges and threats for corporate survival and success.

Strategy is meant to fill in the need of organizations for a sense of dynamic direction, focus and cohesiveness. Objectives and goals alone do not fill in the need. Strategy provides an integrated framework for the top management to search for, evaluate and exploit beneficial opportunities, to perceive and meet potential threats and crises, to make full use of resources and strengths, to offset corporate weaknesses.

However, strategy is no substitute for sound, alert and responsible management. It may be noted that strategy can never be perfect, flawless and optimal. It is in the very nature of strategy that it is flexible and pragmatic to take care of sudden emergencies, pressures, and avoid failures and frustrations. In a sound strategy, allowances are made for possible miscalculations and unanticipated events.

In large organisations, strategies are formulated at the corporate, divisional and functional levels. Corporate strategies are formulated by the top managers. Such

strategies include the determination of the plans for expansion and growth, vertical and horizontal integration, diversification, takeovers and mergers, new investment and divestment areas, R & D projects, and so on. These corporate wide strategies need to be operationalized by divisional and functional strategies regarding product lines, production volumes, quality ranges, prices, product promotion, market penetration, purchasing sources, personnel development and like.

Strategy is partly proactive and partly reactive: A company's strategy is typically a blend of:

- ◆ Proactive actions on the part of managers to improve the company's market position and financial performance.
- ◆ Reactions to unanticipated developments and fresh market conditions.

In other words, a company uses both proactive and reactive strategies to cope up the uncertain business environment. Proactive strategy is planned strategy whereas reactive strategy is adaptive reaction to changing circumstances.

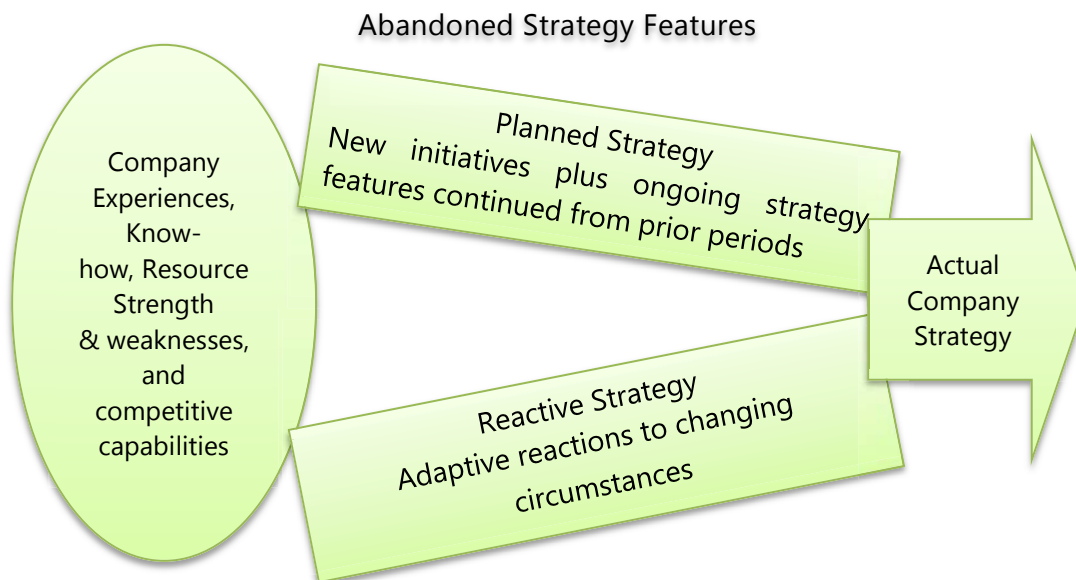


Figure: A company's actual strategy is partly planned & partly reactive

The biggest portion of a company's current strategy flows from previously initiated actions and business approaches that are working well enough to merit continuation and newly launched managerial initiatives to strengthen the company's overall position and performance. This part of management's game plan is

deliberate and proactive, standing as the product of management's analysis and strategic thinking about the company's situation and its conclusions about how to position the company in the marketplace and tackle the task of competing for buyer's patronage.

But not every strategic move is the result of proactive planning and deliberate management design. Things happen that cannot be fully anticipated or planned for. When market and competitive conditions take an unexpected turn or some aspect of a company's strategy hits a stone wall, some kind of strategic reaction or adjustment is required. Hence, a portion of a company's strategy is always developed as a reasoned response to unforeseen developments. But apart from adapting strategy to changes in the market, there is also a need to adapt strategy as new learning emerges about which pieces of the strategy are working well and which aren't and as management hits upon new ideas for improving the strategy.

Crafting a strategy thus involves stitching together a proactive/intended strategy and then adapting first one piece and then another as circumstances surrounding the company's situation change or better options emerge—a reactive/adaptive strategy.

1.5 STRATEGIC MANAGEMENT

In a hyper competitive marketplace, companies can operate successfully by creating and delivering superior value to target customers and also learning how to adapt to a continuously changing business environment. So to meet changing conditions in their industries, companies need to be farsighted and visionary, and must develop long-term strategies. Strategic planning, an important component of strategic management, involves developing a strategy to meet competition and ensure long-term survival and growth of the company. The overall objectives of strategic management are two fold:

- To create competitive advantage, so that the company can outperform the competitors in order to have dominance over the market.
- To guide the company successfully through all changes in the environment.

The organizational operations are highly influenced by the increasing rate of change in the environment and the ripple effect created on the organization. Changes can be external to the firm or they may be introduced in the firm by the managers. It may manifest in the blurring of industry and firm boundaries, driven by technology, deregulation, or, through globalization. The tasks of crafting, implementing and executing company strategies are the heart and soul of managing a business enterprise.

The term 'strategic management' refers to the managerial process of developing a strategic vision, setting objectives, crafting a strategy, implementing and evaluating the strategy, and initiating corrective adjustments where deemed appropriate.

Strategic management involves developing the company's vision, environmental scanning (both external and internal), strategy formulation, strategy implementation and evaluation and control. Originally called, business policy, strategic management emphasises the monitoring and evaluation of external opportunities and threats in the light of a company's strengths and weaknesses and designing strategies for the survival and growth of the company.

1.5.1 Importance of Strategic Management

Formulation of strategies and their implementation have become essential for all organizations for their survival and growth in the present turbulent business environment. 'Survival of fittest' as propagated by Darwin is the only principle of survival for organization, where 'fittest' are not the 'largest' or 'strongest' organizations but those who can change and adapt successfully to the changes in business environment.

Many business giants have followed the path of extinction failing to manage drastic changes in the business environment. For example Bajaj Scooters, LML Scooters, Murphy Radio, BPL Television, Nokia, Kodak and so on.

Businesses follow the war principle of 'win or lose', and only in a small number of cases, win-win situation arises. Hence, each organization has to build its competitive advantage over the competitors in the business warfare in order to win. This can be done only by following process of strategic management - strategic analysis, formulation and implementation, evaluation and control of strategies. The major benefits of strategic management are:

- ◆ The strategic management gives a direction to the company to move ahead. It defines the goals and mission. It helps management to define realistic objectives and goals which are in line with the vision of the company.
- ◆ Strategic management helps organisations to be proactive instead of reactive in shaping its future. Organisations are able to analyse and take actions instead of being mere spectators. Thereby they are able to control their own destiny in a better manner. It helps them in working within vagaries of environment and shaping it, instead of getting carried away by its turbulence or uncertainties.

- ◆ Strategic management provides framework for all major decisions of an enterprise such as decisions on businesses, products, markets, manufacturing facilities, investments and organisational structure. It provides better guidance to entire organisation on the crucial point - what it is trying to do.
- ◆ Strategic management seeks to prepare the organisation to face the future and act as pathfinder to various business opportunities. Organisations are able to identify the available opportunities and identify ways and means as how to reach them.
- ◆ Strategic management serves as a corporate defence mechanism against mistakes and pitfalls. It helps organisations to avoid costly mistakes in product market choices or investments.
- ◆ Strategic management helps to enhance the longevity of the business. with the state of competition and dynamic environment it may not be possible for organisations to survive in long run. It helps the organization to take a clear stand in the related industry and makes sure that it is not just surviving on luck.
- ◆ Strategic management helps the organisation to develop certain core competencies and competitive advantages that would facilitate assist in its fight for survival and growth.

1.5.2 Limitations of Strategic Management

The presence of strategic management cannot counter all hindrances and always achieve success. There are limitations attached to strategic management. These can be explained in the following lines:

- ◆ Environment is highly complex and turbulent. It is difficult to understand the complex environment and exactly pinpoint how it will shape-up in future. The organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans. The environment affects as the organisation has to deal with suppliers, customers, governments and other external factors.
- ◆ Strategic management is a time-consuming process. Organisations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.
- ◆ Strategic management is a costly process. Strategic management adds a lot of expenses to an organization. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement. These can be really costly for

organisations with limited resources particularly when small and medium organisation create strategies to compete.

- ◆ In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate the competitive responses to a firm's strategies.

1.6 STRATEGIC LEVELS IN ORGANISATIONS

A typical large organization is a multi divisional organisation that competes in several different businesses. It has separate self-contained divisions to manage each of these. There are three main levels of management:

- ◆ Corporate level
- ◆ Business level
- ◆ Functional level

General managers are found at the first two of these levels, but their strategic roles differ depending on their sphere of responsibility.

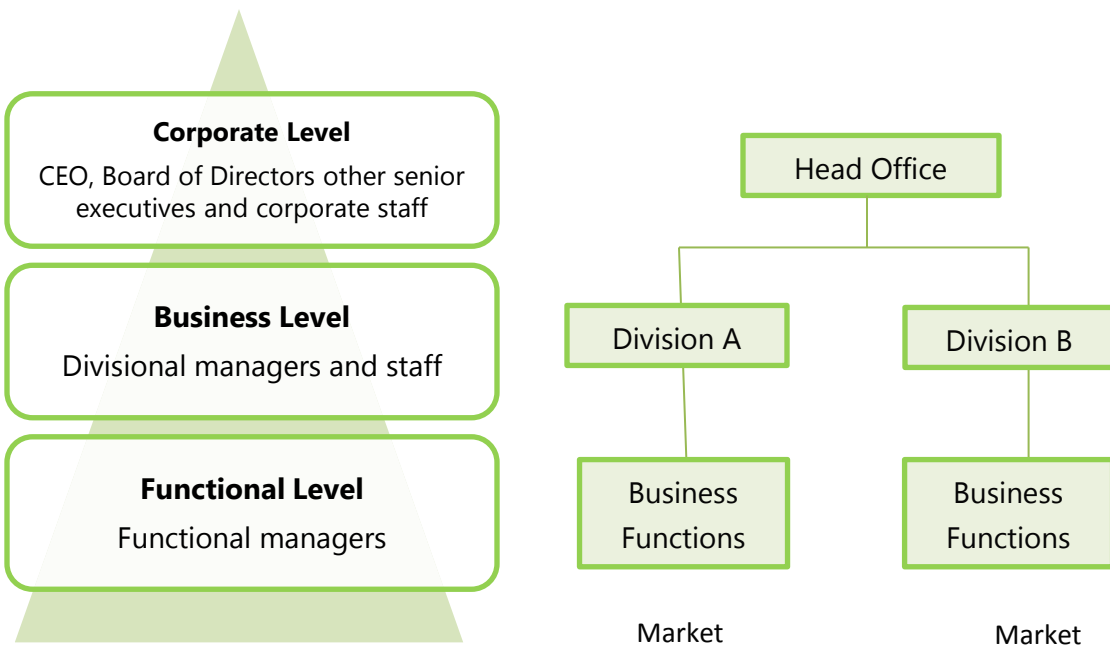


Figure: Levels of Strategic Management

An organization is divided into a number of segments that work together to bring a particular product or service to the market. If a company provides several and/or different kinds of products or services, it often duplicates these functions and creates a series of self-contained divisions (each of which contain its own set of functions) to manage each different product or service. The general managers of these divisions then become responsible for their particular product line. The overriding concern of the divisional managers is healthy growth of their divisions. They are responsible for deciding how to create a competitive advantage and achieve higher profitability with the resources and capital they have at their disposal. Such divisions are called **Strategic Business Units (SBUs)**.

The corporate level of management consists of the Chief Executive Officer (CEO), other senior executives, the board of directors, and corporate staff. These individuals participate in strategic decision making within the organization. The role of **corporate-level managers** is to oversee the development of strategies for the whole organization. This role includes defining the mission and goals of the organization, determining what businesses it should be in, allocating resources among the different businesses, formulating and implementing strategies that span individual businesses, and providing leadership for the organization.

For example, Godrej is active in a wide range of businesses, including soaps, insecticides, edible oil, furniture, Information Technology, and real estate. The main strategic responsibilities of its Group Chairman, Adi Godrej, are setting overall strategic objectives, allocating resources among the different business areas, deciding whether the firm should divest itself of any of its businesses, and determining whether it should acquire any new ones. In other words, it is up to Adi Godrej and other senior executives to develop strategies that span individual businesses and building and managing the corporate portfolio of businesses to maximize corporate profitability. However, it is not their specific responsibility to develop strategies for competing in the individual business areas, such as financial services. The development of such strategies is the responsibility of those in charge of different businesses called **business level managers**.

Besides overseeing resource allocation and managing the divestment and acquisition processes, corporate-level managers provide a link between the people who oversee the strategic development of a firm and those who own it (the shareholders). Corporate-level managers, and particularly the CEO, can be viewed as the guardians of shareholder welfare. It is their responsibility to ensure that the corporate and business strategies that the company pursues are consistent with maximizing shareholder wealth. If they are not, then ultimately the CEO is likely to be called to account by the shareholders.

A strategic business unit is a self-contained division (with its own functions—for example, finance, purchasing, production, and marketing departments) that provides a product or service for a particular market. The principal general manager at the business level, or the business-level manager, is the head of the division. The strategic role of these managers is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses. Thus, whereas corporate-level managers are concerned with strategies that span individual businesses, business-level managers are concerned with strategies that are specific to a particular business.

Functional-level managers are responsible for the specific business functions or operations (human resources, purchasing, product development, customer service, and so on) that constitute a company or one of its divisions. Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity, whereas general managers oversee the operation of a whole company or division. Although they are not responsible for the overall performance of the organization, functional managers nevertheless have a major strategic role: to develop functional strategies in their area that help fulfil the strategic objectives set by business- and corporate-level general managers.

Functional managers provide most of the information that makes it possible for business- and corporate-level general managers to formulate realistic and attainable strategies. Indeed, because they are closer to the customer than the typical general manager is, functional managers themselves may generate important ideas that subsequently may become major strategies for the company. Thus, it is important for general managers to listen closely to the ideas of their functional managers. An equally great responsibility for managers at the operational level is strategy implementation: the execution of corporate –and business-level plans.



1.7 STRATEGIC MANAGEMENT IN GOVERNMENT AND NOT-FOR-PROFIT ORGANISATIONS

Organizations can be classified as commercial and non-commercial on the basis of the interest they have. A commercial organization has profit as its main aim. We can find many organizations around us, which do not have any commercial objective of making profits. Their genesis may be for social, charitable, or educational purposes. Examples of non-commercial organizations can be The

Institute of Chartered Accountants of India, municipal corporations, non-governmental organizations such as Help-Age or Child Relief and You. Their main aim is to provide services to members, beneficiaries or public at large. A non-commercial organization comes to existence to meet the needs not met by business enterprises. These organizations may not have owners in true sense.

The strategic management process is being used effectively by countless non-profit governmental organizations. Many non-profit and governmental organizations outperform private firms and corporations on innovativeness, motivation, productivity, and human relations.

Compared to for-profit firms, non-profit and governmental organizations often function as a monopoly, produce a product or service that offers little or no measurability of performance, and are totally dependent on outside financing. Especially for these organizations, strategic management provides an excellent vehicle for developing and justifying requests for needed financial support.

- ◆ **Educational institutions:** Educational institutions are using strategic-management techniques and concepts more frequently. Richard Cyert, president of Carnegie-Mellon University, says, "I believe we do a far better job of Strategic management than any company I know ". The significant change in the competitive climate has taken place in the educational environment. Hence, they are adopting different strategies for attracting best students.

The academic institutions have also joined hands with industries in order to deliver education to make graduates more employable. The educational delivery system has also undergone considerable changes with the introduction of computers and internet technologies. The first all-Internet law school, Concord University School of Law, boasts nearly two hundred students who can access lectures anytime and chat at fixed times with professors. Online college degrees are becoming common and represent a threat to traditional Colleges and universities.

- ◆ **Medical organizations:** Modern hospitals are creating new strategies today as advances in the diagnosis and treatment of chronic diseases are undercutting that earlier mission. Hospitals are beginning to bring services to the patient as much as bringing the patient to the hospital. Pathological laboratories have started collecting door-to-door samples. Chronic care will require day-treatment facilities, electronic monitoring at home, user-friendly ambulatory services, decentralized service networks, and laboratory testing.

A successful hospital strategy for the future will require renewed and deepened collaboration with physicians, who are central to hospitals' well being and a reallocation of resources from acute to chronic care in home and community settings.

Backward integration strategies that some hospitals are pursuing include acquiring ambulance services, waste disposal services, and diagnostic services. Millions of persons research medical ailments online, which is causing a dramatic shift in the balance of power between doctor, patient, and hospitals.

The whole strategic landscape of healthcare is changing because of the Internet. Intel recently began offering a new secure medical service whereby doctors and patients can conduct sensitive business on the Internet, such as sharing results of medical tests and prescribing medicine. The ten most successful hospital strategies today are providing free-standing outpatient surgery centres, outpatient surgery and diagnostic centres, physical rehabilitation centres, home health services, cardiac rehabilitation centres, preferred provider services, industrial medicine services, women's medicine services, skilled nursing units, and psychiatric services.

- ◆ **Governmental agencies and departments:** Central, state, municipal agencies, Public Sector Units, departments are responsible for formulating, implementing, and evaluating strategies that use taxpayers' money in the most cost-effective way to provide services and programs. Strategic-management concepts increasingly are being used to enable some organizations to be more effective and efficient.

But strategists in governmental organizations operate with less strategic autonomy than their counterparts in private firms. Public enterprises generally cannot diversify into unrelated businesses or merge with other firms. Governmental strategists usually enjoy little freedom in altering the organizations' missions or redirecting objectives. Legislators and politicians often have direct or indirect control over major decisions and resources. Strategic issues get discussed and debated in the media and legislatures. Issues become politicized, resulting in fewer strategic choice alternatives.

But in government agencies and departments are finding that their employees get excited about the opportunity to participate in the strategic-management process and thereby have an effect on the organization's mission, objectives, strategies, and policies. In addition, government agencies are using a strategic management approach to develop and substantiate formal requests for additional funding.

SUMMARY

With the increased competition, the management of business organisations has acquired strategic dimensions. This chapter began with the elaboration of the concept of strategy. A company's strategy consists of the combination of competitive moves and business approaches that managers employ to please customer, compete successfully and achieve organizational objectives. This chapter elucidated business policy as a discipline and its transformation to strategic management. It presented a framework for understanding strategic decision making.

The three strategic levels in an organization are explained. Managers formulate and implement strategies at corporate level, business level and functional level.

Towards end, strategic management in Government and not-for-profit organizations is also discussed.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

Question 1

- 1 Strategy is a game plan used-
 - (a) To take market position
 - (b) To attract and satisfy customers
 - (c) To respond to dynamic and hostile environment
 - (d) All of the above
- 2 Which of the following is correct?
 - (a) Strategy is always pragmatic and not flexible
 - (b) Strategy is not always perfect, flawless and optimal
 - (c) Strategy is always perfect, flawless and optimal
 - (d) Strategy is always flexible but not pragmatic
3. Strategy is-
 - (a) Proactive in action
 - (b) Reactive in action
 - (c) A blend of proactive and reactive actions

- (d) None of the above
4. Reactive strategy can also be termed as-
- (a) Planned strategy
 - (b) Adaptive strategy
 - (c) Sound strategy
 - (d) Dynamic strategy
5. Formulation of strategies and their implementation in a strategic management process is undertaken by-
- (a) Top level executives
 - (b) Middle level executives
 - (c) Lower level executives
 - (d) All of the above
6. Which of the following are responsible for formulating and developing realistic and attainable strategies?
- (a) Corporate level and business level managers
 - (b) Corporate level and functional level managers
 - (c) Functional managers and business level managers
 - (d) Corporate level managers, business level managers and functional level managers
7. Which of the following managers' role is to translate the general statements/ strategies into concrete strategies of their individual businesses-
- (a) Supervisor
 - (b) Functional Manager
 - (c) CEO of the company
 - (d) All of the above
8. Strategic management can be effectively used by NGOs to-
- (a) Use resource effectively
 - (b) Raise funds
 - (c) Achieve goals

- (d) All the above
9. Strategic management enables an organization to _____, instead of companies just responding to threats in their business environment.
- (a) be proactive
 - (b) determine when the threat will subside
 - (c) avoid the threats
 - (d) defeat their competitors
10. Read the following three statements:
- (i) Strategies have short-range implications.
 - (ii) Strategies are action oriented.
 - (iii) Strategies are rigidly defined.
- From the combinations given below select an alternative that represent statements that are true:
- (a) (i) and (ii)
 - (b) (i) and (iii)
 - (c) (ii) and (iii)
 - (d) (i), (ii) and (iii)
11. What involves formulating, implementing and evaluating cross-functional decisions that enable an organization to achieve its objectives?
- (a) Strategy formulation
 - (b) Strategy evaluation
 - (c) Strategy implementation
 - (d) Strategic management
12. Strategic management allows an organization to be more
- (a) Authoritative
 - (b) Participative
 - (c) Commanding
 - (d) Proactive

Answer

1 (d) 2 (b) 3 (c) 4 (b) 5 (d) 6 (d)
 7 (b) 8 (d) 9 (a) 10 (a) 11 (d) 12 (d)

Descriptive Questions**Question 2**

What is Strategic Management? What benefits accrue by following a strategic approach to managing?

Answer

The term 'strategic management' refers to the managerial process of developing a strategic vision, setting objectives, crafting a strategy, implementing and evaluating the strategy, and initiating corrective adjustments where deemed appropriate.

The overall objective of strategic management is two fold:

- ◆ To create competitive advantage, so that the company can outperform the competitors in order to have dominance over the market.
- ◆ To guide the company successfully through all changes in the environment.

The following are the benefits of strategic approach to managing:

- ◆ Strategic management helps organisations to be more proactive instead of reactive in shaping its future. Organisations are able to analyse and take actions instead of being mere spectators. Thereby they are able to control their own destiny in a better manner. It helps them in working within vagaries of environment and shaping it, instead of getting carried away by its turbulence or uncertainties.
- ◆ Strategic management provides framework for all the major decisions of an enterprise such as decisions on businesses, products, markets, manufacturing facilities, investments and organisational structure. It provides better guidance to entire organisation on the crucial point - what it is trying to do.
- ◆ Strategic management is concerned with ensuring a good future for the firm. It seeks to prepare the corporation to face the future and act as pathfinder to various business opportunities. Organisations are able to identify the available opportunities and identify ways and means as how to reach them.
- ◆ Strategic management serves as a corporate defence mechanism against mistakes and pitfalls. It help organisations to avoid costly mistakes in product market choices or investments. Over a period of time strategic management

helps organisation to evolve certain core competencies and competitive advantages that assist in its fight for survival and growth.

Question 3

Are there any limitations attached to strategic management in organizations? Discuss.

Answer

The presence of strategic management cannot counter all hindrances and always achieve success. There are limitations attached to strategic management. These can be explained in the following lines:

- ◆ Environment is highly complex and turbulent. It is difficult to understand the complex environment and exactly pinpoint how it will shape-up in future. The organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans.
- ◆ Strategic management is a time-consuming process. Organisations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.
- ◆ Strategic management is a costly process. Strategic management adds a lot of expenses to an organization. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement. These can be really costly for organisations with limited resources.
- ◆ In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate the competitive responses to a firm's strategies.

Question 4

Explain the difference between three levels of strategy formulation.

Answer

A typical large organization is a multidivisional organisation that competes in several different businesses. It has separate self-contained divisions to manage each of these. There are three levels of strategy in management of business - corporate, business, and functional.

The corporate level of management consists of the chief executive officer and other top level executives. These individuals occupy the apex of decision making within the organization. The role of corporate-level managers is to oversee the

development of strategies for the whole organization. This role includes defining the mission and goals of the organization, determining what businesses it should be in, allocating resources among the different businesses and so on rests at the Corporate Level.

The development of strategies for individual business areas is the responsibility of the general managers in these different businesses or business level managers. A business unit is a self-contained division with its own functions - for example, finance, production, and marketing. The strategic role of business-level manager, head of the division, is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses.

Functional-level managers are responsible for the specific business functions or operations such as human resources, purchasing, product development, customer service, and so on. Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity, whereas general managers oversee the operation of a whole company or division.

Question 5

"Strategy is partly proactive and partly reactive." Discuss.

Answer

Strategy is partly proactive and partly reactive. In proactive strategy, organizations will analyze possible environmental scenarios and create strategic framework after proper planning and set procedures and work on these strategies in a predetermined manner. However, in reality no company can forecast both internal and external environment exactly. Everything cannot be planned in advance. It is not possible to anticipate moves of rival firms, consumer behaviour, evolving technologies and so on.

There can be significant deviations between what was visualized and what actually happens. Strategies need to be attuned or modified in the light of possible environmental changes. There can be significant or major strategic changes when the environment demands. Reactive strategy is triggered by the changes in the environment and provides ways and means to cope with the negative factors or take advantage of emerging opportunities.

Question 6

How concept of strategic management is useful in Government and medical organizations? Discuss.

Answer

Organizations can be classified as commercial and non-commercial on the basis of the interest they have. Typically, a government or medical organization may function without any commercial objectives. A commercial organization has profit as its main aim. We can find many organizations around us, which do not have any commercial objective of making profits. Their genesis may be for social, charitable, or educational purposes.

The strategic-management process is being used effectively by countless non-profit governmental organizations. Many non-profit and governmental organizations outperform private firms and corporations on innovativeness, motivation, productivity, and human resource.

Compared to for-profit firms, non-profit and governmental organizations often function as a monopoly, produce a product or service that offers little or no measurability of performance, and are totally dependent on outside financing. Especially for these organizations, strategic management provides an excellent vehicle for developing and justifying requests for needed financial support.

Question 7

The presence of strategic management cannot counter all hindrances and always achieve success for an organisation. What are the limitations attached to strategic management?

Answer

The presence of strategic management cannot counter all hindrances and always achieve success as there are limitations attached to strategic management. These can be explained in the following lines:

- ◆ Environment is highly complex and turbulent. It is difficult to understand the complex environment and exactly pinpoint how it will shape-up in future. The organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans. The environment affects as the organisation has to deal with suppliers, customers, governments and other external factors.
- ◆ Strategic Management is a time-consuming process. Organisations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.
- ◆ Strategic Management is a costly process. Strategic management adds a lot of expenses to an organization. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise

strategies and properly implement. These can be really costly for organisations with limited resources particularly when small and medium organisation create strategies to compete.

- ◆ In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate the competitive responses to the strategies.

Scenario Based Questions

Question 8

Health Wellnow is a Delhi based charitable organisation promoting healthy lifestyle amongst the office-goers. It organises free of cost programmes to encourage and guide office-goers on matters related to stress relief, yoga, exercises, healthy diet, weight management, work-life balance and so on. Many business organisations and resident welfare associations are taking services of Health Wellnow in Delhi and adjoining areas and make financial contributions to its cause. The Health Wellnow is able to generate sufficient funds to meet its routine expenses.

How far strategic management is relevant for Health Wellnow? Discuss.

Answer

The concepts of strategic management are relevant for Health Wellnow.

Organizations can be classified as commercial and non-commercial on the basis of the interest they have. Health Wellnow falls in the category of a non-commercial organisation. While non-commercial organisations may have objectives that are different from the commercial organisations, they need to employ the strategic management tools to efficiently use their resources, generate sufficient surpluses to meet daily expenses and achieve their objectives. In fact, many non-profit and governmental organizations outperform private firms and corporations on innovativeness, motivation, productivity, and human relations.

The strategic management in Health Wellnow needs to cover aspects such as:

- (i) Generate sufficient funds for meeting its objectives.
- (ii) Efficiently reach office-goers and help them to have health in life.
- (iii) Promote itself to cover more offices, resident welfare associations.
- (iv) Have a deep collaboration with health experts, including dieticians, psychologist, fitness trainers, yoga experts.

Question 9

'Do Good Group' is a not-for-profit organization based in northern India working towards childcare. The group educates people towards immunization, sanitation and works in coordination with local hospitals or medical centers. Recently, a new team has taken over the management of its activities. Explain whether tools of strategic Management are relevant for the group.

Answer

The tools of strategic management process are effectively being used by a number of not-for-profit or charitable organizations. While 'Do Good Group' may have social and charitable existence, still it has to generate resources and use them wisely to achieve organisational objectives. Organisation needs to be managed strategically, irrespective whether they have profit motive. The strategic Management at 'Do Good Group' should essentially cover:

- ◆ Analyzing and interpreting the strategic intent in terms of vision, mission and objectives.
- ◆ Generating required resources in terms of finance and manpower (volunteers, paid employees).
- ◆ Undertaking SWOT analysis from time to time.
- ◆ Setting goals in the area of childcare. It can be in terms of geographical coverage and number of children.
- ◆ Analyzing the desired future position with the past and present situation.

Question 10

Yummy Foods and Tasty Foods are successfully competing in the business of ready to eat snacks in Patna. Yummy has been pioneer in introducing innovative products. These products will give them good sale. However, Tasty Foods will introduce similar products in reaction to the products introduced by the Yummy Foods taking away the advantage gained by the former.

Discuss the strategic approach of the two companies. Which is superior?

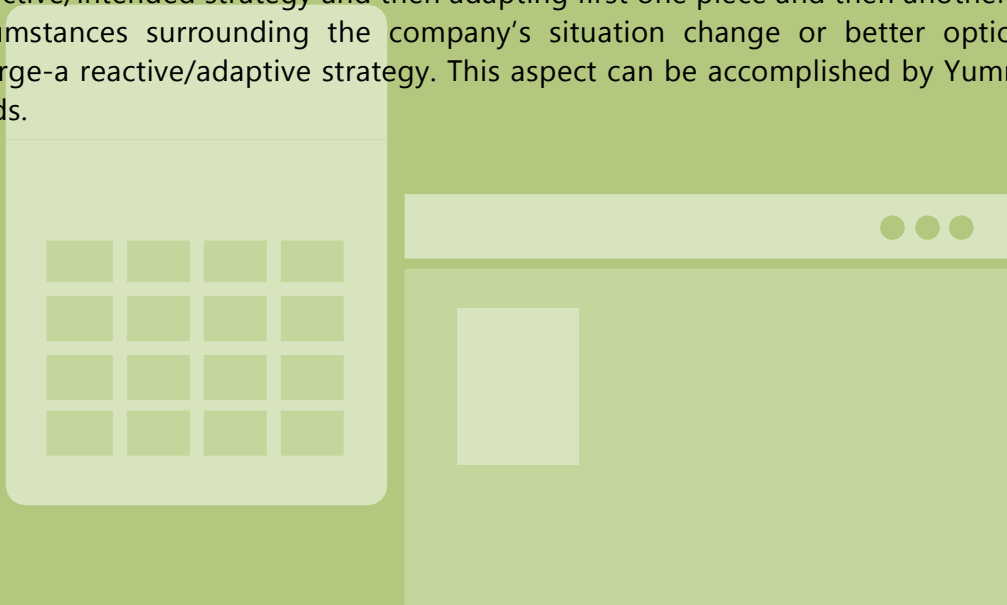
Answer

Yummy foods is proactive in its approach. On the other hand Tasty Food is reactive. Proactive strategy is planned strategy whereas reactive strategy is adaptive reaction to changing circumstances. A company's strategy is typically a blend of proactive actions on the part of managers to improve the company's market position and

financial performance and reactions to unanticipated developments and fresh market conditions.

If organisational resources permit, it is better to be proactive rather than reactive. Being proactive in aspects such as introducing new products will give you advantage in the mind of customers.

At the same time, crafting a strategy involves stitching together a proactive/intended strategy and then adapting first one piece and then another as circumstances surrounding the company's situation change or better options emerge—a reactive/adaptive strategy. This aspect can be accomplished by Yummy Foods.



DYNAMICS OF COMPETITIVE STRATEGY



LEARNING OBJECTIVES

After studying this chapter, you will be able to :

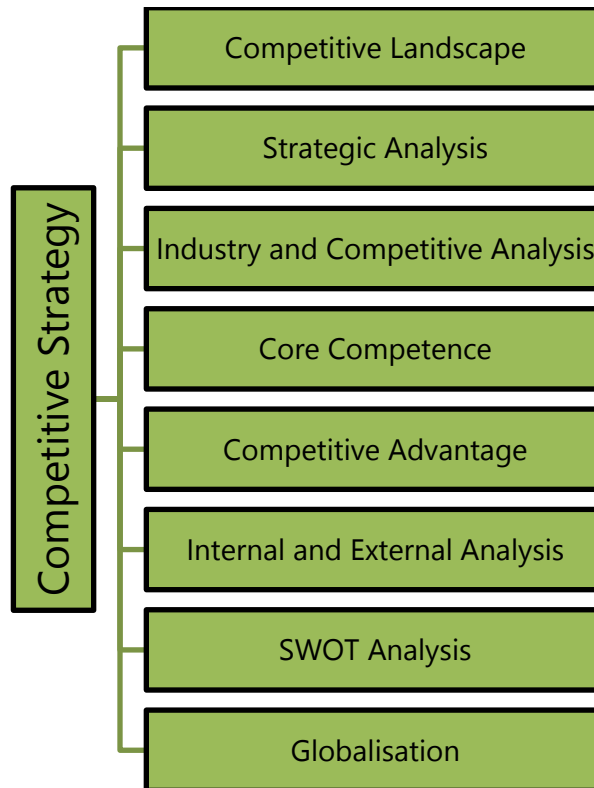
- ❑ Understand the dynamics of competitive strategy.
- ❑ Have knowledge of competitive landscape.
- ❑ Know the importance of strategic analysis in the formulation of strategy.
- ❑ Learn some of the methods of competitive analysis that are used in business organizations.
- ❑ Understand the terms core competencies, competitive advantage.
- ❑ Have an understanding of some of the methods used in portfolio analysis.
- ❑ Appreciate the applicability of SWOT and TOWS analysis
- ❑ Understand globalisation adopted by firms.

Analysis is the critical starting point of strategic thinking.

Kenichi Ohmae

The idea is to concentrate our strength against our competitor's relative weakness.

Bruce Henderson

CHAPTER OVERVIEW **2.1 INTRODUCTION**

The business environment is highly dynamic and continuously evolving. The changes happening in the external environment challenge organisations to find novel and unique strategies to remain in business and succeed. As the world is getting smaller and competition is increasing, organisations have increasing pressure to develop their business and strengthen its competitiveness. Strategic thinking and strategic management are highly relevant and important for all the managers in organisations in order to achieve competitive advantage, high performance for success and to ensure company's survival and growth.

Competitive Strategy

Competitive strategy of a firm evolves out of consideration of several factors that are external to it. The external environment affects the internal environment of the firm. The economic and technical components of the external environment are

considered as major factors leading to new opportunities for the organization and also creating threats. Similarly, the broader expectation of the society in which the organization operates is again an important factor to determine the competitive strategy.

A firm must identify its position relative to the competitors in the market. The objective of a competitive strategy is to generate competitive advantage, increase market share and beat competition. A competitive strategy consists of moves to:

- ◆ Attract customers and deliver value.
- ◆ Withstand competitive pressures.
- ◆ Strengthen market position.

Having a competitive advantage is necessary for a firm to compete in the market. Competitive advantage comes from a firm's ability to perform activities more effectively than its rivals. But what is more important is whether the competitive advantage is sustainable. By knowing if it is a leader, challenger, or follower, it can adopt appropriate competitive strategy.

2.2 COMPETITIVE LANDSCAPE

Competitive landscape is a business analysis which identifies competitors, either direct or indirect. Competitive landscape is about identifying and understanding the competitors and at the same time, it permits the comprehension of their vision, mission, core values, niche market, strengths and weaknesses. Understanding of competitive landscape requires an application of "competitive intelligence".

An in-depth investigation and analysis of a firm's competition allows it to assess the competitor's strengths and weaknesses in the marketplace and helps it to choose and implement effective strategies that will improve its competitive advantage.

Reality Bite: Hyundai is an important player in the Indian Automobiles (car) market. The company has achieved success year after year since its entry into the Indian market where Maruti has been the industry leader. Hyundai has a deep understanding of its competitive landscape where Tata motors, Mahindra & Mahindra, Toyota, Honda, Ford etc. are competing besides Maruti. To succeed in the competitive environment, it brings out new cars and improved models of existing cars every year to cater to various segments of customers.

2.2.1 Steps to understand the Competitive Landscape

- i. **Identify the competitor:** The first step to understand the competitive landscape is to identify the competitors in the firm's industry and have actual data about their respective market share.

This answers the question:

- ◆ Who are the competitors?

- ii. **Understand the competitors:** Once the competitors have been identified, the strategist can use market research report, internet, newspapers, social media, industry reports, and various other sources to understand the products and services offered by them in different markets.

This answers the question:

- ◆ What are their product and services?

- iii. **Determine the strengths of the competitors:** What are the strength of the competitors? What do they do well? Do they offer great products? Do they utilize marketing in a way that comparatively reaches out to more consumers. Why do customers give them their business?

This answers the questions:

- ◆ What are their financial positions?
- ◆ What gives them cost and price advantage?
- ◆ What are they likely to do next?
- ◆ How strong is their distribution network?
- ◆ What are their human resource strengths?

- iv. **Determine the weaknesses of the competitors:** Weaknesses (and strengths) can be identified by going through consumer reports and reviews appearing in various media. After all, consumers are often willing to give their opinions, especially when the products or services are either great or very poor.

This answers the question

- ◆ Where are they lacking?

- v. **Put all of the information together:** At this stage, the strategist should put together all information about competitors and draw inference about what

they are not offering and what the firm can do to fill in the gaps. The strategist can also know the areas which need to be strengthened by the firm.

This answers the questions:

- ◆ What will the business do with this information?
- ◆ What improvements does the firm need to make?
- ◆ How can the firm exploit the weaknesses of competitors?

2.3 STRATEGIC ANALYSIS

Strategy formulation is not a task in which managers can get by with intuition, opinions, instincts, and creative thinking. Judgments about what strategies to pursue need to flow directly from analysis of a firm's external environment and its internal resources and capabilities. The two most important situational considerations are:

- (1) industry and competitive conditions, and
- (2) an organisation's own competitive capabilities, resources, internal strengths, weaknesses, and market position.

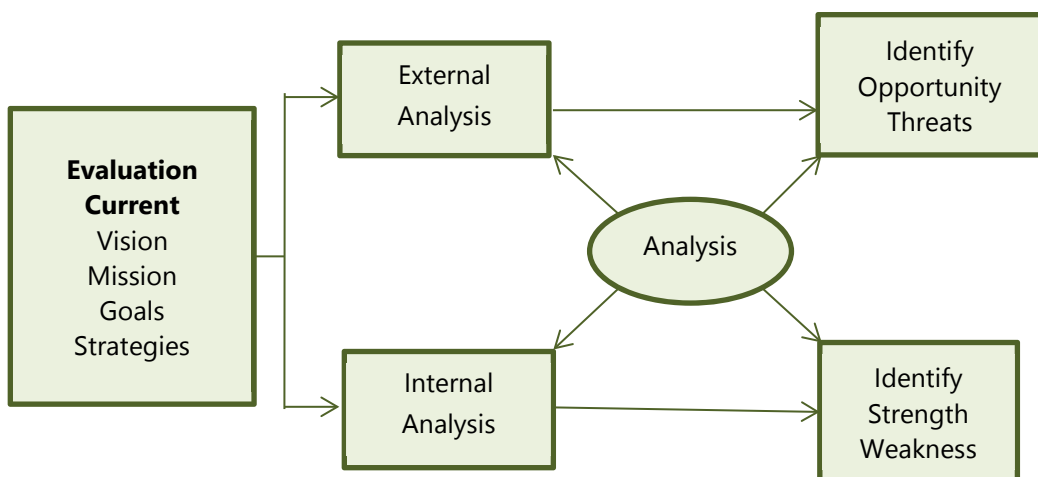


Figure: Strategic Analysis

The analytical sequence is from strategic appraisal of the external and internal situation, to evaluation of alternatives, to choice of strategy. Accurate diagnosis of the company's situation is necessary for managerial preparation for deciding on a sound long-term direction, setting appropriate objectives, and crafting a winning strategy. Without perceptive understanding of the strategic aspects of a company's external and internal environments, the chances are greatly increased that

managers will finalise a strategic game plan that doesn't fit the situation well, that holds little prospect for building competitive advantage, and that is unlikely to boost company performance.

Issues to consider for Strategic Analysis

Strategy evolves over a period of time: There are different forces that drive and constrain strategy and that must be balanced in any strategic decision. An important aspect of strategic analyses is to consider the possible implications of routine decisions. Strategy of a firm, at a particular point of time, is result of a series of small decisions taken over an extended period of time. A manager who makes an effort to increase the growth momentum of an organization is materially changing strategy.

Balance of external and internal factors: The process of strategy formulation is often described as one of the matching the internal potential of the organization with the environmental opportunities. In reality, as perfect match between the two may not be feasible, strategic analysis involves a workable balance between diverse and conflicting considerations. A manager working on a strategic decision has to balance opportunities, influences and constraints. There are pressures that are driving towards a particular choice such as entering a new market. Simultaneously, there are constraints that limit the choice such as existence of a big competitor. These constraining forces will be producing an impact that will vary in nature, degree, magnitude and importance. Some of these factors can be managed to an extent, however, there will be several others that are beyond the control of a manager.

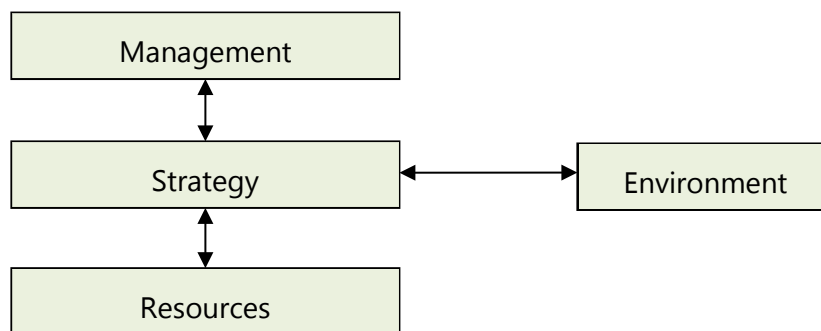


Figure: Strategy and Environment

Risk: In strategic analyses, the principle of maintaining balance is important. However, the complexity and intermingling of variables in the environment reduces the strategic balance in the organisation. Competitive markets, liberalization, globalization, booms, recessions, technological advancements, inter-country relationships all affect businesses and pose risk at varying degrees. An important

aspect of strategic analysis is to identify potential imbalances or risks and assess their consequences. A broad classification of the strategic risk that requires consideration in strategic analysis is given below:

		Time	
		Short Time	Long Time
Strategic Risks	External	Errors in interpreting the environment cause strategic failure	Changes in the environment lead to obsolescence of strategy.
	Internal	Organizational capacity is unable to cope up with strategic demands.	Inconsistencies with the strategy are developed on account of changes in internal capacities and preferences

Figure: Strategic Risk

External risk is on account of inconsistencies between strategies and the forces in the environment. Internal risk occurs on account of forces that are either within the organization or are directly interacting with the organization on a routine basis



Figure: Framework of Strategic Analysis

Industries differ widely in their economic characteristics, competitive situations, and future profit prospects. For example, the economic and competitive traits of the fast-food business have little in common with those of Internet service providers. The telecom business is shaped by industry and competitive considerations radically different from those that dominate the aviation industry.

The economic character of industries varies according to such factors as overall size and market growth rate, the pace of technological change, the geographic boundaries of the market (which can extend from local to worldwide), the number and size of buyers and sellers, whether sellers' products are virtually identical or highly differentiated, the extent to which costs are affected by economies of scale, and the types of distribution channels used to access buyers. Competitive forces can be moderate in one industry and fierce, even cutthroat, in another. In some industries competition focuses on who has the best price, while in others competition is centred on quality and reliability (as in monitors for PCs and laptops) or product features and performance (as in mobile phones) or quick service and convenience. (as in online shopping and fast foods) or brand reputation (as in laundry detergents and soft drinks). In other industries, the challenge is for companies to work cooperatively with suppliers, customers, and maybe even select competitors to create the next round of product innovations and open up whole new vistas of market opportunities.

An industry's economic traits and competitive conditions, and how they are expected to change, determine whether its profit prospects are poor, average, or excellent. Industry and competitive conditions differ so much that leading companies in unattractive industries can find it hard to earn respectable profits, while even weak companies in attractive industries can achieve in good performances.



2.4 METHODS OF INDUSTRY AND COMPETITIVE ANALYSIS

Industry and competitive analysis can be done using a set of concepts and techniques to get a clear picture on key industry traits, the intensity of competition, the drivers of industry change, the market positions and strategies of rival companies, competitive success, and profit prospects. It provides a way of thinking strategically about any industry's overall situation and drawing conclusions about whether the industry represents an attractive investment for organisational funds. The analysis entails examining business in the context of a wider environment. Industry and competitive analysis aims at developing insight in several issues.

Analysing these issues build understanding of a firm's surrounding environment and, collectively, form the basis for matching its strategy to changing industry conditions and competitive realities. The issues are discussed below:

2.4.1 Dominant Economic Features of the Industry

Industries differ significantly in their basic character and structure. Industry and competitive analysis begins with an overview of the industry's dominant economic features. Industry is *"a group of firms whose products have same and similar attributes such that they compete for the same buyers."* The factors to be considered in profiling an industry's economic features are fairly standard and are given as follows:

- ◆ Size and nature of market.
- ◆ Scope of competitive rivalry (local, regional, national, international, or global).
- ◆ Market growth rate and position in the business life (early development, rapid growth and takeoff, early maturity, saturation and stagnation, decline).
- ◆ Number of rivals and their relative market share.
- ◆ The number of buyers and their relative sizes. Whether and to what extent industry rivals have integrated backward and/or forward.
- ◆ The types of distribution channels used to access consumers.
- ◆ The pace of technological change in both production process innovation and new product introductions.
- ◆ Whether the products and services of rival firms are highly differentiated, weakly differentiated, or essentially identical?
- ◆ Whether organisation can realize economies of scale in purchasing, manufacturing, transportation, marketing, or advertising?
- ◆ Whether key industry participants are clustered in a particular location, for example, lock industry in Aligarh. Saris and diamonds in Surat, information technology in Bangalore. Similarly, there is also concentration of business in different countries on account of geographical and other reasons?
- ◆ Whether certain industry activities are characterized by strong learning and experience effects ("learning by doing") such that unit costs decline as cumulative output grows?
- ◆ Whether high rates of capacity utilization are crucial to achieving low-cost production efficiency?

- ◆ Capital requirements and the ease of entry and exit.
- ◆ Whether industry profitability is above/below par?

2.4.2 Nature and Strength of Competition

An important component of industry and competitive analysis involves delving into the industry's competitive process to discover what the main sources of competitive pressure are and how strong each competitive force is. This analytical step is essential because managers cannot devise a successful strategy without in-depth understanding of the industry's competitive character. Even though competitive pressures in various industries are never precisely the same, the competitive process works similarly enough to use a common analytical framework in gauging the nature and intensity of competitive forces.

Porter's five forces model is useful in understanding the competition. It is a powerful tool for systematically diagnosing the main competitive pressures in a market and assessing how strong and important each one is. Not only is it the widely used technique of competition analysis, but it is also relatively easy to understand and apply.

2.4.3 Triggers of Change

An industry's economic features and competitive structure revealed a lot about its fundamental character but little about the ways in which its environment may be changing. All industries are characterized by trends and new developments that gradually produce changes important enough to require a strategic response from participating firms. The popular hypothesis about industries going through a life cycle helps explain industry change but is still incomplete. The life-cycle stages are strongly linked to changes in the overall industry growth rate (which is why such terms as rapid growth, early maturity, saturation, and decline are used to describe the stages). Yet there are more causes of industry change than an industry's position in the life cycle.

Driving forces: While it is important to judge what growth stage an industry is in, there's more analytical value in identifying the specific factors causing fundamental industry and competitive adjustments. Industry and competitive conditions change because forces are in motion that creates incentives or pressures for changes. The most dominant forces are called driving forces because they have the biggest influence on what kinds of changes will take place in the industry's structure and competitive environment. Analyzing driving forces has two steps: identifying what the driving forces are and assessing the impact they will have on the industry.

Most common driving forces: Many events can affect an industry powerfully enough to qualify as driving forces. Some are unique and specific to a particular industry situation, but many drivers of change fall into general category affecting different industries simultaneously. Some of the categories/examples of drivers are follows:

- ◆ The internet and e-commerce opportunities and threats it breeds in the industry.
- ◆ Increasing globalization.
- ◆ Changes in the long-term industry growth rate.
- ◆ Product 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.

2.4.4 Identifying the Strongest/Weakest Companies (Strategic Group Mapping)

The next step in examining the industry's competitive structure is to study the market positions of rival companies. One technique for revealing the competitive positions of industry participants is strategic group mapping, which is useful analytical tool for comparing the market positions of each firm separately or for grouping them into like positions when an industry has so many competitors that it is not practical to examine each one in-depth.

A strategic group consists of those rival firms which have similar competitive approaches and positions in the market. Companies in the same strategic group can resemble one another in any of the several ways: they may have comparable product-line breadth, sell in the same price/quality range, emphasize the same distribution channels, use essentially the same product attributes to appeal to similar types of buyers, depend on identical technological approaches, or offer buyers similar services and technical assistance. An industry contains only one strategic group when all sellers pursue essentially identical strategies and have comparable market positions. At the other extreme, there are as many strategic groups as there are competitors when each rival pursues a distinctively different competitive approach and occupies a substantially different competitive position in the marketplace.

The procedure for constructing a strategic group map and deciding which firms belong in which strategic group is straightforward:

- ◆ Identify the competitive characteristics that differentiate firms in the industry typical variables are price/quality range (high, medium, low); geographic coverage (local, regional, national, global); degree of vertical integration (none, partial, full); product-line breadth (wide, narrow); use of distribution channels (one, some, all); and degree of service offered (no-frills, limited, full).
- ◆ Plot the firms on a two-variable map using pairs of these differentiating characteristics.
- ◆ Assign firms that fall in about the same strategy space to the same strategic group.
- ◆ Draw circles around each strategic group making the circles proportional to the size of the group's respective share of total industry sales revenues.

2.4.5 Likely Strategic Moves of Rivals

Unless a business organisation pays attention to what competitors are doing, it ends up flying blind into competitive battle. A company can't expect to outmanoeuvre its rivals without monitoring their actions, understanding their strategies, and anticipating what moves they are likely to make next. Competitive intelligence about the strategies rivals are deploying, their latest moves, their resource strengths and weaknesses, and the plans they have announced is essential to anticipating the actions they are likely to take next and what bearing their moves might have on a company's own best strategic moves. Competitive intelligence can help a company determine whether it needs to defend against specific moves taken by rivals or whether those moves provide an opening for a new offensive thrust.

2.4.6 Key Factors for Competitive Success

An industry's Key Success Factors (KSFs) are those things that most affect industry members' ability to prosper in the marketplace - the particular strategy elements, product attributes, resources, competencies, competitive capabilities, and business outcomes that spell the difference between profit and loss and, ultimately, between competitive success or failure. KSFs by their very nature are so important that all firms in the industry must pay close attention to them. They are the prerequisites for industry success or, to put it another way, KSFs are the rules that shape whether a company will be financially and competitively successful. The answers to three questions help identify an industry's key success factors:

- ◆ On what basis do customers choose between the competing brands of sellers? What product attributes are crucial?

- ◆ What resources and competitive capabilities does a seller need to have to be competitively successful?
- ◆ What does it take for sellers to achieve a sustainable competitive advantage?

For example, in apparel manufacturing, the KSFs are appealing designs and colour combinations (to create buyer interest) and low-cost manufacturing efficiency (to permit attractive retail pricing and ample profit margins).

Determining the industry's key success factors, given prevailing and anticipated industry and competitive conditions, is a top-priority analytical consideration. At the very least, managers need to understand the industry situation well enough to know what is more important to competitive success and what is less important. They need to know what kind of resources are competitively valuable. Misdiagnosing the industry factors critical to long-term competitive success greatly raises the risk of a misdirected strategy. In contrast, an organisation with perceptive understanding of industry KSFs can gain sustainable competitive advantage by training its strategy on industry KSFs and devoting its energies to being distinctively better than rivals on one or more of these factors. Indeed, business organisations that stand out on a particular KSF enjoy a stronger market position for their, efforts-being distinctively better than rivals on one or more key success factors presents a golden opportunity for gaining competitive advantage. Hence, using the industry's KSFs as cornerstones for the company's strategy and trying to gain sustainable competitive advantage by excelling at one particular KSF is a fruitful competitive strategy approach.

Key success factors vary from industry to industry and even from time to time within the same industry as driving forces and competitive conditions change. Only rarely does an industry have more than three or four key success factors at any one time. And even among these three or four, one or two usually outrank the others in importance. Managers, therefore, have to resist the temptation to include factors that have only minor importance on their list of key success factors. The purpose of identifying KSFs is to make judgments about what things are more important to competitive success and what things are less important. To compile a list of every factor that matters even a little bit defeats the purpose of concentrating management attention on the factors truly critical to long-term competitive success.

2.4.7 Prospects and Financial Attractiveness of Industry

The final step of industry and competitive analysis is to use the results of analysis of previous six issues to draw conclusions about the relative attractiveness or

unattractiveness of the industry, both near-term and long-term. Company strategists are obligated to assess the industry outlook carefully, deciding whether industry and competitive conditions present an attractive business opportunity for the organisation or whether its growth and profit prospects are gloomy. The important factors on which to base such conclusions include:

- ◆ The industry's growth potential.
- ◆ Whether competition currently permits adequate profitability and whether competitive forces will become stronger or weaker?
- ◆ Whether industry profitability will be favourably or unfavourably affected by the prevailing driving forces?
- ◆ The competitive position of an organisation in the industry and whether its position is likely to grow stronger or weaker. (Being a well-entrenched leader or strongly positioned contender in an otherwise lacklustre industry can still produce good profitability; however, having to fight an uphill battle against much stronger rivals can make an otherwise attractive industry unattractive).
- ◆ The potential to capitalize on the vulnerabilities of weaker rivals (perhaps converting an unattractive industry situation into a potentially rewarding company opportunity).
- ◆ Whether the company is able to defend against or counteract the factors that make the industry unattractive?
- ◆ The degrees of risk and uncertainty in the industry's future.
- ◆ The severity of problems confronting the industry as a whole.
- ◆ Whether continued participation in this industry adds importantly to the firm's ability to be successful in other industries in which it may have business interests?

As a general proposition, if an industry's overall profit prospects are above average, the industry can be considered attractive; if its profit prospects are below average, it is unattractive. However, it is a mistake to think of industries as being attractive or unattractive to all firms in the industry and all potential entrants. Attractiveness is relative, not absolute. Industry environments unattractive to weak competitors may be attractive to strong competitors.

An assessment that the industry is fundamentally attractive typically suggests that current industry participants employ strategies calculated to strengthen their long-term competitive positions in the business, expanding sales efforts and investing

in additional facilities and equipment as needed. If the industry and competitive situation is judged relatively unattractive, more successful industry participants may choose to invest cautiously, look for ways to protect their long-term competitiveness and profitability, and perhaps acquire smaller firms if the price is right; over the longer term, strong companies may consider diversification into more attractive businesses. Weak companies in unattractive industries may consider merging with a rival to bolster market share and profitability or, alternatively, begin looking outside the industry for attractive diversification opportunities.

2.5 CORE COMPETENCIES

Core competencies are capabilities that serve as a source of competitive advantage for a firm over its rivals. C.K. Prahalad and Gary Hamel have advocated a concept of core competency, which is a widely-used concept in management theories. They defined core competency as the collective learning in the organization, especially coordinating diverse production skills and integrating multiple streams of technologies. An organization's combination of technological and managerial know-how, wisdom and experience are a complex set of capabilities and resources that can lead to a competitive advantage compared to a competitor.

Competency is defined as a combination of skills and techniques rather than individual skill or separate technique. For core competencies, it is characteristic to have a combination of skills and techniques, which makes the whole organization utilize these several separate individual capabilities. Therefore, core competencies cannot be built on one capability or single technological know-how, instead, it has to be the integration of many resources. The optimal way to define core competence is to consider it as sum of 5- 15 areas of developed expertise.

According to C.K. Prahalad and Gary Hamel, major core competencies are identified in three areas - **competitor differentiation, customer value, and application** to other markets.

Competitor differentiation is one of the main three conditions. The company can consider having a core competence if the competence is unique and it is difficult for competitors to imitate. This can provide a company an edge compared to competitors. It allows the company to provide better products or services to market with no fear that competitors can copy it. The company has to keep on improving these skills in order to sustain its competitive position. Competence does not necessarily have to exist within one company in order to define as core competence. Although all companies operating in the same market would have the

equal skills and resources, if one company can perform this significantly better; the company has obtained a core competence.

The second condition to be met is **customer value**. When purchasing a product or service it has to deliver a fundamental benefit for the end customer in order to be a core competence. It will include all the skills needed to provide fundamental benefits. The service or the product has to have real impact on the customer as the reason to choose to purchase them. If customer has chosen the company without this impact, then competence is not a core competence and it will not affect the company's market position.

The last condition refers to **application of competencies** to other markets. Core competence must be applicable to the whole organization; it cannot be only one particular skill or specified area of expertise. Therefore, although some special capability would be essential or crucial for the success of business activity, it will not be considered as core competence, if it is not fundamental from the whole organization's point of view. Thus, a core competence is a unique set of skills and expertise, which will be used through out the organisation to open up potential markets to be exploited.

If the three above-mentioned conditions are met, then the company can regard it competence as core competency.

Core competencies are often visible in the form of organizational functions. *For example:* Marketing and Sales is a core competence of Hindustan Unilever Limited (HUL) This means that HUL has used its resources to form marketing related capabilities that in turn allow it to market its products in ways that are superior those of competitors. Because of this core competence, HUL is capable of launching new brands in the market successfully.

A core competency for a firm is whatever it does best: For example: Wal-Mart focuses on lowering its operating costs. The cost advantage that Wal-Mart has created for itself has allowed the retailer to price goods lower than most competitors. The core competency in this case is derived from the company's ability to generate large sales volume, allowing the company to remain profitable with low profit margin.



Core competencies are the knowledge, skills, and facilities necessary to design and produce core products. Core competencies are created by superior integration of technological, physical and human resources. They represent distinctive skills as well as intangible, invisible, intellectual assets and cultural capabilities. Cultural

capabilities refer to the ability to manage change, the ability to learn and team working. Organizations should be viewed as a bundle of a few core competencies, each supported by several individual skills. Core Competence-based diversification reduces risk and investment, and increases the opportunities for transferring learning and best practice across business units.

Core technological competencies are also corporate assets; and as assets, they facilitate corporate access to a variety of markets and businesses. For competitive advantage, a core technological competence should be difficult for the competitors to imitate.

Core competencies distinguish a company competitively and reflect its personality. These competencies emerge over time through an organizational process of accumulating and learning how to deploy different resources and capabilities. It is important to identify core competencies because it is difficult to retain those competencies in a price war and cost-cutting environment. A Core competency fulfills three criteria:

- i. It should provide potential access to a wide variety of markets.
- ii. It should make a significant contribution to the perceived customer benefits of the end product.
- iii. It should be difficult to imitate for competitors/rivals.

Examples:

- A.** Small retail shops have core competencies and gain competitive advantage in the areas of -
 - (i) personal service to customers, (ii) extended working hours, (iii) easy credit, (iv) free home deliveries, (v) amicable style of the owner, and (vi) proximity.
- B.** Big retail stores (for e.g. Big Bazaar) and supermarkets have special core competence in the areas of-
 - (i) merchandising, (ii) securing supplies at lower cost, (iii) in-house activity management, (iv) computerized stock ordering, billing systems and (v) own brand labels.
- C.** Supermarkets compete with one another with core competencies as to –
 - (i) locational advantage, (ii) quality assurance, (iii) customer convenience in shopping, etc.

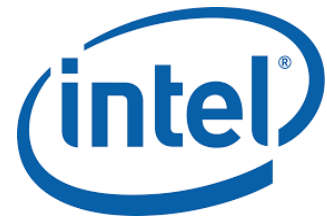
How to build Core Competencies (CC)?

There are two tools that help the firm to identify and build its core competencies.

1. Four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies.

Capabilities that are valuable, rare, costly to imitate, and non-substitutable are core competencies.

- i. Valuable:** Valuable capabilities are the ones that allow the firm to exploit opportunities or avert the threats in its external environment. A firm created value for customers by effectively using capabilities to exploit opportunities. Finance companies build a valuable competence in financial services. In addition, to make such competencies as financial services highly successful require placing the right people in the right jobs. Human capital is important in creating value for customers.
- ii. Rare:** Core competencies are very rare capabilities and very few of the competitors possess this. Capabilities possessed by many rivals are unlikely to be sources of competitive advantage for any one of them. Competitive advantage results only when firms develop and exploit valuable capabilities that differ from those shared with competitors.
- iii. Costly to imitate:** Costly to imitate means such capabilities that competing firms are unable to develop easily. *For example:* Intel has enjoyed a first-mover advantage more than once because of its rare fast R&D cycle time capability that brought SRAM and DRAM integrated circuit technology, and brought microprocessors to market well ahead of the competitor. The product could be imitated in due course of time, but it was much more difficult to imitate the R&D cycle time capability.
- iv. Non-substitutable:** Capabilities that do not have strategic equivalents are called non-substitutable capabilities. This final criterion for a capability to be a source of competitive advantage is that there must be no strategically equivalent valuable resources that are themselves either not rare or imitable.



For Example: For years, firms tried to imitate Tata's low-cost strategy but most have been unable to duplicate Tata's success. They did not realize that Tata has a unique culture and attracts some of the top talent in the industry. The culture and excellent human capital worked together in implementing Tata's strategy and are the basis for its competitive advantage.



The strategic value of capabilities increases as they become more difficult to substitute.

For example: Competitors are deeply aware about Apple's operating system's (iOS) successful model. However, to date, no competitor has been able to imitate Apple's capabilities. These are also protected through copyrights.



To sum up, we can say that only when a capability is valuable, rare, costly to imitate, and non-substitutable, it is a core competence and a source of competitive advantage. Over a time, core competencies must be supported. Core competencies are a source of competitive advantage only when they allow the firm to create value by exploiting opportunities in its external environment.

Failing to identify core competencies is a kind of opportunity loss for a company. That failure is due to the inability of management to conceive of a company as other than a mere collection of discrete businesses.

A. Value Chain Analysis

Value chain analysis has been widely used as a means of describing the activities within and around an organization, and relating them to an assessment of the competitive strength of an organization (or its ability to provide value-for-money products or services). Value chain analysis was originally introduced as an accounting analysis to shed light on the 'value added' of separate steps in complex manufacturing processes, in order to determine where cost improvements could be made and/or value creation improved. The two basic steps of identifying separate activities and assessing the value added from each were linked to an analysis of an organization's competitive advantage by Michael Porter.

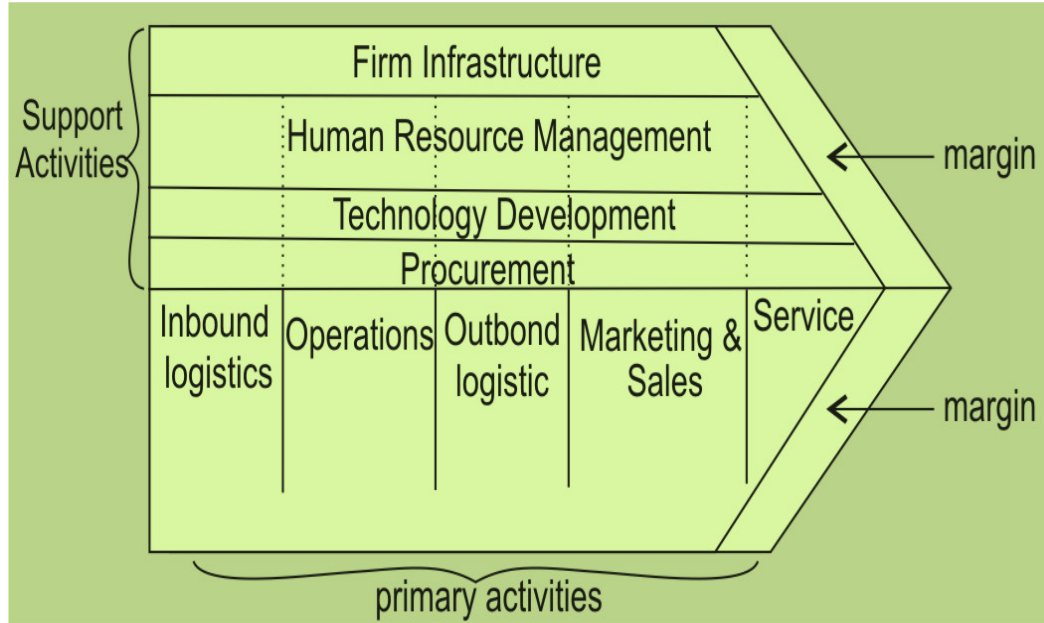


Figure: Value Chain (Michael Porter)

One of the key aspects of value chain analysis is the recognition that organizations are much more than a random collection of machines, material, money and people. These resources are of no value unless deployed into activities and organised into systems and routines which ensure that products or services are produced which are valued by the final consumer/user. In other words, it is these competences to perform particular activities and the ability to manage linkages between activities which are the source of competitive advantage for organizations. Porter argued that an understanding of strategic capability must start with an identification of these separate value activities.

The primary activities of the organization are grouped into five main areas: inbound logistics, operations, outbound logistics, marketing and sales, and service.

- ◆ ***Inbound logistics*** are the activities concerned with receiving, storing and distributing the inputs to the product/service. This includes materials handling, stock control, transport etc.
- ◆ ***Operations transform these inputs into the final product or service:*** machining, packaging, assembly, testing, etc.
- ◆ ***Outbound logistics*** collect, store and distribute the product to customers. For tangible products this would be warehousing, materials handling, transport, etc. In the case of services, it may be more concerned with

arrangements for bringing customers to the service, if it is a fixed location (e.g. sports events).

- ◆ **Marketing and sales** provide the means whereby consumers/users are made aware of the product/service and are able to purchase it. This would include sales administration, advertising, selling and so on. In public services, communication networks which help users' access a particular service are often important.
- ◆ **Service** are all those activities, which enhance or maintain the value of a product/service, such as installation, repair, training and spares.

Each of these groups of primary activities are linked to support activities. These can be divided into four areas

- ◆ **Procurement:** This refers to the processes for acquiring the various resource inputs to the primary activities (not to the resources themselves). As such, it occurs in many parts of the organization.
- ◆ **Technology development:** All value activities have a 'technology', even if it is simply know-how. The key technologies may be concerned directly with the product (e.g. R&D product design) or with processes (e.g. process development) or with a particular resource (e.g. raw materials improvements).
- ◆ **Human resource management:** This is a particularly important area which transcends all primary activities. It is concerned with those activities involved in recruiting, managing, training, developing and rewarding people within the organization.
- ◆ **Infrastructure:** The systems of planning, finance, quality control, information management, etc. are crucially important to an organization's performance in its primary activities. Infrastructure also consists of the structures and routines of the organization which sustain its culture.

Use of value Chain Analysis for Identifying Core Competences: Value chain analysis is useful in describing the separate activities which are necessary to underpin an organization's strategies and how they link together both inside and outside the organization.

Although a threshold competence in all of these activities is necessary to the organization's successful operation, it is important to identify those competences which critically underpin the organization's competitive advantage. These are known as the core competences and will differ from one organization to another depending on how the company is positioned and the strategies it is pursuing. For

example, a typical 'corner shop' grocery store gains competitive advantage over supermarkets by concentrating more on convenience and service through different core competences. It is also important to understand that those unique resources and core competences which allow supermarkets to gain competitive advantage over corner shops are not unique resources or core competences in the competitive rivalry between supermarkets.

The development of global competition in the automobile industry over recent decades also illustrates this issue well. During the 1950s and 1960s, the US giants such as Ford and GM dominated the global market through their market access core competences of establishing dealer networks and later overseas production plants. Meanwhile, Japanese manufacturers were developing competences in defect-free manufacture. By the mid-1970s they were significantly outperforming Ford on quality and reliability - which became critical success factors in allowing them to achieve global sales. By the mid-1980s, both Ford and the major Japanese companies had achieved similar competence in these two areas of global networks and quality. Although maintaining a global network was a critical success factor which continued to distinguish Ford and the Japanese from many European companies such as Peugeot, the production and supplier management activities underpinning quality (reliability) were becoming threshold competences.

It is important to identify an organization's core competences not only for reasons of ensuring or continuing good 'fit' between these core competences and the changing nature of the markets or environment. Core competences may also be the basis on which the organization stretches into new opportunities. So, in deciding which competences are core, this is another criterion which should be used - the ability to exploit the competence in more than one market or arena. The development of 'added value' services and/or geographical spread of markets are two typical ways in which core competences can be exploited to maintain progress once traditional markets are mature or saturated.

Value chain analysis is a reminder that the long-term competitive position of an organization is concerned with its ability to sustain value for-money products or services, and it can be helpful in identifying those activities which the organization must undertake at a threshold level of competence and those which represent the core competences of the organization. However, in order to do this, it is necessary to identify the basis on which an organization has gained competitive advantage and hence which are the core competences in sustaining this advantage. Different bases as to how organizational competences can be analysed and understood are given below:

Managing linkages: Core competences in separate activities may provide competitive advantage for an organization, but nevertheless over time may be imitated by competitors. Core competences are likely to be more robust and difficult to imitate if they relate to the management of linkages within the organization's value chain and linkages into the supply and distribution chains. It is the management of these linkages which provides 'leverage' and levels of performance which are difficult to match.

The ability to co-ordinate the activities of specialist teams or departments may create competitive advantage through improving value for money in the product or service. Specialization of roles and responsibilities is common in most organizations and is one way in which high levels of competence in separate activities is achieved. However, it often results in a set of activities which are incompatible - different departments pulling in different directions - adding overall cost and/or diminishing value in the product or service.

This management of internal linkages in the value chain could create competitive advantage in a number of ways:

- ◆ There may be important linkages between the primary activities. For example, a decision to hold high levels of finished stock might ease production scheduling problems and provide for a faster response time to the customer. However, it will probably add to the overall cost of operations.
- ◆ It is easy to miss this issue of managing linkages between primary activities in an analysis if, for example, the organization's competences in marketing activities and operations are assessed separately. The operations may look good because they are geared to high-volume, low-variety, low-unit-cost production. However, at the same time, the marketing team may be selling speed, flexibility and variety to the customers.
- ◆ The management of the linkages between a primary activity and a support activity may be the basis of a core competence. It may be key investments in systems or infrastructure which provides the basis on which the company outperforms competitors. Computer-based systems have been exploited in many different types of service organizations and have fundamentally transformed the customer experience (Ola and Uber). Travel bookings and hotel reservation systems are examples which other services would do well to emulate. They have created within these organizations the competence to provide both a better service and a service at reduced cost.

- ◆ Linkages between different support activities may also be the basis of core competences. For example, the extent to which human resource development is in tune with new technologies has been a key feature in the implementation of new production and office technologies. Many companies have failed to become competent in managing this linkage properly and have lost out competitively.

In addition to the management of internal linkage, competitive advantage may also be gained by the ability to complement/co-ordinate the organization's own activities with those of suppliers, channels or customers. Again, this could occur in a number of different ways:

- ◆ Vertical integration attempts to improve performance through ownership of more parts of the value system, making more linkages internal to the organization. However, the practical difficulties and costs of co-ordinating a wider range of internal activities can outweigh the theoretical benefits.
- ◆ Within manufacturing industry the competence in closely specifying requirements and controlling the performance of suppliers (sometimes linked to quality checking and/or penalties for poor performance) can be critical to both quality enhancement and cost reduction.
- ◆ A more recent philosophy has been total quality management, which seeks to improve performance through closer working relationships between the specialists within the value system. For example, many manufacturers will now involve their suppliers and distributors at the design stage of a product or project.



2.6 COMPETITIVE ADVANTAGE

Why do some companies succeed while others fail? Why did Hindustan Motors do so well for several decades? How did Apple return from near obsolescence in the late 1990s and become the world leader and a dominant technology company of today? In the Indian airline industry, how has Indigo Airlines managed to keep increasing its revenues and profits through both good times and bad, while rivals struggled?

For most, if not all, companies, achieving superior performance relative to rivals is the ultimate challenge. If a company's strategies result in superior performance, it is said to have a competitive advantage.

Strategic management involves development of competencies that managers can use to achieve better performance and a competitive advantage for their

organization. Competitive advantage allows a firm to gain an edge over rivals when competing. 'It is a set of unique features of a company and its products that are perceived by the target market as significant and superior to the competition.' In other words, an organization is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry.

"If you don't have a competitive advantage, don't compete"

- Jack Welch

Competitive advantage is the achieved advantage over rivals when a company's profitability is greater than the average profitability of firms in its industry. It is achieved when the firm successfully formulates and implements the value creation strategy and other firms are unable to duplicate it or find it too costly to imitate. Further, it can be said that a firm is successful in achieving competitive advantage only after other firm's efforts to duplicate or imitate it fails.

Role of Resources, Capabilities and Value Creation in achieving Competitive Advantages

Resources	Capabilities
<p>Tangible resources are assets that can be seen and quantified. Example: Production equipment, manufacturing plants etc.</p>	<p>Capabilities exist when resources have been purposely integrated to achieve a specific task or set of tasks. These tasks range from human resource selection to product marketing and research and development activities.</p>
<p>Intangible resources include assets that typically are rooted deeply in the firm's history and have accumulated over time. Because they are embedded in unique patterns of routines, intangible resources are relatively difficult for competitors to analyse and imitate. Example: Knowledge, trust between managers and employees, managerial capabilities, organizational routines, scientific capabilities, the capacity for innovation, and the firm's reputation for its goods or services and how it interacts with people such as employees, customers, and suppliers.</p>	<p>Examples:</p> <ol style="list-style-type: none"> i. Effective use of logistics management techniques. ii. Effective and efficient control of inventories. iii. Effective customer service. iv. Innovative merchandising. v. Product and design quality. vi. Digital Technology.

Competitive advantages and the differences they create in the firm's performance are often strongly related to the resources firms hold and how they are managed. Resources are the foundation for strategy and unique bundles of resources

generate competitive advantages leading to wealth creation. To identify and successfully use their resources over time, those leading firms need to think constantly about how to manage them to increase the value for customers.

If a firm possesses resources and capabilities which are superior to those of competitors, then as long as the firm adopts a strategy that utilizes these resources and capabilities effectively, it should be possible for it to establish a competitive advantage. But in terms of the ability to derive profits from this position of competitive advantage, a critical issue is the time period over which the firm can sustain its advantage.

Resources and capabilities are not inherently valuable, but they create value when the firm can use them to perform certain activities that result in a competitive advantage. In time, the benefits of any firm's value-creating strategy can be duplicated by its competitors. In other words, all competitive advantages have a limited life. The question of duplication is not if it will happen, but when.



Figure: Creating Competitive Advantage

The sustainability of competitive advantage and a firm's ability to earn profits from its competitive advantage depends upon four major characteristics of resources and capabilities:

Durability: The period over which a competitive advantage is sustained depends in part on the rate at which a firm's resources and capabilities deteriorate. In industries where the rate of product innovation is fast, product patents are quite likely to become obsolete. Similarly, capabilities which are the result of the management expertise of the CEO are also vulnerable to his or her retirement or departure. On the other hand, many consumer brand names have a highly durable appeal.

Transferability: Even if the resources and capabilities on which a competitive advantage is based are durable, it is likely to be eroded by competition from rivals. The ability of rivals to attack position of competitive advantage relies on their gaining access to the necessary resources and capabilities. The easier it is to transfer resources and capabilities between companies, the less sustainable will be the competitive advantage which is based on them.

Imitability: If resources and capabilities cannot be purchased by a would-be imitator, then they must be built from scratch. How easily and quickly can the competitors build the resources and capabilities on which a firm's competitive advantage is based? This is the true test of imitability. For Example: In financial services, innovations lack legal protection and are easily copied. Here again the complexity of many organizational capabilities can provide a degree of competitive defence. Where capabilities require networks of organizational routines, whose effectiveness depends on the corporate culture, imitation is difficult.

Appropriability: Appropriability refers to the ability of the firm's owners to appropriate the returns on its resource base. Even where resources and capabilities are capable of offering sustainable advantage, there is an issue as to who receives the returns on these resources.

What is Value Creation?

The concept of value creation was introduced primarily for providing products and services to the customers with more worth. Value is measured by a product's features, quality, availability, durability, performance and by its services for which customers are willing to pay. Further, the concept took more space in the business and organizations started discussing about the value creation for stakeholders.

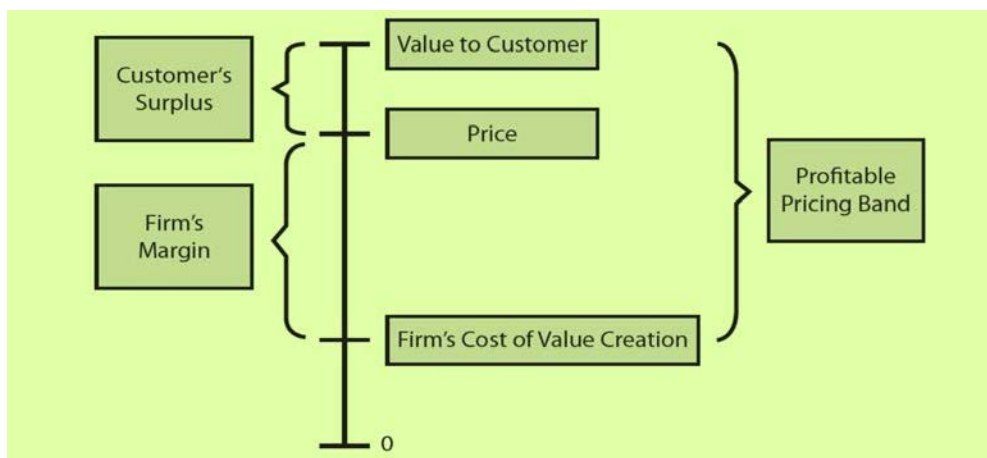


Figure: Value Creation

Thus, we can say that the value creation is an activity or performance by the firm to create value that increases the worth of goods, services, business processes or even the whole business system. Many businesses now focus on value creation both in the context of creating better value for customers purchasing its products and services, as well as for stakeholders in the business who want to see their investment in business appreciate in value. Ultimately, this concept gives business a competitive advantage in the industry and helps them earn above average profits/returns.

Competitive advantage leads to superior profitability. At the most basic level, how profitable a company becomes depends on three factors:

- (1) the value customers place on the company's products;
- (2) the price that a company charges for its products; and
- (3) the costs of creating those products.

The value customers place on a product reflects the utility they get from a product—the happiness or satisfaction gained from consuming or owning the product. Utility must be distinguished from price. Utility is something that customers get from a product. It is a function of the attributes of the product, such as its performance, design, quality, and point-of-sale and after-sale service.

Companies are ultimately aiming to achieve sustainable competitive advantage, which enables them to succeed in the long run. Michael Porter argues that a company can generate competitive advantage in two different ways, either through differentiation or cost advantage. According to Porter's, differentiation means the capability to provide customers superior and special value in the form of product's special features and quality or in the form of aftersales customer service. As a result of differentiation, a company can demand higher price for its products or services. A company will earn higher profits due to differentiation in case the expenses stay comparable to the costs of competitors.

The above-mentioned differentiation and cost advantage will affect a company's ability to achieve competitive advantage, but there are many different organizational functions that will influence whether a company can achieve cost advantage or differentiation advantage. Michael Porter used the concept of value chain to explore closer different functions of the organisations and mutual interactions among those functions. Value chain analysis provides an excellent tool to examine the origin of competitive advantage. It divides the organisations into two different strategically important group of activities, namely, primary activities

and supporting activities, which can help to comprehend the potential sources for differentiation and to understand an organisation's costs behaviour.

2.7 PORTFOLIO ANALYSIS

In order to analyse the current business portfolio, the company must conduct portfolio analysis (a tool by which management identifies and evaluates the various businesses that make up the company). In portfolio analysis top management views its product lines and business units as a series of investments from which it expects returns. A business portfolio is a collection of businesses and products that make up the company. The best business portfolio is the one that best fits the company's strengths and weaknesses to opportunities in the environment.

Portfolio analysis can be defined as a set of techniques that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio. It is primarily used for competitive analysis and corporate strategic planning in multi-product and multi business firms. They may also be used in less-diversified firms, if these consist of a main business and other minor complementary interests. The main advantage in adopting a portfolio approach in a multi-product, multi-business firm is that resources could be channelised at the corporate level to those businesses that possess the greatest potential. For instance, a diversified company may decide to divert resources from its cash-rich businesses to more prospective ones that hold promise of a faster growth so that the company achieves its corporate level objectives efficiently.

In order to design the business portfolio, the management must analyse its current business portfolio and decide which business should receive more, less, or no investment. Depending upon analyses management may develop growth strategies for adding new products or businesses to the firm's portfolio.

There are three important concepts, the knowledge of which is a prerequisite to understand different models of portfolio analysis:

Strategic Business Unit: Analysing portfolio may begin with identifying key businesses also termed as strategic business unit (SBU). SBU is a unit of the company that has a separate mission and objectives and which can be run independently from other company businesses. The SBU can be a company division, a product line within a division, or even a single product or brand. SBUs are common in organisations that are located in multiple countries with independent manufacturing and marketing setups. An SBU has the following characteristics:

- It has single business or collection of related businesses that can be planned for separately.
- It has its own set of competitors.
- It has a manager who is responsible for strategic planning and profit.

After identifying SBUs, the management will assess their respective attractiveness and decide how much support each deserves.

There are a number of techniques that could be considered as corporate portfolio analysis techniques. The most popular is the Boston Consulting Group (BCG) Matrix or product portfolio matrix. But there are several other techniques that should be understood in order to have a comprehensive view of how objective factors can help strategists in exercising strategic choice.

Experience Curve: Experience curve is an important concept used for applying a portfolio approach. The concept is akin to a learning curve which explains the efficiency increase gained by workers through repetitive productive work. Experience curve is based on the commonly observed phenomenon that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production.

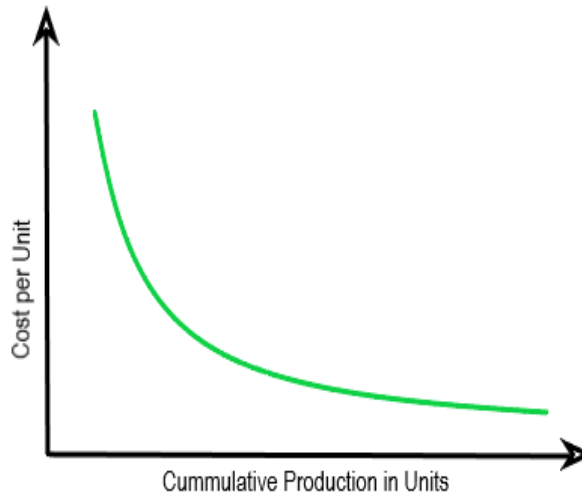
The implication is that larger firms in an industry would tend to have lower unit costs as compared to those for smaller companies, thereby gaining a competitive cost advantage.

Experience curve results from a variety of factors such as learning effects, economies of scale, product redesign and technological improvements in production.

Experience Curve has following features:

- ◆ As business organisation grow, they gain experience.
- ◆ Experience may provide an advantage over the competition. Experience is a key barrier to entry
- ◆ Large and successful organisation possess stronger "experience effect".

A typical experience curve may be depicted as follows:



The concept of experience curve is relevant for a number of areas in strategic management. For instance, experience curve is considered a barrier for new firms contemplating entry in an industry. It is also used to build market share and discourage competition. In the contemporary Indian automobile industry, the experience curve phenomenon seems to be working in Maruti Suzuki. The likely strategic choice for competitors can be a market niche approach or segmentation based on demography or geography.

Product Life Cycle: Another important concept in strategic choice is that of product life cycle (PLC). It is a useful concept for guiding strategic choice. Essentially, PLC is an S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages of introduction (slow sales growth), growth (rapid market acceptance) maturity (slowdown in growth rate) and decline (sharp downward drift). If businesses are substituted for product, the concept of PLC could work just as well.

The first stage of PLC is the introduction stage in which competition is almost negligible, prices are relatively high and markets are limited. The growth in sales is at a lower rate because of lack of knowledge on the part of customers.

The second phase of PLC is growth stage. In the growth stage, the demand expands rapidly, prices fall, competition increases and market expands. The customer has knowledge about the product and shows interest in purchasing it.

The third phase of PLC is maturity stage. In this stage, the competition gets tough and market gets stabilised. Profit comes down because of stiff competition. At this stage, organisations have to work for maintaining stability.

In the declining stage of PLC, the sales and profits fall down sharply due to some new product replaces the existing product. So a combination of strategies can be implemented to stay in the market either by diversification or retrenchment.

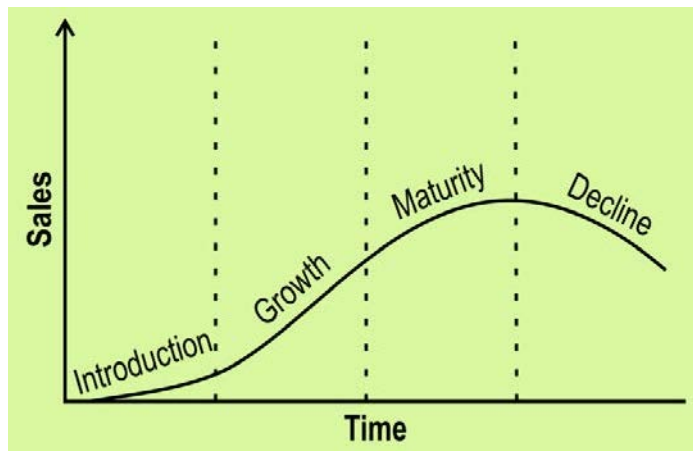


Figure: Product Life Cycle

The main advantage of PLC approach is that it can be used to diagnose a portfolio of products (or businesses) in order to establish the stage at which each of them exists. Particular attention is to be paid on the businesses that are in the declining stage. Depending on the diagnosis, appropriate strategic choice can be made. For instance, expansion may be a feasible alternative for businesses in the introductory and growth stages. Mature businesses may be used as sources of cash for investment in other businesses which need resources. A combination of strategies like selective harvesting, retrenchment, etc. may be adopted for declining businesses. In this way, a balanced portfolio of businesses may be built up by exercising a strategic choice based on the PLC concept.

2.7.1 Boston Consulting Group (BCG) Growth-Share Matrix

The BCG growth-share matrix is the simplest way to portray a corporation's portfolio of investments. Growth share matrix also known for its cow and dog metaphors is popularly used for resource allocation in a diversified company. Using the BCG approach, a company classifies its different businesses on a two-dimensional growth-share matrix. In the matrix:

- ◆ The vertical axis represents market growth rate and provides a measure of market attractiveness.
- ◆ The horizontal axis represents relative market share and serves as a measure of company strength in the market.

Using the matrix, organisations can identify four different types of products or SBU as follows:

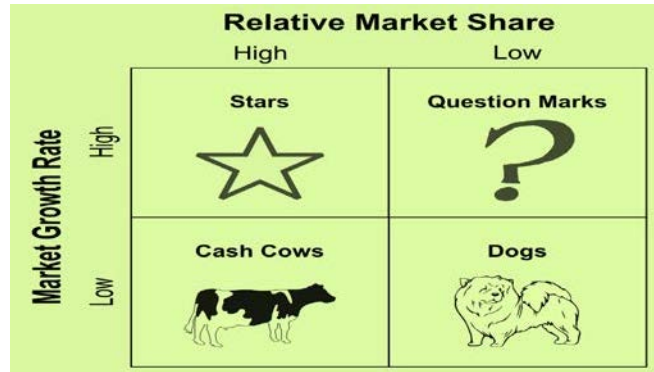


Figure: BCG Growth-Share Matrix

- ◆ Stars are products or SBUs that are growing rapidly. They also need heavy investment to maintain their position and finance their rapid growth potential. They represent best opportunities for expansion.
- ◆ Cash Cows are low-growth, high market share businesses or products. They generate cash and have low costs. They are established, successful, and need less investment to maintain their market share. In long run when the growth rate slows down, stars become cash cows.
- ◆ Question Marks, sometimes called problem children or wildcats, are low market share business in high-growth markets. They require a lot of cash to hold their share. They need heavy investments with low potential to generate cash. Question marks if left unattended are capable of becoming cash traps. Since growth rate is high, increasing it should be relatively easier. It is for business organisations to turn them stars and then to cash cows when the growth rate reduces.
- ◆ Dogs are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves, but do not have much future. Sometimes they may need cash to survive. Dogs should be minimised by means of divestment or liquidation.
- ◆ After a firm, has classified its products or SBUs, it must determine what role each will play in the future. The four strategies that can be pursued are:
 1. **Build:** Here the objective is to increase market share, even by forgoing short-term earnings in favour of building a strong future with large market share.
 2. **Hold:** Here the objective is to preserve market share.

3. **Harvest:** Here the objective is to increase short-term cash flow regardless of long-term effect.
4. **Divest:** Here the objective is to sell or liquidate the business because resources can be better used elsewhere.

The growth-share matrix has done much to help strategic planning; however, there are some problems and limitations with the technique. BCG matrix can be difficult, time-consuming, and costly to implement. Management may find it difficult to define SBUs and measure market share and growth. It also focuses on classifying current businesses but provide little advice for future planning. They can lead the company to placing too much emphasis on market-share growth or growth through entry into attractive new markets. This can cause unwise expansion into hot, new, risky ventures or divesting established units too quickly.

2.7.2 Ansoff's Product Market Growth Matrix

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is a useful tool that helps businesses decide their product and market growth strategy. With the use of this matrix a business can get a fair idea about how its growth depends upon it markets in new or existing products in both new and existing markets. Companies should always be looking to the future. One useful device for identifying growth opportunities for the future is the product/market expansion grid. The product/market growth matrix is a portfolio-planning tool for identifying growth opportunities for the company.

	Existing Products	New Products
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Figure: Ansoff's Product Market Growth Matrix

Market Penetration: Market penetration refers to a growth strategy where the business focuses on selling existing products into existing markets. It is achieved by making more sales to present customers without changing products in any major way. Penetration might require greater spending on advertising or personal selling. Overcoming competition in a mature market requires an aggressive promotional campaign, supported by a pricing strategy designed to make the market unattractive for competitors. Penetration is also done by effort on increasing usage by existing customers.

Market Development: Market development refers to a growth strategy where the business seeks to sell its existing products into new markets. It is a strategy for company growth by identifying and developing new markets for current company products. This strategy may be achieved through new geographical markets, new product dimensions or packaging, new distribution channels or different pricing policies to attract different customers or create new market segments.

Product Development: Product development refers to a growth strategy where business aims to introduce new products into existing markets. It is a strategy for company growth by offering modified or new products to current markets. This strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing markets.

Diversification: Diversification refers to a growth strategy where a business markets new products in new markets. It is a strategy by starting up or acquiring businesses outside the company's current products and markets. This strategy is risky because it does not rely on either the company's successful product or its position in established markets. Typically the business is moving into markets in which it has little or no experience.

As market conditions change overtime, a company may shift product-market growth strategies. For example, when its present market is fully saturated a company may have no choice other than to pursue new market.

2.7.3 ADL Matrix

The ADL matrix (derived its name from Arthur D. Little) is a portfolio analysis technique that is based on product life cycle. The approach forms a two dimensional matrix based on stage of industry maturity and the firms competitive position, environmental assessment and business strength assessment. Stage of industry maturity is an environmental measure that represents a position in industry's life cycle. Competitive position is a measure of business strengths that

helps in categorization of products or SBU's into one of five competitive positions: dominant, strong, favourable, tenable and weak. It is four by five matrix as follows:

Competitive position	Stage of industry maturity			
	Embryonic	Growth	Mature	Ageing
Dominant	Fast grow Build barriers Act offensively	Fast grow Attend cost leadership Renew Defend position Act offensively	Defend position Attend cost leadership Renew Fast grow Act offensively	Defend position Renew Focus Consider withdrawal
Strong	Differentiate Fast grow	Differentiate Lower cost Attack small firms	Lower cost Focus Differentiate Grow with industry	Find niche Hold niche Harvest
Favourable	Differentiate Focus Fast grow	Focus Differentiate Defend	Focus Differentiate Harvest Find niche Hold niche Turnaround Grow with industry Hit smaller firms	Harvest Turnaround
Tenable	Grow with industry Focus	Hold niche Turnaround Focus Grow with industry Withdraw	Turnaround Hold niche Retrench	Divest Retrench
Weak	Find niche Catch-up Grow with industry	Turnaround Retrench Niche or withdraw	Withdraw Divest	Withdraw

Figure: Arthur D. Little Strategic Condition Matrix

The competitive position of a firm is based on an assessment of the following criteria:

Dominant: This is a comparatively rare position and in many cases is attributable either to a monopoly or a strong and protected technological leadership.

Strong: By virtue of this position, the firm has a considerable degree of freedom over its choice of strategies and is often able to act without its market position being unduly threatened by its competitors.

Favourable: This position, which generally comes about when the industry is fragmented and no one competitor stands out clearly, results in the market leaders a reasonable degree of freedom.

Tenable: Although the firms within this category are able to perform satisfactorily and can justify staying in the industry, they are generally vulnerable in the face of increased competition from stronger and more proactive companies in the market.

Weak: The performance of firms in this category is generally unsatisfactory although the opportunities for improvement do exist.

2.7.4 General Electric Matrix [“Stop-Light” Strategy Model]

This model has been used by General Electric Company (developed by GE with the assistance of the consulting firm McKinsey and Company). This model is also known as Business Planning Matrix, GE Nine-Cell Matrix and GE Model. The strategic planning approach in this model has been inspired from traffic control lights. The lights that are used at crossings to manage traffic are: green for go, amber or yellow for caution, and red for stop. This model uses two factors while taking strategic decisions: Business Strength and Market Attractiveness. The vertical axis indicates market **attractiveness** and the horizontal axis shows the business strength in the industry. The market attractiveness is measured by a number of factors like:

- ◆ Size of the market.
- ◆ Market growth rate.
- ◆ Industry profitability.
- ◆ Competitive intensity.
- ◆ Availability of Technology.
- ◆ Pricing trends.
- ◆ Overall risk of returns in the industry.
- ◆ Opportunity for differentiation of products and services.
- ◆ Demand variability.
- ◆ Segmentation.
- ◆ Distribution structure (e.g. direct marketing, retail, wholesale) etc.

Business strength is measured by considering the typical drivers like:

- ◆ Market share.
- ◆ Market share growth rate.
- ◆ Profit margin.
- ◆ Distribution efficiency.
- ◆ Brand image.
- ◆ Ability to compete on price and quality.
- ◆ Customer loyalty.
- ◆ Production capacity.
- ◆ Technological capability.
- ◆ Relative cost position.
- ◆ Management calibre, etc.

		Business Strength		
		Strong	Average	Weak
Market Attractiveness	High			
	Medium			
	Low			

Figure : The GE Portfolio Matrix

Zone	Strategic Signals
Green	Invest/Expand
Yellow	Select/Earn
Red	Harvest/Divest

If a product falls in the green section, the business is at advantageous position. To reap the benefits, the strategic decision can be to expand, to invest and grow. If a product is in the amber or yellow zone, it needs caution and managerial discretion is called for making the strategic choices. If a product is in the red zone, it will eventually lead to losses that would make things difficult for organisations. In such cases, the appropriate strategy should be retrenchment, divestment or liquidation.

This model is similar to the BCG growth-share matrix. However, there are differences. Firstly, market attractiveness replaces market growth as the dimension of industry attractiveness, and includes a broader range of factors other than just the market growth rate. Secondly, competitive strength replaces market share as the dimension by which the competitive position of each SBU is assessed.

2.8 SWOT ANALYSIS

For the generation of a series of strategic alternatives or choices, it is necessary to analyse the firm's internal strengths and weaknesses and its external opportunities and threats. The identification and analysis of strengths, weaknesses, opportunities, and threats is normally referred to as SWOT analysis.

- ◆ **Strength:** Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitors.
- ◆ **Weakness:** A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.
- ◆ **Opportunity:** An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position.
- ◆ **Threat:** A threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position.

The major purpose of SWOT analysis is to enable the management to create a firm-specific business model that will best align, fit, or match an organisational resources and capabilities to the demands of the environment in which it operates. Strategic managers compare and contrast the various alternative possible strategies against each other with respect to their ability to achieve major goals and superior profitability.

- ◆ *Corporate-level strategy*, which answers the primary questions. What business or businesses should we be in to maximize the long-run profitability of the

organization, and how should we enter and increase our presence in these businesses to gain a competitive advantage?

- ◆ *Business-level strategy*, which encompasses the business's overall competitive theme, the way it position; itself in the marketplace to gain a competitive advantage, and the different positioning strategies that can be used in different industry settings-for example, cost leadership, differentiation, focusing on a particular niche or segment of the industry, or some combination of these.
- ◆ *Functional-level strategy*, directed at improving the effectiveness of operations within a company, such as production, finance, marketing, materials management, product development, and customer service.
- ◆ *Global strategy*, addressing how to expand operations outside the home country to grow and prosper in a world where competitive advantage is determined at a global level.

The organization's performance in the marketplace is significantly influenced by the three factors:

- ◆ The organization's correct market position.
- ◆ The nature of environmental opportunities and threat.
- ◆ The organization's resource capability to capitalize the opportunities and to protect against the threats.

The significance of SWOT analysis lies in the following points:

- ◆ ***It provides a logical framework of analysis:*** SWOT analysis provides us with a logical framework for systematic and sound thrashing of issues having bearing on the business situation, generation of alternative strategies and the choice of a strategy. Variation in managerial perceptions about organizational strengths and weaknesses and the environmental opportunities and threats lead to the approaches to specific strategies and finally the choice of strategy that takes place through an interactive process in dynamic backdrop.
- ◆ ***It presents a comparative account:*** SWOT analysis presents the information about both external and internal environment in a structured form where it is possible to compare external opportunities and threats with internal strengths and weaknesses. This helps in matching external and internal environments so that a strategist can come out with suitable strategy by developing certain patterns of relationship. The patterns are combinations

say, high opportunities and high strengths, high opportunities and low strengths, high threats and high strengths, high threats and low strengths.

- ◆ ***It guides the strategist in strategy identification:*** It is natural that a strategist faces a problem when his organization cannot be matched in the four patterns. It is possible that the organization may have several opportunities and some serious threats. It is equally, true that the organization may have powerful strengths coupled with major weaknesses in the light of critical success factors. In such situation, SWOT analysis guides the strategist to think of overall position of the organization that helps to identify the major purpose of the strategy under focus.

SWOT analysis helps managers to craft a business model (or models) that will allow a company to gain a competitive advantage in its industry (or industries). Competitive advantage leads to increased profitability, and this maximizes a company's chances of surviving in the fast-changing, global competitive environment that characterizes most industries today.

Faced with a constantly changing environment, each business unit needs to develop a marketing information system to track trends and developments, which can be categorized as an opportunity or a threat. The company has to review its strength and weakness in the background of environment's opportunities and threat, i.e., an organization's SWOT analysis.

Potential Resource Strengths and Competitive Capabilities A	Potential Resource Weaknesses and Competitive Deficiencies B
Potential Company Opportunities C	Potential External Threats to Company's Well-Being D

Figure: SWOT Analysis: What to look for in sizing up Strengths, weaknesses, Opportunities, and Threats.

A. Potential Resources Strengths and Competitive Capabilities

- ◆ A powerful strategy supported by competitively valuable skills and experience in key areas.

- ◆ A strong financial condition; ample financial resources to grow the business.
- ◆ Strong brand name, image/company reputation.
- ◆ A widely recognized market leader and an attractive customer base.
- ◆ Ability to take advantage of economies of scale and/or learning and experience curve effects.
- ◆ Proprietary technology/ superior technological skills/ important patents.
- ◆ Superior intellectual capital relative to key rivals.
- ◆ Cost advantages.
- ◆ Strong advertising and promotion.
- ◆ Product innovation skills.
- ◆ Proven skills in improving product processes.
- ◆ Sophisticated use of e-commerce technologies and processes.
- ◆ Superior skills in supply chain management.
- ◆ A reputation for good customer service.
- ◆ Better product quality relative to rivals.
- ◆ Wide geographic coverage and/or strong global distribution capability.
- ◆ Alliances/joint ventures with other firms that provide access to valuable technology, competencies, and/or attractive geographic markets.

B. Potential Resource Weaknesses and Competitive Deficiencies

- ◆ No clear strategic direction.
- ◆ Obsolete facilities.
- ◆ A weak balance sheet, burdened with too much debt.
- ◆ Higher overall unit costs relative to key competitors.
- ◆ Missing some key skills or competencies/lack of management depth/ a deficiency of intellectual capital relative to leading rivals.
- ◆ Subpar profitability; no cost control measures or cost accounting practices.

- ◆ Plagued with internal operating problems.
- ◆ Falling behind rivals in putting e-commerce capabilities and strategies in place.
- ◆ A product line that is too narrow in comparison to that of rivals.
- ◆ Weak brand image or reputation.
- ◆ Weaker dealer network than key rivals and/or lack of adequate global distribution capability.
- ◆ Subpar e-commerce systems and capabilities relative to rivals.
- ◆ Short on financial resources to fund promising strategic initiatives.
- ◆ Lots of underutilized plant capacity.
- ◆ Behind on product quality and/or R&D and/or technological know-how.
- ◆ Not able to attract new customers as rapidly as rivals.

C. Potential Company Opportunities

- ◆ Serving additional customer groups or expanding into new geographic markets or product segments.
- ◆ Expanding the company's product line to meet a broader range of customer needs.
- ◆ Utilizing existing company skills or technological know-how to enter new product lines or new businesses.
- ◆ Using the internet and e-commerce technologies to dramatically cut costs and/or to pursue new sales growth opportunities.
- ◆ Integrating forward or backward.
- ◆ Falling trade barriers in attractive foreign markets.
- ◆ Openings to take market share away from rivals.
- ◆ Ability to grow rapidly because of sharply rising demand in one or more market segments.
- ◆ Acquisition of rival firms or companies with attractive technological expertise.
- ◆ Alliances or joint ventures that expand the firm's market coverage or boost its competitive capability.

- ◆ Openings to exploit emerging new technologies.
- ◆ Market openings to extend the company's brand name or reputation to new geographic areas.

D. Potential External Threats to Company's Well-Being

- ◆ Likely entry of potent new competitors.
- ◆ Loss of sales to substitute products.
- ◆ Mounting competition from new Internet start-up companies pursuing e-commerce strategies.
- ◆ Increasing intensity of competition among industry rivals – may cause squeeze on profit margins.
- ◆ Technological changes or product innovations that undermine demand for the firm's product.
- ◆ Slowdowns in market growth.
- ◆ Adverse shifts in foreign exchange rates and trade policies of foreign governments.
- ◆ Costly new regulatory requirements.
- ◆ Growing bargaining power of customers or suppliers.
- ◆ A shift in buyer needs and tastes away from the industry's product.
- ◆ Adverse demographic changes that threaten to curtail demand for the firm's product.
- ◆ Vulnerability to industry driving forces.

2.9 TOWS MATRIX

Through SWOT analysis organisations identify their strengths, weaknesses, opportunities and threats. While conducting the SWOT Analysis managers are often not able to come to terms with the strategic choices that the outcomes demand. Heinz Wehrich developed a matrix called TOWS matrix by matching strengths and weaknesses of an organization with the external opportunities and threats. The incremental benefit of the TOWS matrix lies in systematically identifying relationships between these factors and selecting strategies on their basis. Thus TOWS matrix has a wider scope when compared to SWOT analysis. TOWS analysis is an action tool whereas SWOT analysis is a planning tool.

The TOWS Matrix is tool for generating strategic options. Through TOWS matrix four distinct alternative kinds of strategic choices can be identified.

SO(Maxi-Maxi) – Aggressive strategy: SO is a position that any firm would like to achieve. The strengths can be used to capitalize or build upon existing or emerging opportunities. Such firms can take lead from their strengths and utilize the resources to build up the competitive advantage.

ST(Maxi-Mini) – Conservative strategy: ST is a position in which a firm strives to minimize existing or emerging threats through its strengths.

WO(Mini-Maxi) – Competitive strategy: The firm needs to overcome internal weaknesses and make attempts to exploit opportunities to maximum.

WT(Mini-Mini) – Defensive strategy: WT is a position that any firm will try to avoid. A firm facing external threats and internal weaknesses may have to struggle for its survival. WT strategy is a strategy which is pursued to minimize or overcome weaknesses and as far as possible, cope with existing or emerging threats.

The matrix is outlined below:

		Internal Elements	
		Organizational strengths	Organizational weaknesses
External Elements	Environmental opportunities (and risks)	SO Maxi-Maxi	WO Mini-Maxi
	Environmental threats	ST Maxi-Mini	WT Mini-Mini

Figure : The TOWS Matrix

By using TOWS Matrix, a strategist can look intelligently at how he can best take advantage of the opportunities open to him, at the same time that he can minimize the impact of weaknesses and protect himself against threats. Used after detailed analysis of threats, opportunities, strength and weaknesses, it helps the strategist to consider how to use the external environment to his strategic advantage, and so he can identify some of the strategic options available to him.



2.10 GLOBALIZATION

Globalization can be explained in different perspective.

For developing countries, it means integration with the world economy. In simple economic terms, globalization refers to the process of integration of the world into one huge market. Such unification calls for removal of all trade barriers among countries. Even political and geographical barriers become irrelevant

At the company level, globalization means two things: (a) the company commits itself heavily with several manufacturing locations around the world and offers products in several diversified industries, and (b) the company's ability to compete in domestic markets with foreign competitors.

A company which has gone global is called a multinational (MNC) or a transnational (TNC). An MNC is, therefore, one that, by operating in more than one country gains R&D, production, marketing and financial advantages in its costs and reputation that are not available to purely domestic competitors.

The global company views the world as one market, minimises the importance of national boundaries, sources, raises capital and markets wherever it can do the job best.

Characteristics of a global company

To be specific, a global company has three characteristics:

- ◆ It is a conglomerate of multiple units (located in different parts of the globe) but all linked by common ownership.
- ◆ Multiple units draw on a common pool of resources, such as money, credit, information, patents, trade names and control systems.
- ◆ The units respond to some common strategy. Besides, its managers and shareholders are also based in different nations.



A further development, perhaps, will be the super-national enterprise. It is a worldwide enterprise chartered by a substantially non-political international body such as WTO, IMF or World Bank.

It operates as a private business without direct obligations. Its function is international business service, and it remains viable only by performing that service adequately for nations which permit its entry. With its integrative view, it should be able to draw the economic world closer together. It could serve all nations without being especially attached to anyone of them.

Why do companies go global?

There are several reasons why companies go global. These are discussed as follows:

- ◆ The first and foremost reason is need to grow. It is basic need of organisations. Often finding opportunities in the other parts of the globe organisation extend their businesses and globalise.
- ◆ There is rapid shrinking of time and distance across the globe thanks to faster communication, speedier transportation, growing financial flows and rapid technological changes.

MULTINATIONAL Vs TRANSNATIONAL	
	
<ul style="list-style-type: none"> ◆ Multinational companies own a home company and its subsidiaries. ◆ Multinational companies have a centralized management system. ◆ Multinational companies will face a barrier in decision making due to its centralized management 	<ul style="list-style-type: none"> ◆ Transnational companies do not have subsidiaries but just many companies ◆ Transnational companies do not have a centralized management system. ◆ Transnational companies are able to gain more interest in the local market since they maintain their

- ◆ It is being realised that the domestic markets are no longer adequate and rich. Japanese have flooded the U.S. market with automobiles and electronics because the home market was not large enough to absorb whatever was produced.
- ◆ There can be varied other reasons such as need for reliable or cheaper source of raw-materials, cheap labour, etc.
- *For Example: Hyundai got competent engineers at lower cost, industry friendly Maharashtra Govt. which allowed them to setup a unit in India which supplies spare parts for all Hyundai Cars across the world.*
- ◆ Companies often set up overseas plants to reduce high transportation costs.
- *For Example: Making a car in Korea and exporting it in Europe and America is expensive and time consuming therefore India as a manufacturing hub for Hyundai proved to be better place.*
- ◆ When exporting organisations find foreign markets to open up or grow big, they may naturally look at overseas manufacturing plants and sales branches to generate higher sales and better cash flow.
- *For Example: Hyundai cars made by Korea, sold in India were highly demanded and Hyundai decided to setup a plant here.*
- ◆ The rise of services to constitute the largest single sector in the world

economy; and regional economic integration, which has involved both the world's largest economies as well as certain developing economies.

- ◆ The apparent and real collapse of international trade barriers redefines the roles of state and industry. The trend is towards increased privatization of manufacturing and services sectors, less government interference in business decisions and more dependence on the value-added sector to gain market place competitiveness. The trade tariffs and custom barriers are getting lowered, resulting in increased flow of business.
- ◆ Globalization has made companies in different countries to form strategic alliances to ward off economic and technological threats and leverage their respective comparative and competitive advantages.

SUMMARY

Competitive landscape is a business analysis which identifies competitors, either direct or indirect. The chapter also covers competitive analysis, core competence and value chain analysis. Having a competitive advantage is necessary for a firm to compete in the market. Competitive advantage comes from a firm's ability to perform activities more effectively than its rivals. We can say that when a capability is valuable, rare, costly to imitate, and non-substitutable, it is a core competence and a source of competitive advantage.

Here we are analyzing the Industry and competition by finding the possible issues such as – Dominant economic features of the industry, nature and strength of competition, triggers of change, identifying the companies that are in the strongest/weakest positions, likely strategic moves of rivals, key factors for competitive success (KSFs), prospects and financial attractiveness of industry.

The chapter explains SWOT analysis and TOWS matrix that help managers to craft a business model that will allow a company to gain a competitive advantage in its industry. In order to analyze the current business portfolio, the company must conduct Portfolio analysis through BCG matrix, Ansoff's product market growth matrix, ADL matrix and the General electric matrix. The chapter concludes with a discussion on globalisation and brings out why companies go global.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

Question 1

- The process of strategic management can be made effective by building-
 - Product advantage
 - Market advantage
 - Competitive advantage
 - Price advantage
- Competitive landscape requires the application of-
 - Competitive advantage
 - Competitive strategy
 - Competitive acumen
 - Competitive intelligence
- 'Strategic group mapping' helps in-
 - Identifying the strongest rival companies
 - Identifying weakest rival companies
 - Identifying weakest and strongest rival companies
 - None of the above
- 'Attractiveness of firms' while conducting industry analysis should be seen in-
 - Relative terms
 - Absolute terms
 - Comparative terms
 - All of the above
- "Competitor's Differentiation', Customer Value' and 'Application of Competitiveness' are the three important areas of:
 - Value Chain Analysis
 - Business Process Re-engineering
 - Competitor Analysis

- (d) Core Competencies
6. A tool by which management identifies and evaluates the various businesses that make up a company is termed as:
- (a) Value Chain Analysis
 - (b) Portfolio Analysis
 - (c) Competition Analysis
 - (d) Strategic Analysis
7. 'Build,' 'Hold,' 'Harvest,' and 'Divest' are the strategies explained by:
- (a) Boston Consulting Group Growth Share Matrix
 - (b) Value chain Analysis
 - (c) Managerial Grid Matrix
 - (d) Ansoff's Product Matrix Growth Matrix
8. The low growth, low share businesses in BCG matrix are:
- (a) Cows
 - (b) Dogs
 - (c) Cats
 - (d) Question Marks
9. An advertisement says, 'Have Roohafza with milk and lassi too'. Which strategy is the company trying to use:
- (a) Market Development
 - (b) Product Development
 - (c) Market Penetration
 - (d) All of the above
10. KSFs stand for:
- (a) Key strategic factors
 - (b) Key supervisory factors
 - (c) Key success factors
 - (d) Key sufficient factors

11. Competitive landscape requires the application of-
- (a) Competitive advantage
 - (b) Competitive strategy
 - (c) Competitive acumen
 - (d) Competitive intelligence
12. The goal of SWOT analysis is to _____ the organization's opportunities and strengths while _____ its threats and _____ its weaknesses.
- (a) avoid; neutralizing; correcting
 - (b) exploit; neutralizing; correcting
 - (c) avoid; capitalizing; neutralizing
 - (d) exploit; avoiding; ignoring
13. SWOT analysis is an evaluation of the organization's _____ strengths and weaknesses and its _____ opportunities and threats.
- (a) external; internal
 - (b) internal; internal
 - (c) external; external
 - (d) internal; external
14. External opportunities and threats are usually:
- (a) the minor cause of organizational demise or success
 - (b) least important for CEOs and the board of directors
 - (c) not as important as internal strengths and weaknesses
 - (d) largely uncontrollable activities outside the organization
15. The sustainability of competitive advantage and a firm's ability to earn profits from its competitive advantage depends upon:
- (a) Durability, reliability, transferability, approximately
 - (b) Appropriability, durability, transferability, imitability
 - (c) Transferability, imitability, reliability, approximately
 - (d) Imitability, durability, reliability, appropriability

16. Internal _____ are activities in an organization that are performed especially well.
- (a) Opportunities
 - (b) Competencies
 - (c) Strengths
 - (d) Management
17. Anything that a firm does especially well compared to rival firms is referred to as ____.
- (a) Competitive advantage
 - (b) Comparative advantage
 - (c) Opportunity cost
 - (d) Sustainable advantage
18. In long run, when the growth rate slows down stars become
- (a) Cash Cows
 - (b) Tortoise
 - (c) Dogs
 - (d) Question Marks
19. The emphasis on product design is very high, the intensity of competition is low, and the market growth rate is low in the _____ stage of the industry life cycle.
- (a) Maturity
 - (b) Introduction
 - (c) Growth
 - (d) Decline
20. GE Nine-cell Matrix is based on
- (a) Market attractiveness and business strength
 - (b) Market growth rate and business strength
 - (c) Market attractiveness and relative market share
 - (d) Market growth rate and relative market share

Answer

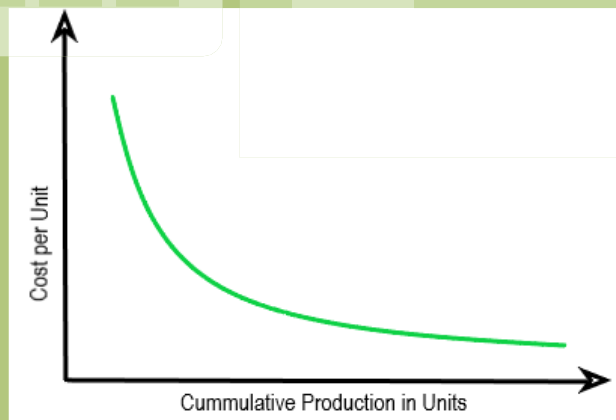
1	(c)	2	(d)	3	(c)	4	(a)	5	(d)	6	(b)
7	(a)	8	(b)	9	(c)	10	(c)	11	(d)	12	(b)
13	(d)	14	(d)	15	(b)	16	(c)	17	(a)	18	(a)
19	(b)	20	(a)								

Descriptive Questions**Question 2**

Explain the concept of Experience Curve and highlight its relevance in strategic management.

Answer

Experience curve is similar to learning curve which explains the efficiency gained by workers through repetitive productive work. Experience curve is based on the commonly observed phenomenon that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production. It is represented diagrammatically as follows:



The implication is that larger firms in an industry would tend to have lower unit costs as compared to those of smaller organizations, thereby gaining a competitive cost advantage. Experience curve results from a variety of factors such as learning effects, economies of scale, product redesign and technological improvements in production.

The concept of experience curve is relevant for a number of areas in strategic management. For instance, experience curve is considered a barrier for new firms

contemplating entry in an industry. It is also used to build market share and discourage competition.

Question 3

Write a short note on Product Life Cycle (PLC) and its significance in portfolio diagnosis.

Answer

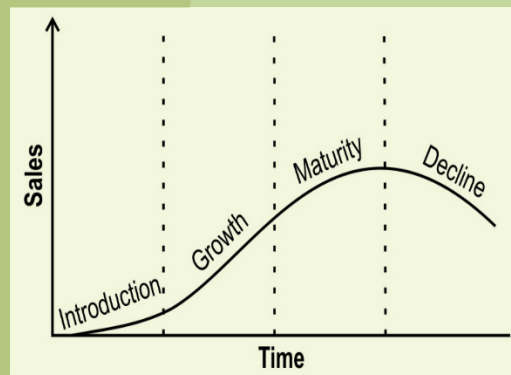
Product Life Cycle is an important concept in strategic choice and S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages.

The first stage of PLC is the introduction stage in which competition is almost negligible, prices are relatively high and markets are limited. The growth in sales is also at a lower rate.

The second stage of PLC is the growth stage, in which the demand expands rapidly, prices fall, competition increases and market expands.

The third stage of PLC is the maturity stage, where in the competition gets tough and market gets stabilized. Profit comes down because of stiff competition.

The fourth stage is the declining stage of PLC, in which the sales and profits fall down sharply due to some new product replaces the existing product.



Product Life Cycle

PLC can be used to diagnose a portfolio of products (or businesses) in order to establish the stage at which each of them exists. Particular attention is to be paid on the businesses that are in the declining stage. Depending on the diagnosis, appropriate strategic choice can be made. For instance, expansion may be a feasible alternative for businesses in the introductory and growth stages. Mature businesses may be used as sources of cash for investment in other businesses which need

resources. A combination of strategies like selective harvesting, retrenchment, etc. may be adopted for declining businesses. In this way, a balanced portfolio of businesses may be built up by exercising a strategic choice based on the PLC concept.

Question 4

Describe the construction of BCG matrix and discuss its utility in strategic management.

Answer

Companies that are large enough to be organized into strategic business units face the challenge of allocating resources among those units. In the early 1970's the Boston Consulting Group developed a model for managing portfolio of different business units or major product lines. The BCG growth-share matrix facilitates portfolio analysis of a company having invested in diverse businesses with varying scope of profits and growth.

The BCG matrix can be used to determine what priorities should be given in the product portfolio of a business unit. Using the BCG approach, a company classifies its different businesses on a two-dimensional growth share matrix. Two dimensions are market share and market growth rate. In the matrix:

- ◆ The vertical axis represents market growth rate and provides a measure of market attractiveness.
- ◆ The horizontal axis represents relative market share and serves as a measure of company's strength in the market.

Thus the BCG matrix depicts quadrants as shown in the following table:

		Relative Market Share	
		<i>High</i>	<i>Low</i>
Market Growth	<i>High</i>	Stars	Question Marks
	<i>Low</i>	Cash Cows	Dogs

BCG Matrix

Different types of business represented by either products or SBUs can be classified for portfolio analyses through BCG matrix. They have been depicted by meaningful metaphors, namely:

- (a) **Stars** are products or SBUs that are growing rapidly. They also need heavy investment to maintain their position and finance their rapid growth potential. They represent best opportunities for expansion.
- (b) **Cash Cows** are low-growth, high market share businesses or products. They generate cash and have low costs. They are established, successful, and need less investment to maintain their market share. In long run when the growth rate slows down, stars become cash cows.
- (c) **Question Marks**, sometimes called problem children or wildcats, are low market share business in high-growth markets. They require a lot of cash to hold their share. They need heavy investments with low potential to generate cash. Question marks if left unattended are capable of becoming cash traps. Since growth rate is high, increasing it should be relatively easier. It is for business organisations to turn them stars and then to cash cows when the growth rate reduces.
- (d) **Dogs** are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves, but do not have much future. Sometimes they may need cash to survive. Dogs should be minimised by means of divestment or liquidation.

The BCG matrix is useful for classification of products, SBUs, or businesses, and for selecting appropriate strategies for each type as follows.

- (a) Build with the aim for long-term growth and strong future.
- (b) Hold or preserve the existing market share.
- (c) Harvest or maximize short-term cash flows.
- (d) Divest, sell or liquidate and ensure better utilization of resources elsewhere.

Thus BCG matrix is a powerful tool for strategic planning analysis and choice.

Question 5

What is the purpose of SWOT analysis? Why is it necessary to do a SWOT analysis before selecting a particular strategy for a business organization?

Answer

An important component of strategic thinking requires the generation of a series of strategic alternatives, or choices of future strategies to pursue, given the company's internal strengths and weaknesses and its external opportunities and threats. The comparison of strengths, weaknesses, opportunities, and threats is normally referred to as SWOT analysis.

- ◆ **Strength:** Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitors.
- ◆ **Weakness:** A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.
- ◆ **Opportunity:** An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position.
- ◆ **Threat:** A threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position.

SWOT analysis helps managers to craft a business model (or models) that will allow a company to gain a competitive advantage in its industry (or industries). Competitive advantage leads to increased profitability, and this maximizes a company's chances of surviving in the fast-changing, competitive environment. Key reasons for SWOT analyses are:

- ◆ It provides a logical framework.
- ◆ It presents a comparative account.
- ◆ It guides the strategist in strategy identification.

Question 6

How is TOWS Matrix an improvement over the SWOT Analysis? Describe the construction of TOWS Matrix.

Answer

Through SWOT analysis organisations identify their strengths, weaknesses, opportunities and threats. While conducting the SWOT Analysis managers are often not able to come to terms with the strategic choices that the outcomes demand. Heinz Wehrich developed a matrix called TOWS matrix by matching strengths and weaknesses of an organization with the external opportunities and threats. The incremental benefit of the TOWS matrix lies in systematically identifying relationships between these factors and selecting strategies on their basis. The matrix is outlined below:

		Internal Elements	
		Organizational Strengths	Organizational Weaknesses
External Elements	Environmental opportunities (and risks)	SO Maxi-Maxi	WO Mini-Maxi
	Environmental threats	ST Maxi-Mini	WT Mini-Mini

TOWS Matrix

The TOWS Matrix is tool for generating strategic options. Through TOWS matrix four distinct alternative kinds of strategic choices can be identified.

Aggressive Strategy - SO(Maxi-Maxi): SO is a position that any firm would like to achieve. The strengths can be used to capitalize or build upon existing or emerging opportunities. Such firms can take lead from their strengths and utilize the resources to build up the competitive advantage.

Conservative Strategy - ST(Maxi-Mini): ST is a position in which a firm strives to minimize existing or emerging threats through its strengths.

Competitive Strategy - WO(Mini-Maxi): The firm needs to overcome internal weaknesses and make attempts to exploit opportunities to maximum.

Defensive Strategy - WT(Mini-Mini): WT is a position that any firm will try to avoid. A firm facing external threats and internal weaknesses may have to struggle for its survival. WT strategy is a strategy which is pursued to minimize or overcome weaknesses and as far as possible, cope with existing or emerging threats.

Question 7

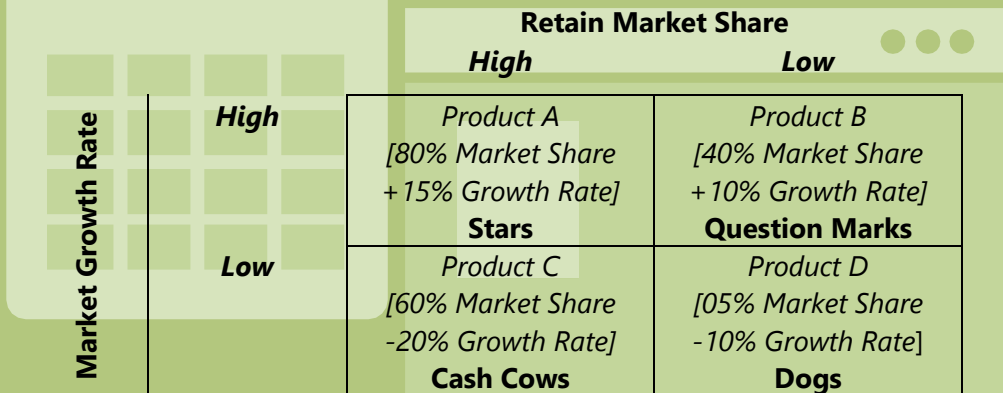
An industry comprises of only two firms-Soorya Ltd. and Chandra Ltd. From the following information relating to Soorya Ltd., prepare BCG Matrix:

Product	Revenues (in ₹)	Percent Revenues	Profits (in ₹)	Percent Profits	Percentage Market Share	Percentage Industry Growth rate
A	6 crore	48	120 lakh	48	80	+ 15
B	4 crore	32	50 lakh	20	40	+ 10

C	2 crore	16	75lakh	30	60	-20
D	50 lakh	4	5 lakh	2	5	-10
Total	12.5 crore	100	250 lakh	100		

Answer

Using the BCG approach, a company classifies its different businesses on a two dimensional growth-share matrix. In the matrix, the vertical axis represents market growth rate and provides a measure of market attractiveness. The horizontal axis represents relative market share and serves as a measure of company strength in the market. With the given data on market share and industry growth rate of Soorya Ltd, its four products are placed in the BCG matrix as follows:



Product A is in best position as it has a high relative market share and a high industry growth rate. On the other hand, product B has a low relative market share, yet competes in a high growth industry. Product C has a high relative market share, but competes in an industry with negative growth rate. The company should take advantage of its present position that may be difficult to sustain in long run. Product D is in the worst position as it has a low relative market share, and competes in an industry with negative growth rate.

Question 8

Aurobindo, the pharmaceutical company wants to grow its business. Draw Ansoff's Product Market Growth Matrix to advise them of the available options.

Answer

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is an useful tool that helps businesses decide their product and market growth strategy. With the use of this matrix, a business can get a fair idea about how its growth depends upon its markets in new or existing products in both new and existing markets.

The Ansoff's product market growth matrix is as follows:

	Existing Products	New Products
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Ansoff's Product Market Growth Matrix

Based on the matrix, Aurobindo may segregate its different products. Being in pharmaceuticals, development of new products is result of extensive research and involves huge costs. There are also social dimensions that may influence the decision of the company. It can adopt penetration, product development, market development or diversification simultaneously for its different products.

Market penetration refers to a growth strategy where the business focuses on selling existing products into existing markets. It is achieved by making more sales to present customers without changing products in any major way. Market development refers to a growth strategy where the business seeks to sell its existing products into new markets. It is a strategy for company growth by identifying and developing new markets for the existing products of the company. Product development is refers to a growth strategy where business aims to introduce new products into existing markets. It is a strategy for company growth by offering modified or new products to current markets. Diversification refers to a growth strategy where a business markets new products in new markets. It is a strategy by starting up or acquiring businesses outside the company's current products and markets.

As market conditions change overtime, a company may shift product-market growth strategies. For example, when its present market is fully saturated a company may have no choice other than to pursue new market.

Question 9

In the context of Ansoff's Product-Market Growth Matrix, identify with reasons, the type of growth strategies followed in the following cases:

- (i) A leading producer of tooth paste, advises its customers to brush teeth twice a day to keep breath fresh.
- (ii) A business giant in hotel industry decides to enter into dairy business.
- (iii) One of India's premier utility vehicles manufacturing company ventures to foray into foreign markets.
- (iv) A renowned auto manufacturing company launches ungeared scooters in the market.

Answer

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is an useful tool that helps businesses decide their product and market growth strategy. This matrix further helps to analyse different strategic directions. According to Ansoff there are four strategies that organisation might follow.

- (i) *Market Penetration:* A leading producer of toothpaste, advises its customers to brush teeth twice a day to keep breath fresh. It refers to a growth strategy where the business focuses on selling existing products into existing markets.
- (ii) *Diversification:* A business giant in hotel industry decides to enter into dairy business. It refers to a growth strategy where a business markets new products in new markets.
- (iii) *Market Development:* One of India's premier utility vehicles manufacturing company ventures to foray into foreign markets. It refers to a growth strategy where the business seeks to sell its existing products into new markets.
- (iv) *Product Development:* A renowned auto manufacturing company launches ungeared scooters in the market. It refers to a growth strategy where business aims to introduce new products into existing markets.

Question 10

"Management of internal linkages in the value chain could create competitive advantage in a number of ways". Briefly explain.

Answer

The management of internal linkages in the value chain could create competitive advantage in a number of ways:

- ◆ There may be important linkages between the primary activities. For example, a decision to hold high levels of finished stock might ease production scheduling problems and provide for a faster response time to the customer. However, an assessment needs to be made whether the value added to the

customer by this faster response through holding stocks is greater than the added cost.

- ◆ It is easy to miss this issue of managing linkages between primary activities in an analysis if, for example, the organization's competences in marketing activities and operations are assessed separately. The operations may look good because they are geared to high-volume, low-variety, low-unit-cost of production. However, at the same time, the marketing team may be selling speed, flexibility and variety to the customers. So competence in separate activities need to be compatible.
- ◆ The management of the linkages between a primary activity and a support activity may be the basis of a core competence. It may be key investments in systems or infrastructure which provides the basis on which the company outperforms competition. Computer-based systems have been exploited in many different types of service organization and have fundamentally transformed the customer experience.
- ◆ Linkages between different support activities may also be the basis of core competences. For example, the extent to which human resource development is in tune with new technologies has been a key feature in the implementation of new production and office technologies. Many companies have failed to become competent in managing this linkage properly and have lost out competitively.

Scenario Based Questions

Question 11

Rohit Sodhi runs a charitable organisation for promotion of sports in the country. His organisation conducts regular free training camps for youths interested in playing cricket, football, hockey, badminton and so on. Many of his trainees have reached national level contests. Rohit noticed that with success of IPL (Cricket) tournament there is an increasing trend to extend similar format in other sports as well. He wishes to know how the development is going help sports and to which industries it will offer opportunities and threats.

Answer

With the success of IPL, league matches are taking place in other sports as well. These are held in a grandeur manner between several teams. For example, league matches in magnificent manner now take place in Football, Kabaddi and Hockey in India. These events are profit and entertainment driven. These are going to help

sports in India by generating interest in sports, making them more popular, increasing quality of competition and bringing money into sports.

A number of entities and processes are involved in these events from various industries offering opportunities and threats to them. An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position. On the other hand a threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position. An opportunity is also a threat in case internal weaknesses do not allow organization to take their advantage in a manner rivals can. It will offer opportunity and threats to the following:

Opportunities

- ◆ Stadia.
- ◆ Manufacturers of sports goods.
- ◆ Media Industry – Sports channels / television, advertisers.
- ◆ Hotel Industry linking events with their offerings.

Threats

- ◆ Entertainment industry engaged in TV serials, cinema theatres, Entertainment theme parks as competitors will be fighting for the same viewers/target customers.
- ◆ Event Management organisation engaged in non-sports events.

Question 12

Rohit Patel is having a small chemist shop in the central part of Ahmedabad. What kind of competencies Rohit can build to gain competitive advantage over online medicine sellers?

Answer

Capabilities that are valuable, rare, costly to imitate, and non-substitutable are core competencies. A small chemist shop has a local presence and functions within a limited geographical area. Still it can build its own competencies to gain competitive advantage. Rohit Patel can build competencies in the areas of:

- (i) Developing personal and cordial relations with the customers.
- (ii) Providing home delivery with no additional cost.

- (iii) Developing a system of speedy delivery that can be difficult to match by online sellers. Being in central part of city, he can create a network to supply at wider locations in the city.
- (iv) Having extended working hours for convenience of buyers.
- (v) Providing easy credit or a system of monthly payments to the patients consuming regular medicines.

Question 14

'Value for Money' is a leading retail chain, on account of its ability to operate its business at low costs. The retail chain aims to further strengthen its top position in the retail industry. Marshal, the CEO of the retail chain is of the view that to achieve the goals they should focus on lowering the costs of procurement of products.

Highlight and explain the core competence of the 'Value for Money' retail chain.

Answer

A core competence is a unique strength of an organization which may not be shared by others. Core competencies are those capabilities that are critical to a business achieving competitive advantage. In order to qualify as a core competence, the competency should differentiate the business from any other similar businesses. A core competency for a firm is whatever it does is highly beneficial to the organisation.

'Value for Money' is the leader on account of its ability to keep costs low. The cost advantage that 'Value for Money' has created for itself has allowed the retailer to price goods lower than competitors. The core competency in this case is derived from the company's ability to generate large sales volume, allowing the company to remain profitable with low profit margin.

Question 15

Suresh Singhanian is the owner of an agri-based private company in Sangrur, Punjab. His unit is producing puree, ketchups and sauces. While its products have significant market share in the northern part of country, the sales are on decline in last couple of years. He seeks help of a management expert who advises him to first understand the competitive landscape.

Explain the steps to be followed by Suresh Singhanian to understand competitive landscape.

Answer

Steps to understand the competitive landscape

- (i) **Identify the competitor:** The first step to understand the competitive landscape is to identify the competitors in the firm's industry and have actual data about their respective market share.
- (ii) **Understand the competitors:** Once the competitors have been identified, the strategist can use market research report, internet, newspapers, social media, industry reports, and various other sources to understand the products and services offered by them in different markets.
- (iii) **Determine the strengths of the competitors:** What are the strength of the competitors? What do they do well? Do they offer great products? Do they utilize marketing in a way that comparatively reaches out to more consumers. Why do customers give them their business?
- (iv) **Determine the weaknesses of the competitors:** Weaknesses (and strengths) can be identified by going through consumer reports and reviews appearing in various media. After all, consumers are often willing to give their opinions, especially when the products or services are either great or very poor.
- (v) **Put all of the information together:** At this stage, the strategist should put together all information about competitors and draw inference about what they are not offering and what the firm can do to fill in the gaps. The strategist can also know the areas which need to be strengthen by the firm.

STRATEGIC MANAGEMENT PROCESS



LEARNING OBJECTIVES

After studying this chapter, you will be able to:

- ❑ Have a basic knowledge of strategic planning.
- ❑ Learn about the concept of strategic decision making.
- ❑ Understand the concepts of strategic intent and vision.
- ❑ Have knowledge of different stages of strategic management process.

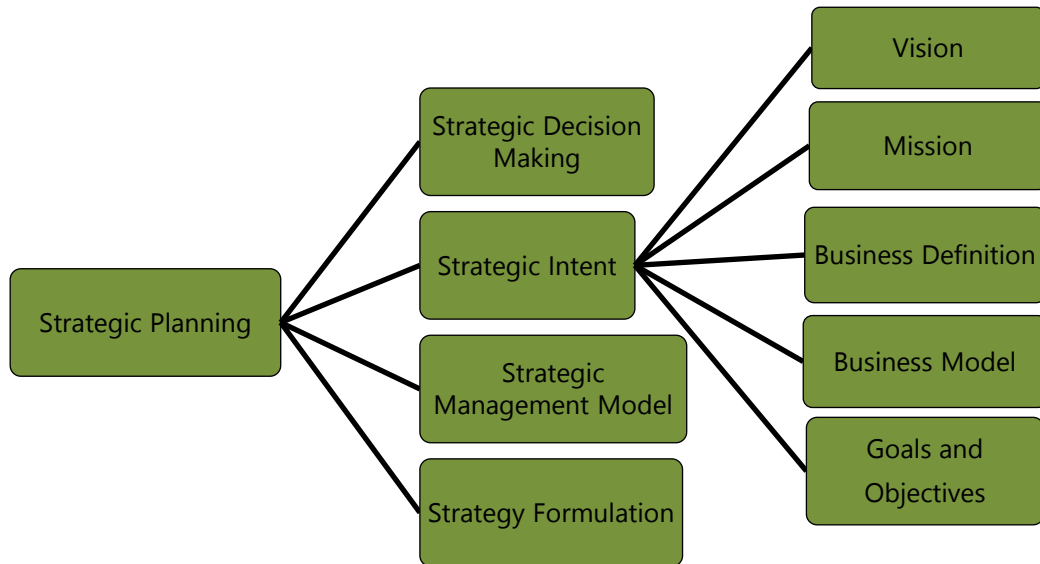
Sound strategy starts with having the right goal.

Michael Porter

“The real challenge in crafting strategy lies in detecting subtle discontinuities that may undermine a business in the future. And for that there is no technique, no program, just a sharp mind in touch with the situation.”

Henry Mintzberg

CHAPTER OVERVIEW



3.1 INTRODUCTION

It is a process of strategic planning that culminates in the formulation of corporate strategy. The strength of the entire process of strategic planning is tested by the efficacy of the strategy finally forged by the firm. The ultimate question is whether the strategy formulated is the appropriate one, i.e. whether it would take the firm to its objectives. Corporate strategy is the game plan that actually steers the firm towards success. The degree of aptness of this game plan decides the extent of the firm's success. That is why formulation of corporate strategy forms the crux of the strategic planning process.

3.2 STRATEGIC PLANNING

Planning means deciding what needs to be done in the future (today, next week, next month, next year, over the next couple of years, etc.) and generating blueprints for action. Good planning is an important constituent of good management. Planning involves determination of the course of action to attain the predetermined objectives. It bridges the gap between where we are to where we want to go. Thus, planning is future oriented in nature. Planning can be strategic or operational. Strategic plans are made by the senior management for the entire organization after taking into account the organization's strengths and weaknesses in the light of

opportunities and threats in the external environment. They involve acquisition and allocation of resources for the attainment of organisational objectives. But operational plans on the other hand are made at the middle and lower level management. They specify details on how the resources are to be utilized efficiently for the attainment of objectives.

Strategic Planning: It is the process of determining the objectives of the firm, resources required to attain these objectives and formulation of policies to govern the acquisition, use and disposition of resources. Strategic planning involves a fact of interactive and overlapping decisions leading to the development of an effective strategy for the firm. Strategic planning determines where an organization is going over the next year or more and the ways for going there. The process is organization-wide, or focused on a major function such as a division or other major function.

Dealing with uncertainty: Strategic uncertainty, which has far reaching implications, is a key construct in strategy formulation. A typical external analysis will emerge with dozens of strategic uncertainties. To be manageable, they need to be grouped into logical clusters or themes. It is then useful to assess the importance of each cluster in order to set priorities with respect to Information gathering and analysis.

Sometimes, strategic uncertainty is represented by a future trend or event that has inherent unpredictability. Information gathering and additional analysis will not be able to reduce the uncertainty. In that case, scenario analysis can be employed. Scenario analysis basically accepts the uncertainty as given and uses it to drive a description of two or more future scenarios. Strategies are then developed for each. One outcome could be a decision to create organizational and strategic flexibility so that as the business context changes the strategy will adapt.

Impact of uncertainty: Each element of strategic uncertainty involves potential trends or events that could have an impact on present, proposed, and even potential businesses. For example, a trend toward natural foods may present opportunities for juices for a firm producing aerated drinks on the basis of a strategic uncertainty. The impact of a strategic uncertainty will depend on the importance of the impacted SBU to a firm. Some SBUs are more important than others. The importance of established SBUs may be indicated by their associated sales, profits, or costs. However, such measures might need to be supplemented for potential growth as present sales, profits, or costs may not reflect the true value.



3.3 STRATEGIC DECISION MAKING

Decision making is a managerial process of selecting the best course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. Decisions may be operational, i.e., which relate to general day-to-day operations. They may also be strategic in nature. According to Jauch and Glueck "*Strategic decisions encompass the definition of the business, products to be handled, markets to be served, functions to be performed and major policies needed for the organisation to execute these decisions to achieve the strategic objectives.*"

The major dimensions of strategic decisions are as follows:

- ◆ *Strategic decisions require top-management involvement:* Strategic decisions involve thinking in totality of the organization. Hence, problems calling for strategic decisions require to be considered by the top management.
- ◆ *Strategic decisions involve commitment of organisational resources:* For example, Strategic decisions to launch a new project by a firm requires allocation of huge funds and assignment of a large number of employees.
- ◆ *Strategic decisions necessitate consideration of factors in the firm's external environment:* Strategic focus in organization involves orienting its internal environment to the changes of external environment.
- ◆ *Strategic decisions are likely to have a significant impact on the long-term prosperity of the firm:* Generally, the results of strategic implementation are seen on a long-term basis and not immediately.
- ◆ *Strategic decisions are future oriented:* Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.
- ◆ *Strategic decisions usually have major multifunctional or multi-business consequences:* As they involve organization in totality they affect different sections of the organization with varying degree.



3.4 STRATEGIC INTENT

Strategic Management is defined as a dynamic process of formulation, implementation, evaluation, and control of strategies to realise the organization's strategic intent. Strategic intent refers to purposes of what the organization strives for. Senior managers must define "*what they want to do*" and "*why they want to do*". "*Why they want to do*" represents strategic intent of the firm. Clarity in strategic

intent is extremely important for the future success and growth of the enterprise, irrespective of its nature and size.

Strategic intent can be understood as the philosophical base of strategic management. It implies the purposes, which an organization endeavours to achieving. It is a statement that provides a perspective of the means, which will lead the organization, reach its vision in the long run. Strategic intent gives an idea of what the organization desires to attain in future. It answers the question what the organization strives or stands for? It indicates the long-term market position, which the organization desires to create or occupy and the opportunity for exploring new possibilities.

Strategic intent provides the framework within which the firm would adopt apredetermined direction and would operate to achieve strategic objectives. Strategic intent could be in the form of vision and mission statements for the organisation at the corporate level. It could be expressed as the business definition and business model at the business level of the organisation.

Strategic intent is generally stated in broad terms but when stated in precise terms it is an expression of aims to be achieved operationally, i.e., goals and objectives.



Elements of Strategic Intent

1. **Vision:** Vision implies the blueprint of the company's future position. It describes where the organisation wants to land. It depicts the organisation's aspirations and provides a glimps of what the organization would like to

become in future. Every sub system of the organization is required to follow its vision.

2. **Mission:** Mission delineates the firm's business, its goals and ways to reach the goals. It explains the reason for the existence of the firm in the society. It is designed to help potential shareholders and investors understand the purpose of the company. A mission statement helps to identify, 'what business the company undertakes.' It defines the present capabilities, activities, customer focus and role in society.
3. **Business Definition:** It seeks to explain the business undertaken by the firm, with respect to the customer needs, target markets, and alternative technologies. With the help of business definition, one can ascertain the strategic business choices. Organisational restructuring also depends upon the business definition.
4. **Business Model:** Business model, as the name implies is a strategy for the effective operation of the business, ascertaining sources of income, desired customer base, and financial details. Rival firms, operating in the same industry rely on the different business model due to their strategic choice.
5. **Goals and Objectives:** These are the base of measurement. Goals are the end results, that the organization attempts to achieve. On the other hand, objectives are time-based measurable targets, which help in the accomplishment of goals. These are the end results which are to be attained with the help of an overall plan, over the particular period. However, in *practice, no distinction is made between goals and objectives and both the terms are used interchangeably.*

The vision, mission, business definition, and business model explain the philosophy of the organisation but the goals and objectives represent the results to be achieved in multiple areas of business.

3.5 VISION, MISSION AND OBJECTIVES

3.5.1. Vision

Very early in the strategy making process, a company's senior managers must consider the issue of what directional path the company should take and what changes in the company's product-market-customer-technology focus would improve its current market position and future prospects. Deciding to commit the company to one path versus another pushes managers to draw some carefully

reasoned conclusions about how to try to modify the company's business makeup and the market position it should stake out.

Top management's views about the company's direction and the product-customer-market-technology focus constitute the strategic vision for the company. Strategic vision delineates management's aspirations for the business, providing a panoramic view of the "where we are to go" and a convincing rationale for why this makes good business sense for the company. Strategic vision thus points out a particular direction, charts a strategic path to be followed in future, and moulding organizational identity. A clearly articulated strategic vision communicates management's aspirations to stakeholders and helps steer the energies of company personnel in a common direction. For instance, Henry Ford's vision of a car in every garage had power because it captured the imagination of others, aided internal efforts to mobilize the Ford Motor Company's resources, and served as a reference point for gauging the merits of the company's strategic actions.

A Strategic vision is a road map of a company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

The three elements of a strategic vision are:

1. Coming up with a mission statement that defines what business the company is presently in and conveys the essence of "Who we are and where we are now?"
2. Using the mission statement as basis for deciding on a long-term course making choices about "Where we are going?"
3. Communicating the strategic vision in clear, exciting terms that would arouse organization wide commitment.

Some examples of Vision are:

- ◆ ICAI: World's becomes leading accounting body, a regulator and developer of trusted and independent professionals with world class competencies in accounting, assurance, taxation, finance and business advisory services.
- ◆ Reliance Industries: Through sustainable measures, create value for the nation, enhance quality of life across the entire socio-economic spectrum and help spearhead India as a global leader in the domains where we operate.

- ◆ TATA Power: To be the most admired and responsible Integrated Power Company with international footprint, delivering sustainable value to all stakeholder.
- ◆ TATA Motors: To be a world class corporate constantly furthering the interest of all its stakeholders.
- ◆ Hindustan Unilever: Unilever products touch the lives of over 2 billion people every day – whether that's through feeling great because they've got shiny hair and a brilliant smile, keeping their homes fresh and clean, or by enjoying a great cup of tea, satisfying meal or healthy snack.
- ◆ The four pillars of our vision set out the long term direction for the company – where we want to go and how we are going to get there:

We work to create a better future every day.

- ◆ We help people feel good, look good and get more out of life with brands and services that are good for them and good for others.
- ◆ We will inspire people to take small everyday actions that can add up to a big difference for the world.
- ◆ We will develop new ways of doing business with the aim of doubling the size of our company while reducing our environmental impact.
- ◆ We've always believed in the power of our brands to improve the quality of people's lives and in doing the right thing. As our business grows, so do our responsibilities. We recognise that global challenges such as climate change concern us all. Considering the wider impact of our actions is embedded in our values and is a fundamental part of who we are.

Essentials of a strategic vision

- ◆ The entrepreneurial challenge in developing a strategic vision is to think creatively about how to prepare a company for the future.
- ◆ Forming a strategic vision is an exercise in intelligent entrepreneurship.
- ◆ A well-articulated strategic vision creates enthusiasm among the members of the organisation.
- ◆ The best-worded vision statement clearly illuminates the direction in which organization is headed.

3.5.2 Mission

A mission is an answer to the basic question 'what business are we in and what we do'. It has been observed that many firms fail to conceptualise and articulate the mission and business definition with the required clarity. Such firms are seen to fumble in the identification of opportunities and fail in formulating strategies to make use of opportunities. Firms working to manage their organisation strategically cannot be lax in the matter of mission and business definition, as the two ideas are absolutely central to strategic planning.

Why an organization should have a mission?

- ◆ To ensure unanimity of purpose within the organization.
- ◆ To develop a basis, or standard, for allocating organizational resources.
- ◆ To provide a basis for motivating the use of the organization's resources.
- ◆ To establish a general tone or organizational climate, for example, to suggest a business like operation.
- ◆ To serve as a focal point for those who can identify with the organization's purpose and direction.
- ◆ To facilitate the translation of objective and goals into a work structure involving the assignment of tasks to responsible elements within the organization.
- ◆ To specify organizational purposes and the translation of these purposes into goals in such a way that cost, time, and performance parameters can be assessed and controlled.

A company's mission statement is typically focused on its present business scope – "who we are and what we do". Mission statements broadly describe an organizations present capabilities, customer focus, activities, and business makeup.

Mission statement should reflect the philosophy of the organizations that is perceived by the senior managers. A good mission statement should be precise, clear, feasible, distinctive and motivating. Following points are useful while writing a mission of a company:

- ◆ One of the roles of a mission statement is to give the organization its own special identity, business emphasis and path for development – one that typically sets it apart from other similarly positioned companies.

- ◆ A company's business is defined by what needs it is trying to satisfy, which customer groups it is targeting and the technologies and competencies it uses and the activities it performs.
- ◆ Good mission statements are – unique to the organization for which they are developed.

Some examples of Mission are:

- ◆ ICAI: ICAI will leverage technology and infrastructure and partner with its stakeholders to
 - Impart world class education, training and professional development opportunities to create global professionals
 - Develop an independent and transparent regulatory mechanism that keeps pace with the changing times
 - Ensure adherence to highest ethical standards.
 - Conduct cutting edge research and development in the areas of accounting, assurance, taxation, finance and business advisory services
 - Establish ICAI members and firms as Indian multi-national service providers.
- ◆ Reliance Industries:
 - Create value for all stakeholders
 - Grow through innovation
 - Lead in good governance practices
 - Use sustainability to drive product development and enhance operational efficiencies
 - Ensure energy security of the nation
 - Foster rural prosperity
- ◆ TATA Power: We will become the most admired and responsible Power Company delivering sustainable value by:
 - Operating our assets at benchmark levels.
 - Executing projects safely, with predictable benchmark quality, cost and time.

- Growing the Tata Power businesses, be it across the value chain or across geographies, and also in allied or new businesses.
 - Driving Organizational Transformation that will make us have the conviction and capabilities to deliver on our strategic intent.
 - Achieving our sustainability intent of 'Leadership with Care', by having leading and best practices on Care for the Environment, Care for the Community, Care for the Customers and Shareholders, and Care for the People.
- ◆ TATA Motors:
- Shareholders: To consistently create shareholder value by generating returns in excess of Weighted
 - Average Cost of Capital (WACC) during the upturn and at least equal to Weighted Average Cost of
 - Capital (WACC) during the downturn of the business cycle.
 - Customers: To strengthen the Tata brand and create lasting relationships with the customers by working closely with business partners to provide superior value for money over the life cycle.
 - Employees: To create a seamless organization that incubates and promotes innovation, excellence and the Tata core values.
 - Vendor and Channel Partners: To foster a long-term relationship so as to introduce a broad range of innovative products and services, that would benefit our customers and other stakeholders.
 - Community: To proactively participate in reshaping the country's economic growth. To take a holistic approach towards environmental protection.

What is our mission? And what business are we in ?

The well-known management experts, Peter Drucker and Theodore Levitt were among the first to agitate this issue through their writings. They emphasised that as the first step in the business planning endeavour, every business firm must clarify the corporate mission and define accurately the business the firm is engaged in. They also explained that towards facilitating this task, the firm should raise and answer certain basic questions concerning its business, such as:

- ◆ What is our mission?
- ◆ What is our ultimate purpose?

- ◆ What do we want to become?
- ◆ What kind of growth do we seek?
- ◆ What business are we in?
- ◆ Do we understand our business correctly and define it accurately in its broadest connotation?
- ◆ Whom do we intend to serve?
- ◆ What human need do we intend to serve through our offer?
- ◆ What brings us to this particular business?
- ◆ What would be the nature of this business in the future?
- ◆ In what business would we like to be in, in the future?

At the time these two experts raised this issue, the business managers of the world did not fully appreciate the importance of these questions; those were the days when business management was still a relatively simple process even in industrially advanced countries like the US. It was only in subsequent years that captains of industry all over the world understood the significance of the seemingly simple questions raised by Drucker and Levitt.

The corporate mission is an expression of the growth ambition of the firm. It is, in fact, the firm's future visualised. It provides a dramatic picture of what the company wants to become. It is the corporation's dream crystallised. It is a colourful sketch of how the firm wants its future to look, irrespective of the current position. In other words, the mission is a grand design of the firm's future.

Mission amplifies what brings the firm to this business or why it is there, what existence it seeks and what purpose it seeks to achieve as a business firm. In other words, the mission serves as a justification for the firm's very presence and existence; it legitimises the firm's presence.

Mission is also an expression of the vision of the corporation, its founder/ leader. To make the vision come alive and become relevant, it needs to be spelt out. It is through the mission that the firm spells out its vision.

It represents the common purpose, which the entire firm shares and pursues. A mission is not a confidential affair to be confined at the top; it has to be open to the entire company. All people are supposed to draw meaning and direction from it. It adds zeal to the firm and its people. A mission is not a fad-it is a tool to build and sustain commitment of the people to the corporation's policies. A mission is not rhetoric - it is the corporation's guiding principle.

Every organization functions through a network of goals and objectives. Mission statement is the foundation from which the network of goals is built. The mission serves as a proclamation to insiders and outsiders on what the corporation stands for. A mission, however, is not a PR document; while it legitimises the corporation's existence and role in society, its main purpose is to give internal direction for the future of the corporation.

According to Peter Drucker, every organization must ask an important question "What business are we in?" and get the correct and meaningful answer. The answer should have marketing or external perspective and should not be restated to the production or generic activities of business. The table given below will clarify and highlight the importance of external perspective.

What business are we in?

Company	Production-oriented answer	Marketing-oriented answer
Indian Oil	We produce oil and gasoline products.	We provide various types of safe and cost-effective energy.
Indian Railways	We run a railroad.	We offer a transportation and material-handling system.
Revlon	In the factory, we make cosmetics.	In the retail outlet, we sell hope.

Understanding Mission and Purpose: The mission is a statement which defines the role that an organization plays in the society. The organisation also have some purpose that is anything that it strives for. Organizations relate their existence to satisfying a particular need of the society. They do this in terms of their mission and purpose. We can describe mission as "a statement which defines the role that an organization plays in the society", and purpose as "anything which an organization strives for." In business policy, both these terms are either used jointly or singly. Since both mission and purpose go hand in hand, they can be used together while maintaining the basic difference between them. Mission strictly refers to the particular needs of the society, for instance, its information needs. Purpose relates to what the organization strives to achieve in order to fulfil its mission to the society. A book publisher and a magazine editor are both engaged in satisfying the information needs of society but they do it through different means. A book publisher may aim at producing excellent reading material while a magazine editor may strive to present news analysis in a balanced and unbiased manner.

3.5.3 Goals and Objectives

Business organization translates their vision and mission into goals and objectives. As such the term objectives are synonymous with goals, however, some authors make an attempt to distinguish the two. Goals are open-ended attributes that denote the future states or outcomes. Objectives are close-ended attributes which are precise and expressed in specific terms. Thus, the Objectives are more specific and translate the goals to both long term and short term perspective. However, this distinction is not made by several theorists on the subject. Accordingly, we will also use the term interchangeably.

Objectives are organization's performance targets – the results and outcomes it wants to achieve. They function as yardsticks for tracking an organization's performance and progress.

All organizations have objectives. The pursuit of objectives is an unending process such that organizations sustain themselves. They provide meaning and sense of direction to organizational endeavour. Organizational structure and activities are designed and resources are allocated around the objectives to facilitate their achievement. They also act as benchmarks for guiding organizational activity and for evaluating how the organization is performing.

Objectives with strategic focus relate to outcomes that strengthen an organization's overall business position and competitive vitality. Objectives, to be meaningful to serve the intended role, must possess the following characteristics:

- ◆ Objectives should define the organization's relationship with its environment.
- ◆ They should be facilitative towards achievement of mission and purpose.
- ◆ They should provide the basis for strategic decision-making.
- ◆ They should provide standards for performance appraisal.
- ◆ They should be concrete and specific.
- ◆ They should be related to a time frame.
- ◆ They should be measurable and controllable.
- ◆ They should be challenging.
- ◆ Different objectives should correlate with each other.
- ◆ Objectives should be set within the constraints of organisational resources and external environment.

A need for both short-term and long-term objectives: As a rule, a company's set of financial and strategic objectives ought to include both short-term and long-term performance targets. Having quarterly or annual objectives focuses attention on delivering immediate performance improvements. Targets to be achieved within three to five years' prompt considerations of what to do now to put the company in position to perform better down the road. A company that has an objective of doubling its sales within five years can't wait until the third or fourth year to begin growing its sales and customer base. By spelling out annual (or perhaps quarterly) performance targets, management indicates the speed at which longer-range targets are to be approached.

Long-term objectives: To achieve long-term prosperity, strategic planners commonly establish long-term objectives in seven areas.

- ◆ Profitability.
- ◆ Productivity.
- ◆ Competitive Position.
- ◆ Employee Development.
- ◆ Employee Relations.
- ◆ Technological Leadership.
- ◆ Public Responsibility.

Long-term objectives represent the results expected from pursuing certain strategies, Strategies represent the actions to be taken to accomplish long-term objectives. The time frame for objectives and strategies should be consistent, usually from two to five years,

Objectives should be quantitative, measurable, realistic, understandable, challenging, hierarchical, obtainable, and congruent among organizational units. Each objective should also be associated with a time line. Objectives are commonly stated in terms such as growth in assets, growth in sales, profitability, market share, degree and nature of diversification, degree and nature of vertical integration, earnings per share, and social responsibility. Clearly established objectives offer many benefits. They provide direction, allow synergy, aid in evaluation, establish priorities, reduce uncertainty, minimize conflicts, stimulate exertion, and aid in both the allocation of resources and the design of jobs,

Short-range objectives can be identical to long-range objectives if an organization is already performing at the targeted long-term level. For instance, if a company

has an ongoing objective of 15 percent profit growth every year and is currently achieving this objective, then the company's long-range and short-range objectives for increasing profits coincide. The most important situation in which short-range objectives differ from long-range objectives occurs when managers are trying to elevate organizational performance and cannot reach the long-range target in just one year. Short-range objectives then serve as steps toward achieving long term objective.

3.6 STRATEGIC MANAGEMENT MODEL

Identifying an organization's vision, mission, goals and objectives, is the starting point for strategic management process. Every organization has a specific vision, mission, goals and objectives, even if these elements are not consciously designed, written, or communicated. The answer to where an organization is going can be determined largely by where the organization has been.

The strategic management process is dynamic and continuous. A change in any one of the major components in the model can necessitate a change in any or all of the other components. For instance, a shift in the economy could represent a major opportunity and require a change in long-term objectives and strategies; a failure to accomplish annual objectives could require a change in policy; or a major competitor's change in strategy could require a change in the firm's mission.

Therefore, strategy formulation, implementation, and evaluation activities should be performed on a continual basis, not just at the end of the year or semi-annually. The strategic management process never really ends.

The strategic management process can best be studied and applied using a model. Every model represents some kind of process. The model illustrated in the Figure: Strategic Management Model is a widely accepted, comprehensive. This model like any other model of management does not guarantee sure-shot success, but it does represent a clear and practical approach for formulating, implementing, and evaluating strategies. Relationships among major components of the strategic management process are shown in the model.

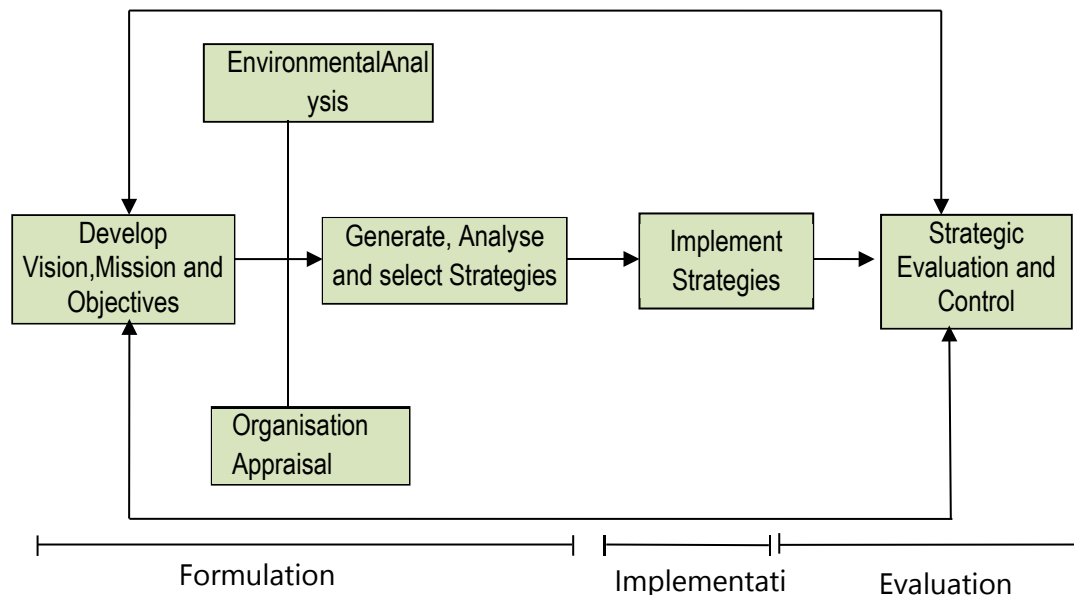


Figure: Strategic Management Model (Fred R David)

The strategic management process is not as cleanly divided and neatly performed in practice as the strategic management model suggests. Strategists do not go through the process in lockstep fashion. Generally, there is give-and-take among hierarchical levels of an organization. Many organizations conduct formal meetings semi-annually to discuss and update the firm's vision/mission, opportunities/threats, strengths/weaknesses, strategies, objectives, policies, and performance. Creativity from participants is encouraged in meeting. Good communication and feedback are needed throughout the strategic management process.

3.7 STAGES IN STRATEGIC MANAGEMENT

Crafting and executing strategy are the heart and soul of managing a business enterprise. But exactly what is involved in developing a strategy and executing it proficiently? And who besides top management has strategy – formulation – executing responsibility?

Strategic management involves the following stages:

1. Developing a strategic vision and formulation of statement of mission, goals and objectives.
2. Environmental and organizational analysis.
3. Formulation of strategy.

4. Implementation of strategy.
5. Strategic evaluation and control

Stage 1: Strategic Vision, Mission and Objectives

First a company must determine what directional path the company should take and what changes in the company's product – market – customer – technology – focus would improve its current market position and its future prospect. Deciding to commit the company to one path versus another pushes managers to draw some carefully reasoned conclusions about how to try to modify the company's business makeup and the market position it should carve out. Top management's views and conclusions about the company's direction and the product-customer-market-technology focus constitute a strategic vision for the company. A strategic vision delineates management's aspirations for the organisation and highlights a particular direction, or strategic path for it to follow in preparing for the future, and moulds its identity. A clearly articulated strategic vision communicates management's aspirations to stakeholders and helps steer the energies of company personnel in a common direction.

Mission and Strategic Intent: Managers need to be clear about what they see as the role of their organization, and this is often expressed in terms of a statement of mission. This is important because both external stakeholders and other managers in the organization need to be clear about what the organization is seeking to achieve and, in broad terms, how it expects to do so. At this level, strategy is not concerned with the details of SBU competitive strategy or the directions and methods the businesses might take to achieve competitive advantage. Rather, the concern here is overall strategic direction.

Corporate goals and objectives flow from the mission and growth ambition of the corporation. Basically, they represent the quantum of growth the firm seeks to achieve in the given time frame. They also endow the firm with characteristics that ensure the projected growth. Through the objective setting process, the firm is tackling the environment and deciding the locus it should have in the environment. The objective provides the basis for its major decisions of the firm and also sets the organizational performance to be realised at each level. The managerial purpose of setting objectives is to convert the strategic vision into specific performance targets – results and outcomes the management wants to achieve – and then use these objectives as yardsticks for tracking the company's progress and performance.

Ideally, managers ought to use the objective-setting exercise as a tool for truly stretching an organization to reach its full potential. Challenging company personnel to go all out and deliver big gains in performance pushes an enterprise

to be more inventive, to exhibit some urgency in improving both its financial performance and its business position, and to be more intentional and focused in its actions.

Objectives are needed at all organizational levels. Objective setting should not stop with top management's establishing of companywide performance targets. Company objectives need to be broken down into performance targets for each separate business, product line, functional department, and individual work unit. Company performance can't reach full potential unless each area of the organization does its part and contributes directly to the desired companywide outcomes and results. This means setting performance targets for each organization unit that support-rather than conflict with or negate-the achievement of companywide strategic and financial objectives.

Stage 2: Environmental and Organizational Analysis

This stage is the diagnostic phase of strategic analysis. It entails two types of analysis:

1. Environmental scanning
2. Organisational analysis

External environment of a firm consists of economic, social, technological, market and other forces which affect its functioning. The firm's external environment is dynamic and uncertain. So, the management must systematically be analysed various elements of environment to determine opportunities and threats for the firm in future.

Organisational analysis involved a review of financial resources, technological resources, productive capacity, marketing and distribution effectiveness, research and development, human resource skills and so on. This would reveal organisational strengths and weaknesses which could be matched with the threats and opportunities in the external environment. This would provide us a framework for SWOT analysis (Strength, Weakness, opportunity and threat) which could be in the form of a table highlighting various strengths and weaknesses of the firm and opportunities and threats which the environment we create for the firm. The concept of SWOT analysis is already elaborated in chapter 2.

Stage 3: Formulating Strategy

The first step in strategy formulation is developing strategic alternatives in the light of organization strengths and weaknesses and opportunities and threats in the environment. The second step is the deep analysis of various strategic alternatives

for the purpose of choosing the most appropriate alternative which will serve as strategy of the firm.

A company may be confronted with several alternatives such as:

- i. Should the company continue in the same business carrying on the same volume of activities?
- ii. If it should continue in the same business, should it grow by expanding the existing units or by establishing new units or by acquiring other units in the industry.
- iii. If it should diversify, should it diversify into related areas or unrelated areas?
- iv. Should it get out of an existing business fully or partially?

The above strategic alternatives may be designated as stability strategy, growth/expansion strategy and retrenchment strategy. A company may also follow a combination these alternatives called combination strategy. The details of the strategies have been given in chapter 4.

Stage 4: Implementation of Strategy

Implementation and execution is an operations-oriented, activity aimed at shaping the performance of core business activities in a strategy-supportive manner. It is the most demanding and time-consuming part of the strategy-management process. To convert strategic plans into actions and results, a manager must be able to direct organizational change, motivate people, build and strengthen company competencies and competitive capabilities, create a strategy-supportive work climate, and meet or beat performance targets.

In most situations, strategy-execution process includes the following principal aspects:

- ◆ Developing budgets that steer ample resources into those activities critical to strategic success.
- ◆ Staffing the organization with the needed skills and expertise, consciously building and strengthening strategy-supportive competencies and competitive capabilities, and organizing the work effort.
- ◆ Ensuring that policies and operating procedures facilitate rather than impede effective execution.
- ◆ Using the best-known practices to perform core business activities and pushing for continuous improvement.

- ◆ Installing information and operating systems that enable company personnel to better carry out their strategic roles day in and day out.
- ◆ Motivating people to pursue the target objectives energetically.
- ◆ Creating a company culture and work climate conducive to successful strategy implementation and execution.
- ◆ Exerting the internal leadership needed to drive implementation forward and keep improving strategy execution. When the organization encounters stumbling blocks or weaknesses, management has to see that they are addressed and rectified quickly.

Good strategy execution involves creating strong “fits” between strategy and organizational capabilities, between strategy and the reward structure, between strategy and internal operating systems, and between strategy and the organization’s work climate and culture.

Stage 5 : Strategic Evaluation and Control

The final stage of strategic management process – evaluating the company’s progress, assessing the impact of new external developments, and making corrective adjustments – is the trigger point for deciding whether to continue or change the company’s vision, objectives, strategy, and/or strategy-execution methods. So long as the company’s direction and strategy seem well matched to industry and competitive conditions and performance targets are being met, company executives may decide to stay the course. Simply fine-tuning the strategic plan and continuing with ongoing efforts to improve strategy execution are sufficient.

But whenever a company encounters disruptive changes in its external environment, questions need to be raised about the appropriateness of its direction and strategy. If a company experiences a downturn in its market position or shortfalls in performance, then company managers are obligated to ferret out whether the causes relate to poor strategy, poor execution, or both and then to take timely corrective action. A company’s direction, objectives, and strategy have to be revisited anytime external or internal conditions warrant. It is to be expected that a company will modify its strategic vision, direction, objectives, and strategy over time.

Proficient strategy execution is always the product of much organizational learning. It is achieved unevenly – coming quickly in some areas and proving nettlesome and problematic in others. Periodically assessing what aspects of strategy execution are working well and what needs improving is normal and desirable. Successful strategy

execution entails vigilantly searching for ways or continuously improve and then making corrective adjustments whenever and wherever it is useful to do so.

SUMMARY

Strategic planning is the making and determination of organizational strategy. It involves taking strategic decisions and allocating resources to pursue the strategy. Strategic intent provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives. Elements of strategic intent are vision, mission, business definition, business model and goals and objectives.

This chapter explains the strategic management model. The five stages of strategic management– Developing a strategic vision and formulation of statement of mission, goals and objectives, environmental and organizational analysis, formulation of strategy, implementation of strategy, strategic evaluation and control have been discussed in.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

Question 1

- The first step in strategic planning is generally:
 - Developing a vision statement
 - Establishing goals and objectives
 - Developing a mission statement
 - Determining opportunities and threats
- The strategic-management process:
 - occurs once a year.
 - is a sequential process.
 - is a continuous process.
 - applies mostly to small businesses
- In which phase of strategic management are annual objectives especially important?
 - Formulation

- (b) Control
(c) Evaluation
(d) Implementation
4. Which statement should be created first and foremost?
(a) Strategic
(b) Vision
(c) Objectives
(d) Mission
5. Specific results an organization seeks to achieve in pursuing its basic mission are:
(a) Strategies
(b) Rules
(c) Objectives
(d) Policies
6. Which one is not the element of strategic intent?
(a) Business model
(b) Vision
(c) Business definition
(d) Business standard
7. During what stage of strategic management are a firm's specific internal strengths and weaknesses determined?
(a) Formulation
(b) Implementation
(c) Evaluation
(d) Feedback
8. Which of these basic questions should a vision statement answer?
(a) What is business of firm's?
(b) Who are competitors?

- (c) Where we are to go?
 (d) What are organizational capabilities?
9. What are the means by which long term objectives will be achieved?
 (a) Policies
 (b) Opportunities
 (c) Vision
 (d) Strategies
10. What is the first step in the comprehensive strategic-management model?
 (a) Developing vision and mission statements
 (b) Performing external audits
 (c) Measuring and evaluating performance
 (d) Establishing long-term objectives
11. Developing vision and mission, identifying an organization's external opportunities and threats, and determining internal strengths and weaknesses are:
 (a) SBU Planning
 (b) Strategy Formulation
 (c) Strategy Implementation
 (d) Business Process Reengineering
12. Which statement should be created first and foremost?
 (a) Strategy
 (b) Vision
 (c) Objectives
 (d) Mission

Answer

- 1** (a) **2** (c) **3** (d) **4** (b) **5** (c) **6** (d)
7 (a) **8** (c) **9** (d) **10** (a) **11** (b) **12** (b)

Descriptive Questions

Question 2

What is strategic decision making? What tasks are performed by a strategic Manager?

Answer

Decision making is a managerial process of selecting the best course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. Decisions may be operational i.e., which relate to general day-to-day operations. They may also be strategic in nature. According to Jauch and Glueck **“Strategic decisions encompass the definition of the business, products to be handled, markets to be served, functions to be performed and major policies needed for the organisation to execute these decisions to achieve the strategic objectives.”**

The primary task of the strategic manager is conceptualizing, designing and executing company strategies. For this purpose, his tasks include:

- ◆ Defining the mission and goals of the organization.
- ◆ Determining what businesses it should be in.
- ◆ Allocating resources among the different businesses.
- ◆ Formulating and implementing strategies that span individual businesses.
- ◆ Providing leadership for the organization.

Question 3

What is a mission statement? State the points that may be considered while writing a mission statement of a company.

Answer

Mission statement is an answer to the question “Who we are and what we do” and hence has to focus on the organisation’s present capabilities, focus activities and business makeup. An organisation’s mission states what customers it serves, what need it satisfies, and what type of product it offers. It is an expression of the growth ambition of the organisation.

A company’s mission statement is typically focused on its present business scope- “who we are and what we do”; mission statements broadly describe an organizations present capabilities, customer focus activities and business makeup.

The following points must be considered while writing a mission statement of a company.

- (i) To establish the special identity of the business - one that typically distinct it from other similarly positioned companies.
- (ii) Needs which business tries to satisfy, customer groups it wishes to target and the technologies and competencies it uses and the activities it performs.
- (iii) Good mission statements should be unique to the organisation for which they are developed.
- (iv) The mission of a company should not be to make profit. Surpluses may be required for survival and growth, but cannot be mission of a company.

Question 4

Briefly discuss the difference between vision and mission.

Answer

A Mission statement tells you the fundamental purpose of the organization. It concentrates on the present. It defines the customer and the critical processes. It informs you of the desired level of performance. On the other hand, a vision statement outlines what the organization wants to be. It concentrates on the future. It is a source of inspiration. It provides clear decision-making criteria.

A mission statement can resemble a vision statement in a few companies, but that can be a grave mistake. It can confuse people. Following are the major differences between vision and mission:

1. The vision states the future direction while the mission states the ongoing activities of the organisation.
2. The vision statement can galvanize the people to achieve defined objectives, even if they are stretch objectives, provided the vision is specific, measurable, achievable, relevant and time bound. A mission statement provides a path to realize the vision in line with its values. These statements have a direct bearing on the bottom line and success of the organization.
3. A vision statement defines the purpose or broader goal for being in existence or in the business and can remain the same for decades if crafted well while a mission statement is more specific in terms of both the future state and the time frame. Mission describes what will be achieved if the organization is successful.

Question 5

Briefly explain the major dimensions of strategic decisions.

Answer

The major dimensions of strategic decisions are as follows:

- ◆ Strategic decisions require top-management involvement: Strategic decisions involve thinking in totality of the organization. Hence, problems calling for strategic decisions require to be considered by the top management.
- ◆ Strategic decisions involve commitment of organisational resources: For example, Strategic decisions to launch a new project by a firm requires allocation of huge funds and assignment of a large number of employees.
- ◆ Strategic decisions necessitate consideration of factors in the firm's external environment: Strategic focus in organization involves orienting its internal environment to the changes of external environment.
- ◆ Strategic decisions are likely to have a significant impact on the long-term prosperity of the firm: Generally, the results of strategic implementation are seen on a long-term basis and not immediately.
- ◆ Strategic decisions are future oriented: Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.
- ◆ Strategic decisions usually have major multifunctional or multi-business consequences: As they involve organization in totality they affect different sections of the organization with varying degree.

Question 6

Explain the principal aspects of strategy-execution process.

Answer

In most situations, strategy-execution process includes the following principal aspects:

- ◆ Developing budgets that steer ample resources into those activities critical to strategic success.
- ◆ Staffing the organization with the needed skills and expertise, consciously building and strengthening strategy-supportive competencies and competitive capabilities, and organizing the work effort.

- ◆ Ensuring that policies and operating procedures facilitate rather than impede effective execution.
- ◆ Using the best-known practices to perform core business activities and pushing for continuous improvement.
- ◆ Installing information and operating systems that enable company personnel to better carry out their strategic roles day in and day out.
- ◆ Motivating people to pursue the target objectives energetically.
- ◆ Creating a company culture and work climate conducive to successful strategy implementation and execution.
- ◆ Exerting the internal leadership needed to drive implementation forward and keep improving strategy execution. When the organization encounters stumbling blocks or weaknesses, management has to see that they are addressed and rectified quickly.

Good strategy execution involves creating strong “fits” between strategy and organizational capabilities, between strategy and the reward structure, between strategy and internal operating systems, and between strategy and the organization’s work climate and culture.

Scenario Based Questions

Question 7

Shri Alok Kumar is having his own medium size factory in Aligarh manufacturing hardware consisting handles, hinges, tower bolts and so on. He has a staff of more than 220 in his organisation. One of the leading brand of Hardware seller in India is rebranding and selling the material from his factory. Shri Alok Kumar, believes in close supervision and takes all major and minor decisions in the organisation.

Do you think Shri Alok should take all decisions himself? What should be nature of decisions that should be taken by him.

Answer

Decision making is a managerial process of selecting the best course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. Decisions may be operational, i.e., which relate to general day-to-day operations. They may also be strategic in nature.

As owner manager at the top level in the company, Shri Alok Kumar should concentrate on strategic decisions. These are higher level decisions having

organisation wide implications. The major dimensions of strategic decisions are as follows:

- ◆ Strategic decisions require top-management involvement as they involve thinking in totality of the organization.
- ◆ Strategic decisions involve significant commitment of organisational resources.
- ◆ Strategic decisions necessitate consideration of factors in the firm's external environment.
- ◆ Strategic decisions are likely to have a significant impact on the long-term prosperity of the firm.
- ◆ Strategic decisions are future oriented.
- ◆ Strategic decisions usually have major multifunctional or multi-business consequences.

Question 8

Rohit Seth in an informal discussion with his friend shared that he has to move very cautiously in his organisation as the decisions taken by him have organisation wide impact and involve large commitments of resources. He also said that his decisions decide the future of his organisation.

Where will you place Rohit Seth in organisational hierarchy? What are the dimensions of the decisions being taken by him?

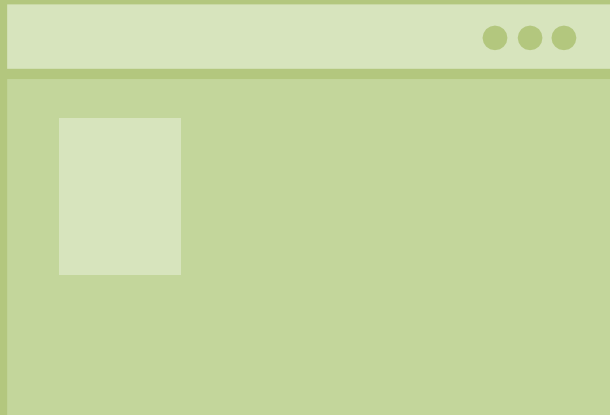
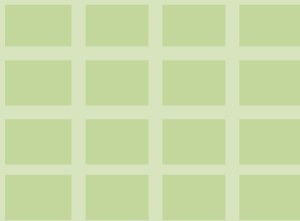
Answer

As the decisions taken by Rohit Seth have organisation wide impact, involves large commitments and have implication on the future, he is at the top level in organisational hierarchy. These characteristics also indicate that he is taking strategic decisions in the organisation. The major dimensions of strategic decisions are as follows:

- ◆ **Strategic decisions require top-management involvement:** Strategic decisions involve thinking in totality of the organization. Hence, problems calling for strategic decisions require to be considered by the top management.
- ◆ **Strategic decisions involve commitment of organisational resources:** For example, Strategic decisions to launch a new project by a firm requires allocation of huge funds and assignment of a large number of employees.
- ◆ **Strategic decisions necessitate consideration of factors in the firm's**

external environment: Strategic focus in organization involves orienting its internal environment to the changes of external environment.

- ◆ **Strategic decisions are likely to have a significant impact on the long-term prosperity of the firm:** Generally, the results of strategic implementation are seen on a long-term basis and not immediately.
- ◆ **Strategic decisions are future oriented:** Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.
- ◆ **Strategic decisions usually have major multifunctional or multi-business consequences:** As they involve organization in totality they affect different sections of the organization with varying degree.



CORPORATE LEVEL STRATEGIES



LEARNING OUTCOMES

After studying this chapter, you will be able to -

- ❑ Identify the directional/grand strategies.
- ❑ Understand the nature and relevance of stability strategy.
- ❑ Understand the nature and relevance of expansion/growth strategy.
- ❑ Learn why organisations retrench or turnaround their businesses.

Know about combination strategies and strategic alliances.

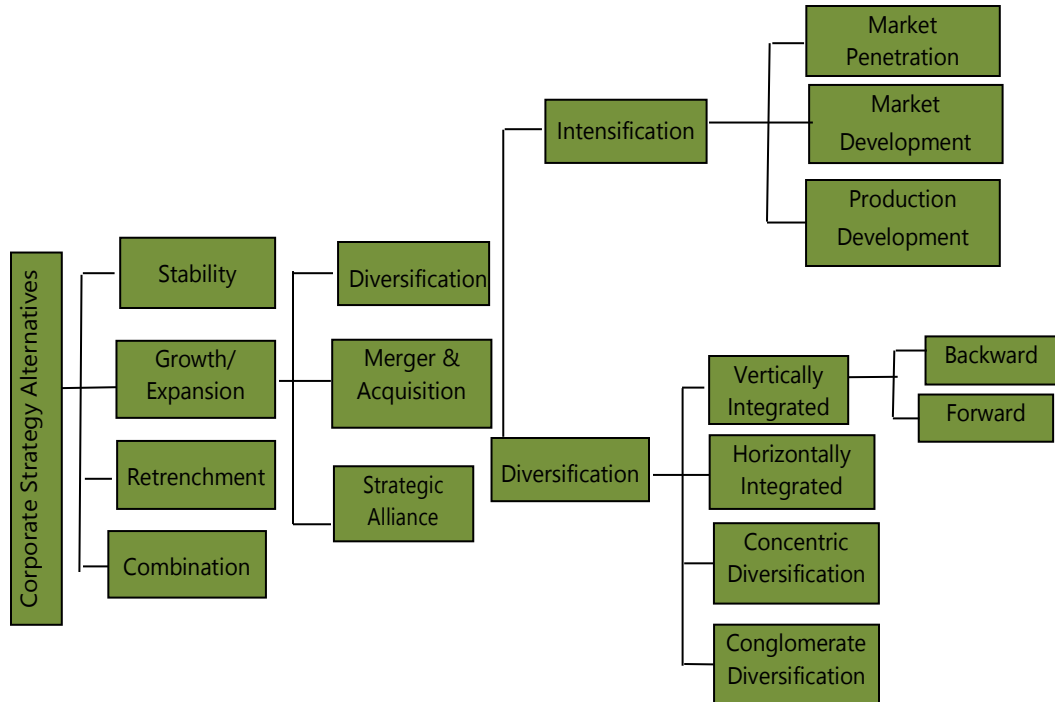
Chance favours the prepared mind.

Louis Pasteur

Strategy is a deliberate search for a plan of action that will develop a business competitive advantage and compound it.

Bruce D. Henderson

CHAPTER OVERVIEW



4.1 INTRODUCTION

As discussed in chapter 1, strategies are formulated at different levels of an organization – corporate, business and functional. Corporate level strategies occupy the highest level of strategic decision making and cover actions dealing with the objective of the firm, acquisition and allocation of resources and coordination of strategies of various SBUs for optimal performance. Top management of the organization makes strategic decisions. The nature of strategic decisions tends to be value-oriented, conceptual and less concrete than decisions at the business or functional level.

4.2 TYPOLOGIES OF STRATEGIES

Businesses follow different types of strategies to enter the market and to stay and grow in the market. A large number of strategies with different nomenclatures have been employed by different businesses and also suggested by different authors on strategy. For instance, William F Glueck and Lawrence R Jauch discussed four generic strategies including stability, growth, retrenchment and

combination. These strategies have also been called Grand Strategies/Directional Strategies by many other authors. Michael E. Porter suggested competitive strategies including Cost Leadership, Differentiation, Focus Cost Leadership and Focus Differentiation which could be used by the corporates for their different business units. Besides these, we come across functional strategies in the literature on Strategic Management and Business Policy. Functional Strategies are meant for strategic management of distinct functions such as Marketing, Financial, Human Resource, Logistics, Production etc.

We can classify the different types of strategies on the basis of levels of organisation, stages of business life cycle and competition as given in the table – 1.

Table – 1

Basis of Classification	Types
Level	Corporate Level Business Level Functional Level
Stages of Business Life Cycle	Entry/Introduction Stage - Market Penetration Strategy Growth Stage - Growth/Expansion Strategy Maturity Stage - Stability Strategy Decline Stage - Retrenchment/ Turnaround Strategy
Competition	Competitive Strategies - Cost Leadership, Differentiation, Focus Collaboration Strategies - Joint Venture, Merger & Acquisition, Strategic Alliance

It may be noted that there is no water tight compartmentation between different typologies. For instance, a startup or a new enterprise might follow either a competitive strategy i.e., entering the market where a number of rivals are already operating, or a collaborative strategy, i.e., enter into a joint venture with an established company. However, majority of startups are launched on a small scale and their main strategy is to penetrate the market and to reach the breakeven stage at the earliest and later pursue growth strategy.

Reality Bite: Patanjali Ayurved adopted market penetration strategy and to be successful. It concentrated on product development and high quality at low cost. It is now at the growth stage and is following competitive strategies. It is competing with both domestic and multinational companies.

A going concern can continue with the competitive strategy or resort to collaborative strategy to ensure business growth.

Business conglomerates having multiple product folios formulate strategies at different levels, viz., corporate, business unit and functional. Corporate level strategies also known as grand strategies are meant to provide 'direction' to the company. Business level strategies are formulated for each product division known as strategic business unit. Further to implement the corporate and business level strategies, functional strategies are formulated in business areas like production/operations, marketing, finance, human resources etc. In fact, big corporates follow an elaborate system of strategy formulation, implementation and control at different levels in the company to survive and grow in the turbulent business environment. In this chapter, we shall discuss the corporate level strategies. Business level and Functional level strategies have been discussed in chapter 5 and chapter 6 respectively.

The corporate strategies a firm can adopt may be classified into four broad categories:

1. Stability strategy
2. Expansion strategy
3. Retrenchment strategy
4. Combinations strategy

The basic features of the corporate strategies are as follows:

Strategy	Basic Feature
Stability	The firm stays with its current businesses and product markets; maintains the existing level of effort; and is satisfied with incremental growth.
Expansion	Here, the firm seeks significant growth-maybe within the current businesses; maybe by entering new business that are related to existing businesses; or by entering new businesses that are unrelated to existing businesses.
Retrenchment	The firm retrenches some of the activities in some business (es), or drops the business as such through sell-out or liquidation.
Combination	The firm combines the above strategic alternatives in some permutation/combination so as to suit the specific requirements of the firm.

4.2.1. Stability Strategy

One of the important goals of a business enterprise is stability - to safeguard its existing interests and strengths, to pursue well established and tested objectives, to continue in the chosen business path, to maintain operational efficiency on a sustained basis, to consolidate the commanding position already reached, and to optimise returns on the resources committed in the business.

A stability strategy is pursued by a firm when:

- ◆ It continues to serve in the same or similar markets and deals in same or similar products and services.
- ◆ The strategic decisions focus on incremental improvement of functional performance

Stability strategy is not a 'do nothing' strategy. It involves keeping track of new developments to ensure that the strategy continues to make sense. This strategy is typical for those firms whose product have reached the maturity stage of product life cycle. Small organizations may also follow stability strategy to consolidate their market position and prepare for the launch of growth strategies.

I. Characteristics of Stability Strategy

- ◆ A firm opting for stability strategy stays with the same business, same product-market posture and functions, maintaining same level of effort as at present.
- ◆ The endeavour is to enhance functional efficiencies in an incremental way, through better deployment and utilization of resources. The assessment of the firm is that the desired income and profits would be forthcoming through such incremental improvements in functional efficiencies.
- ◆ Stability strategy does not involve a redefinition of the business of the corporation.
- ◆ It is basically a safety-oriented, *status quo* oriented strategy.
- ◆ It does not warrant much of fresh investments.
- ◆ It involves minor improvements in the product and its packaging.
- ◆ The risk is also less.

- ◆ With the stability strategy, the firm has the benefit of concentrating its resources and attention on the existing businesses/products and markets.
- ◆ The growth objective of firms employing this strategy is quite modest. Conversely, only firms with modest growth objective choose for this strategy.

II. Major Reasons for Stability Strategy

- ◆ A product has reached the maturity stage of the product life cycle.
- ◆ It is less risky as it involves less changes and the staff feels comfortable with things as they are.
- ◆ The environment faced is relatively stable.
- ◆ Expansion may be perceived as being threatening.
- ◆ Consolidation is sought through stabilizing after a period of rapid expansion.

4.2.2. Growth/Expansion Strategy

Growth/Expansion strategy is implemented by redefining the business by enlarging the scope of business and substantially increasing investment in the business. It is a popular strategy that tends to be equated with dynamism, vigour, promise and success. An enterprise on the move is more agreeable stereotype than a steady-state enterprise. It is often characterised by significant reformulation of goals and directions, major initiatives and moves involving investments, exploration and onslaught into new products, new technology and new markets, innovative decisions and action programmes and so on. Expansion also includes diversifying, acquiring and merging businesses. This strategy may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.

I. Characteristics of Growth/Expansion Strategy

- ◆ Expansion strategy involves a redefinition of the business of the corporation.
- ◆ Expansion strategy is the opposite of stability strategy. While in stability strategy, rewards are limited, in expansion strategy they are very high. In the matter of risks, too, the two are the opposites of each other.

- ◆ Expansion strategy leads to business growth. A firm with a mammoth growth ambition can meet its objective only through the expansion strategy.
- ◆ The process of renewal of the firm through fresh investments and new businesses/products/markets is facilitated only by expansion strategy.
- ◆ Expansion strategy is a highly versatile strategy; it offers several permutations and combinations for growth. A firm opting for the expansion strategy can generate many alternatives within the strategy by altering its propositions regarding products, markets and functions and pick the one that suits it most.
- ◆ Expansion strategy holds within its fold two major strategy routes: Intensification Diversification. Both of them are growth strategies; the difference lies in the way in which the firm actually pursues the growth.

II. Major Reasons for Growth/Expansion Strategy

- ◆ It may become imperative when environment demands increase in pace of activity.
- ◆ Strategists may feel more satisfied with the prospects of growth from expansion; chief executives may take pride in presiding over organizations perceived to be growth-oriented.
- ◆ Expansion may lead to greater control over the market vis-a-vis competitors.
- ◆ Advantages from the experience curve and scale of operations may accrue.

III. Types of Growth/ Expansion Strategy

1. Expansion through Diversification

Diversification is defined as entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge. When an established firm introduces a new product, which has little or no affinity with its present product line and which is meant for a new class of customers different from the firm's existing customer groups, the process is known as conglomerate diversification. Both the technology of the product and the market are different from the firm's present experience.

Innovative and creative firms always look for opportunities and challenges to grow, to venture into new areas of activity and to break new frontiers with the zeal of entrepreneurship. They feel that diversification offers greater prospects of growth and profitability than expansion.

For some firms, diversification is a means of utilising their existing facilities and capabilities in a more effective and efficient manner. They may have excess capacity or capability in manufacturing facilities, investible funds, marketing channels, competitive standing, market prestige, managerial and other manpower, research and development, raw material sources and so forth. Another reason for diversification lies in its synergistic advantage. It may be possible to improve the sales and profits of existing products by adding suitably related or new products, because of linkages in technology and/or in markets.

Expansion or growth strategy can either be through intensification or diversification: Igor Ansoff gave a framework as shown in figure which describes the intensification options available to a firm.

<p>Market Penetration</p> <p>Increase market share Increase product usage Increase the frequency used Increase the quantity used Find new application for current users</p>	<p>Product Development</p> <p>Add product features, product refinement Develop a new-generation product Develop new product for the same market</p>
<p>Market Development</p> <p>Expand geographically target new segments</p>	<p>Diversification involving new products and new markets</p> <p>Related / Unrelated</p>

Figure: Product-Market Expansion Grid

(a) Intensification

- (i) **Market Penetration:** Highly common expansion strategy is market penetration/concentration on the current business. The firm directs its resources to the profitable growth of its existing product in the existing market.
- (ii) **Market Development:** It consists of marketing present products, to customers in related market areas by adding different channels of distribution or by changing the content of advertising or the promotional media.

- (iii) **Product Development:** Product development involves substantial modification of existing products or creation of new but related items that can be marketed to current customers through established channels.

(b) Diversification

Diversification endeavours can be related or unrelated to existing businesses of the firm. Based on the nature and extent of their relationship to existing businesses, diversification endeavours have been classified into four broad categories:

- (i) Vertically integrated diversification
- (ii) Horizontally integrated diversification
- (iii) Concentric diversification
- (iv) Conglomerate diversification

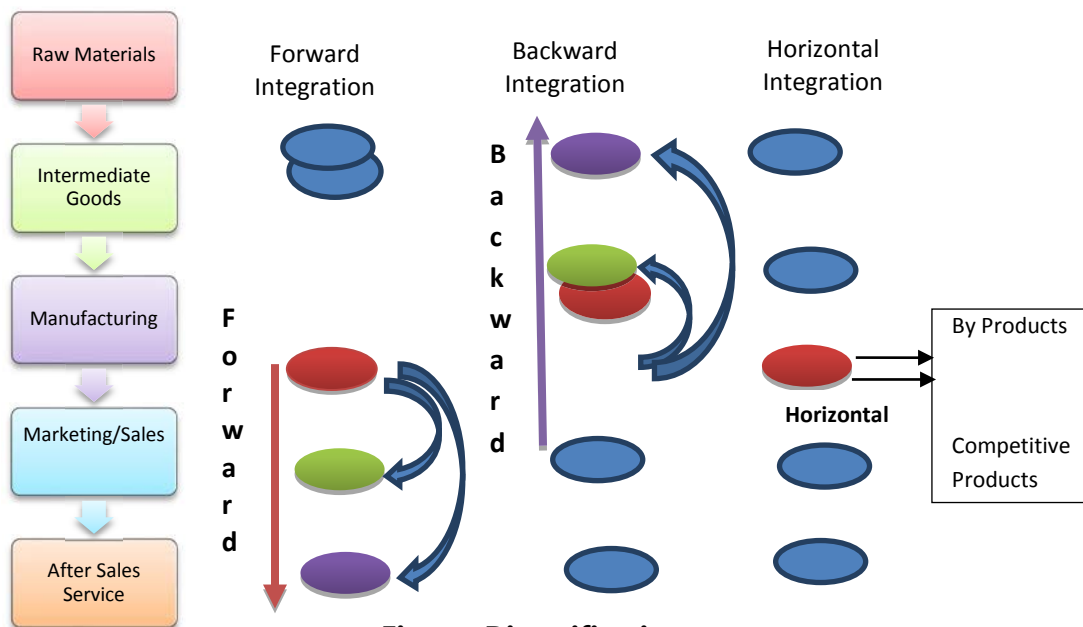


Figure: Diversification

- (i) **Vertically Integrated Diversification:** In vertically integrated diversification, firms opt to engage in businesses that are related to the existing business of the firm. The firm remains vertically within the same process sequence moves forward or backward in the chain and enters specific product/process steps with the intention of making them into new businesses for the firm. The characteristic feature of vertically integrated

diversification is that here, the firm does not jump outside the vertically linked product-process chain.

Forward and Backward Integration: Forward and backward integration forms part of vertically integrated diversification. In vertically integrated diversification, firms opt to engage in businesses that are vertically related to the existing business of the firm. The firm remains vertically within the same process. While diversifying, firms opt to engage in businesses that are linked forward or backward in the chain and enter specific product/process steps with the intention of making them into new businesses for the firm.

Backward integration is a step towards, creation of effective supply by entering business of input providers. Strategy employed to expand profits and gain greater control over production of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production. *For example, A large supermarket chain considers to purchase a number of farms that would provide it a significant amount of fresh produce.*

On the other hand, forward integration is moving forward in the value chain and entering business lines that use existing products. Forward integration will also take place where organizations enter into businesses of distribution channels. *For example, A coffee bean manufacture may choose to merge with a coffee cafe.*

- (ii) **Horizontal Integrated Diversification:** Through the acquisition of one or more similar business operating at the same stage of the production-marketing chain that is going into complementary products, by-products or taking over competitors' products.

RELATED DIVERSIFICATION	UNRELATED DIVERSIFICATION
Exchange or share assets or competencies by exploiting <ul style="list-style-type: none"> • Brand name • Marketing skills • Sales and distribution capacity • Manufacturing skills • R&D and new product capability • Economies of scale 	<ul style="list-style-type: none"> • Investment in new product portfolios. • Employment of new technologies. • Focus on multiple products. • Reduce risk by operating in multiple product markets. • Defend against takeover bids. • Provide executive interest.

Figure: Related vs. Unrelated Diversification

- (iii) **Concentric Diversification:** Concentric diversification too amounts to related diversification. In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. This means that in concentric diversification too, there are benefits of synergy with the current operations. However, concentric diversification differs from vertically integrated diversification in the nature of the linkage the new product has with the existing ones. While in vertically integrated diversification, the new product falls within the firm's current process-product chain, in concentric diversification, there is a departure from this vertical linkage. The new product is only connected in a loop-like manner at one or more points in the firm's existing process/technology/product chain.
- (iv) **Conglomerate Diversification:** In conglomerate diversification, no such linkages exist; the new businesses/products are disjointed from the existing businesses/products in every way; it is a totally unrelated diversification. In process/technology/function, there is no connection between the new products and the existing ones. Conglomerate diversification has no common thread at all with the firm's present position. *For example, A cement manufacturer diversifies into the manufacture of steel and rubber products.*

2. Expansion through Mergers and Acquisitions

Acquisition or merger with an existing concern is an instant means of achieving the expansion. It is an attractive and tempting proposition in the sense that it circumvents the time, risks and skills involved in screening internal growth opportunities, seizing them and building up the necessary resource base required to materialise growth. Organizations consider merger and acquisition proposals in a systematic manner, so that the marriage will be mutually beneficial, a happy and lasting affair.

Apart from the urge to grow, acquisitions and mergers are resorted to for purposes of achieving a measure of synergy between the parent and the acquired enterprises. Synergy may result from such bases as physical facilities, technical and managerial skills, distribution channels, general administration, research and development and so on. Only positive synergistic effects are relevant in this connection which denotes that the positive effects of the merged resources are greater than the some of the effects of the individual resources before merger or acquisition.

Merger and acquisition in simple words are defined as a process of combining two or more organizations together. There is a thin line of difference between the two terms but the impact of combination is completely different in both the cases. Some organizations prefer to grow through mergers. Merger is considered to be a process when two or more companies come together to expand their business operations. In such a case the deal gets finalized on friendly terms and both the organizations share profits in the newly created entity. In a merger two organizations combine to increase their strength and financial gains along with breaking the trade barriers.

When one organization takes over the other organization and controls all its business operations, it is known as acquisitions. In this process of acquisition, one financially strong organization overpowers the weaker one. Acquisitions often happen during recession in economy or during declining profit margins. In this process, one that is financially stronger and bigger establishes its power. The combined operations then run under the name of the powerful entity. A deal in case of an acquisition is often done in an unfriendly manner, it is more or less a forced association where the powerful organization either consumes the operation or a company in a weaker position is forced to sell its entity.

Types of Mergers

(a) Horizontal Merger

The types of mergers are similar to types of diversification.

Horizontal merger is a combination of firms engaged in the same industry. It is a merger with a direct competitor. The principal objective behind this type of merger is to achieve economies of scale in the production process by shedding duplication of installations and functions, widening the line of products, decrease in working capital and fixed assets investment, getting rid of competition and so on. *For example, formation of Brook Bond Lipton India Ltd. through the merger of Lipton India and Brook Bond.*

(b) Vertical Merger:

It is a merger of two organizations that are operating in the same industry but at different stages of production or distribution system. This often leads to increased synergies with the merging firms. If an organization takes over its supplier/producers of raw material, then it leads to backward integration. On the other hand, forward integration happens when an organization decides to take over its buyer organizations or distribution channels. Vertical merger results in many operating and financial economies. Vertical mergers help to create an

advantageous position by restricting the supply of inputs to other players, or by providing the inputs at a higher cost.

(c) Co-generic Merger:

In Co-generic merger two or more merging organizations are associated in some way or the other related to the production processes, business markets, or basic required technologies. Such merger include the extension of the product line or acquiring components that are required in the daily operations. It offers great opportunities to businesses to diversify around a common set of resources and strategic requirements. *For example, an organization in the white goods category such as refrigerators can diversify by merging with another organization having business in kitchen appliances.*

(d) Conglomerate Merger:

Conglomerate mergers are the combination of organizations that are unrelated to each other. There are no linkages with respect to customer groups, customer functions and technologies being used. There are no important common factors between the organizations in production, marketing, research and development and technology. In practice, however, there is some degree of overlap in one or more of these factors.

3. Expansion through Strategic Alliance

A strategic alliance is a relationship between two or more businesses that enables each to achieve certain strategic objectives which neither would be able to achieve on its own. The strategic partners maintain their status as independent and separate entities, share the benefits and control over the partnership, and continue to make contributions to the alliance until it is terminated. Strategic alliances are often formed in the global marketplace between businesses that are based in different regions of the world.

Advantages of Strategic Alliance

Strategic alliance usually are only formed if they provide an advantage to all the parties in the alliance. These advantages can be broadly categorised as follows:

- 1. Organizational:** Strategic alliance helps to learn necessary skills and obtain certain capabilities from strategic partners. Strategic partners may also help to enhance productive capacity, provide a distribution system, or extend supply chain. Strategic partners may provide a good or service that complements thereby creating a synergy. Having a strategic partner who is

well-known and respected also helps add legitimacy and credibility to a new venture.

2. **Economic:** There can be reduction in costs and risks by distributing them across the members of the alliance. Greater economies of scale can be obtained in an alliance, as production volume can increase, causing the cost per unit to decline. Finally, partners can take advantage of co-specialization, creating additional value, such as when a leading computer manufacturer bundles its desktop with a leading monitor manufacturer's monitor.
3. **Strategic:** Rivals can join together to cooperate instead of compete. Vertical integration can be created where partners are part of supply chain. Strategic alliances may also be useful to create a competitive advantage by the pooling of resources and skills. This may also help with future business opportunities and the development of new products and technologies. Strategic alliances may also be used to get access to new technologies or to pursue joint research and development.
4. **Political:** Sometimes strategic alliances are formed with a local foreign business to gain entry into a foreign market either because of local prejudices or legal barriers to entry. Forming strategic alliances with politically-influential partners may also help improve your own influence and position.

Disadvantages of Strategic Alliance

Strategic alliances do come with some disadvantages and risks. The major disadvantage is **sharing**. Strategic alliances require sharing of resources and profits, and also sharing knowledge and skills that otherwise organisations may not like to share. Sharing knowledge and skills can be problematic if they involve trade secrets. Agreements can be executed to protect trade secrets, but they are only as good as the willingness of parties to abide by the agreements or the courts willingness to enforce them.

Strategic alliances may also create a potential competitor. An ally may become a competitor in future when it decides to separate out.

4.2.3. Retrenchment/Turnaround Strategy

- (a) **Retrenchment Strategy:** It is followed when an organization substantially reduces the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems. These steps result in different kinds of

retrenchment strategies. If the organization chooses to focus on ways and means to reverse the process of decline, it adopts a turnaround strategy. If it cuts off the loss-making units, divisions, or SBUs, curtails its product line, or reduces the functions performed, it adopts a divestment (or divestiture) strategy. If none of these actions work, then it may choose to abandon the activities totally, resulting in a liquidation strategy. We deal with each of these strategies below.

- (b) Turnaround Strategy:** Retrenchment may be done either internally or externally. For internal retrenchment to take place, emphasis is laid on improving internal efficiency, known as turnaround strategy.

There are certain conditions or indicators which point out that a turnaround is needed if the company has to survive. These danger signals are:

- ◆ Persistent negative cash flow from business(es)
- ◆ Uncompetitive products or services
- ◆ Declining market share
- ◆ Deterioration in physical facilities
- ◆ Over-staffing, high turnover of employees, and low morale
- ◆ Mismanagement

Action Plan for Turnaround

For turnaround strategies to be successful, it is imperative to focus on the short and long-term financing needs as well as on strategic issues. A workable action plan for turnaround would involve the following stages:

- **Stage One – Assessment of current problems:** The first step is to assess the current problems and get to the root causes and the extent of damage the problem has caused. Once the problems are identified, the resources should be focused toward those areas essential to efficiently work on correcting and repairing any immediate issues.
- **Stage Two – Analyze the situation and develop a strategic plan:** Before you make any major changes; determine the chances of the business's survival. Identify appropriate strategies and develop a preliminary action plan. For this one should look for the viable core businesses, adequate bridge financing and available organizational resources. Analyze the strengths and weaknesses in the areas of competitive position. Once major problems and opportunities are

identified, develop a strategic plan with specific goals and detailed functional actions.

- **Stage Three –Implementing an emergency action plan:** If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive. The plan typically includes human resource, financial, marketing and operations actions to restructure debts, improve working capital, reduce costs, improve budgeting practices, prune product lines and accelerate high potential products. A positive operating cash flow must be established as quickly as possible and enough funds to implement the turnaround strategies must be raised.
- **Stage Four –Restructuring the business:** The financial state of the organization's core business is particularly important. If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Prepare cash forecasts, analyze assets and debts, review profits and analyze other key financial functions to position the organization for rapid improvement.

During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning. Core products neglected over time may require immediate attention to remain competitive. Some facilities might be closed; the organization may even withdraw from certain markets to make organization leaner or target its products toward a different niche.

The 'people mix' is another important ingredient in the organization's competitive effectiveness. Reward and compensation systems that encourage dedication and creativity encourage employees to think profits and return on investments.

- **Stage Five –Returning to normal:** In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added. Emphasis is placed on a number of strategic efforts such as carefully adding new products and improving customer service, creating alliances with other organizations, increasing the market share, etc.

The important elements of turnaround strategy are as follows:

- ◆ Changes in the top management

- ◆ Initial credibility-building actions
- ◆ Neutralising external pressures
- ◆ Identifying quick payoff activities
- ◆ Quick cost reductions
- ◆ Revenue generation
- ◆ Asset liquidation for generating cash
- ◆ Better internal coordination

(c) Divestment Strategy: Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.

A divestment strategy may be adopted due to various reasons:

A business that had been acquired proves to be a mismatch and cannot be integrated within the company.

Persistent negative cash flows from a particular business create financial problems for the whole company, creating the need for divestment of that business.

Severity of competition and the inability of a firm to cope with it may cause it to divest.

Technological upgradation is required if the business is to survive but where it is not possible for the firm to invest in it, a preferable option would be to divest.

A better alternative may be available for investment, causing a firm to divest a part of its unprofitable businesses.

(d) Liquidation Strategy: A retrenchment strategy considered the most extreme and unattractive is liquidation strategy, which involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where a firm could pursue any future activities, and the stigma of failure. Many small-scale units, proprietorship firms, and partnership ventures liquidate frequently but medium-and large-sized companies rarely liquidate in India. The company management, government, banks and financial institutions, trade unions,

suppliers and creditors, and other agencies are extremely reluctant to take a decision, or ask, for liquidation.

Selling assets for implementing a liquidation strategy may also be difficult as buyers are difficult to find. Moreover, the firm cannot expect adequate compensation as most assets, being unusable, are considered as scrap.

Liquidation strategy may be unpleasant as a strategic alternative but when a "dead business is worth more than alive", it is a good proposition. For instance, the real estate owned by a firm may fetch it more money than the actual returns of doing business. When liquidation is evident (though it is difficult to say exactly when), an abandonment plan is desirable. Planned liquidation would involve a systematic plan to reap the maximum benefits for the firm and its shareholders through the process of liquidation.

I. Characteristics of Retrenchment/Turnaround Strategy

- ◆ This strategy involves retrenchment/divestment of some of the activities in a given business of the firm or sell-out of some of the businesses as such.
- ◆ Divestment is to be viewed as an integral part of corporate strategy without any stigma attached.
- ◆ Like expansion strategy, divestment strategy, too, involves a redefinition of the business of the corporation.
- ◆ Compulsions for divestment can be many and varied, such as
 - (a) Obsolescence of product/process
 - (b) Business becoming unprofitable and unviable
 - (c) Inability to cope up with cut throat competition
 - (d) Industry overcapacity
 - (e) Failure of existing strategy

II. Major Reasons for Retrenchment/Turnaround Strategy

- ◆ The management no longer wishes to remain in business either partly or wholly due to continuous losses and unviability.
- ◆ The management feels that business could be made viable by divesting some of the activities or liquidation of unprofitable activities.
- ◆ A business that had been acquired proves to be a mismatch and cannot be integrated within the company.

- ◆ Persistent negative cash flows from a particular business create financial problems for the whole company, creating the need for divestment of that business.
- ◆ Severity of competition and the inability of a firm to cope with it may cause it to divest.
- ◆ Technological upgradation is required if the business is to survive but where it is not possible for the firm to invest in it, a preferable option would be to divest.
- ◆ A better alternative may be available for investment, causing a firm to divest a part of its unprofitable businesses.

4.2.4. Combination Strategy

The above strategies are not mutually exclusive. It is possible to adopt a mix of the above to suit particular situations. An enterprise may seek stability in some areas of activity, expansion in some and retrenchment in the others. Retrenchment of ailing products followed by stability and capped by expansion in some situations may be thought of. For some organizations, a strategy by diversification and/or acquisition may call for a retrenchment in some obsolete product lines, production facilities and plant locations.

I. Major Reasons for Combination Strategy

- ◆ The organization is large and faces complex environment.
- ◆ The organization is composed of different businesses, each of which lies in a different industry requiring a different response.

SUMMARY

Strategies are formulated at different levels of an organization – corporate level, business level, and functional level. The strategy changes based on the levels of strategy. Corporate level strategy occupies the highest level of strategic decision making and covers actions dealing with the objective of the firm, acquisition and allocation of resources and coordination of strategies of various SBUs for optimal performance.

This chapter dealt with various corporate strategic alternatives such as stability strategy, expansion strategy, retrenchment strategy, combination strategy and turnaround strategy. Expansion strategy covers expansion through intensification, diversification, acquisitions & mergers, strategic alliances etc.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

Question 1

1. Acquisition of IT company by a steel manufacturer is
 - (a) Business level strategy?
 - (b) Corporate Strategy?
 - (c) Business decision?
 - (d) Functional diversification

4. Which strategy is implemented after the failure of turnaround strategy?
 - (a) Expansion strategy
 - (b) Diversification strategy
 - (c) Divestment strategy
 - (d) Growth strategy

5. Retrenchment strategy in the organization can be explained as
 - (a) Reducing trenches (gaps) created between individuals.
 - (b) Divesting a major product line or market.
 - (c) Removal of employees from job through the process of reorganization.
 - (d) Removal of employees from job in one business to relocate them in other business.

6. Select the correct statement:
 - (a) In general, corporate level decisions are costly to take, involve high risk and have large profit potential.
 - (b) In general, corporate level decisions are costly to take, involve low risk and have large profit potential.
 - (c) In general, corporate level decisions are costly to take, involve high risk and have low profit potential.
 - (d) In general, corporate level decisions are cheaper to take, involve low risk and have large profit potential.

7. An organisation diversifies in backward sequence in the product chain and enters specific product/process to be used in existing products. It is:
- (a) Forward diversification.
 - (b) Vertical diversification.
 - (c) Horizontal diversification.
 - (d) Reactive diversification.
8. Corporate strategy includes:
- (i) expansion and growth, diversification, takeovers and mergers
 - (ii) Vertical and horizontal integration, new investment and divestment areas
 - (iii) determination of the business lines
- From the combinations given below select a correct alternative:
- (a) (i), and (ii)
 - (b) (i) and (iii)
 - (c) (ii) and (iii)
 - (d) (i) (ii) and (iii)
9. Vertical integration may be beneficial when
- (a) Lower transaction costs and improved coordination are vital and achievable through vertical integration.
 - (b) Flexibility is reduced, providing a more stationary position in the competitive environment.
 - (c) Various segregated specializations will be combined.
 - (d) The minimum efficient scales of two corporations are different.
10. Stability strategy is a _____ strategy.
- (a) SBU level
 - (b) Corporate level
 - (c) Business level
 - (d) Functional level
11. Conglomerate diversification is another name for which of the following?

- (a) Related diversification
 - (b) Unrelated diversification
 - (c) Portfolio diversification
 - (d) Acquisition diversification
14. When two organisations combine to increase their strength and financial gains along with reducing competition is called-----
- (a) Hostile takeover
 - (b) Liquidation
 - (c) Merger
 - (d) Acquisition
15. Diversification primarily helps to:
- (a) Reduce competition
 - (b) Reduce risk
 - (c) Reduce taxes
 - (d) Reduce costs
16. The reasons for acquisition are
- (a) Increased market power
 - (b) Increased diversification
 - (c) Seizing growth opportunities
 - (d) All of the these
17. If suppliers are unreliable or too costly, which of these strategies may be appropriate?
- (a) Horizontal integration
 - (b) Backward integration
 - (c) Market penetration
 - (d) Forward integration

Answer

1 (b) 2 (c) 3 (b) 4 (a) 5 (b) 6 (d)

- 7 (a) 8 (b) 9 (b) 10 (c) 11 (b) 12 (d)
13 (b)

Descriptive Questions

Question 2

What is Divestment strategy? When is, it adopted?

Answer

Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. For a multiple product company, divestment could be a part of rehabilitating or restructuring plan called turnaround.

- ◆ A divestment strategy may be adopted due to various reasons:
- ◆ When a turnaround has been attempted but has proved to be unsuccessful.
- ◆ A business that had been acquired proves to be a mismatch and cannot be integrated within the company.
- ◆ Persistent negative cash flows from a particular business create financial problems for the whole company.
- ◆ Severity of competition and the inability of a firm to cope with it.
- ◆ Technological upgradation is required if the business is to survive but where it is not possible for the firm to invest in it.
- ◆ A better alternative may be available for investment.

Question 3

Write short note on expansion through acquisitions and mergers.

Answer

Acquisitions and mergers are basically combination strategies. Some organizations prefer to grow through mergers. Merger is considered to be a process when two or more companies come together to expand their business operations. In such a case the deal gets finalized on friendly terms and both the organizations share profits in the newly created entity. In a merger two organizations combine to increase their strength and financial gains along with breaking the trade barriers.

When one organization takes over the other organization and controls all its business operations, it is known as acquisition. In this process of acquisition, one

financially strong organization overpowers the weaker one. Acquisitions often happen during recession in economy or during declining profit margins. In this process, one that is financially stronger and bigger establishes its power. The combined operations then run under the name of the powerful entity. A deal in case of an acquisition is often done in an unfriendly manner, it is more or less a forced association where the powerful organization either consumes the operation or a company in loss is forced to sell its entity.

Question 4

Distinguish between concentric and conglomerate diversification

Concentric diversification occurs when a firm adds related products or markets. On the other hand, conglomerate diversification occurs when a firm diversifies into areas that are unrelated to its current line of business.

In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. In conglomerate diversification, no such linkages exist; the new business/product is disjointed from the existing businesses/products.

The most common reasons for pursuing a concentric diversification are that opportunities in a firm's existing line of business are available. However, common reasons for pursuing a conglomerate growth strategy is that opportunities in a firm's current line of business are limited or opportunities outside are highly lucrative.

Question 5

Differentiate between divestment and liquidation strategy.

Answer

Divestment Strategy:	Liquidation Strategy:
Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit center or SBU.	It involves closing down a firm and selling its assets.
Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. Option of a turnaround may even be ignored if it is obvious that divestment is the only answer.	Liquidation becomes only option in case of severe and critical conditions where either turnaround and divestment are not seen as solution or have been attempted but failed..

Efforts are made for the survival of organization.	Liquidation as a form of retrenchment strategy is considered as the most extreme and unattractive.
Survival of organization helps in retaining personnel, at least to some extent.	There is loss of employment with stigma of failure.

Question 6

Under what conditions would you recommend the use of Turnaround strategy in an organization? What could be a suitable work plan for this?

Answer

Rising competition, business cycles and economic volatility have created a climate where no business can take viability for granted. Turnaround strategy is a highly targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level. Organizations that have faced a significant crisis that has negatively affected operations requires turnaround strategy. Turnaround strategy is used when both threats and weaknesses adversely affect the health of an organization so much that its basic survival is a question. When organization is facing both internal and external pressures making things difficult then it has to find something which is entirely new, innovative and different. Being organization's first objective is to survive and then grow in the market; turnaround strategy is used when organization's survival is under threat. Once turnaround is successful the organization may turn to focus on growth.

Conditions for turnaround strategies: When firms are losing their grips over market, profits due to several internal and external factors, and if they have to survive under the competitive environment they have to identify danger signals as early as possible and undertake rectification steps immediately. These conditions may be, inter alia, cash flow problems, lower profit margins, high employee turnover and decline in market share, capacity underutilization, low morale of employees, recessionary conditions, mismanagement, raw material supply problems and so on.

Action plan for turnaround strategy

Stage One – Assessment of current problems: The first step is to assess the current problems and get to the root causes and the extent of damage the problem has caused. Once the problems are identified, the resources should be

focused toward those areas essential to efficiently work on correcting and repairing any immediate issues.

Stage Two – Analyze the situation and develop a strategic plan: Before you make any major changes; determine the chances of the business's survival. Identify appropriate strategies and develop a preliminary action plan. For this one should look for the viable core businesses, adequate bridge financing and available organizational resources. Analyze the strengths and weaknesses in the areas of competitive position. Once major problems and opportunities are identified, develop a strategic plan with specific goals and detailed functional actions.

Stage Three – Implementing an emergency action plan: If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive. The plan typically includes human resource, financial, marketing and operations actions to restructure debts, improve working capital, reduce costs, improve budgeting practices, prune product lines and accelerate high potential products. A positive operating cash flow must be established as quickly as possible and enough funds to implement the turnaround strategies must be raised.

Stage Four – Restructuring the business: The financial state of the organization's core business is particularly important. If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Prepare cash forecasts, analyze assets and debts, review profits and analyze other key financial functions to position the organization for rapid improvement.

During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning. Core products neglected over time may require immediate attention to remain competitive. Some facilities might be closed; the organization may even withdraw from certain markets to make organization leaner or target its products toward a different niche.

The 'people mix' is another important ingredient in the organization's competitive effectiveness. Reward and compensation systems that encourage dedication and creativity encourage employees to think profits and return on investments.

Stage Five – Returning to normal: In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added. Emphasis is placed on a number of strategic efforts such as carefully adding new products and improving

customer service, creating alliances with other organizations, increasing the market share, etc.

Question 7

What strategic option is available to the management of a sick company dealing in an electric home appliances? Give reasons for your answer.

Answer

A sick company has huge accumulated losses that have eroded its net worth. The electric home appliance company may analyse its various products to take decisions on the viability of each.

Retrenchment becomes necessary for coping with hostile and adverse situations in the environment and when any other strategy is likely to be suicidal. The nature, extent and timing of retrenchment are matters to be carefully decided by management, depending upon each contingency.

Retrenchment strategy is adopted because:

- ◆ The management no longer wishes to remain in business either partly or wholly due to continuous losses and unviability.
- ◆ The environment faced is threatening.
- ◆ Stability can be ensured by reallocation of resources from unprofitable to profitable businesses.

Retrenchment strategy is followed when an organization substantially reduces the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems. These steps result in different kinds of retrenchment strategies.

Turnaround strategy: If the organization chooses to transform itself into a leaner structure and focuses on ways and means to reverse the process of decline, it adopts a turnaround strategy. It may try to reduce costs, eliminate unprofitable outputs, generate revenue, improve coordination, better control, and so on. It may also involve changes in top management and reorienting leadership.

Divestment Strategy: Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful.

Liquidation Strategy: In the retrenchment strategy, the most extreme and unattractive is liquidation strategy. It involves closing down a firm and selling its assets.

It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where a firm could pursue any future activities, and the stigma of failure. Many small-scale units, proprietorship firms, and partnership ventures liquidate frequently but medium-and large-sized companies rarely liquidate in India. The company management, government, banks and financial institutions, trade unions, suppliers and creditors, and other agencies are extremely reluctant to take a decision, or ask, for liquidation.

Liquidation strategy may be unpleasant as a strategic alternative but when a "dead business is worth more than alive", it is a good proposition.

The management of a Sick company manufacturing various electrical home appliances be explained about the each of the above three options of retrenchment strategy with their pros and cons. But the appropriate advice with respect to a particular option of retrenchment strategy will depend on the specific circumstances of each electrical home appliances and management goals of the company.

Question 8

What are acquisitions? Discuss with example of two companies resorting to this strategy?

Answer

Acquisition of or merger with an existing concern is an instant means of achieving the expansion. It is an attractive and tempting proposition in the sense that it circumvents the time, risks and skills involved in screening internal growth opportunities, seizing them and building up the necessary resource base required to materialise growth. Organizations consider merger and acquisition proposals in a systematic manner, so that the marriage will be mutually beneficial, a happy and lasting affair.

Apart from the urge to grow, acquisitions and mergers are resorted to for purposes of achieving a measure of synergy between the parent and the acquired enterprises. Synergy may result from such bases as physical facilities, technical and managerial skills, distribution channels, general administration, research and development and so on. Only positive synergistic effects are relevant in this connection which denote that the positive effects of the merged resources are

greater than the sum of the effects of the individual resources before merger or acquisition.

Some of the recent / popular instances of acquisition are listed below:

- ◆ Tata's acquisition of Anglo Dutch steelmaker Corus
- ◆ Tata's acquisition of British Jaguar Land Rover
- ◆ Mittal Steel's takeover of Arcelor
- ◆ HPCL's acquisition of Kenya Petroleum Refinery Ltd.
- ◆ Hindalco's acquisition of Canada based Novelis

Scenario Based Questions

Question 9

Swift Insurance is a company engaged in the business of providing medical insurance maintaining a market share of 25 to 30 per cent in last five years. Recently, the company decided to enter into the business of auto insurance by having foreign collaboration. Identify the strategy being followed by the Swift Insurance with its advantages.

Answer

Overall Swift Insurance is following growth or expansion strategy as it is redefining the business and enlarging its scope. The step will also substantially increase investment in the business.

The new business is related and at the same time caters to a different segment and accordingly can be termed as related diversification. The new business falls within the scope of general insurance and horizontally related to the existing business.

In the process of expansion, the company will be able to exploit:

- ◆ Its brand name.
- ◆ The marketing skills available.
- ◆ The existing sales and distribution infrastructure.
- ◆ Research and development.
- ◆ Economies of scale

Question 10

With the global economic recession Soft Cloth Ltd. incurred significant losses in all its previous five financial years. Currently, they are into manufacturing of cloth made of cotton, silk, polyester, rayon, lycra and blends. Competition is also intense on account of cheap imports. The company is facing cash crunch and has not been able to pay the salaries to its employees in the current month.

Suggest a grand strategy that can be opted by Soft Cloth Ltd.

Answer

Soft Cloth Ltd. is facing internal as well as external challenges. The external environment is in economic recession and the organization is facing cash crunch. The company needs to work on retrenchment / turnaround strategy. The strategy is suitable in case of issues such as:

- ◆ Persistent negative cash flow.
- ◆ Uncompetitive products or services
- ◆ Declining market share
- ◆ Deterioration in physical facilities
- ◆ Overstaffing, high turnover of employees, and low morale
- ◆ Mismanagement

The company may consider to substantially reduce the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems.

These steps result in different kinds of retrenchment strategies. If the organization chooses to focus on ways and means to reverse the process of decline, it adopts a turnaround strategy. If it cuts off the loss-making units, divisions, or SBUs, curtails its product line, or reduces the functions performed, it adopts a divestment strategy. If none of these actions work, then it may choose to abandon the activities totally, resulting in a liquidation strategy.

Question 11

Vastralok Ltd., was started as a textile company to manufacture cloth. Currently, they are in the manufacturing of silk cloth. The top management desires to expand the business in the cloth manufacturing. To expand they decided to purchase more machines to manufacture cotton cloth.

Identify and explain the strategy opted by the top management of Vastralok Ltd.

Answer

Vastralok Ltd. is currently manufacturing silk cloth and its top management has decided to expand its business by manufacturing cotton cloth. Both the products are similar in nature within the same industry. The strategic diversification that the top management of Vastralok Ltd. has opted is concentric in nature. They were in business of manufacturing silk and now they will manufacture cotton as well. They will be able to use existing infrastructure and distribution channel. Concentric diversification amounts to related diversification.

In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. This means that in concentric diversification too, there are benefits of synergy with the current operations.



BUSINESS LEVEL STRATEGIES



LEARNING OUTCOMES

After studying this chapter, you will be able to:

- ❑ Identify the business level strategies.
- ❑ Explain Porter's five forces model.
- ❑ Understand the features and suitability of cost leadership strategy.
- ❑ Understand the features and suitability of differentiation strategy.
- ❑ Understand the features and suitability of focus strategies.

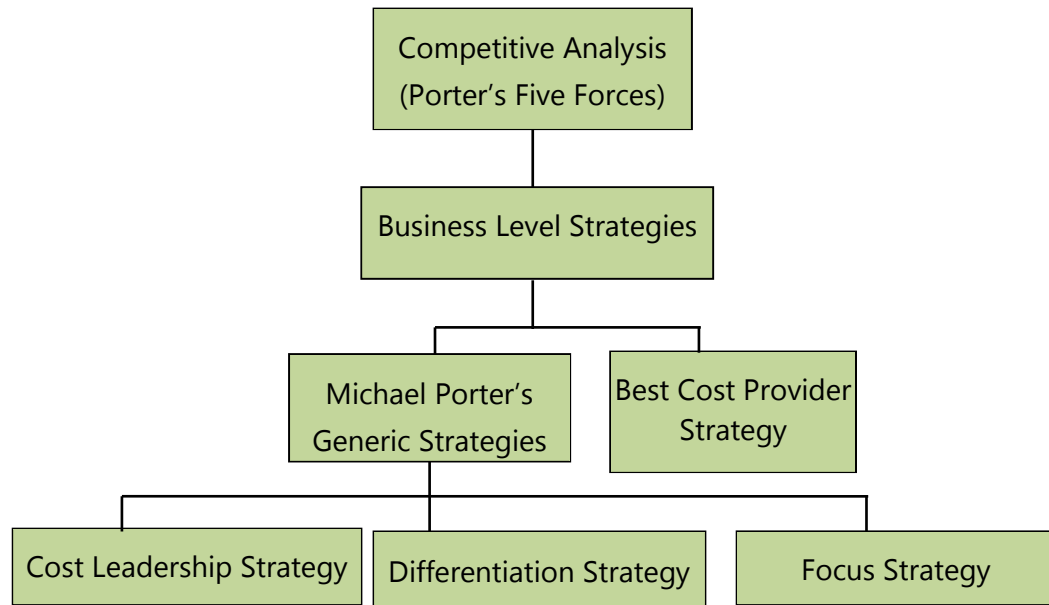
"If all you're trying to do is essentially the same thing as your rivals, then it's unlikely that you're be very successful."

Michael Porter

"Strategy is a pattern in a stream of decisions."

Henry Mintzberg

CHAPTER OVERVIEW



5.1 INTRODUCTION

An organization's core competencies should be focused on satisfying customer needs or wants in order to achieve organisational objectives. This is done through businesses level strategies. Business level strategies are the courses of action adopted by an organisation for each of its businesses separately, to serve identified customer groups and provide value to the customers by satisfaction of their needs. In the process, the organisation uses its competencies to gain, sustain and enhance its strategic or competitive advantage.

5.2 PORTER'S FIVE FORCES MODEL-COMPETITIVE ANALYSIS

Every business operates in the competitive environment. Competitive state of an industry applies a strong influence on how firms develop their strategies. Michael Porter believes that the basic unit of analysis for understanding is a group of competitors producing goods or services that compete directly with each other. It is the industry where competitive advantage is ultimately won or lost. It is through

competitive strategy that the organisation attempts to adopt an approach to compete in the industry.

The character, mix, and intricacies of competitive forces are never the same from one industry to another. A powerful and widely used tool for systematically diagnosing the significant competitive pressures in a market and assessing the strength and importance of each is the Porter's five-forces model of competition. (see figure) This model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market:

- ◆ Competitive pressures associated with the market manoeuvring and jockeying for buyer patronage that goes on among rival sellers in the industry.
- ◆ Competitive pressures associated with the threat of new entrants into the market.
- ◆ Competitive pressures coming from the attempts of companies in other industries to win buyers over to their own substitute products.
- ◆ Competitive pressures stemming from supplier bargaining power and supplier-seller collaboration.
- ◆ Competitive pressures stemming from buyer bargaining power and seller-buyer Collaboration.

The strategists can use the five-forces model to determine what competition is like in a given industry by undertaking the following steps:

- Step 1:* Identify the specific competitive pressures associated with each of the five forces.
- Step 2:* Evaluate how strong the pressures comprising each of the five forces are (fierce, strong, moderate to normal, or weak).
- Step 3:* Determine whether the collective strength of the five competitive forces is conducive to earning attractive profits.



Figure: Porter's Five Force Model of Competition

Porter's five forces model is one of the most effective and enduring conceptual frameworks used to assess the nature of the competitive environment and to describe an industry's structure. The interrelationship among these five forces gives each industry its own particular competitive environment. By applying Porter's five forces model of industry attractiveness to their own industries, the manager can gauge their own firm's strengths, weaknesses, and future opportunities.

5.2.1 Threat of New Entrants

New entrants can reduce industry profitability because they add new production capacity leading to increase supply of the product even at a lower price and can substantially erode existing firm's market share position. New entrants are always a powerful source of competition. The new capacity and product range they bring in throw up new competitive pressure. And the bigger the new entrant, the more severe the competitive effect. New entrants also place a limit on prices and affect the profitability of existing players. A firm's profitability tends to be higher when other firms are blocked from entering the industry.

To discourage new entrants, existing firms can try to raise barriers to entry. Barriers to entry represent economic forces (or 'hurdles') that slow down or impede entry by other firms. Common barriers to entry include:

- (i) Capital requirements
 - (ii) Economies of scale
 - (iii) Product differentiation
 - (iv) Switching costs
 - (v) Brand identity
 - (vi) Access to distribution channels
 - (vii) Possibility of aggressive retaliation by existing players
- (i) Capital Requirements:** When a large amount of capital is required to enter an industry, firms lacking funds are effectively barred from the industry, thus enhancing the profitability of existing firms in the industry. *For example, huge investments are needed to build production facilities and establish brand awareness among people for entry into the pharmaceutical industry. This makes the entry of new companies into this sector very difficult.*

- (ii) **Economies of Scale:** Many industries are characterized by economic activities driven by economies of scale. Economies of scale refer to the decline in the per-unit cost of production (or other activity) as volume grows. A large firm that enjoys economies of scale can produce high volumes of goods at successively lower costs.




This tends to discourage new entrants. *For example, in the semiconductor industry, larger companies, such as IBM, Intel, Samsung and Texas Instruments, enjoy substantial economies of scale in the production of advanced microprocessors, communication chips and integrated circuits that power most consumer electronics, personal computers (PCs) and cellular phones. This acts as a barrier for new entrants.*

- (iii) **Product Differentiation:** Product differentiation refers to the physical or perceptual differences, or enhancements, that make a product special or unique in the eyes of customers. Firms in the personal care products and cosmetics industries actively engage in product differentiation to enhance their products' features. Differentiation works to reinforce entry barriers because the cost of creating genuine product differences may be too high for the new entrants.

- (iv) **Switching Costs:** To succeed in an industry, new entrant must be able to persuade existing customers of other companies to switch to its products. To make a switch, buyers may need to test a new firm's product, negotiate new purchase contracts, and train personnel to use the



equipment, or modify facilities for product use. Buyers often incur substantial financial (and psychological) costs in switching between firms. When such switching costs are high, buyers are often reluctant to change. *For example, high switching costs in moving away from Microsoft's Windows operating systems used in personal computers and corporate servers powered the company's stunning growth over the past decade in the software industry.*

- (v) **Brand Identity:** The brand identity of products or services offered by existing firms can serve as another entry barrier. Brand identity is particularly important for infrequently purchased products that carry a high unit cost to the buyer. New entrants often encounter significant difficulties in building up the brand identity, because to do so they must commit substantial resources over a long period. *For example, during the 1970s, Japanese companies such as Toyota, Nissan, and Honda had to spend huge sums on new product development and promotional activities to overcome the American consumer's preference for domestic cars.*
- 
- (vi) **Access to Distribution Channels:** The unavailability of distribution channels for new entrants poses another significant entry barrier. Despite the growing power of the internet, many firms may continue to rely on their control of physical distribution channels to sustain a barrier to entry to rivals. Often, existing firms have significant influence over the distribution channels and can retard or impede their use by new firms. *For example, because of control over distribution channels in India by HUL, P & G and Godrej etc., small entrepreneurs find it very difficult to sell their products through the existing channels.*
- (vii) **Possibility of Aggressive Retaliation:** Sometimes the mere threat of aggressive retaliation by incumbents can deter entry by other firms into an existing industry. For example, introduction of products by a new firm may lead incumbents firms to reduce their product prices and increase their advertising budgets.

5.2.2 Bargaining Power of Buyers

This is another force that influences the competitive condition of the industry. This force will become heavier depending on the possibilities of the buyers forming groups or cartels. Mostly, this is a phenomenon seen in industrial products. Quite often, users of industrial products come together formally or informally and exert pressure on the producer. The bargaining power of the buyers influences not only the prices that the producer can charge but also influences in many cases, costs and investments of the producer because powerful buyers usually bargain for better services which involve costs and investment on the part of the producer.

Buyers of an industry's products or services can sometimes exert considerable pressure on existing firms to secure lower prices or better services. This leverage is particularly evident when

- (i) Buyers have full knowledge of the sources of products and their substitutes.
- (ii) They spend a lot of money on the industry's products i.e. they are big buyers.
- (iii) The industry's product is not perceived as critical to the buyer's needs and buyers are more concentrated than firms supplying the product. They can easily switch to the substitutes available.

5.2.3 Bargaining Power of Suppliers

Quite often suppliers, too, exercise considerable bargaining power over companies. The more specialised the offering from the supplier, greater is his clout. And, if the suppliers are also limited in number they stand a still better chance to exhibit their bargaining power. The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and, therefore, industry attractiveness and profitability.

Suppliers can influence the profitability of an industry in a number of ways. Suppliers can command bargaining power over a firm when:

- (i) Their products are crucial to the buyer and substitutes are not available.
- (ii) They can erect high switching costs.
- (iii) They are more concentrated than their buyers.

5.2.4 The Nature of Rivalry in the Industry

The rivalry among existing players is quite obvious. This is what is normally understood as competition. For any player, the competitors influence strategic decisions at different strategic levels. The impact is evident more at functional level in the prices being charged, advertising, and pressures on costs, product and so on.

The intensity of rivalry in an industry is a significant determinant of industry attractiveness and profitability. The intensity of rivalry can influence the costs of suppliers, distribution, and of attracting customers and thus directly affect the profitability. The more intensive the rivalry, the less attractive is the industry. Rivalry among competitors tends to be cutthroat and industry profitability low when

- (i) An industry has no clear leader.
- (ii) Competitors in the industry are numerous.
- (iii) Competitors operate with high fixed costs.
- (iv) Competitors face high exit barriers.

- (v) Competitors have little opportunity to differentiate their offerings.
- (vi) The industry faces slow or diminished growth.
- (i) Industry Leader:** A strong industry leader can discourage price wars by disciplining initiators of such activity. Because of its greater financial resources, a leader can generally outlast smaller rivals in a price war. Knowing this, smaller rivals often avoid initiating such a contest.
- (ii) Number of Competitors:** Even when an industry leader exists, the leader's ability to exert pricing discipline diminishes with the increased number of rivals in the industry as communicating expectations to players becomes more difficult.
- (iii) Fixed Costs:** When rivals operate with high fixed costs, they feel strong motivation to utilize their capacity and therefore are inclined to cut prices when they have excess capacity. Price cutting causes profitability to fall for all firms in the industry as firms seek to produce more to cover costs that must be paid regardless of industry demand. For this reason, profitability tends to be lower in industries (*for example, airline, telecommunications*) characterized by high fixed costs.
- (iv) Exit Barriers:** Rivalry among competitors declines if some competitors leave an industry. Profitability therefore tends to be higher in industries with few exit barriers. Exit barriers come in many forms. Assets of a firm considering exit may be highly specialized and therefore of little value to any other firm. Such a firm can thus find no buyer for its assets. This discourages exit. When barriers to exit are powerful, competitors desiring exit may refrain from leaving. Their continued presence in an industry exerts downward pressure on the profitability of all competitors.
- (v) Product Differentiation:** Firms can sometimes insulate themselves from price wars by differentiating their products from those of rivals. As a consequence, profitability tends to be higher in industries that offer opportunity for differentiation. Profitability tends to be lower in industries involving undifferentiated commodities such as, memory chips, natural resources, processed metals and railroads.
- (vi) Slow Growth:** Industries whose growth is slowing down tend to face more intense rivalry. As industry growth slows, rivals must often fight harder to grow or even to keep their existing market share. The resulting intensive rivalry tends to reduce profitability for all.

5.2.5 Threat of Substitutes

Substitute products are a latent source of competition in an industry. In many cases they become a major constituent of competition. Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry. And they can bring it about all of a sudden. For example, coir suffered at the hands of synthetic fibre. Wherever substantial investment in R&D is taking place, threats from substitute products can be expected. Substitutes, too, usually limit the prices and profits in an industry.

A final force that can influence industry profitability is the availability of substitutes for an industry's product. To predict profit pressure from this source, firms must search for products that perform the same, or nearly the same, function as their existing products. Real estate, insurance, bonds and bank deposits for example are clear substitutes for common stocks, because they represent alternate ways to invest funds.

The threat of substitutes is great in many high tech industries as well. For example, introduction of digital filmless cameras virtually replace the film cameras and threatened

the existence of Eastman Kodak and Fuji Film. Further, the introduction of smart phones has replaced cameras to a great extent.



The five forces together determine industry attractiveness/ profitability. This is so because these forces influence the causes that underlie industry attractiveness/ profitability. For example, elements such as cost and investment needed for being a player in the industry decide industry profitability, and all such elements are governed by these forces. The collective strength of these five competitive forces determines the scope to earn attractive profits. The strength of the forces may vary from industry to industry.

5.3 BUSINESS LEVEL STRATEGIES

An organization's core competencies should be focused on satisfying customer needs or wants in order to achieve above average returns. This is done through Business-level strategies. Business level strategies detail actions taken to provide

value to customers and gain a competitive advantage by exploiting core competencies in specific, individual product or service markets. Business-level strategy is concerned with a firm's position in an industry, relative to competitors and to the five forces of competition discussed above.

Customers are the foundation of an organization's business-level strategies. Who will be served, what needs have to be met, and how those needs will be satisfied are determined by the senior management.

Who are the customers?

Knowing one's customers is very important in obtaining and sustaining a competitive advantage. Being able to successfully predict and satisfy future customer needs is important. Perhaps one of the Tata's mistake in manufacturing Namo was understanding who was their real customer and what they wanted.

How to satisfy customer needs?

Organizations must determine how to bundle resources and capabilities to form core competencies and then use these core competencies to satisfy customer needs or create value for them.

Business level strategies detail actions to be taken to provide value to customers and gain a competitive advantage by exploiting core competencies in specific individual product or service markets. Having selected a market, the organization must develop a plan to be successful in that market. Business strategy therefore looks at how the organization can compete successfully in the individual markets that it chooses to operate within.

Business level strategy is concerned with issues such as:

- ◆ Meeting the needs of key customers.
- ◆ Achieving advantage over competitors.
- ◆ Avoiding competitive disadvantage.



5.4 MICHAEL PORTER'S GENERIC STRATEGIES

According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter called these base generic strategies. These strategies have been termed generic because they can be pursued by any type or size of business firm and even by not-for-profit organisations. Cost leadership emphasizes producing standardized products at a very low per-unit cost for consumers who are price-sensitive. Differentiation is a

strategy aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price-insensitive. Focus means producing products and services that fulfill the needs of small groups of consumers.

Porter’s strategies imply different organizational arrangements, control procedures, and incentive systems. Larger firms with greater access to resources typically compete on a cost leadership and/or differentiation basis, whereas smaller firms often compete on a focus basis.

COMPETITIVE SCOPE	Broad Target	Cost Leadership	Differentiation
	Narrow Target	Focussed Cost Leadership	Focussed Differentiation
		Low-Cost products/services	Differentiated products/services
COMPETITIVE ADVANTAGE			

Figure: Michael Porter’s Generic Strategy

Porter stresses the need for strategists to perform cost-benefit analysis to evaluate “sharing opportunities” among the firm’s existing and potential business units. Sharing activities and resources enhances competitive advantage by lowering costs or raising differentiation. In addition to prompting sharing, Porter stresses the need for firms to “transfer” skills and expertise among autonomous business units effectively in order to gain competitive advantage. Depending upon factors such as type of industry, size of firm and nature of competition, various strategies could yield advantages in cost leadership differentiation, and focus.

5.4.1 Cost Leadership Strategy

It is a low cost competitive strategy that aims at broad mass market. It requires vigorous pursuit of cost reduction in the areas of procurement, production, storage and distribution of product or service and also economies in overhead costs. Because of its lower costs, the cost leader is able to charge a lower price for its products than its competitors and still make satisfactory profits. *For example, McDonald’s fast food restaurants have successfully followed low cost leadership strategy.*

A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain cost leadership benefits. But cost leadership generally must be pursued in conjunction with differentiation. A number of cost elements affect the relative attractiveness of generic strategies, including economies or diseconomies

of scale achieved, learning and experience curve effects, the percentage of capacity utilization achieved, and linkages with suppliers and distributors. Other cost elements to consider in choosing among alternative strategies include the potential for sharing costs and knowledge within the organization, R&D costs associated with new product development or modification of existing products, labour costs, tax rates, energy costs, and shipping costs.

Striving to be the low-cost producer in an industry can be especially effective when the market is composed of many price-sensitive buyers, when there are few ways to achieve product differentiation, when buyers do not care much about differences from brand to brand, or when there are a large number of buyers with significant bargaining power. The basic idea is to underprice competitors and thereby gain market share and sales, driving some competitors out of the market entirely.

A successful cost leadership strategy usually permeates the entire firm, as evidenced by high efficiency, low overhead, limited perks, intolerance of waste, intensive screening of budget requests, wide spans of control, rewards linked to cost containment, and broad employee participation in cost control efforts. Some risks of pursuing cost leadership are that competitors may imitate the strategy, thus driving overall industry profits down; that technological breakthroughs in the industry may make the strategy ineffective; or that buyer interest may swing to other differentiating features besides price.

Achieving Cost Leadership Strategy

To achieve cost leadership, following are the actions that could be taken:

1. Forecast the demand of a product or service promptly.
2. Optimum utilization of the resources to get cost advantages.
3. Achieving economies of scale leads to lower per unit cost of product/service.
4. Standardisation of products for mass production to yield lower cost per unit.
5. Invest in cost saving technologies and try using advance technology for smart working.
6. Resistance to differentiation till it becomes essential.

Advantages of Cost Leadership Strategy

Earlier we have discussed Porter's Five Forces Model in detail. A cost leadership strategy may help to remain profitable even with: rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

1. Rivalry – Competitors are likely to avoid a price war, since the low cost firm will continue to earn profits after competitors compete away their profits.
2. Buyers – Powerful buyers/customers would not be able to exploit the cost leader firm and will continue to buy its product.
3. Suppliers – Cost leaders are able to absorb greater price increases before it must raise price to customers.
4. Entrants – Low cost leaders create barriers to market entry through its continuous focus on efficiency and reducing costs.
5. Substitutes – Low cost leaders are more likely to lower costs to induce customers to stay with their product, invest to develop substitutes, purchase patents.

Disadvantages of Cost Leadership Strategy

1. Cost advantage may not be remaining for long as competitors may also follow cost reduction technique.
2. Cost leadership can succeed only if the firm can achieve higher sales volume.
3. Cost leaders tend to keep their costs low by minimizing advertising, market research, and research and development, but this approach can prove to be expensive in the long run.
4. Technology changes are a great threat to the cost leader.

5.4.2 Differentiation Strategy

This strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service. Because of differentiation, the business can charge a premium for its product.

Differentiation does not guarantee competitive advantage, especially if standard products sufficiently meet customer needs or if rapid imitation by competitors is possible. Durable products protected by barriers to quick copying by competitors are better. Successful differentiation can mean greater product flexibility, greater compatibility, lower costs, improved service, less maintenance, greater convenience, or more features. Product development is an example of a strategy that offers the advantages of differentiation.

Differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product that features the desired attributes. A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty because consumers may become strongly attached to the differentiation features. Special features that differentiate one's product can include superior service, spare parts availability, engineering design, product performance, useful life, gas mileage, or ease of use.

A risk of pursuing a differentiation strategy is that the unique product may not be valued high enough by customers to justify the higher price. When this happens, a cost leadership strategy easily will defeat a differentiation strategy. Another risk of pursuing a differentiation strategy is that competitors may develop ways to copy the differentiating features quickly. Firms thus must find durable sources of uniqueness that cannot be imitated quickly or cheaply by rival firms.

Basis of Differentiation

There are several basis of differentiation: product, pricing and organization.

- ◆ **Product:** Innovative products that meet customer needs can be an area where a company has an advantage over competitors. The pursuit of new product offerings can be costly – research and development, as well as production and marketing costs can all add to the cost of production and distribution. The payoff, however, can be great as customer's flock to be among the first to have the new product.
- ◆ **Pricing:** It can fluctuate based on its supply and demand, and also be influence by the customer's ideal value for the product. Companies that differentiate based on product price can either determine to offer the lowest price, or can attempt to establish superiority through higher prices.
- ◆ **Organisation:** Organisational differentiation is yet another form of differentiation. Maximizing the power of a brand, or using the specific advantages that an organization possesses can be instrumental to a company's success. Location advantage, name recognition and customer loyalty can all provide additional ways for a company differentiate itself from the competition.

Achieving Differentiation Strategy

To achieve differentiation, following are the measures that could be adopted by an organization to incorporate:

1. Offer utility for the customers and match the products with their tastes and preferences.
2. Elevate the performance of the product.
3. Offer the promise of high quality product/service for buyer satisfaction.
4. Rapid product innovation.
5. Taking steps for enhancing image and its brand value.
6. Fixing product prices based on the unique features of the product and buying capacity of the customer.

Advantages of Differentiation Strategy

A differentiation strategy may help to remain profitable even with: rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

1. Rivalry - Brand loyalty acts as a safeguard against competitors. It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.
2. Buyers – They do not negotiate for price as they get special features and also they have fewer options in the market.
3. Suppliers – Because differentiators charge a premium price, they can afford to absorb higher costs of supplies and customers are willing to pay extra too.
4. Entrants – Innovative features are an expensive offer. So, new entrants generally avoid these features because it is tough for them to provide the same product with special features at a comparable price.
5. Substitutes – Substitute products can't replace differentiated products which have high brand value and enjoy customer loyalty.

Disadvantages of Differentiation Strategy

1. In long term, uniqueness is difficult to sustain.
2. Charging too high a price for differentiated features may cause the customer to switch-off to another alternative.
3. Differentiation fails to work if its basis is something that is not valued by the customers.

5.4.3 Focus Strategies

A successful focus strategy depends on an industry segment that is of sufficient size, has good growth potential, and is not crucial to the success of other major competitors. Strategies such as market penetration and market development offer substantial focusing advantages. Midsize and large firms can effectively pursue focus-based strategies only in conjunction with differentiation or cost leadership-based strategies. All firms in essence follow a differentiated strategy. Because only one firm can differentiate itself with the lowest cost, the remaining firms in the industry must find other ways to differentiate their products.

Focus strategies are most effective when consumers have distinctive preferences or requirements and when rival firms are not attempting to specialize in the same target segment. Risks of pursuing a focus strategy include the possibility that numerous competitors will recognize the successful focus strategy and copy it, or that consumer preferences will drift toward the product attributes desired by the market as a whole. An organization using a focus strategy may concentrate on a particular group of customers, geographic markets, or on particular product-line segments in order to serve a well-defined but narrow market better than competitors who serve a broader market.

5.4.3.1 Focused cost leadership: A focused cost leadership strategy requires competing based on price to target a narrow market. A firm that follows this strategy does not necessarily charge the lowest prices in the industry. Instead, it charges low prices relative to other firms that compete within the target market. Firms that compete based on price and target a narrow market are following a focused cost leadership strategy.

5.4.3.2 Focused differentiation: A focused differentiation strategy requires offering unique features that fulfill the demands of a narrow market. As with a focused low-cost strategy, narrow markets are defined in different ways in different settings. Some firms using a focused differentiation strategy concentrate their efforts on a particular sales channel, such as selling over the internet only. Others target particular demographic groups. Firms that compete based on uniqueness and target a narrow market are following a focused differentiations strategy. *For example, Rolls-Royce sells limited number of high-end, custom-built cars.*

Achieving Focused Strategy

To achieve focused cost leadership/differentiation, following are the measures that could be adopted by an organization:

1. Selecting specific niches which are not covered by cost leaders and differentiators.
2. Creating superior skills for catering to such niche markets.
3. Generating high efficiencies for serving such niche markets.
4. Developing innovative ways in managing the value chain.

Advantages of Focused Strategy

1. Premium prices can be charged by the organisations for their focused product/services.
2. Due to the tremendous expertise about the goods and services that organisations following focus strategy offer, rivals and new entrants may find it difficult to compete.

Disadvantages of Focused Strategy

1. The firms lacking in distinctive competencies may not be able to pursue focus strategy.
2. Due to the limited demand of product/services, costs are high which can cause problems.
3. In long run, the niche could disappear or be taken over by larger competitors by acquiring the same distinctive competencies.

5.5 BEST-COST PROVIDER STRATEGY

The new model of best cost provider strategy is a further development of above three generic strategies. It is directed towards giving customers more value for the money by emphasizing both low cost and upscale differences. The objective is to keep costs and prices lower than those of other sellers of comparable products.



Figure: The Five Generic Competitive Strategies

Best-cost provider strategy involves providing customers more value for the money by emphasizing low cost and better quality difference. It can be done:

- (a) through offering products at lower price than what is being offered by rivals for products with comparable quality and features or
- (b) charging similar price as by the rivals for products with much higher quality and better features.

Distinctive Features of the generic competitive strategies are given below:

Features	Low-Cost Provider	Broad Differentiation	Best-Cost Provider	Focused Low-Cost and Focused Differentiation
Strategic target	A broad cross-section of the market	A broad cross-section of the market	Value-conscious buyer	A narrow market niche where buyer needs and preferences are distinctively different from the rest of the market
Basis of competitive advantage	Lower costs than competitors	An ability to offer buyers something different from competitors	More value for the money	Lower cost in serving the niche (focused low cost) or special attributes that appeal to the tastes or requirements of niche members (focused differentiation)
Market emphasis	Try to make a virtue out of product features that lead to low cost	Build in whatever features buyers are willing to pay for Charge a premium price to cover the extra costs of differentiating features	Either under price rival brands with comparable features or match the price of rivals and provide better features to build a reputation for delivering the best value	Communicate how the focuser's product attributes and capabilities aim at catering to niche member tastes and/or specialised requirements
Sustaining the strategy	Offer economical prices/good value Aim at contributing to a sustainable cost	Communicate the points of difference in credible ways	Develop unique expertise in managing costs down and	Remain totally dedicated to serving the niche better than other competitors; don't blunt the firm's

	advantage-the key is to manage costs down, year after year, in every area of the business	Stress constant improvement and use innovation to stay ahead of initiative competitors Concentrate on a few differentiating features; tout them to create a reputation and brand image.	upscale features and attributes	image and efforts by entering other segments or adding other product categories to widen market appeal.
Product line	A good basic product with few frills (acceptable quality and limited selection)	Many product variations, wide selection, strong emphasis on differentiating features	Good-to-excellent attributes, several-to-many upscale features	Features and attributes that appeal to the tastes and/or special needs of the target segment
Product emphasis	A continuous search for cost reduction without sacrificing acceptable quality and essential features	Creation of value for buyer; strive for product superiority	Incorporation of upscale features and attributes at low cost	Tailor-made for the tastes and requirements of niche members

SUMMARY

To gain a deeper understanding of competitive environment of a business organisation, we learnt, Michael Porter’s five forces model. The five forces – threat of new entrants, bargaining power of customers, bargaining power of suppliers, rivalry among current players and threats from substitutes – impact organizations in significant and different manner.

Business level strategies detail actions taken to provide value to customers and gain a competitive advantage by exploiting core competencies in specific, individual product or service markets. Michael Porter has given three generic strategies that are used to help organizations establish a competitive advantage over industry rivals. Firms may also choose to compete across a broad market or a focused market. These strategies are cost leadership strategy, differentiation strategy, and focus strategy.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

Question 1

- What is not one of Michael Porter's five competitive forces?
 - New entrants
 - Rivalry among existing firms
 - Bargaining power of unions
 - Bargaining power of suppliers
- In Michael Porter's generic strategy _____ emphasizes producing standardized products at a very low per unit-cost for consumers who are price sensitive.
 - Cheap leadership.
 - Inferior product leadership.
 - Cost leadership.
 - Cost benefit.
- Differentiation Strategy can be achieved by following measures:
 - Match products with tastes and preferences of customers.
 - Elevate the performance of the product.
 - Rapid product innovationWhich of the above is true:
 - (1) and (2)
 - (1) and (3)
 - (2) and (3)
 - (1), (2) and (3)
- What are the three different bases given by Michael Porter's Generic Strategies to gain competitive advantage?
 - differentiation, integration and compensation
 - integration, focus and differentiation

- (c) compensation, integration and focus
- (d) cost leadership, differentiation and focus
5. A firm successfully implementing a differentiation strategy would expect:
- (a) Customers to be sensitive to price increases.
- (b) To charge premium prices.
- (c) Customers to perceive the product as standard.
- (d) To automatically have high levels of power over suppliers.
6. Competitive rivalry has the most effect on the firm's ___ strategies than the firm's other strategies.
- (a) Business level
- (b) Corporate level
- (c) Functional level
- (d) All of these
7. According to Porter, what is usually the most powerful of the five competitive forces?
- (a) Rivalry among existing firms
- (b) Potential development of substitute products
- (c) Bargaining power of buyers and suppliers
- (d) Potential entry of new competitors
8. Suppliers can command bargaining power over a firm when
1. The products are crucial to the buyer
 2. Large number of substitutes are available.
 3. Suppliers erect high switching costs.
 4. Suppliers are more concentrated than their buyers.
- All above explain the reasons except:
- (a) (1)
- (b) (2)
- (c) (3)

- (d) (4)
9. Low cost, differentiation and focus are:
- SBU level strategies
 - Corporate level strategies
 - Business level strategies
 - Functional level strategies
10. Best-cost provider strategy involves providing customers more value for the money by emphasizing:
- Low cost and low quality difference.
 - Low cost and better quality difference.
 - High cost and low quality difference.
 - High cost and better quality difference.

Answer

- 1 (c) 2 (c) 3 (d) 4 (d) 5 (b) 6 (a)
 7 (a) 8 (a) 9 (b) 10 (b)

Descriptive Questions**Question 2**

Explain Porter's five forces model as to how businesses can deal with the competition.

Answer

To gain a deep understanding of a company's industry and competitive environment, managers do not need to gather all the information they can find and waste a lot of time digesting it. Rather, the task is much more focused. A powerful and widely used tool for systematically diagnosing the significant competitive pressures in a market and assessing the strength and importance of each is the Porter's five-forces model of competition. This model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market:

- Competitive pressures associated with the market manoeuvring and jockeying for buyer patronage that goes on among rival sellers in the industry.
- Competitive pressures associated with the threat of new entrants into the market.

- Competitive pressures coming from the attempts of companies in other industries to win buyers over to their own substitute products.
- Competitive pressures stemming from supplier bargaining power and supplier-seller collaboration.
- Competitive pressures stemming from buyer bargaining power and seller-buyer Collaboration.

Question 3

Distinguish between Cost Leadership and Differentiation Strategies.

Answer

Cost leadership emphasizes producing standardized products at a very low per-unit cost for consumers who are price-sensitive. Differentiation is a strategy aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price-insensitive.

A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain cost leadership benefits. But cost leadership generally must be pursued in conjunction with differentiation. Different strategies offer different degrees of differentiation. A differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product. A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty.

Question 4

What are the five competitive forces in an industry as identified by Michael Porter?

Answer

Five forces model of Michael Porter is a powerful and widely used tool for systematically diagnosing the significant competitive pressures in the market and assessing their strength and importance. The model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the over all market. These five forces are:

1. **Threat of new entrants:** New entrants are always a powerful source of competition. The new capacity and product range they bring in throw up new competitive pressure. And the bigger the new entrant, the more severe the competitive effect. New entrants also place a limit on prices and affect the profitability of existing players.

2. **Bargaining power of customers:** This is another force that influences the competitive condition of the industry. This force will become heavier depending on the possibilities of the buyers forming groups or cartels. Mostly, this is a phenomenon seen in industrial products. Quite often, users of industrial products come together formally or informally and exert pressure on the producer. The bargaining power of the buyers influences not only the prices that the producer can charge but also influences in many cases, costs and investments of the producer because powerful buyers usually bargain for better services which involve costs and investment on the part of the producer.
3. **Bargaining power of suppliers:** Quite often suppliers, too, exercise considerable bargaining power over companies. The more specialised the offering from the supplier, greater is his clout. And, if the suppliers are also limited in number they stand a still better chance to exhibit their bargaining power. The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and, therefore, industry attractiveness and profitability.
4. **Rivalry among current players:** The rivalry among existing players is quite obvious. This is what is normally understood as competition. For any player, the competitors influence strategic decisions at different strategic levels. The impact is evident more at functional level in the prices being charged, advertising, and pressures on costs, product and so on.
5. **Threats from substitutes:** Substitute products are a latent source of competition in an industry. In many cases they become a major constituent of competition. Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry. And they can bring it about all of a sudden. For example, coir suffered at the hands of synthetic fibre. Wherever substantial investment in R&D is taking place, threats from substitute products can be expected. Substitutes, too, usually limit the prices and profits in an industry.

The five forces together determine industry attractiveness/profitability. This is so because these forces influence the causes that underlie industry attractiveness/profitability. For example, elements such as cost and investment needed for being a player in the industry decide industry profitability, and all such elements are governed by these forces. The collective strength of these five competitive forces determines the scope to earn attractive profits. The strength of the forces may vary from industry to industry.

Situation Based Questions

Question 5

Airlines industry in India is highly competitive with several players. Businesses face severe competition and aggressively market themselves with each other. Luxury Jet is a private Delhi based company with a fleet size of 9 small aircrafts with seating capacity ranging between 6 seats to 9 seats. These aircrafts are chartered by big business houses and high net worth individuals for their personalised use. With customised tourism packages their aircrafts are also often hired by foreigners. Identify and explain the Michael Porter's Generic Strategy followed by Luxury Jet.

Answer

The Airlines industry faces stiff competition. However, Luxury Jet has attempted to create a niche market by adopting focused differentiation strategy. A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market.

Luxury Jet compete in the market based on uniqueness and target a narrow market which provides business houses, high net worth individuals to maintain strict schedules. The option of charter flights provided several advantages including, flexibility, privacy, luxury and many a times cost saving. Apart from conveniences, the facility will provide time flexibility. Travelling by private jet is the most comfortable, safe and secure way of flying your company's senior business personnel.

Chartered services in airlines can have both business and private use. Personalized tourism packages can be provided to those who can afford it.

Question 6

Gennex is a company that designs, manufactures and sells computer hardware and software. Gennex is well known for its innovative products that has helped the company to have advantage over its competitors. It also spends on research and development and concerned with innovative softwares. Often the unique features of their product, that are not available with their competitors helps them to gain competitive advantage. Gennex using the strategy is consistently gaining its position in the industry over its competitors.

Identify and explain the Porter's generic strategy which Gennex has opted to gain the competitive advantage.

Answer

According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter called these base generic strategies.

Gennex has opted differentiation strategy. Its products are designed and produced to give the customer value and quality. They are unique and serve specific customer needs that are not met by other companies in the industry. Highly differentiated and unique hardware and software enables Gennex to charge premium prices for its products hence making higher profits and maintain its competitive position in the market.

Differentiation strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service.

Question 7

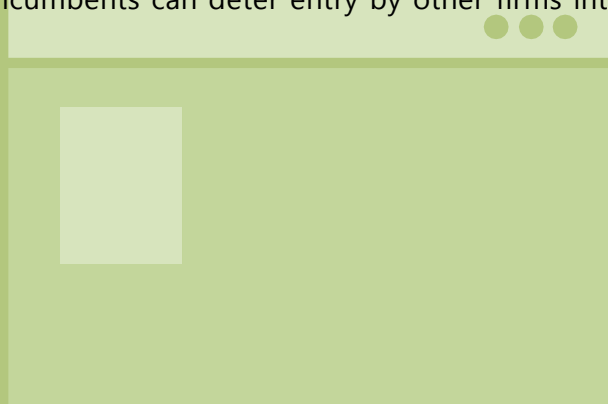
Rahul Sharma is Managing Director of a company which is manufacturing trucks. He is worried about the entry of new businesses. What kind of barriers will help Rahul against such a threat?

Answer

A firm's profitability tends to be higher when other firms are blocked from entering the industry. New entrants can reduce industry profitability because they add new production capacity leading to increase supply of the product even at a lower price and can substantially erode existing firm's market share position. Barriers to entry represent economic forces that slow down or impede entry by other firms. Common barriers to entry include:

- (i) **Capital Requirements:** When a large amount of capital is required to enter an industry, firms lacking funds are effectively barred from the industry, thus enhancing the profitability of existing firms in the industry.
- (ii) **Economies of Scale:** Many industries are characterized by economic activities driven by economies of scale. Economies of scale refer to the decline in the per-unit cost of production (or other activity) as volume grows.
- (iii) **Product Differentiation:** Product differentiation refers to the physical or perceptual differences, or enhancements, that make a product special or unique in the eyes of customers.

- (iv) **Switching Costs:** To succeed in an industry, new entrant must be able to persuade existing customers of other companies to switch to its products. When such switching costs are high, buyers are often reluctant to change.
- (v) **Brand Identity:** The brand identity of products or services offered by existing firms can serve as another entry barrier. Brand identity is particularly important for infrequently purchased products that carry a high unit cost to the buyer.
- (vi) **Access to Distribution Channels:** The unavailability of distribution channels for new entrants poses another significant entry barrier. Despite the growing power of the internet, many firms may continue to rely on their control of physical distribution channels to sustain a barrier to entry to rivals.
- (vii) **Possibility of Aggressive Retaliation:** Sometimes the mere threat of aggressive retaliation by incumbents can deter entry by other firms into an existing industry.



FUNCTIONAL LEVEL STRATEGIES



LEARNING OUTCOMES

After studying this chapter, you will be able to -

- ❑ Identify the functional areas of business where strategic decisions are required.
- ❑ Understand the elements of marketing, financial, production, R & D and human resource strategies.
- ❑ Explain the strategic importance of supply chain management.
- ❑ Highlight the strategic role of human resource management

Most of the time, strategists should not be formulating strategy at all; they should be getting on with implementing strategies they already have.

Henry Mintzberg

CHAPTER OVERVIEW**6.1 INTRODUCTION**

Once higher level corporate and business strategies have been developed, management need to formulate and implement strategy for each of the functional areas of business. Strategy of one functional area cannot be looked at in isolation. Different functional areas of the business are interwoven together and how a functional strategy is synergised with other functional strategies determines its effectiveness.

Functional strategies are designed to help in the implementation of corporate and business unit level strategies. For effective implementation, the strategists have to provide direction to the functional managers regarding the plans and policies to be adopted. In fact, the effectiveness of strategic management depends critically on the manner in which strategies are implemented. Functional strategies provide details to business strategy and govern as to how key activities of the business are to be managed.

Functional strategies play two important roles. Firstly, they provide support to the overall business strategy. Secondly, they spell out as to how functional managers will work so as to ensure better performance in their respective functional areas.

Strategies in functional areas including marketing, financial, production, R & D and human resource management are based on the functional capabilities of an organisation. For each functional area, first the major sub areas are identified and then for each of these sub areas, content of functional strategies, important factors, and their importance in the process of strategy implementation are identified.

In terms of the levels of strategy formulation, functional strategies operate below the SBU or business-level strategies. Within functional strategies there might be several sub-functional areas. Functional strategies are made within the framework of corporate level strategies and guidelines therein that are set at higher levels of the organization. Operational plans at the SBU level tell the functional managers what has to be done while policies state how the plans are to be implemented.

The reasons why functional strategies are needed can be enumerated as follows:

Functional strategies lay down clearly what is to be done at the functional level. They provide a sense of direction to the functional staff.

- ◆ They are aimed at facilitating the implementation of corporate strategies and the business strategies formulation at the business level.
- ◆ They act as basis for controlling activities in the different functional areas of business.
- ◆ They help in bringing harmony and coordination as they are formulated to achieve major strategies.
- ◆ Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers.

Thus, strategies need to be segregated into viable functional plans and policies that are compatible with each other. In this way, strategies can be implemented by the functional managers. Environmental factors relevant to each functional area have an impact on the choice of functional strategies. Corporate strategies influence the formulation of functional strategies.



6.2 MARKETING STRATEGY

Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating, offering and exchanging products of value with others.

Philip Kotler and Gary Armstrong

Marketing is an activity performed by all business organizations. It is an activity that creates and sustains exchange relationships among those who are willing and able to buy and sell products, services, satisfaction and even ideas. In the present day business, marketing encompasses all the activities related to identifying the needs of customers and taking such actions to satisfy them in return of some consideration. In marketing it is more important to do what is strategically right than what is immediately profitable.

The term marketing constitutes different processes, functions, exchanges and activities that create perceived value by satisfying needs of individuals. Marketing induces or helps in moving people closer to making a decision to purchase and facilitate a sale.

Marketing in recent decades has gained a lot of importance because of a number of factors. Rapid economic growth, globalization, technological upgradation, ever-increasing human needs and wants and increasing purchasing power of people are some of the factors which have made marketing as a central activity for every business.

A business organization faces countless marketing variables that affect the success or failure of strategy implementation. Some examples of marketing decisions that may require special attention are as follows:

1. The amount and the extent of advertising. Whether to use heavy or light advertising. What should be the amount of advertising in print media, television or internet?
2. The kind of distribution network to be used. Whether to use exclusive dealerships or multiple channels of distribution.
3. Whether to be a price leader or a price follower?
4. Whether to offer a complete or limited warranty?
5. Whether to limit or enhance the share of business done with a single or a few customers?

6. Whether to reward sales people based on straight salary, straight commission, or on a combination of salary and commission?

6.2.1 Marketing

The **marketing process** is the process of analyzing market opportunities, selecting target markets, developing the marketing mix, and managing the marketing effort. Target customers stand at the centre of the marketing process. Once the corporate strategy has defined the company's overall mission and objectives, marketing plays a role in carrying out these objectives.

- ◆ **Delivering Value to Customers:** Marketing alone cannot produce superior value for the customers. It needs to work in coordination with other departments to accomplish this. Marketing acts as part of the organizational chain of activities. Marketers are challenged to find ways to get all departments to think with focus on customer. In its search for competitive advantage, the firm needs to look beyond its own chain of activities and into the chains of its suppliers, distributors, and ultimately customers. This "partnering" will produce a value delivery network.

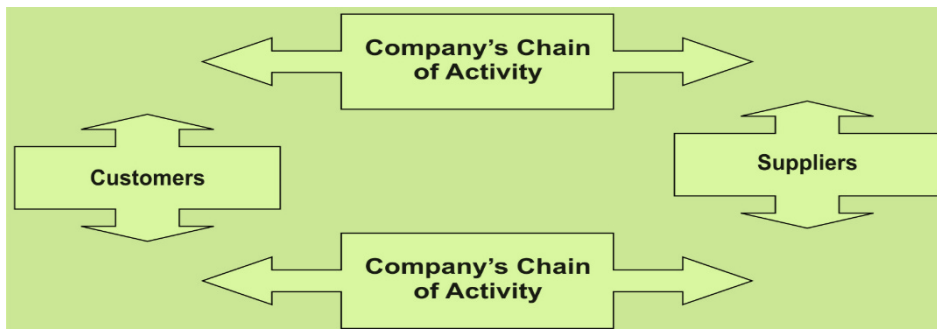


Figure 6.1: Value Delivery Network

- ◆ **Connecting with customers:** To succeed in today's competitive marketplace, companies must be customer centred. They must win customers from competitors and keep them by delivering greater value. Since companies cannot satisfy all customers in a given market, they must divide up the total market (**market segmentation**), choose the best segments (**marketing target**), and design strategies for profitably serving chosen segments better than the competitors (market positioning).

6.2.2 Marketing Mix

Marketing mix forms an important part of overall competitive marketing strategy. The marketing mix is the set of controllable marketing variables that the firm

blends to produce the response it wants in the target market. The marketing mix consists of everything that the firm can do to influence the demand for its product. These variables are often referred to as the “**4 Ps.**” The 4 Ps stand for product, price, place and promotion. An effective marketing program blends all of the marketing mix elements into a coordinated program designed to achieve the company’s marketing objectives by delivering value to consumers. The 4 Ps are from a marketer’s angle. When translated to the perspective of customers, they may be termed as **4 Cs.** Product may be referred as customer solution, price as customer cost, place as convenience and promotion as communication.

- (i) **Product** stands for the combination of “goods-and-service” that the company offers to the target market. Strategies are needed for managing existing product over time adding new ones and dropping failed products. Strategic decisions must also be made regarding branding, packaging and other product features such as warranties.

Products and markets are infinitely dynamic. An organization has to capture such dynamics through a set of policies and strategies. Some products have consistent customer demand over long period of time while others have short life spans. There are products that have wide range of quality and workmanship and these also change over time. There are industrial or consumer products, essentials or luxury products, durables or perishables.

Products can be differentiated on the basis of size, shape, colour, packaging, brand names, after-sales service and so on. Organizations seek to hammer into customers’ minds that their products are different from others. It does not matter whether the differentiation is real or imaginary. Quite often the differentiation is psychological rather than physical. It is enough if customers are persuaded to believe that the marketer’s product is different from others.

Organizations formalize product differentiation through designating ‘brand names’ to their respective products. These are generally reinforced with legal sanction and protection. Brands enable customers to identify the product and the organization behind it. The products’ and even firms’ image is built around brands through advertising and other promotional strategies. Customers tend to develop strong brand loyalty for a particular product over a period of time.

- (ii) **Price** stands for the amount of money customers have to pay to obtain the product. Necessary strategies pertain to the location of the customers, price flexibility, related items within a product line and terms of sale. The price of

a product is its composite expression of its value and utility to the customer, its demand, quality, reliability, safety, the competition it faces, the desired profit and so on.

In an industry there would be organizations with low cost products and other organizations with high costs. The low cost organizations may adopt aggressive pricing strategy as they enjoy more freedom of action in respect of their prices. They may also afford selective decrease in price to push their sales.

Theoretically, organizations may also adopt cost plus pricing wherein a margin is added to the cost of the product to determine its price. However, in the competitive environment such an approach may not be feasible. More and more companies of today have to accept the market price with minor deviations while fixing the prices of their products. They reduce their cost in order to maintain their profitability.

For a new product pricing strategies for entering a market need to be designed. In pricing a really new product at least three objectives must be kept in mind.

- ◆ Making the product acceptable to the customers.
- ◆ Producing a reasonable margin over cost.
- ◆ Catering to a market that helps in developing market share.

For a new product, an organization may either choose to skim or penetrate the market. In *skimming pricing policy*, prices are set at a very high level. The product is directed to those buyers who are relatively price insensitive but sensitive to the novelty of the new product. For example, call rates of mobile telephony were set very high initially. Since the initial off take of the product is low, high price, in a way, helps in rationing of supply in favour of those who can afford it. In penetration firm keeps a temptingly low price for a new product which itself is selling point. A very large number of the potential consumer may be able to afford and willing to try the product. The pricing kept by Reliance Jio is penetration.

- (iii) **Place** stands for company activities that make the product available to target consumers. One of the most basic marketing decision is choosing the most appropriate marketing channel. Strategies should be taken for the management of channel(s) by which ownership of product is transferred from producers to customers and in many cases, the system(s) by which goods are moved from where they are produced from they are purchased by the final customers. Strategies applicable to the intermediaries such as wholesalers and retailers must be designed.

The distribution policies of a company are important determinants of the functions of marketing. The decision to utilize a particular marketing channel or channels sets the pattern of operations of sales force. We will learn more about place when we study logistics later in this chapter.

- (iv) **Promotion** stands for activities that communicate the merits of the product and persuade target consumers to buy it. Strategies are needed to combine individual methods such as advertising, personal selling, and sales promotion into a coordinated campaign. In addition promotional strategies must be adjusted as a product move from an earlier stage from a later stage of its life.

Modern marketing is highly promotional oriented. Organizations strive to push their sales and market standing on a sustained basis and in a profitable manner under conditions of complex direct and indirect competitive situations. Promotion also acts as an impetus to marketing. It is simultaneously a communication, persuasion and conditioning process. There are at least four major direct promotional methods or tools – personal selling, advertising, publicity and sales promotion. They are briefly explained as follows:

- (i) *Personal selling*: Personal selling is one of the oldest forms of promotion. It involves face-to-face interaction of sales force with the prospective customers and provides a high degree of personal attention to them. In personal selling, oral communication is made with potential buyers of a product with the intention of making a sale. It may initially focus on developing a relationship with the potential buyer, but end up with efforts for making a sale. Personal selling suffers from a very high costs as sales personnel are expensive. They can physically attend only one customer at a time. Thus it is not a cost-effective way of reaching a large number of people. However, as it is a highly effective method to persuade a potential customer into making a purchase, the personal selling is used in all kind of industries for all products.
- (ii) *Advertising*: Advertising is a non-personal, highly flexible and dynamic promotional method. The media for advertising includes pamphlets, brochures, newspapers, magazines, hoardings, display boards, radio, television and internet. Choice of appropriate media is important for effectiveness of the message. The media may be local, regional, or national. The type of the message, copy, and illustration are a matter of choice and creativity. Advertising may be directed towards consumers, middlemen or opinion leaders. Advertising is likely to succeed in promoting the sales of an organization but its effectiveness in respect to the expenditure cannot be

directly measured. A sale is a function of several variables out of which advertising is only one.

- (iii) *Publicity*: Publicity is also a non-personal form of promotion similar to advertising. However, no payments are made to the media as in case of advertising. Organizations skilfully seek to promote themselves and their products without payment. Publicity is communication of a product, brand or business by placing information about it in the media without paying for the time or media space directly. Thus, it is way of reaching customers with negligible cost. Basic tools for publicity are press releases, press conferences, reports, stories, and internet releases. These releases must be of interest to the public.
- (iv) *Sales promotion*: Sales promotion is an omnibus term that includes all activities that are undertaken to promote the business but are not specifically included under personal selling, advertising or publicity. Activities like discounts, contests, money refunds, instalments, kiosks, exhibitions and fairs constitute sales promotion. All these are meant to give a boost to the sales. Sales promotion done periodically may help in getting a larger market share to an organization.

Expanded Marketing Mix: Typically, all organizations use a combination of 4 Ps in some form or the other. However, the above elements of marketing mix are not exhaustive. It is pertinent to discuss a few more elements that may form part of an organizational marketing mix strategy. They have got more currency in recent years. Growth of services has its own share for the inclusion of newer elements in marketing. A few Ps included later are as follows:

- ◆ *People*: all human actors who play a part in delivery of the market offering and thus influence the buyer's perception, namely the firm's personnel and the customer.
- ◆ *Process*: the actual procedures, mechanisms and flow of activities by which the product / service is delivered.
- ◆ *Physical evidence*: the environment in which the market offering is delivered and where the firm and customer interact.

6.2.3 Formulation of Marketing Strategy

Marketing analysis: It involves a complete analysis of the company's situation. A company performs analysis by identifying environmental opportunities and threats. It also analyzes its strengths and weaknesses to determine which

opportunities the company can best pursue. Marketing has three components as planning, implementation and control. Through analyses organization feed information and other inputs to each of the other marketing management functions.

A company must carefully analyze its environment in order to avoid the threats and take advantage of the opportunities. Areas to be analyzed in the environment normally include:

1. Forces close to the company such as its ability to serve customers, other company departments, channel members, suppliers, competitors, and publics.
2. Broader forces such as demographic and economic forces, political and legal forces, technological and ecological forces, and social and cultural forces.

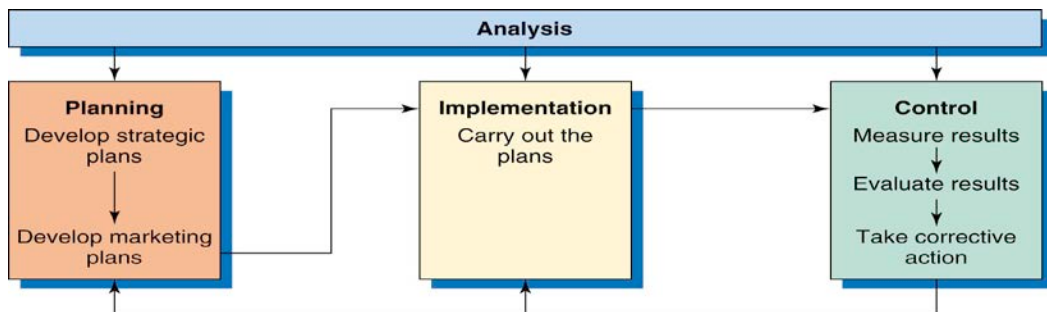


Figure: Strategic marketing management process

Strategic marketing planning involves deciding on marketing strategies that will help the company attain its overall strategic objectives. A detailed plan is needed for each business, product, or brand. A product or brand plan may contain different sections: executive summary, current marketing situation, threats and opportunity analysis, objectives and issues, marketing strategies, action programs, budgets, and controls.

- ◆ The executive summary is a short summary of the main goals and recommendations to be presented in the plan.
- ◆ The current marketing situation is the section of a marketing plan that describes the target market and the company's position in it. Important sections include:
 - A market description.
 - A product review.

- Analysis of the competition.
- A section on distribution.
- ◆ In the threats and opportunities section, managers give their assessment of important developments that can have an impact, either positive or negative, on the firm.
- ◆ Having studied the product's threats and opportunities, the manager can set objectives and consider issues that will affect them. The objectives should be stated as goals that the company would like to attain during the plan's term.
- ◆ Marketing strategy is the marketing logic by which the business unit hopes to achieve its marketing objectives. Strategies should be formulated for all marketing mix components.

Strategy Control: Strategic control involves monitoring and measuring of results and their evaluation. This would lead to taking corrective actions in the 4 P's of marketing.

6.2.4 Strategic Marketing Techniques

Over the years, a number of marketing strategies have been evolved, which are given below:

- ◆ **Social Marketing:** It refers to the design, implementation, and control of programs seeking to increase the acceptability of a social ideas, cause, or practice among a target group. For instance, the publicity campaign for prohibition of smoking in Delhi explained the place where one can and can't smoke.
- ◆ **Augmented Marketing:** It is provision of additional customer services and benefits built around the core and actual products that relate to introduction of hi-tech services like movies on demand, online computer repair services, secretarial services, etc. Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.
- ◆ **Direct Marketing:** Marketing through various advertising media that interact directly with consumers, generally calling for the consumer to make a direct response. Direct marketing includes catalogue selling, e-mail, telecomputing, electronic marketing, shopping, and TV shopping.

- ◆ **Relationship Marketing:** The process of creating, maintaining, and enhancing strong, value-laden relationships with customers and other stakeholders. For example, Airlines offer special lounges at major airports for frequent flyers. Thus, providing special benefits to select customers to strengthen bonds. It will go a long way in building relationships.
 - ◆ **Services Marketing:** It is applying the concepts, tools, and techniques, of marketing to services. Services is any activity or benefit that one party can offer to another that is essentially intangible and does not result in the banking, savings, retailing, educational or utilities.
 - ◆ **Person Marketing:** People are also marketed. Person marketing consists of activities undertaken to create, maintain or change attitudes and behaviour towards particular person. For example, politicians, sports stars, film stars, etc. i.e., market themselves to get votes, or to promote their careers.
 - ◆ **Organization Marketing:** It consists of activities undertaken to create, maintain, or change attitudes and behaviour of target audiences towards an organization. Both profit and non-profit organizations practice organization marketing.
 - ◆ **Place Marketing:** Place marketing involves activities undertaken to create, maintain, or change attitudes and behaviour towards particular places say, business sites marketing, tourism marketing.
 - ◆ **Enlightened Marketing:** It is a marketing philosophy holding that a company's marketing should support the best long-run performance of the marketing system; its five principles include customer-oriented marketing, innovative marketing, value marketing, sense-of-mission marketing, and societal marketing.
 - ◆ **Differential Marketing:** It is a market-coverage strategy in which a firm decides to target several market segments and designs separate offer for each. For example, Hindustan Unilever Limited has Lifebuoy, Lux and Rexona in popular segment and Dove and Pears in premium segment.
 - ◆ **Synchro-marketing:** When the demand for a product is irregular due to season, some parts of the day, or on hour basis, causing idle capacity or overworked capacities, synchro-marketing can be used to find ways to alter the pattern of demand through flexible pricing, promotion, and other incentives. For example, products such as movie tickets can be sold at lower price over week days to generate demand.
- Concentrated Marketing:** It is a market-coverage strategy in which a firm goes after a large share of one or few sub-markets.

Demarketing: It includes marketing strategies to reduce demand temporarily or permanently. The aim is not to destroy demand, but only to reduce or shift it. This happens when there is overfull demand. For example, buses are overloaded in the morning and evening, roads are busy for most of times, zoological parks are overcrowded on Saturdays, Sundays and holidays. Here demarketing can be applied to regulate demand.



6.3 FINANCIAL STRATEGY

The financial strategies of an organization are related to several areas of financial management considered central to strategy implementation. These include: acquiring needed capital/sources of fund, developing projected financial statements/budgets, management/ usage of funds, and evaluating the worth of a business. Strategists need to formulate strategies in these areas so that they are implemented. Some examples of decisions that may require financial and accounting policies are:

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 payout ratio.
4. To extend the time of accounts receivable.
5. To establish a certain percentage discount on accounts within a specified period of time.
6. To determine the amount of cash that should be kept on hand.

Acquiring capital to implement strategies (sources of funds): Successful strategy implementation often requires additional capital. Besides net profit from operations and the sale of assets, two basic sources of capital for an organization are debt and equity. Determining an appropriate mix of debt and equity in a firm's capital structure can be vital to successful strategy implementation. Theoretically, an enterprise should have enough debt in its capital structure to boost its return on investment by applying debt to products and projects earning more than the cost of the debt. In low earning periods, too much debt in the capital structure of an organization can endanger stockholders' return and jeopardize company survival. Many debt ridden real estate companies find things very difficult at time of recession. Fixed debt obligations generally must be met, regardless of circumstances. This does not mean that stock issuances are always

better than debt for raising capital. Some special stock is issued to finance strategy implementation; ownership and control of the enterprise are diluted. This can be a serious concern in today's business environment of hostile takeovers, mergers, and acquisitions.

The major factors regarding which strategies have to be made includes capital structure; procurement of capital and working capital borrowings; reserves and surplus as sources of funds; and relationship with lenders, banks and financial institutions. Strategies related to the sources of funds are important since they determine how financial resources will be made available for the implementation of strategies. Organizations have a range of alternatives regarding the sources of funds. While one company may rely on external borrowings, another may follow a policy of internal financing.

Projected financial statements / budgets: Projected (pro forma) financial statement analysis is a central strategy-implementation technique because it allows an organization to examine the expected results of various actions and approaches. This type of analysis can be used to forecast the impact of various implementation decisions (for example, to increase promotion expenditures by 50 percent to support a market-development strategy, to increase salaries by 25 percent to support a market-penetration strategy, to increase research and development expenditures by 70 percent to support product development, or to sell common stock to raise capital for diversification). Nearly all financial institutions require a projected financial statement whenever a business seeks capital. A pro forma income statement and balance sheet allow an organization to compute projected financial ratios under various strategy-implementation scenarios. When compared to prior years and to industry averages, financial ratios provide valuable insights into the feasibility of various strategy-implementation approaches.

Primarily as a result of the governance challenges companies today are being much more diligent in preparing projected financial statements to "reasonably rather than too optimistically" project future expenses and earnings.

A financial budget is also a document that details how funds will be obtained and spent for a specified period of time. Annual budgets are most common, although the period of time for a budget can range from one day to more than ten years. Fundamentally, financial budgeting is a method for specifying what must be done to complete strategy implementation successfully. Financial budgeting should not be thought of as a tool for limiting expenditures but rather as a method for obtaining the most productive and profitable use of an organization's resources.

Financial budgets can be viewed as the planned allocation of a firm's resources based on forecasts of the future.

There are several types of financial budgets used by different organizations. Some common types of budgets include cash budgets, operating budgets, sales budgets, profit budgets, factory budgets, capital budgets, expense budgets, divisional budgets, variable budgets, flexible budgets, and fixed budgets. When an organization is experiencing financial difficulties, budgets are especially important in guiding strategy implementation.

Financial budgets have some limitations also. First, budgetary programs can become so detailed that they are cumbersome and overly expensive. Over budgeting or under budgeting can cause problems. Second, financial budgets can become a substitute for objectives. A budget is a tool and not an end in itself. Third, budgets can hide inefficiencies if based solely on precedent rather than on periodic evaluation of circumstances and standards. Finally, budgets are sometimes used as instruments of tyranny that result in frustration, resentment, absenteeism, and high turnover. To minimize the effect of this last concern, managers should increase the participation of subordinates in preparing budgets.

Utilization of funds: Plans and policies for the usage of funds deal with investment or asset-mix decisions. The important factors regarding which plans and policies are to be made are: capital investment; fixed asset acquisition; current assets; loans and advances; dividend decisions; and relationship with shareholders. Usage of funds is important since it relates to the efficiency and effectiveness of resource utilization in the process of strategy implementation.

Implementation of projects in pursuance of expansion strategies typically results in increase in capital work in progress and current assets. If plans and policies are not clear, the usage of funds would be inefficient, leading to less than an optimum utilization of resources.

The management of funds is an important area of financial strategies. It basically deals with decisions related to the systemic aspects of financial management. The major factors regarding which plans and policies related to the management of funds have to be made are: the systems of finance, accounting, and budgeting; management control system; cash, credit, and risk management; cost control and reduction; and tax planning and advantages.

The management of funds can play a pivotal role in strategy implementation as it aims at the conservation and optimum utilization of funds objectives which are central to any strategic action. Organizations that implement strategies of

stability, growth or retrenchment cannot escape the rigours of a proper management of funds. In fact, good management of funds often creates the difference between a strategically successful and unsuccessful company. For instance, Gujarat Ambuja Cements, currently a highly profitable cement company in the country, has achieved tremendous financial success primarily on the basis of its policies of cost control. This company has been particularly successful in maintaining a low cost for power, which is a major input in cement manufacturing.

Financial plans and policies, however, present a dilemma before management. The priorities of management may often conflict with those of shareholders. It is the responsibility of the strategists to minimize the conflict of interest between the management and the shareholders.

Evaluating the worth of a business: Evaluating the worth of a business is central to strategy implementation because integrative, intensive, and diversification strategies are often implemented by acquiring other firms. Other strategies, such as retrenchment may result in the sale of a division of a firm itself. Thousands of transactions occur each year in which businesses are bought or sold. In all these cases, it is necessary to establish the financial worth or cash value of a business to successfully implement strategies.

Various approaches for determining a business's worth can be grouped into three main approaches:

- ◆ The first approach in evaluating the worth of a business is determining its net worth or stockholders' equity. Net worth represents the sum of common stock, additional paid-in capital, and retained earnings. After calculating net worth, add or subtract an appropriate amount for goodwill and overvalued or undervalued assets. This total provides a reasonable estimate of a firm's monetary value.
- ◆ The second approach to measuring the value of a firm grows out of the belief that the worth of any business should be based largely on the future benefits its owners may derive through net profits. A conservative rule of thumb is to establish a business's worth as five times the firm's current annual profit. A five-year average profit level could also be used.
- ◆ The third approach, letting the market determine a business's worth, involves three methods. First, base the firm's worth on the selling price of a similar company. A potential problem, however, is that sometimes comparable figures are not easy to locate. The second approach is called

the price-earnings ratio method. To use this method, divide the market price of the firm's common stock by the annual earnings per share and multiply this number by the firm's average net income for the past five years. The third approach can be called the outstanding shares method. To use this method, simply multiply the number of shares outstanding by the market price per share and add a premium. The premium is simply a per-share amount that a person or firm is willing to pay to control (acquire) the other company.



6.4 PRODUCTION/OPERATIONS STRATEGY

The production/operations strategy is related to the production system, operational planning and control and logistics management. It affects the nature of product/service, the markets to be served, and the manner in which the markets are to be served. All these collectively influence the operations system structure and objectives which are used to determine the operations plans and policies. Thus, a strategy of expansion through related diversification, for instance, will affect what products are offered to which market and how these markets are served. The operations system structure, which is concerned with the manufacturing/ service and supply/delivery system, and operations system objectives, which are related to customer service and resource utilisation, both determine what operations, plans and policies are set.

6.4.1 Production System

The production system is concerned with the capacity, location, layout, product or service design, work systems, degree of automation, extent of vertical integration, and such factors. Strategies related to production system are significant as they deal with vital issues affecting the capability of the organisation to achieve its objectives.

Strategy implementation would have to take into account the production system factors as they involve decisions which are long-term in nature and influence not only the operations capability of an organisation but also its ability to implement strategies and achieve objectives. For example, Excel Industries, a pioneering company in the area of industrial and agro chemicals, adopted a policy of successive vertical integration for import substitution. It starts with the end product and then integrates backward to make raw materials for it.

6.4.2. Production/Operations Planning and Control

Strategies related to operations planning and control are concerned with aggregate production planning; materials supply; inventory, cost, and quality management; and maintenance of plant and equipment. Here, the aim of strategy implementation is to see how efficiently resources are utilized and in what manner the day-to-day operations can be managed in the light of long-term objectives. Operations planning and control provides an example of an organizational activity that is aimed at translating the objectives into reality.

Some companies use quality as a strategic tool. The operations policies at KSB Pumps Ltd lay a great emphasis on quality aspects. In implementing its strategy of stable growth, KSB Pumps has built a solid reputation for its quality products. Structurally, it has a separate department of quality assurance having two groups of quality inspection and quality engineering. Thus, quality is a consideration not only at the inspection stage but is built into the design itself.

6.4.3. Logistics Management

Management of logistics is a process which integrates the flow of supplies into, through and out of an organization to achieve a level of service which ensures that the right materials are available at the right place, at the right time, of the right quality, and at the right cost. Organizations try to keep the cost of transporting materials as low as possible consistent with safe and reliable delivery.

Supply chain management helps in logistics and enables a company to have constant contact with its distribution team, which could consist of trucks, trains, or any other mode of transportation. Given the changes that affect logistics operations such as emerging technologies and industry initiatives, developing and using a formal logistics strategy is very important. For a business enterprise, effective logistic strategy will involve raising and finding solutions to the following questions:

- ◆ Which sources of raw materials and components are available?
- ◆ How many manufacturing locations are there?
- ◆ What products are being made at each manufacturing location?
- ◆ What modes of transportation should be used for various products.
- ◆ What is the nature of distribution facilities?
- ◆ What is the nature of materials handling equipment possessed? Is it ideal?

- ◆ What is the method for deploying inventory in the logistics network?
- ◆ Should the business firm own the transport vehicles?

Improvement in logistics can result in savings in cost of doing business. These savings can also reveal in the profits of the company. Some examples of how logistics can help a business are as follows:

- ◆ Cost savings
- ◆ Reduced inventory
- ◆ Improved delivery time
- ◆ Customer satisfaction
- ◆ Competitive advantage

6.4.4 Supply Chain Management

The term supply chain refers to the linkages between suppliers, manufacturers and customers. Supply chains involve all activities like sourcing and procurement of material, conversion, and logistics. Planning and control of supply chains are important components of its management. Naturally, management of supply chains include closely working with channel partners – suppliers, intermediaries, other service providers and customers. Technological changes and reduction in information communication costs with increase in its speed has led to changes in coordination among the members of the supply chain network.

Supply chain management is defined as the process of planning, implementing, and controlling the supply chain operations. It is a cross-functional approach to managing the movement of raw materials into an organization and the movement of finished goods out of the organization toward the end-consumer who are to be satisfied as efficiently as possible. It encompasses all movement and storage of raw materials, work-in-process inventory, and finished goods from point-of-origin to point-of-consumption. Organizations are finding that they must rely on the chain to successfully compete in the global market.

Modern organizations are striving to focus on core competencies and reduce their ownership of sources of raw materials and distribution channels. These functions can be outsourced to other business organizations that specialize in those activities and can perform in better and cost effective manner. In a way organizations in the supply chain do tasks according to their core-competencies. Working in the supply chain improve trust and collaboration amongst partners and thus improve flow and management of inventory.

Is logistic management same as supply chain management? Supply chain management is an extension of logistic management. However, there is difference between the two. Logistical activities typically include management of inbound and outbound goods, transportation, warehousing, handling of material, fulfilment of orders, inventory management, supply/demand planning. Although these activities also form part of Supply chain management, the latter has different components. Logistic management can be termed as one of its part that is related to planning, implementing, and controlling the movement and storage of goods, services and related information between the point of origin and the point of consumption.

Supply chain management includes more aspects apart from the logistics function. It is a tool of business transformation and involves delivering the right product at the right time to the right place and at the right price. It reduces costs of organizations and enhances customer service.

Implementing Supply Chain Management System

A successful implementation of supply management system requires a change from managing individual functions to integrating activities into key supply chain processes. It involves collaborative work between buyers and suppliers, joint product development, common systems and shared information. A key requirement for successfully implementing supply chain will be network of information sharing and management. The partners need to link together to share information through electronic data interchange and take decisions in timely manner.

Implementing and successfully running supply chain management system will involve:

1. **Product Development:** Customers and suppliers must work together in the product development process. Right from the start the partners will have knowledge of all Involving all partners will help in shortening the life cycles. Products are developed and launched in shorter time and help organizations to remain competitive.
2. **Procurement:** Procurement requires careful resource planning, quality issues, identifying sources, negotiation, order placement, inbound transportation and storage. Organizations have to coordinate with suppliers in scheduling without interruptions. Suppliers are involved in planning the manufacturing process.

3. **Manufacturing:** Flexible manufacturing processes must be in place to respond to market changes. They should be adaptive to accommodate customization and changes in the taste and preferences. Manufacturing should be done on the basis of just-in-time (JIT) and minimum lot sizes. Changes in the manufacturing process be made to reduce manufacturing cycle.
4. **Physical Distribution:** Delivery of final products to customers is the last position in a marketing channel. Availability of the products at the right place at right time is important for each channel participant. Through physical distribution processes serving the customer become an integral part of marketing. Thus supply chain management links a marketing channel with customers.
5. **Outsourcing:** Outsourcing is not limited to the procurement of materials and components, but also includes outsourcing of services that traditionally have been provided within an organization. The company will be able to focus on those activities where it has competency and everything else will be outsourced.
6. **Customer Services:** Organizations through interfaces with the company's production and distribution operations develop customer relationships so as to satisfy them. They work with customer to determine mutually satisfying goals, establish and maintain relationships. This in turn helps in producing positive feelings in the organization and the customers
7. **Performance Measurement:** There is a strong relationship between the supplier, customer and organisation. Supplier capabilities and customer relationships can be correlated with a firm performance. Performance is measured in different parameters such as costs, customer service, productivity and quality.



6.5 RESEARCH AND DEVELOPMENT STRATEGY

Research and development (R&D) personnel can play an integral part in strategy implementation. These individuals are generally charged with developing new products and improving old products in a way that will allow effective strategy implementation. R&D employees and managers perform tasks that include transferring complex technology, adjusting processes to local raw materials, adapting processes to local markets, and altering products to particular tastes and specifications. Strategies such as product development, market penetration,

and concentric diversification require that new products be successfully developed and that old products be significantly improved. But the level of management support for R&D is often constrained by resource availability.

Technological improvements that affect consumer and industrial products and services shorten product life cycles. Companies in virtually, every industry are relying on the development of new products and services to fuel profitability and growth. Surveys suggest that the most successful organizations use an R&D strategy that ties external opportunities to internal strengths and is linked with objectives. Well formulated R&D policies match market opportunities with internal capabilities. R&D policies can enhance strategy implementation efforts to:

- ◆ Emphasize product or process improvements.
- ◆ Stress basic or applied research.
- ◆ Be leaders or followers in R&D.
- ◆ Develop robotics or manual-type processes.
- ◆ Spend a high, average, or low amount of money on R&D.
- ◆ Perform R&D within the firm or to contract R&D to outside firms.
- ◆ Use university researchers or private sector researchers.

There must be effective interactions between R&D departments and other functional departments in implementing different types of generic business strategies. Conflicts between marketing, finance/accounting, R&D, and information systems departments can be minimized with clear policies and objectives.

A critical question is whether a firm should develop research and development expertise internally or outside to external agencies. The following guidelines can be used to help make this decision:

- ◆ If the rate of technical progress is slow, the rate of market growth is moderate, and there are significant barriers to possible new entrants, then in-house R&D is the preferred solution. The reason is that R&D, if successful, will result in a temporary product or process monopoly that the company can exploit.
- ◆ If technology is changing rapidly and the market is growing slowly, then a major effort in R&D may be very risky, because it may lead to the development of an ultimately obsolete technology or one for which there is no market.

- ◆ If technology is changing slowly but the market is growing quickly, there generally is not enough time for in-house development. The prescribed approach is to obtain R&D expertise on an exclusive or nonexclusive basis from an outside firm.
- ◆ If both technical progress and market growth are fast, R&D expertise should be obtained through acquisition of a well-established firm in the industry.

There are at least three major R&D approaches for implementing strategies. The first strategy is to be the first firm to market new technological products. This is a glamorous and exciting strategy but also a dangerous one. Firms such as 3M and General Electric have been successful with this approach, but many other pioneering firms have fallen, with rival firms seizing the initiative.

A second R&D approach is to be an innovative imitator of successful products, thus minimizing the risks and costs of start up. This approach entails allowing a pioneer firm to develop the first version of the new product and to demonstrate that a market exists. Then, laggard firms develop a similar product. This strategy requires excellent R&D personnel and an excellent marketing department.

A third R&D strategy is to be a low-cost producer by mass-producing products similar to but less expensive than products recently introduced. As a new product accepted by customers, price becomes increasingly important in the buying decision. Also, mass marketing replaces personal selling as the dominant selling strategy. This R&D strategy requires substantial investment in plant and equipment, but fewer expenditures in R&D than the two approaches described earlier.

6.6 HUMAN RESOURCE STRATEGY

Role of Human Resources in Strategic Management

Strategic responsibilities of the human resource manager include assessing the staffing needs and costs for alternative strategies proposed during strategy formulation and developing a staffing plan for effectively implementing strategies. The plan must also include how to motivate managers and employees.

The human resource department must develop performance incentives that clearly link performance and pay to strategies. The process of empowering managers and employees through their involvement in strategic management activities yields the greatest benefits when all organizational members understand clearly how they will benefit personally if the firm does well. Linking company and personal benefits is a major new strategic responsibility of human resource

managers. Other new responsibilities for human resource managers may include establishing and administering an employee to have conducive work environment, maintain life work balance, synchronise individual with organisation goals.

A well-designed strategic-management system can fail if insufficient attention is given to the human resource dimension. Human resource problems that arises when a business implements strategies can usually be traced to one of three causes: (1) disruption of social and political structures, (2) failure to match individuals' aptitudes with implementation tasks, and (3) inadequate top management support for implementation activities.

Strategy implementation poses a threat to many managers and employees in an organization. New power and status relationships are anticipated and realized. New formal and informal groups' values, beliefs, and priorities may be largely unknown. Managers and employees may become engaged in resistance behaviour as their roles, prerogatives, and power in the firm change. Disruption of social and political structures that accompany strategy execution must be anticipated and considered during strategy formulation and managed during strategy implementation.

A concern in matching managers with strategy is that jobs have specific and relatively static responsibilities, although people are dynamic in their personal development. Commonly used methods that match managers with strategies to be implemented include transferring managers, developing leadership workshops, offering career development activities, promotions, job enlargement, and job enrichment.

A number of other guidelines can help ensure that human relationships facilitate rather than disrupt strategy-implementation efforts. Specifically, managers should do a form of chatting and informal questioning to stay abreast of how things are progressing and to know when to intervene. Managers can build support for strategy-implementation efforts by giving few orders, announcing few decisions, depending heavily on informal questioning, and seeking to probe and clarify until a consensus emerges. Key thrusts that needed should be rewarded generously and visibly.

It is surprising that so often during strategy formulation, individual values, skills, and abilities needed for successful strategy implementation are not considered. It is rare that a firm selecting new strategies or significantly altering existing strategies possesses the right line and staff personnel in the tight positions for

successful strategy implementation. The need to match individual aptitudes with strategy-implementation tasks should be considered in strategy choice.

Inadequate support from strategists for implementation activities often undermines organizational success. Chief executive officers, small business owners, and government agency heads must be personally committed to strategy implementation and express this commitment in highly visible ways. Strategists' formal statements about the Importance of strategic management must be consistent with actual support and rewards given for activities completed and objectives reached. Otherwise, stress created by inconsistency can cause uncertainty among managers and employees at all levels.

Perhaps the best method for preventing and overcoming human resource problems in strategic management is to actively involve as many managers and employees' as possible in the process. Although time-consuming, this approach builds understanding, trust, commitment and ownership and reduces resentment and hostility. The true potential of strategy formulation and implementation resides in people.

Achieving Competitive advantage

In Human Resource management (HRM), the strategist tries to achieve a competitive advantage for his organization. The competitive advantage may be in the form of low cost relationship in the industry or being unique in the industry along dimensions that are widely valued by the customers in particular and the society at large. And so that they can obtain a competitive edge by becoming a low-cost leader or a differentiator puts a heavy premium on having a highly competent and committed team for human resources. To quote **Charles Greer,**

In a growing number of organizations, human resources are now viewed as a source of competitive advantage. There is greater recognition that distinctive competencies are obtained through highly developed employee skills, distinctive organizational cultures, management processes and systems.

The role of human resources in enabling the organization to effectively deal with the external environmental challenges, the human resource management function has been accepted as a strategic partner in the formulation of organization's strategies and in the implementation of such strategies through human resource planning, employment, training, appraisal and rewarding of personnel. An organization's recruitment, selection, training, performance appraisal, and compensation practices can have a strong influence on employee competence. The following points should be kept in mind:

1. *Recruitment and selection:* The workforce will be more competent if a firm can successfully identify, attract, and select the most competent applicants.
2. *Training:* The workforce will be more competent if employees are well trained to perform their jobs properly.
3. *Appraisal of performance:* The performance appraisal is to identify any performance deficiencies experienced by employees due to lack of competence. Such deficiencies, once identified, can often be solved through counseling, coaching or training.
4. *Compensation:* A firm can usually increase the competency of its workforce by offering pay and benefit packages that are more attractive than those of their competitors. This practice enables organizations to attract and retain the most capable people.

Strategic Human Resource Management (SHRM): The human resource strategy of a business should reflect and support the corporate strategy. An effective human resource strategy includes the way in which the organization plans to develop its employees and provide them suitable opportunities and better working conditions so that their optimal contribution is ensured. This implies selecting the best available personnel, ensuring a 'fit' between the employee and the job and retaining, motivating and empowering employees to perform well in direction of corporate objectives.

Strategic human resource management may be defined as the linking of human resource management with strategic goals and objectives to improve business performance and develop organizational culture that fosters innovation and flexibility. The success of an organization depends on its human resources. This means how they are acquired, developed, motivated and retained organization play an important role in organizational success. This presupposes an integrated approach towards human resource functions and overall business functions of an organization.

The Human Resource Management practices of an organization may be an important source of competitive advantage. For this strategic focus, should be given on the following points:

- ◆ Pre-selection practices including human resource planning and job analysis.
- ◆ Selection practices meant to staff various positions in the organization. Both recruitment and selection policies and procedures should be designed keeping in view the mission and the purpose of the organization.

- ◆ Post-selection practices to maintain and improve the workers job performance levels. Human Resources decisions related to training and development, performance appraisal, compensation and motivation should be based on corporate strategy of the organization.

Strategic Role of Human Resource Manager: The prominent areas where the human resource manager can play strategic role are as follows:

1. **Providing purposeful direction:** The human resource manager must be able to lead people and the organization towards the desired direction involving people right from the beginning. The most important task of a HR manager is to ensure that the objectives of an organization are internalized by each individual working in the organization. Objectives of an organization state the very purpose and justification of its existence.
2. **Building core competency:** The human resource manager has a great role to play in developing core competency by the firm. A core competence is a unique strength of an organization which may not be shared by others. This may be in the form of human resources, marketing capability, or technological capability. If the business is organized on the basis of core competency, it is likely to generate competitive advantage. Because of this reason, many organizations have restructured their businesses by divesting those businesses which do not match core competence. Organization of business around core competence implies leveraging the limited resources of a firm. It needs creative, courageous and dynamic leadership having faith in organization's human resources.
3. **Creating competitive advantage:** Creating and maintaining a competitive advantage in the globalized market is the object of any organization. There are two important ways a business can achieve a competitive advantage over the others. The first is cost leadership which means the firm aims to become a low cost leader in the industry. The second competitive strategy is differentiation under which the firm seeks to be unique in the industry in terms of dimensions that are highly valued by the customers. Putting these strategies into effect carries a heavy premium on having a highly committed and competent workforce.
4. **Facilitation of change:** The human resource manager will be more concerned with substance rather than form, accomplishments rather than activities, and practice rather than theory. The HR function will be responsible for furthering the organization not just maintaining it. Human

resource manager will have to devote more time to promote changes than to maintain the status quo.

5. **Managing workforce diversity:** In modern organizations, management of diverse workforce is a great challenge. Workforce diversity can be observed in terms of male and female workers, young and old workers, educated and uneducated workers, unskilled and professional employee, etc. Moreover, many organizations also have people of different castes, religious and nationalities. The workforce in future will comprise more of educated and self-conscious workers. They will ask for higher degree of participation and avenues for fulfilment. Money will no longer be the sole motivating force for majority of the workers. Non-financial incentives will also play an important role in motivating the workforce.
6. **Empowerment of human resources:** Empowerment means authorizing every member of an organization to take up his/her own destiny realizing his/her full potential. It involves giving more power to those who, at present, have little control what they do and little ability to influence the decisions being made around them.
7. **Development of work ethic and culture:** Greater efforts will be needed to achieve cohesiveness because employees will have transient commitment to groups. As changing work ethic requires increasing emphasis on individuals, jobs will have to be redesigned to provide challenge. Flexible starting and quitting times for employees may be necessary. Focus will shift from extrinsic to intrinsic motivation. A vibrant work culture will have to be developed in the organizations to create an atmosphere of trust among the employees and to encourage creative ideas by them.

SUMMARY

Functional strategies play two important roles – to provide support to the corporate and business level strategies and spell out as to how functional managers will work. Functional strategies facilitate flow of strategic decisions to the different parts of an organization.

This chapter covers different categories of functional level strategies, viz., marketing, production/operations, finance and human resources. The functional strategy related to the marketing area deals with different aspects of marketing process and marketing mix – product, price, place and promotion. This chapter also elucidates financial strategy - acquiring capital to implement strategies,

projected financial statements, management of funds and evaluating the worth of a business.

Strategies related to production system are significant as they deal with vital issues affecting the capability of the organization to achieve its objectives. For a business organization, effective logistics strategy will involve to solve certain problems with the help of supply chain management. Supply chain refers to the linkages between suppliers, manufacturers and customers. Implementing and successfully running supply chain management system will involve synergistical mix of product development, material procurement, manufacturing, physical distribution, outsourcing, customer services and performance measurement.

Research and Development personnel can play an important role in strategy implementation. There must be effective interactions between R & D departments and other functional departments in implementing different types of strategies.

Human resource management function has been recognized as a strategic partner in the formulation and implementation of organizational strategies. The strategic role of human resource manager is also explained in the chapter.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

Question 1

1. A campaign advocating the message of 'SAVE WATER' is:
 - (a) Services Marketing
 - (b) Holistic marketing
 - (c) Social Marketing
 - (d) Direct Marketing
2. The Niche strategy is the best way to enter a:
 - (a) New market
 - (b) Growing market
 - (c) Matured market
 - (d) None of the above
3. Supply chain refers to the linkages between:
 - (a) Suppliers

- (b) Customers
 - (c) Manufacturers
 - (d) All the above
4. The process of creating, maintaining, and enhancing strong, value- laden relationships with customers and other stakeholder is:
- (a) Social marketing
 - (b) Augmented marketing
 - (c) Direct marketing
 - (d) Relationship marketing
5. For a new product, an organization may choose:
- (a) Skimming pricing strategy
 - (b) Penetration pricing strategy
 - (c) Both (a) and (b)
 - (d) None of these
6. The marketing strategy which is used to reduce or shift the demand is:
- (a) Enlightened Marketing
 - (b) Synchro-Marketing
 - (c) Place Marketing
 - (d) Demarketing
7. Read the following statements:
- (i) Functional-level managers are responsible for the specific business functions.
 - (ii) Functional-level managers take decisions related to human resources, purchasing, product development, customer service, and so on.
- Select the correct alternative:
- (a) Both (i) and (ii) truly explain features of functional-level manager.
 - (b) Only (i) truly explains features of functional-level manager.
 - (c) Only (ii) truly explains features of functional-level manager.
 - (d) None of (i) and (ii) truly explains features of functional-level manager.

8. Evaluating the worth of a business is determining its-
- Fixed Assets
 - Net worth
 - Goodwill
 - None of these
9. Which of the following variables are not directly affected by marketing mix?
- Product
 - Place
 - Process
 - Promotion
10. Which variable would be considered part of the product element of the marketing mix?
- Advertising
 - Packaging
 - Publicity
 - Personal Selling

Answer

- 1** (c) **2** (c) **3** (d) **4** (d) **5** (c) **6** (d)
7 (a) **8** (b) **9** (c) **10** (b)

Descriptive Questions**Question 2**

What is meant by Functional strategies? In term of level, where will you put them? Are functional strategies really important for business?

Answer

Once higher level corporate and business strategies are developed, management need to formulate and implement strategies for each functional area. For effective implementation, strategists have to provide direction to functional managers regarding the plans and policies to be adopted. In fact, the effectiveness of strategic management depends critically on the manner in which strategies are implemented. Strategy of one functional area can not be looked at in isolation,

because it is the extent to which all the functional tasks are interwoven that determines the effectiveness of the major strategy.

Functional area strategy such as marketing, financial, production and human resource are based on the functional capabilities of an organisation. For each functional area, first the major sub areas are identified and then for each of these sub functional areas, contents of functional strategies, important factors, and their importance in the process of strategy implementation is identified.

In terms of the levels of strategy formulation, functional strategies operate below the SBU or business-level strategies. Within functional strategies there might be several sub-functional areas. Functional strategies are made within the higher level strategies and guidelines therein that are set at higher levels of an organisation. Functional managers need guidance from the business strategy in order to make decisions. Operational plans tell the functional managers what has to be done while policies state how the plans are to be implemented.

Major strategies need to be translated to lower levels to give holistic strategic direction to an organisation. Functional strategies provide details to business strategy & govern as to how key activities of the business will be managed. Functional strategies play two important roles. Firstly, they provide support to the overall business strategy. Secondly, they spell out as to how functional managers will work so as to ensure better performance in their respective functional areas. The reasons why functional strategies are really important and needed for business can be enumerated as follows:

- ◆ The development of functional strategies is aimed at making the strategies-formulated at the top management level-practically feasible at the functional level.
- ◆ Functional strategies facilitate flow of strategic decisions to the different parts of an organisation.
- ◆ They act as basis for controlling activities in the different functional areas of business.
- ◆ The time spent by functional managers in decision-making is reduced as plans lay down clearly what is to be done and policies provide the discretionary framework within which decisions need to be taken.
- ◆ Functional strategies help in bringing harmony and coordination as they remain part of major strategies.

- ◆ Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers.

Question 3

What do you mean by financial strategy of an organization? How the worth of a business is evaluated?

Answer

The financial strategies of an organization are related to several finance/accounting concepts considered to be central to strategy implementation. These are: acquiring needed capital/sources of fund, developing projected financial statements/budgets, management/ usage of funds, and evaluating the worth of a business.

Various methods for determining a business's worth can be grouped into three main approaches which are as follows:

- (i) Net worth or stockholders' equity:** Net worth is the total assets minus total outside liabilities of an organisation.
- (ii) Future benefits to owners through net profits:** These benefits are considered to be much greater than the amount of profits. A conservative rule of thumb is to establish a business's worth as five times the firm's current annual profit. A five-year average profit level could also be used.
- (iii) Market-determined business worth:** This, in turn, involves three methods. First, the firm's worth may be based on the selling price of a similar company. The second approach is called the price-earnings ratio method whereby the market price of the firm's equity shares is divided by the annual earnings per share and multiplied by the firm's average net income for the preceding years. The third approach can be called the outstanding shares method whereby one has to simply multiply the number of shares outstanding by the market price per share and add a premium.

Question 4

Successful implementation of any project needs additional funds. What are the different sources of raising funds and their impact on the financial strategy which you as a Financial Manager will consider?

Answer

Successful strategy implementation often requires additional capital. Besides net profit from operations and the sale of assets, two basic sources of capital for an

organization are debt and equity. Being a financial manager to determine an appropriate mix of debt and equity in a firm's capital structure can be vital to successful strategy implementation. Fixed debt obligations generally must be met, regardless of circumstances. This does not mean that stock issuances are always better than debt for raising capital. If ordinary stock is issued to finance strategy implementation; ownership and control of the enterprise are diluted. This can be a serious concern in today's business environment of hostile takeovers, mergers, and acquisitions.

The major factors regarding which strategies have to be made by a financial manager are: capital structure; procurement of capital and working capital borrowings; reserves and surplus as sources of funds; and relationship with lenders, banks and financial institutions. Strategies related to the sources of funds are important since they determine how financial resources will be made available for the implementation of strategies. Organizations have a range of alternatives regarding the sources of funds. While one company may rely on external borrowings, another may follow a policy of internal financing.

Question 5

Explain any three prominent areas where Human Resource Manager can play a strategic role.

Answer

The prominent areas where the human resource manager can play strategic role are as follows:

1. **Providing purposeful direction:** The human resource manager must be able to lead people and the organization towards the desired direction involving people right from the beginning. The most important task of a HR manager is to ensure that the objectives of an organization are internalized by each individual working in the organization. Objectives of an organization state the very purpose and justification of its existence.
2. **Building core competency:** The human resource manager has a great role to play in developing core competency by the firm. A core competence is a unique strength of an organization which may not be shared by others. This may be in the form of human resources, marketing capability, or technological capability. If the business is organized on the basis of core competency, it is likely to generate competitive advantage. Because of this reason, many organizations have restructured their businesses by divesting those businesses which do not match core competence. Organization of

business around core competence implies leveraging the limited resources of a firm. It needs creative, courageous and dynamic leadership having faith in organization's human resources.

3. **Creating competitive advantage:** Creating and maintaining a competitive advantage in the globalized market is the object of any organization. There are two important ways a business can achieve a competitive advantage over the others. The first is cost leadership which means the firm aims to become a low cost leader in the industry. The second competitive strategy is differentiation under which the firm seeks to be unique in the industry in terms of dimensions that are highly valued by the customers. Putting these strategies into effect carries a heavy premium on having a highly committed and competent workforce.
4. **Facilitation of change:** The human resource manager will be more concerned with substance rather than form, accomplishments rather than activities, and practice rather than theory. The HR function will be responsible for furthering the organization not just maintaining it. Human resource manager will have to devote more time to promote changes than to maintain the status quo.
5. **Managing workforce diversity:** In modern organizations, management of diverse workforce is a great challenge. Workforce diversity can be observed in terms of male and female workers, young and old workers, educated and uneducated workers, unskilled and professional employee, etc. Moreover, many organizations also have people of different castes, religious and nationalities. The workforce in future will comprise more of educated and self conscious workers. They will ask for higher degree of participation and avenues for fulfilment. Money will no longer be the sole motivating force for majority of the workers. Non-financial incentives will also play an important role in motivating the workforce.
6. **Empowerment of human resources:** Empowerment means authorizing every member of an organization to take up his/her own destiny realizing his/her full potential. It involves giving more power to those who, at present, have little control what they do and little ability to influence the decisions being made around them.
7. **Development of works ethic and culture:** Greater efforts will be needed to achieve cohesiveness because employees will have transient commitment to groups. As changing work ethic requires increasing emphasis on individuals, jobs will have to be redesigned to provide challenge. Flexible

starting and quitting times for employees may be necessary. Focus will shift from extrinsic to intrinsic motivation. A vibrant work culture will have to be developed in the organizations to create an atmosphere of trust among the employees and to encourage creative ideas by them.

Question 6

State the factors of human resource that influence on employee's competence.

Answer

Human resource management has been accepted as a strategic partner in the formulation of organization's strategies and in the implementation of such strategies through human resource planning, employment, training, appraisal and reward systems. The following points should be kept in mind as they can have a strong influence on employee competence:

- i. **Recruitment and selection:** The workforce will be more competent if a firm can successfully identify, attract, and select highly competent applicants.
- ii. **Training:** The workforce will be more competent if employees are well trained to perform their jobs properly.
- iii. **Appraisal of performance:** The performance appraisal is to identify any performance deficiencies experienced by employees due to lack of competence. Such deficiencies, once identified, can often be solved through counselling, coaching or training.
- iv. **Compensation:** A firm can usually increase the competency of its workforce by offering pay, benefits and rewards that are not only attractive than those of their competitors but also recognizes merit.

Question 7

How would you argue that Research and Development Personnel are important for effective strategy implementation?

Answer

Research and Development (R&D) personnel can play an integral part in strategy implementation. These individuals are generally charged with developing new products and improving old products in a way that will allow effective strategy implementation. R&D employees and managers perform tasks that include transferring complex technology, adjusting processes to local raw materials, adapting processes to local markets, and altering products to particular tastes and specifications.

Strategies such as product development, market penetration, and concentric diversification require that new products be successfully developed and that old products be significantly improved. But the level of management support for R&D is often constrained by resource availability.

Question 8

“Evaluating the worth of a business is central to strategy implementation.” In the light of this statement, explain the methods that can be used for determining the worth of a business.

Answer

It is true that evaluating the worth of a business is central to strategy implementation. There are circumstances where it is important to evaluate the actual worth of the business. These circumstances can be wide and varied. At a higher level they may include acquisition, merges or diversification. They may also include other situations such as fixing of share price in an issue. Acquisition, merger, retrenchment may require establishing the financial worth or cash value of a business to successfully implement such strategies.

Various methods for determining a business's worth can be grouped into three main approaches.

- (i) Net worth or stockholders' equity: Net worth is the total assets minus total outside liabilities of an organisation.
- (ii) Future benefits to owners through net profits: These benefits are considered to be much greater than the amount of profits. A conservative rule of thumb is to establish a business's worth as five times the firm's current annual profit. A five-year average profit level could also be used.
- (iii) Market-determined business worth: This, in turn, involves three methods. First, the firm's worth may be based on the selling price of a similar company. The second approach is called the price-earnings ratio method whereby the market price of the firm's equity shares is divided by the annual earnings per share and multiplied by the firm's average net income for the preceding years. The third approach can be called the outstanding shares method whereby one has to simply multiply the number of shares outstanding by the market price per share and add a premium.

Question 9

What do you understand by the term marketing mix? Briefly explain its various components.

Answer

Marketing mix is a systematic way of classifying the key decision areas of marketing management. It is the set of controllable marketing variables that the firm blends to produce the response it wants in the target market. The original framework of marketing mix comprises of 4Ps- product, price, place and promotion. These are subsequently expanded to highlight certain other key decision areas like people, processes, and physical evidence. The elements of original framework are:

- **Product:** It stands for the “goods-and-service” combination the company offers to the target market.
- **Price:** It stands for the amount of money customers have to pay to obtain the product.
- **Place:** It stands for company activities that make the product available to target consumers and include marketing channel, distribution policies and geographical availability.
- **Promotion:** It stands for activities that communicate the merits of the product and persuade target consumers to buy it.

Expanded Marketing Mix: Typically, all organizations use a combination of 4 Ps in some form or the other. However, the above elements of marketing mix are not exhaustive as there are a few more elements that may form part of marketing mix strategy as follows:

People: all human actors who play a part in delivery of the market offering and thus influence the buyer’s perception, namely the firm’s personnel and the customer.

Physical evidence: the environment in which the market offering is delivered and where the firm and customer interact.

Process: the actual procedures, mechanisms and flow of activities by which the product / service is delivered.

Question 10

What do you understand by promotion? What are various promotion tools adopted by organization?

Answer

Promotion stands for activities that communicate the merits of the product and persuade target consumers to buy it. Strategies are needed to combine individual

methods such as advertising, personal selling, and sales promotion into a coordinated campaign. In addition promotional strategies must be adjusted as a product move from an earlier stages from a later stage of its life.

Modern marketing is highly promotional oriented. Organizations strive to push their sales and market standing on a sustained basis and in a profitable manner under conditions of complex direct and indirect competitive situations.

Promotion is communication, persuasion and conditioning process. There are at least four major direct promotional methods or tools briefly explained as follows:

- (i) *Personal Selling*: Personal selling is one of the oldest forms of promotion. It involves face-to-face interaction of sales force with the prospective customers and provides a high degree of personal attention to them. In personal selling, oral communication is made. It may initially focus on developing a relationship, and end up with efforts for making a sale. Personal selling suffers from a very high costs as sales personnel attend one customer at a time.
- (ii) *Advertising*: Advertising is a non-personal, highly flexible and dynamic promotional method. The media for advertisements are several such as pamphlets, brochures, newspapers, magazines, hoardings, display boards, radio, television and internet. Choice of appropriate media is important for effectiveness of the message. The media may be local, regional, or national. The type of the message, copy, illustration are a matter of choice and creativity. Advertising may be directed towards consumers, middlemen or opinion leaders. Advertising is likely to succeed in promoting the sales of an organization but its effectiveness in respect to the expenditure cannot be directly measured. Sales is a function of several variables out of which advertising is only one.
- (iii) *Publicity*: Publicity is also a non-personal form of promotion similar to advertising. However, no payments are made to the media as in case of advertising. Organizations skillfully seek to promote themselves and their product with negligible cost. Publicity is communication of a product, brand or business by placing information about it in the media. Basic tools for publicity are press releases, press conferences, reports, stories, and internet releases. These releases must be of interest to the public.
- (iv) *Sales promotion*: Sales promotion is an omnibus term that includes all activities that are undertaken to promote the business but are not specifically included under personal selling, advertising or publicity.

Activities like discounts, contests, money refunds, installments, kiosks, exhibitions and fairs constitute sales promotion. All these are meant to give a boost to the sales.

Question 11

What is supply chain management? Is it same as logistics management? Discuss.

Answer

Meaning of Supply Chain management: The term supply chain refers to the linkages between suppliers, manufacturers and customers. Supply chains involve all activities like sourcing and procurement of material, conversion, and logistics. Planning and control of supply chains are important components of its management. Naturally, management of supply chains include closely working with channel partners – suppliers, intermediaries, other service providers and customers.

Supply chain management is defined as the process of planning, implementing, and controlling the supply chain operations. It is a cross-functional approach to managing the movement of raw materials into an organization and the movement of finished goods out of the organization toward the end-consumer who are to be satisfied as efficiently as possible. It encompasses all movement and storage of raw materials, work-in-process inventory, and finished goods from point-of-origin to point-of-consumption. Organizations are finding that they must rely on the chain to successfully compete in the global market.

Modern organizations are striving to focus on core competencies and reduce their ownership of sources of raw materials and distribution channels. These functions can be outsourced to other business organizations that specialize in those activities and can perform in better and cost effective manner. In a way organizations in the supply chain do tasks according to their core-competencies. Working in the supply chain improve trust and collaboration amongst partners and thus improve flow and management of inventory.

Is logistic management same as supply chain management? Supply chain management is an extension of logistic management. However, there is difference between the two. Logistical activities typically include management of inbound and outbound goods, transportation, warehousing, handling of material, fulfilment of orders, inventory management, supply/demand planning. Although these activities also form part of Supply chain management, the latter has different components. Logistic management can be termed as one of its part that is related to planning, implementing, and controlling the movement and storage

of goods, services and related information between the point of origin and the point of consumption.

Supply chain management includes more aspects apart from the logistics function. It is a tool of business transformation and involves delivering the right product at the right time to the right place and at the right price. It reduces costs of organizations and enhances customer service.

Question 12

Discuss the major steps in implementing supply chain management system in a business organization.

Answer

Successful implementing supply management systems requires a change from managing individual functions to integrating activities into key supply chain processes. It involves collaborative work between buyers and suppliers, joint product development, common systems and shared information. A key requirement for successfully implementing supply chain will be network of information sharing and management. The partners need to link together to share information through electronic data interchange and take decisions in timely manner.

Implementing and successfully running supply chain management system will involve:

- 1. Product development:** Customers and suppliers must work together in the product development process. Right from the start the partners will have knowledge of all. Involving all partners will help in shortening the life cycles. Products are developed and launched in shorter time and help organizations to remain competitive.
- 2. Procurement:** Procurement requires careful resource planning, quality issues, identifying sources, negotiation, order placement, inbound transportation and storage. Organizations have to coordinate with suppliers in scheduling without interruptions. Suppliers are involved in planning the manufacturing process.
- 3. Manufacturing:** Flexible manufacturing processes must be in place to respond to market changes. They should be adaptive to accommodate customization and changes in the taste and preferences. Manufacturing should be done on the basis of just-in-time (JIT) and minimum lot sizes.

Changes in the manufacturing process be made to reduce manufacturing cycle.

4. **Physical distribution:** Delivery of final products to customers is the last position in a marketing channel. Availability of the products at the right place at right time is important for each channel participant. Through physical distribution processes serving the customer become an integral part of marketing. Thus, supply chain management links a marketing channel with customers.
5. **Outsourcing:** Outsourcing is not limited to the procurement of materials and components, but also include outsourcing of services that traditionally have been provided within an organization. The company will be able to focus on those activities where it has competency and everything else will be outsourced.
6. **Customer services:** Organizations, through interfaces with the company's production and distribution operations, develop customer relationships so as to satisfy them. They work with customer to determine mutually satisfying goals, establish and maintain relationships. This in turn help in producing positive feelings in the organization and the customers.
7. **Performance measurement:** There is a strong relationship between the supplier, customer and organisation. Supplier capabilities and customer relationships can be correlated with a firm performance. Performance is measured in different parameters such as costs, customer service, productivity and quality.

Scenario Based Questions

Question 13

ABC Ltd is a company that has grown eleven times its size in last five years. With the increase in size the company is facing difficulty in managing things. Many a times functional level is not in sync with the corporate level. What will you like to advise to the company and why?

Answer

The higher-level corporate strategies need to be segregated into viable plans and policies that are compatible with each other and communicated down the line. The higher-level strategies need to be broken into functional strategies for implementation. These functional strategies, in form of marketing, finance, human resource, production, research and development help in achieving the

organisational objective. The reasons why functional strategies are needed can be enumerated as follows:

- ◆ Functional strategies lay down clearly what is to be done at the functional level. They provide a sense of direction to the functional staff.
- ◆ They are aimed at facilitating the implementation of corporate strategies and the business strategies formulation at the business level.
- ◆ They act as basis for controlling activities in the different functional areas of business.
- ◆ They help in bringing harmony and coordination as they are formulated to achieve major strategies.
- ◆ Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers.

Question 14

Ronit Roy has started a new business of manufacturing washing powder. Make a plan for him to promote his product.

Answer

Promotion stands for activities that communicate the merits of the product and persuade target consumers to buy it. Strategies are needed to combine individual methods such as advertising, personal selling, and sales promotion into a coordinated campaign. Modern marketing is highly promotional oriented.

Ronit needs to cover four major direct promotional methods or tools – personal selling, advertising, publicity and sales promotion. They are briefly explained as follows:

- (i) *Personal Selling*: Personal selling is one of the oldest forms of promotion. It involves face-to-face interaction of sales force with the prospective customers and provides a high degree of personal attention to them. In personal selling, oral communication is made. It may initially focus on developing a relationship, an end up with efforts for making a sale. Personal selling suffers from a very high costs as sales personnel attend one customer at a time.
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effectiveness of the message. The media may be local, regional, or national. The type of the message, copy, illustration are a matter of choice and creativity. Advertising may be directed towards consumers, middlemen or opinion leaders. Advertising is likely to succeed in promoting the sales of an organization but its effectiveness in respect to the expenditure cannot be directly measured. Sales is a function of several variables out of which advertising is only one.

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Question 15

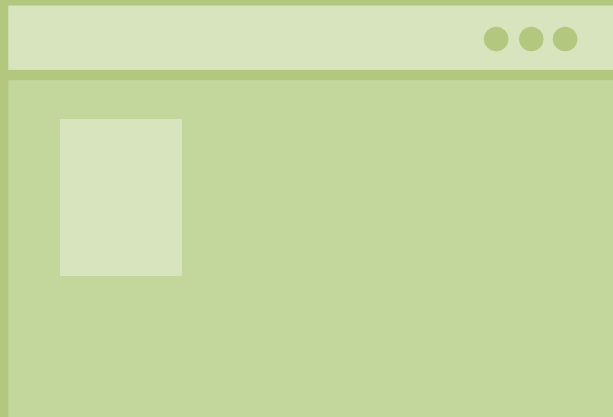
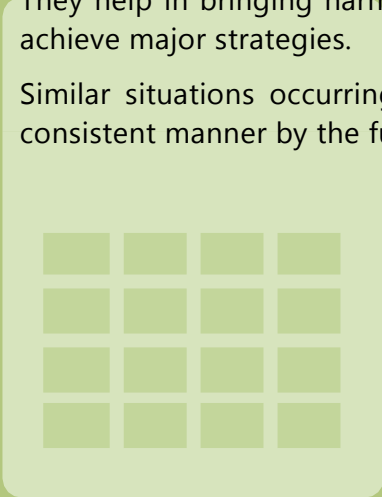
Rohit Bhargava is the Managing Director of Smooth and Simple Pvt Ltd. The company established in 2011, with 35 employees grew very fast to become an organisation with 335 employees in the year 2016. With the increase in size Rohit started facing difficulty in managing things. Many a times he finds that personnel at the functional level are not in sync with the strategies of the top. He felt that strategies need to be segregated into viable plans and policies that are compatible with each other and communicated down the line.

Why does Rohit need to segregate the strategies into functional plans? Discuss.

Answer

Rohit Bhargava needs to break higher level strategies into functional strategies for implementation. These functional strategies, in form of Marketing, Finance, Human Resource, Production, Research and Development help in achieving the organisational objective. The reasons why functional strategies are needed can be enumerated as follows:

- Functional strategies lay down clearly what is to be done at the functional level. They provide a sense of direction to the functional staff.
- They are aimed at facilitating the implementation of corporate strategies and the business strategies formulation at the business level.
- They act as basis for controlling activities in the different functional areas of business.
- They help in bringing harmony and coordination as they are formulated to achieve major strategies.
- Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers.



ORGANISATION AND STRATEGIC LEADERSHIP



LEARNING OUTCOMES

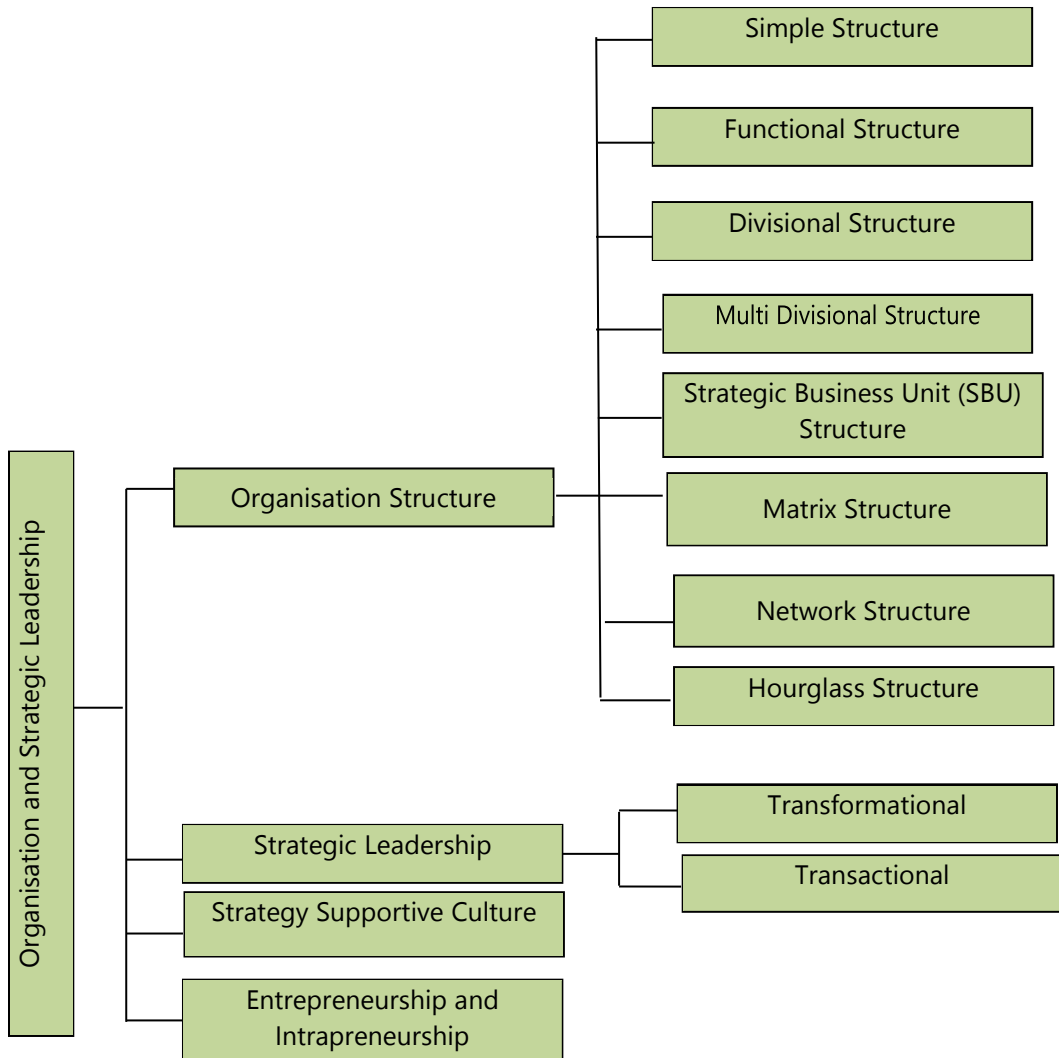
After studying this chapter, you will be able to -

- ❑ Understand the importance of organizational structure in strategy implementation.
- ❑ Examine the relationship between strategy and structure.
- ❑ Understand how to establish strategic business units (SBUs).
- ❑ Highlight the role of leadership in the execution of strategy.
- ❑ Learn how to build a supportive corporate culture.
- ❑ Explain the concepts of entrepreneurship and intrapreneurship.

A management truism says structure follows strategy. However, this truism is often ignored. Too many organizations attempt to carry out a new strategy with an old structure.

Dale McConkey

CHAPTER OVERVIEW



7.1 INTRODUCTION

A competitive advantage is created when there is a proper match between strategy and structure. Ineffective strategy/structure match may result in company rigidity and red tapism, given the complexity and need for rapid changes in today's competitive landscape. Thus, effective strategic leaders seek to develop an

organizational structure and accompanying controls that are superior to those of their competitors.

Selecting the organizational structure and controls that result in effective implementation of chosen strategies is a fundamental challenge for managers, especially top-level managers. This is because companies must be flexible, innovative, and creative in the global economy if they are to exploit their core competencies in the pursuit of marketplace opportunities. Companies must also maintain a certain degree of stability in their structures so that day-to-day tasks can be completed efficiently.

To act and contribute as a manager and employee in today's emerging business scenario, skills related to strategic, organizational and leadership processes are necessary.

7.2 ORGANIZATION STRUCTURE

The ideal organizational structure is a place where ideas filter up as well as down, where the merit of ideas carries more weight than their source, and where participation and shared objectives are valued more than executive order.

– Edson Spencer

Changes in corporate strategy often require changes in the way an organization is structured for two major reasons. First, structure largely dictates how operational objectives and policies will be established to achieve the strategic objectives. For example, objectives and policies established under a geographic organizational structure are couched in geographic terms. Objectives and policies are stated largely in terms of products in an organization whose structure is based on product groups. The structural format for developing objectives and policies can significantly impact all other strategy-implementation activities.

The second major reason why changes in strategy often require changes in structure is that structure dictates how resources will be allocated to achieve strategic objectives. If an organization's structure is based on customer groups, then resources will be allocated in that manner. Similarly, if an organization's structure is set up along functional business lines, then resources are allocated by functional areas.

According to Chandler, changes in strategy lead to changes in organizational structure. Structure should be designed or redesigned to facilitate the strategic pursuit of a firm and, therefore, structure should follow strategy. Chandler found a particular structure sequence to be often repeated as organizations grow and

change strategy over time. There is no one optimal organizational design or structure for a given strategy. What is appropriate for one organization may not be appropriate for a similar firm, although successful firms in a given industry do tend to organize themselves in a similar way. *For example*, consumer goods companies tend to emulate the divisional structure-by-product form of organization. Small firms tend to be functionally structured (centralized). Medium-size firms tend to be divisionally structured (decentralized). Large firms tend to use an SBU (strategic business unit) or matrix structure. As organizations grow, their structures generally change from simple to complex as a result of linking together of several basic strategies.

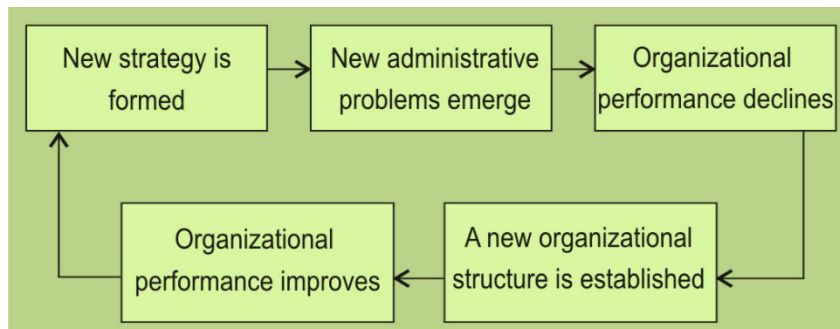


Figure: Chandler's Strategy-Structure Relationship

Every firm is influence by numerous external and internal forces. But no firm could change its structure in response to each of these forces, because to do so would lead to chaos. However, when a firm changes its strategy, the existing organizational structure may become ineffective. Symptoms of an ineffective organizational structure include too many levels of management, too many meetings attended by too many people, too much attention being directed toward solving interdepartmental conflicts, too large a span of control, and too many unachieved objectives. Changes in organisational structure can facilitate strategy-implementation efforts, but changes in structure should not be expected to make a bad strategy good, to make bad managers good, or to make bad products sell.

Structure can also influence strategy. If a proposed strategy required massive structural changes it would not be an attractive choice. In this way, structure can shape the choice of strategy. But a more important concern is determining what types of structural changes are needed to implement new strategies and how these changes can best be accomplished. We will examine this issue by focusing on the following basic types of organizational structure: functional, divisional by geographic area, divisional by product, divisional by customer, divisional process, strategic business unit (SBU), and matrix.

In order to implement and manage strategies that have been formulated, all companies need some form of organizational structure. And, as companies formulate new strategies, increase in size, or change their level of diversification, new organizational structures may be required.

Organizational structure is the company's formal configuration of its intended roles, procedures, governance mechanisms, authority, and decision-making processes. Organizational structure, influenced by factors such as an organization's age and size, acts as a framework which reflects managers' determination of what a company does and how tasks are completed, given the chosen strategy. The most important issue is that the company's structure must be congruent with or fit with the company's strategy.

7.2.1 Simple Structure

Simple organizational structure is most appropriate for companies that follow a single-business strategy and offer a line of products in a single geographic market. The simple structure also is appropriate for companies implementing focused cost leadership or focused differentiation strategies. A simple structure is an organizational form in which the owner-manager makes all major decisions directly and monitors all activities, while the company's staff merely serves as an executor.

Little specialization of tasks, few rules, little formalization, unsophisticated information systems and direct involvement of owner-manager in all phases of day-to-day operations characterise the simple structure. In the simple structure, communication is frequent and direct, and new products tend to be introduced to the market quickly, which can result in a competitive advantage. Because of these characteristics, few of the coordination problems that are common in larger organizations exist.

A simple organizational structure may result in competitive advantages for some small companies relative to their larger counterparts. These potential competitive advantages include a broad-based openness to innovation, greater structural flexibility, and an ability to respond more rapidly to environmental changes. However, if they are successful, small companies grow larger. As a result of this growth, the company outgrows the simple structure. Generally, there are significant increases in the amount of competitively relevant information that requires processing. More extensive and complicated information-processing requirements place significant pressures on owner-managers (often due to a lack of organizational skills or experience or simply due to lack of time).

Thus, it is incumbent on the company's managers to recognise the inadequacies or inefficiencies of the simple structure and change it to one that is more consistent with company's strategy.

To coordinate more complex organizational functions, companies should abandon the simple structure in favour of the functional structure. The functional structure is used by larger companies and by companies with low levels of diversification.

7.2.2 Functional Structure

A widely used structure in business organisations is functional type because of its simplicity and low cost. A functional structure groups tasks and activities by business function, such as production/operations, marketing, finance/accounting, research and development, and management information systems. Besides being simple and inexpensive, a functional structure also promotes specialization of labour, encourages efficiency, minimizes the need for an elaborate control system, and allows rapid decision making.

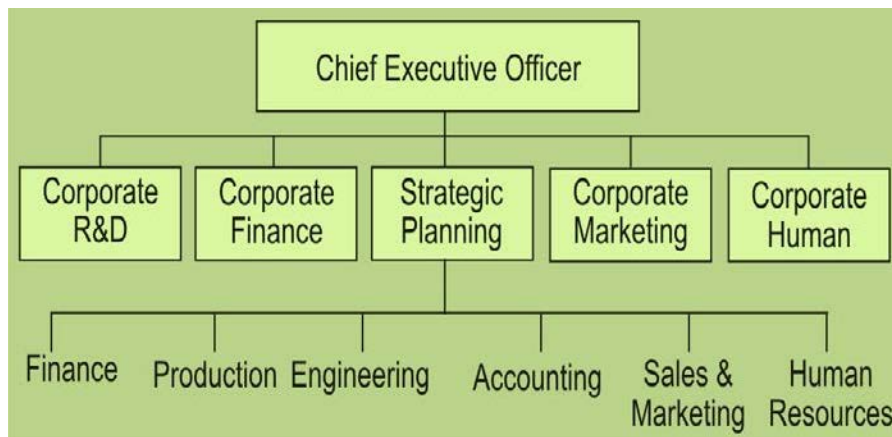


Figure: Functional Structure

The functional structure consists of a chief executive officer or a managing director and supported by corporate staff with functional line managers in dominant functions such as production, financial accounting, marketing, R&D, engineering, and human resources. The functional structure enables the company to overcome the growth-related constraints of the simple structure, enabling or facilitating communication and coordination.

However, compared to the simple structure, there also are some potential problems. Differences in functional specialization and orientation may impede communications and coordination. Thus, the chief executive officer must integrate functional decision-making and coordinate actions of the overall business across

functions. Functional specialists often may develop a myopic (or narrow) perspective, losing sight of the company's strategic vision and mission. When this happens, this problem can be overcome by implementing the multidivisional structure.

7.2.3 Divisional Structure

As a firm, grows year after year it faces difficulty in managing different products and services in different markets. Some form of divisional structure generally becomes necessary to motivate employees, control operations, and compete successfully in diverse locations. The divisional structure can be organized in one of the four ways: **by geographic area, by product or service, by customer, or by process**. With a divisional structure, functional activities are performed both centrally and in each division separately.

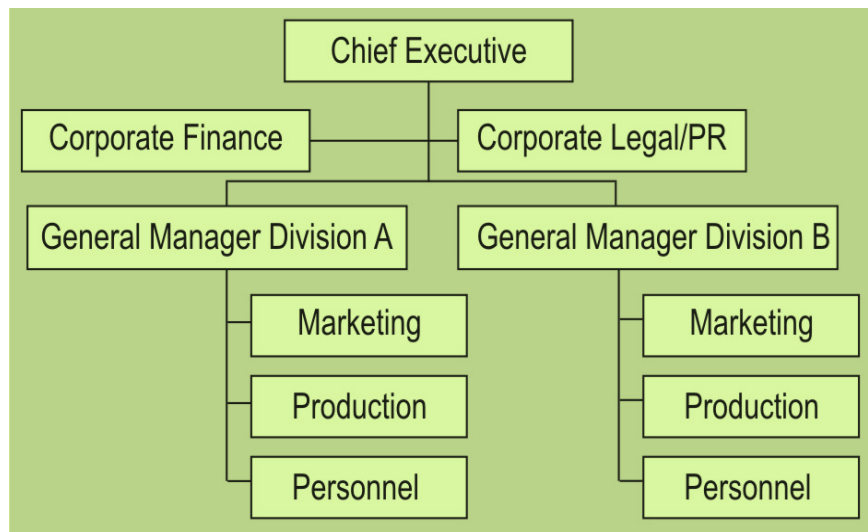


Figure: Divisional Structure

A divisional structure has some clear advantages. First and the foremost, accountability is clear. That is, divisional managers can be held responsible for sales and profit levels. Because a divisional structure is based on extensive delegation of authority, managers and employees can easily see the results of their good or bad performances. As a result, employee morale is generally higher in a divisional structure than it is in centralized structure. Other advantages of the divisional design are that it creates career development opportunities for managers, allows local control of local situations, leads to a competitive climate within an organization, and allows new businesses and products in be added easily.

The divisional design is not without some limitations. Perhaps the most important limitation is that a divisional structure is costly, for a number of reasons. First, each division requires functional specialists who must be paid. Second, there exists some duplication of staff services, facilities, and personnel; for instance, functional specialists are also needed centrally (at headquarters) to coordinate divisional activities. Third, managers must be well qualified because the divisional design forces delegation of authority better-qualified individuals requires higher salaries. A divisional structure can also be costly because it requires an elaborate, headquarters-driven control system. Finally, certain regions, products, or customers may sometimes receive special treatment, and it may be difficult to maintain consistent, company wide practices. Nonetheless, for most large organizations and many small firms, the advantages of a divisional structure more than offset the potential limitations.

A divisional structure by geographic area is appropriate for organizations whose strategies are formulated to fit the particular needs and characteristics of customers in different geographic areas. This type of structure can be most appropriate for organizations that have similar branch facilities located in widely dispersed areas. A divisional structure by geographic area allows local participation in decision making and improved coordination within a region.

The divisional structure by product (or services) is most effective for implementing strategies when specific products or services need special emphasis. Also, this type of structure is widely used when an organization offers only a few products or services, when an organization's products or services differ substantially. The divisional structure allows strict control over and attention to product lines, but it may also require a more skilled management force and reduced top management control. General Motors, DuPont, and Procter & Gamble use a divisional structure by product to implement strategies.

When a few major customers are of paramount importance and many different services are provided to these customers, then a divisional structure by customer can be the most effective way to implement strategies. This structure allows an organization to cater effectively to the requirements of clearly defined customer groups. For example, book-publishing companies often organize their activities around customer groups such as colleges, secondary schools, and private commercial schools. Some airline companies have two major customer divisions: passengers and freight or cargo services. Bulks are often organised in divisions such as personal banking corporate banking, etc.

A divisional structure by process is similar to a functional structure, because activities are organized according to the way work is actually performed. However, a key difference between these two designs is that functional departments are not accountable for profits or revenues, whereas divisional process departments are evaluated on these criteria.

7.2.4 Multi Divisional Structure

Multidivisional (M-form) structure is composed of operating divisions where each division represents a separate business to which the top corporate officer delegates responsibility for day-to-day operations and business unit strategy to division managers. By such delegation, the corporate office is responsible for formulating and implementing overall corporate strategy and manages divisions through strategic and financial controls.

Multidivisional or M-form structure was developed in the 1920s, in response to coordination- and control-related problems in large firms. Functional departments often had difficulty dealing with distinct product lines and markets, especially in coordinating conflicting priorities among the products. Costs were not allocated to individual products, so it was not possible to assess an individual product's profit contribution. Loss of control meant that optimal allocation of firm resources between products was difficult (if not impossible). Top managers became over-involved in solving short-run problems (such as coordination, communications, conflict resolution) and neglected long-term strategic issues.

Multidivisional structure calls for:

- ◆ Creating separate divisions, each representing a distinct business
- ◆ Each division would house its functional hierarchy;
- ◆ Division managers would be given responsibility for managing day-to-day operations;
- ◆ A small corporate office that would determine the long-term strategic direction of the firm and exercise overall financial control over the semi-autonomous divisions.

This would enable the firm to more accurately monitor the performance of individual businesses, simplifying control problems, facilitate comparisons between divisions, improving the allocation of resources and stimulate managers of poorly performing divisions to seek ways to improve performance.

When the firm is less diversified, strategic controls are used to manage divisions. Strategic control refers to the operational understanding by corporate officers of the strategies being implemented within the firm's separate business units.

An increase in diversification strains corporate officers' abilities to understand the operations of all of its business units and divisions are then managed by financial controls, which enable corporate officers to manage the cash flow of the divisions through budgets and an emphasis on profits from distinct businesses.

However, because financial controls are focused on financial outcomes, they require that each division's performance be largely independent of the performance of other divisions. So, the Strategic Business Units come into picture.

7.2.5 Strategic Business Unit (SBU) Structure

The concept is relevant to multi-product, multi-business enterprises. It is impractical for an enterprise with a multitude of businesses to provide separate strategic planning treatment to each one of its products/businesses; it has to necessarily group the products/businesses into a manageable number of strategically related business units and then take them up for strategic planning. The question is: what is the best way of grouping the products/businesses of such large enterprises?

An SBU is a grouping of related businesses, which is amenable to composite planning treatment. As per this concept, a multi-business enterprise groups its multitude of businesses into a few distinct business units in a scientific way. The purpose is to provide effective strategic planning treatment to each one of its products/businesses.

The three most important characteristics of a SBU are:

- It is a single business or a collection of related businesses which offer scope for independent planning and which might feasibly stand alone from the rest of the organization.
- It has its own set of competitors.
- It has a manager who has responsibility for strategic planning and profit performance, and who has control of profit-influencing factors.

Historically, large, multi-business firms were handling business planning on a territorial basis since their structure was territorial. And in many cases, such a structure was the outcome of a manufacturing or distribution logistics. Often, the territorial structure did not suit the purpose of strategic planning.

When strategic planning was carried out treating territories as the units for planning, it gave rise to two kinds of difficulties: (i) since a number of territorial units handled the same product, the same product was getting varied strategic planning treatments; and (ii) since a given territorial planning unit carried different and unrelated products, products with dissimilar characteristics were getting identical strategic planning treatment.

The concept of strategic business units (SBU) breaks away from this practice. It recognises that just because a firm is structured into a number of territorial units, say six units, it is not necessarily in six different businesses. It may be engaged in only three distinct businesses. It is also possible that it is engaged in more than six businesses. The endeavour should be to group the businesses into an appropriate number of strategic business units before the firm takes up the strategy formulation task.

The SBU structure is composed of operating units where each unit represents a separate business to which the top corporate officer delegates responsibility for day-to-day operations and business unit strategy to its managers. By such delegation, the corporate office is responsible for formulating and implementing overall corporate strategy and manages SBUs through strategic and financial controls. Hence, the SBU structure groups similar products into strategic business units and delegates authority and responsibility for each unit to a senior executive who reports directly to the chief executive officer. This change in structure can facilitate strategy implementation by improving coordination between similar divisions and channelling accountability to distinct business units.

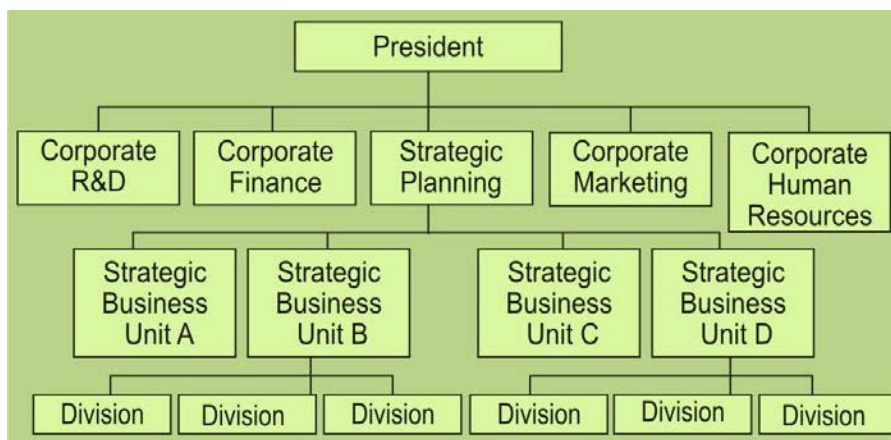


Figure: SBU Structure

A strategic business unit (SBU) structure consists of at least three levels, with a corporate headquarters at the top, SBU groups at the second level, and divisions grouped by relatedness within each SBU at the third level.

This enables the company to more accurately monitor the performance of individual businesses, simplifying control problems. It also facilitates comparisons between divisions, improving the allocation of resources and can be used to stimulate managers of poorly performing divisions to seek ways to improve performance.

This means that, within each SBU, divisions are related to each other, as also that SBU groups are unrelated to each other. Within each SBU, divisions producing similar products and/or using similar technologies can be organised to achieve synergy. Individual SBUs are treated as profit centres and controlled by corporate headquarters that can concentrate on strategic planning rather than operational control so that individual divisions can react more quickly to environmental changes.

For example, Sony has been restructuring to match the SBU structure with its ten internal companies as organised into four strategic business units. Because it has been pushing the company to make better use of software products and content (e.g., Sony's music, films and games) in its televisions and audio gear to increase Sony's profitability. By its strategy, Sony is one of the few companies that have the opportunity to integrate software and content across a broad range of consumer electronics products.

The principle underlying the grouping is that all related products-related from the standpoint of "function"-should fall under one SBU. In other words, the SBU concept helps a multi-business corporation in scientifically grouping its businesses into a few distinct business units. Such a grouping would in its turn, help the corporation carry out its strategic management endeavour better. The concept provides the right direction to strategic planning by removing the vagueness and confusion often experienced in such multi-business enterprises in the matter of grouping of the businesses.

The attributes of an SBU and the benefits a firm may derive by using the SBU Structure are as follows:

- ◆ A scientific method of grouping the businesses of a multi-business corporation which helps the firm in strategic planning.
- ◆ An improvement over the territorial grouping of businesses and strategic planning based on territorial units.

- ◆ An SBU is a grouping of related businesses that can be taken up for strategic planning distinct from the rest of the businesses. Products/businesses within an SBU receive same strategic planning treatment and priorities.
- ◆ The task consists of analysing and segregating the assortment of businesses/portfolios and regrouping them into a few, well defined, distinct, scientifically demarcated business units. Products/businesses that are related from the standpoint of "function" are assembled together as a distinct SBU.
- ◆ Unrelated products/businesses in any group are separated. If they could be assigned to any other SBU applying the criterion of functional relation, they are assigned accordingly; otherwise they are made into separate SBUs.
- ◆ Grouping the businesses on SBU lines helps the firm in strategic planning by removing the vagueness and confusion generally seen in grouping businesses; it also facilitates the right setting for correct strategic planning and facilitates correct relative priorities and resources to the various businesses.
- ◆ Each SBU is a separate business from the strategic planning standpoint. In the basic factors, viz., mission, objectives, competition and strategy-one SBU will be distinct from another.
- ◆ Each SBU will have its own distinct set of competitors and its own distinct strategy.
- ◆ Each SBU will have a CEO. He will be responsible for strategic planning for the SBU and its profit performance; he will also have control over most of the factors affecting the profit of the SBU.

The questions posed at the corporate level are, first, whether the corporate body wishes to have a related set of SBUs or not; and if so, on what basis. This issue of relatedness in turn has direct implications on decisions about diversification relatedness might exist in different ways:

- ◆ SBUs might build on similar technologies or all provide similar sorts of products or services.
- ◆ SBUs might be serving similar or different markets. Even if technology or products differ, it may be that the customers are similar. For example, the technologies underpinning frozen food, washing powders and margarine production may be very different; but all are sold through retail operations, and Unilever operates in all these product fields.

- ◆ Or it may be that other competences on which the competitive advantage of different SBUs are built have similarities. Unilever would argue that the marketing skills associated with the three product markets are similar, for example.

The identification of SBUs is a convenient starting point for planning. Once the company's strategic business units have been identified, the responsibilities for strategic planning can be more clearly assigned.

7.2.6 Matrix Structure

Most organizations find that organising around either functions (in the functional structure) or around products and geography (in the divisional structure) provides an appropriate organizational structure. The matrix structure, in contrast, may be very appropriate when organizations conclude that neither functional nor divisional forms, even when combined with horizontal linking mechanisms like strategic business units, are right for the implementation of their strategies. In matrix structure, functional and product forms are combined simultaneously at the same level of the organization. Employees have two superiors, a product or project manager and a functional manager. The "home" department - that is, engineering, manufacturing, or marketing - is usually functional and is reasonably permanent. People from these functional units are often assigned temporarily to one or more product units or projects. The product units or projects are usually temporary and act like divisions in that they are differentiated on a product-market basis.

A matrix structure is the most complex of all designs because it depends upon both vertical and horizontal flows of authority and communication (hence the term matrix). In contrast, functional and divisional structures depend primarily on vertical flows of authority and communication. A matrix structure can result in higher overhead because it has more management positions. Other characteristics of a matrix structure that contribute to overall complexity include dual lines of budget authority (a violation of the unity command principle), dual sources of reward and punishment, shared authority, dual reporting channels, and a need for an extensive and effective communication system.

Despite its complexity, the matrix structure is widely used in many industries, including construction, healthcare, research and defence. Some advantages of a matrix structure are that project objectives are clear, there are many channels of communication workers can see the visible results of their work, and shutting down a project is accomplished relatively easily.

In order for a matrix structure to be effective, organizations need planning, training, clear mutual understanding of roles and responsibilities, excellent internal communication, and mutual trust and confidence. The matrix structure is used more frequently by businesses because they are pursuing strategies add new products, customer groups, and technology to their range of activities. Out of these changes are coming product managers, functional managers, and geographic managers, all of whom have important strategic responsibilities. When several variables such as product, customer, technology, geography, functional area, have roughly equal strategic priorities, a matrix organization can be an effective structural form.

Matrix structure was developed to combine the stability of the functional structure with the flexibility of the product form. It is very useful when the external environment (especially its technological and market aspects) is very complex and changeable. It does, however, produce conflicts revolving around duties, authority, and resource allocation. To the extent that the goals to be achieved are vague and the technology used is poorly understood, a continuous battle for power between product and functional managers is likely. The matrix structure is often found in an organization or within an SBU when the following three conditions exists: 1) Ideas need to be cross-fertilised across projects or products, 2) Resources are scarce and 3) Abilities to process information and to make decisions need to be improved.

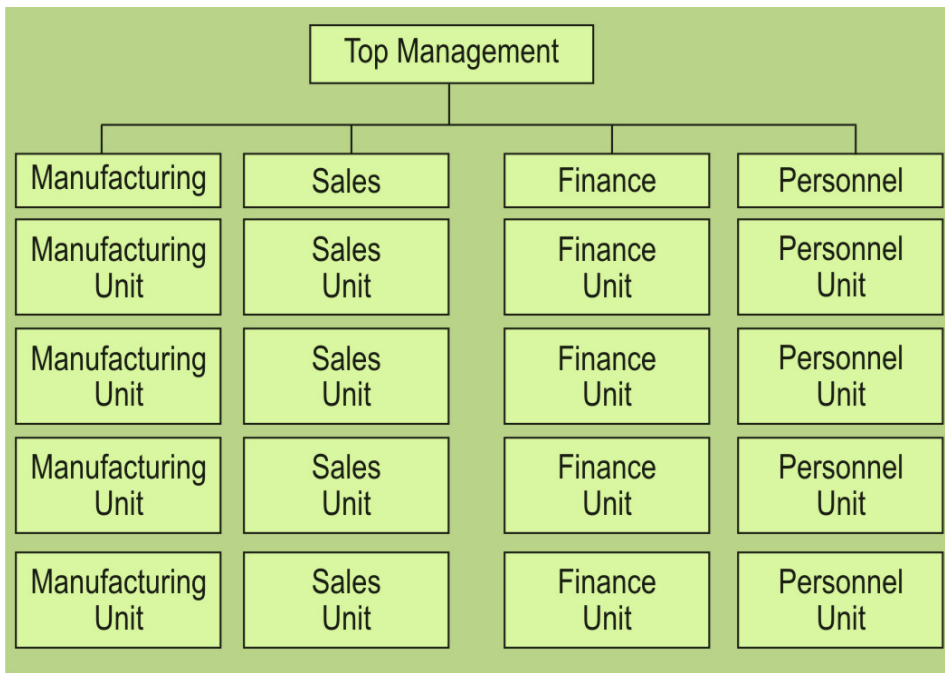


Figure: Matrix Structure

Changing organizational design

Old Organizational Design	New Organizational Design
◆ One large corporation	◆ Mini-business units and cooperative relationships
◆ Vertical communication	◆ Horizontal communication
◆ Centralised top-down decision making	◆ Decentralised participative decision making
◆ Vertical integration	◆ Outsourcing & virtual organizations
◆ Work/quality teams	◆ Autonomous work teams
◆ Functional work teams	◆ Cross-functional work teams
◆ Minimal training	◆ Extensive training
◆ Specialised job design focused on individual	◆ Value-chain team-focused job design

For development of matrix structure Davis and Lawrence, have proposed three distinct phases:

1. **Cross-functional task forces:** Temporary cross-functional task forces are initially used when a new product line is being introduced. A project manager is in charge as the key horizontal link.
2. **Product/brand management:** If the cross-functional task forces become more permanent, the project manager becomes a product or brand manager and a second phase begins. In this arrangement, function is still the primary organizational structure, but product or brand managers act as the integrators of semi permanent products or brands.
3. **Mature matrix:** The third and final phase of matrix development involves a true dual-authority structure. Both the functional and product structures are permanent. All employees are connected to both a vertical functional superior and a horizontal product manager. Functional and product managers have equal authority and must work well together to resolve disagreements over resources and priorities.

However, the matrix structure is not very popular because of difficulties in implementation and trouble in managing.

7.2.7 Network Structure

A radical organizational design, the network structure is an example of what could be termed a “non-structure” by its virtual elimination of in house business functions. Many activities are outsourced. A corporation organized in this manner is often called a virtual organization because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks. The network structure becomes most useful when the environment of a firm is unstable and is expected to remain so. Under such conditions, there is usually a strong need for innovation and quick response. Instead of having salaried employees, it may contract with people for a specific project or length of time. Long-term contracts with suppliers and distributors replace services that the company could provide for itself through vertical integration. Electronic markets and sophisticated information systems reduce the transaction costs of the marketplace, thus justifying a “buy” over a “make” decision. Rather than being located in a single building or area, an organization’s business functions are scattered at different geographical locations. The organization is, in effect, only a shell, with a small headquarters acting as a “broker”, electronically connected to some completely owned divisions, partially owned subsidiaries, and other independent organisation. In its ultimate form, the network organization is a series of independent firms or business units linked together by a common system that designs, produces, and markets a product or service.

Companies like Airtel use the network structure in their operations function by subcontracting manufacturing to other companies in low-cost.

The network organization structure provides an organization with increased flexibility and adaptability to cope with rapid technological change and shifting patterns of international trade and competition. It allows a company to concentrate on its distinctive competencies, while gathering efficiencies from other firms who are concentrating their efforts in their areas of expertise. The network does, however, have disadvantages. The availability of numerous potential partners can be a source of trouble. Contracting out functions to separate suppliers/distributors may keep the firm from discovering any synergies by combining activities. If a particular firm overspecialises on only a few functions, it runs the risk of choosing the wrong functions and thus becoming non-competitive.

The new structural arrangements that are evolving typically are in response to social and technological advances. While they may enable the effective management of dispersed organizations, there are some serious implications, The learning organization that is a part of new organizational forms requires that each worker

become a self motivated, continuous learner. Employees may lack the level of confidence necessary to participate actively in organization-sponsored learning experiences. The flatter organizational structures that accompany contemporary structures can seem intrusive as a result of their demand for more intense and personal interactions with internal and external stakeholders. Combined, the conditions above may create stress for many employees.

7.2.8 Hourglass Structure

In the recent year's information technology and communications have significantly altered the functioning of organizations. The role played by middle management is diminishing as the tasks performed by them are increasingly being replaced by the technological tools. Hourglass organization structure consists of three layers with constricted middle layer. The structure has a short and narrow middle-management level. Information technology links the top and bottom levels in the organization taking away many tasks that are performed by the middle level managers. A shrunken middle layer coordinates diverse lower level activities. Contrary to traditional middle level managers who are often specialist, the managers in the hourglass structure are generalists and perform wide variety of tasks. They would be handling cross-functional issues emanating such as those from marketing, finance or production.

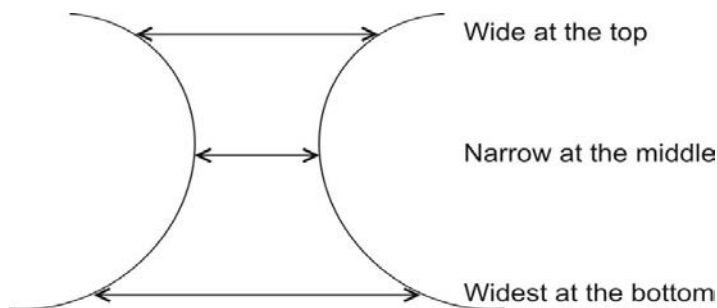


Figure: Hourglass Organisation Structure

Hourglass structure has obvious benefit of reduced costs. It also helps in enhancing responsiveness by simplifying decision making. Decision making authority is shifted close to the source of information so that it is faster. However, with the reduced size of middle management the promotion opportunities for the lower levels diminish significantly. Continuity at same level may bring monotony and lack of interest and it becomes difficult to keep the motivation levels high. Organisations try to overcome these problems by assigning challenging tasks, transferring laterally and having a system of proper rewards for performance.



7.3 STRATEGIC LEADERSHIP

Weak leadership can wreck the soundest strategy; forceful execution of even a poor plan can often bring victory.

– Sun Zi

A leader lives in the field with his troops.

– H. Ross Perot

Strategic leadership sets the firm's direction by developing and communicating vision of future, formulates strategies in the light of internal and external environment, brings about changes required to implement strategies and inspire the staff to contribute to strategy execution. A manager as a strategic leader has to play many leadership roles to play: visionary, chief entrepreneur and strategist, chief administrator, culture builder, resource acquirer and allocator, capabilities builder, process integrator, crisis manager, spokesperson, negotiator, motivator, arbitrator, policy maker, policy enforcer, and head cheerleader. Sometimes it is useful to be authoritarian; sometimes it is better to be a perceptive listener and a compromising decision maker; sometimes a strongly participative, and sometimes being a coach and adviser is the proper role.

A strategic leader is a change agent who initiates strategic changes in the organisations and ensures that the changes are successfully implemented. For the most part, major change efforts have to be top-down and vision-driven. Leading change has to start with diagnosing the situation and then deciding which of several ways to handle it. Managers have five leadership roles to play in pushing for good strategy execution:

1. Staying on top of what is happening, closely monitoring progress, solving out issues, and learning what obstacles lie in the path of good execution.
2. Promoting a culture of *esprit de corps* that mobilizes and energizes organizational members to execute strategy in a competent fashion and perform at a high level.
3. Keeping the organization responsive to changing conditions, alert for new opportunities, bubbling with innovative ideas, and ahead of rivals in developing competitively valuable competencies and capabilities.
4. Exercising ethical leadership and insisting that the company conduct its affairs like a model corporate citizen.
5. Pushing corrective actions to improve strategy execution and overall strategic performance.

For example: N. R. Narayan Murthy, is known as a celebrated business leader because of the values he had institutionalised over his tenure as CEO of Infosys. One of the great legacy he left with Infosys is a strong management development program that builds management talent and strategic leader with ethical values.

Dhirubhai Ambani, pioneer of Reliance Group, was an icon in himself because of his ability to conceptualise and create sweeping strategies, to reach corporate goals, and proficiency in implementing his strategic vision. Dhirubhai Ambani had the ability to provide clear direction for the company and had strong interpersonal skills that inspired the employees to contribute their best for the accomplishment of strategic vision. These qualities made him an excellent strategic leader in the corporate world.

Leadership role in implementation: The strategic leaders must be able to use the strategic management process effectively by guiding the company in ways that result in the formation of strategic intent and strategic mission, facilitating the development and implementation of appropriate strategic plans and providing guidance to the employees for achieving strategic goals



Figure: Strategy Design and Implementation: Interrelationship of Elements

Strategic leadership entails the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessitated by external environment. In other words, strategic leadership represents a complex form of leadership in companies. A manager with strategic leadership skills exhibits the ability to guide the company through the new competitive landscape by influencing the behaviour, thoughts, and feelings of co-workers, managing through others and successfully processing or making sense of complex, ambiguous information by successfully dealing with change and uncertainty.



Figure: Effective Strategic Leadership

In the today's competitive landscape, strategic leaders are challenged to adapt their frames of reference so that they can deal with rapid, complex changes. A managerial frame of reference is the set of assumptions, premises, and accepted wisdom that bounds a manager's understanding of the company, the industry in which it competes, and the core competencies that it exploits in the pursuit of strategic competitiveness (and above-average returns). In other words, a manager's frame of reference is the foundation on which a manager's mindset is built.

The importance of a manager's frame of reference can be seen if we perceive that competitive battles are not between companies or products but between mindsets or managerial frames. This implies that effective strategic leaders must be able to deal with the diverse and cognitively complex competitive situations that are characteristic of today's competitive landscape.

A Strategic leader has several responsibilities, including the following:

- ◆ Making strategic decisions.
- ◆ Formulating policies and action plans to implement strategic decision.
- ◆ Ensuring effective communication in the organisation.
- ◆ Managing human capital (perhaps the most critical of the strategic leader's skills).
- ◆ Managing change in the organisation.
- ◆ Creating and sustaining strong corporate culture.
- ◆ Sustaining high performance over time.

Thus, the strategic leadership skills of a company's managers represent resources that affect company performance. And these resources must be developed for the company's future benefit.

Strategic leadership sets the firm's direction by developing and communicating a vision of future and inspire organization members to move in that direction. Unlike strategic leadership, managerial leadership is generally concerned with the short-term, day-to-day activities. Two basic approaches to leadership can be transformational leadership style and transactional leadership style.

Transformational leadership style uses charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leadership style may be appropriate in turbulent environments, in industries at the very start or end of their life-cycles, in poorly performing organizations when there is a need to inspire a company to embrace major changes. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit more dramatic changes in organizational performance. Such a leadership motivates followers to do more than originally affected to do by stretching their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

Transactional leadership style focuses more on designing systems and controlling the organization's activities and are more likely to be associated with improving the current situation. Transactional leaders try to build on the existing culture and enhance current practices. Transactional leadership style uses the authority of its office to exchange rewards, such as pay and status. They prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement.

Transactional leadership style may be appropriate in static environment, in mature industries, and in organizations that are performing well. The style is better suited in persuading people to work efficiently and run operations smoothly.

7.4 STRATEGY SUPPORTIVE CULTURE

Every organisation has a unique organizational culture. It has its own philosophy and principles, its own history, values, and rituals, its own ways of approaching problems and making decisions, its own work climate. It has its own embedded patterns of how to do things. Its own ingrained beliefs and thought patterns, and practices that define its corporate culture.

Corporate culture refers to a company's values, beliefs, business principles, traditions, ways of operating, and internal work environment.

Where Does Corporate Culture Come From?

A company's culture is manifested in the values and business principles that management preaches and practices, in its ethical standards and official policies, in its stakeholder relationships (especially its dealings with employees, unions, stockholders, vendors, and the communities in which it operates), in the traditions the organization maintains, in its supervisory practices, in employees' attitudes and behaviour, in the legends people repeat about happenings in the organization, in the peer pressures that exist, in the organization's politics that permeate the work environment. All these sociological forces, some of which operate quite subtly, combine to define an organization's culture, beliefs and practices that become embedded in a company's culture can originate anywhere: from one influential individual, work group, department, or division, from the bottom of the organizational hierarchy or the top

Frequently, a significant part of a company's culture emerges from the stories that get told over and over again to illustrate to newcomers the importance of certain values and beliefs and ways of operating.

Culture: ally or obstacle to strategy execution?

An organization's culture is either an important contributor or an obstacle to successful strategy execution. The beliefs, vision, objectives, and business approaches and practices underpinning a company's strategy may or may not be compatible with its culture. When they are compatible, the culture becomes a valuable ally in strategy implementation and execution. When the culture is in conflict with some aspect of the company's direction, performance targets or strategy, the culture becomes a stumbling block that impedes successful strategy implementation and execution.

Role of culture in strategy execution

Strong culture promotes good strategy execution when there's fit and impedes execution when there's negligible fit. A culture grounded in values, practices, and behavioural norms that match what is needed for good strategy execution helps energize people throughout the company to do their jobs in a strategy-supportive manner, adding significantly to the power and effectiveness of strategy execution. For example, a culture where frugality and thrift are values strongly shared by organizational members is very conducive to successful execution of a low-cost leadership strategy. A culture where creativity, embracing change, and challenging

the status quo are pervasive themes is very conducive to successful execution of a product innovation and technological leadership strategy. A culture built around such business principles as listening to customers, encouraging employees to take pride in their work, and giving employees a high degree of decision-making authority is very conducive to successful execution of a strategy of delivering superior customer value.

A work environment where the culture matches the conditions for good strategy execution provides a system of informal rules and peer pressure regarding how to conduct business internally and how to go about doing one's job. Strategy-supportive cultures shape the mood, temperament, and motivation the workforce, positively affecting organizational energy, work habits and operating practices, the degree to which organizational units cooperate, and how customers are treated.

A strong strategy-supportive culture nurtures and motivates people to do their jobs in ways conducive to effective strategy execution; it provides structure, standards, and a value system in which to operate; and it promotes strong employee identification with the company's vision, performance targets, and strategy. All this makes employees feel genuinely better about their jobs and work environment and the merits of what the company is trying to accomplish. Employees are stimulated to take on the challenge of realizing the company's vision, do their jobs competently and with enthusiasm, and collaborate with others as needed to bring the strategy to fruition.

Perils of Strategy-Culture Conflict: When a company's culture is out of sync with what is needed for strategic success, the culture has to be changed as rapidly as can be managed – this, of course, presumes that it is one or more aspects of the culture that are out of whack rather than the strategy. While correcting a strategy-culture conflict can occasionally mean revamping strategy to produce cultural fit, more usually it means revamping the mismatched cultural features to produce strategy fit. The more entrenched the mismatched aspects of the culture, the greater the difficulty of implementing new or different strategies until better strategy-culture alignment emerges. A sizable and prolonged strategy-culture conflict weakens and may even defeat managerial efforts to make the strategy work.

Creating a strong fit between strategy and culture: It is the strategy maker's responsibility to select a strategy compatible with the "sacred" or unchangeable parts of prevailing corporate culture. It is the strategy implementer's task, once strategy is chosen, to change whatever facets of the corporate culture hinder effective execution.

Changing a problem culture: Changing a company's culture to align it with strategy is among the toughest management tasks--easier to talk about than do. Changing a problem culture is very difficult because of the heavy anchor of deeply held values and habits-people cling emotionally to the old and familiar. It takes concerted management action over a period of time to replace an unhealthy culture with a healthy culture or to root out certain unwanted cultural obstacles and instill ones that are more strategy-supportive.

The first step is to diagnose which facets of the present culture are strategy supportive and which are not. Then, managers have to talk openly and forthrightly to all concerned about those aspects of the culture that have to be changed. The talk has to be followed swiftly by visible, aggressive actions to modify the culture-actions that everyone will understand are intended to establish a new culture more in tune with the strategy. The menu of culture-changing actions includes revising policies and procedures in ways that will help drive cultural change, altering incentive compensation (to reward the desired cultural behaviour), visibly praising and recognizing people who display the new cultural traits, recruiting and hiring new managers and employees who have the desired cultural values and can serve as role models for the desired cultural behaviour, replacing key executives who are strongly associated with the old culture, and taking every opportunity to communicate to employees the basis for cultural change and its benefits to all concerned.

Implanting the needed culture-building values and behaviour depends on a sincere, sustained commitment by the chief executive coupled with extraordinary persistence in reinforcing the culture at every opportunity through both words and deed. Neither charisma nor personal magnetism is essential. However, personally talking to many departmental groups about the reasons for change is essential; organizational changes are seldom accomplished successfully from an office. Moreover, creating and sustaining a strategy-supportive culture is a job for the whole management team. Major cultural change requires many initiatives from many people. Senior managers, department heads, and middle managers have to reiterate values and translate the organization's philosophy into everyday practice. In addition, for the culture-building effort to be successful, strategy implementers must enlist the support of first line supervisors and employee opinion leaders, convincing them of the merits of practicing and enforcing cultural norms at the lowest levels in the organization. Until a big majority of employees join the new culture and share an emotional commitment to its basic values and behavioural norms, there's considerably more work to be done in both instilling the culture and tightening the culture strategy fit.

The task of making culture supportive of strategy is not a short-term exercise. It takes time for a new culture to emerge and prevail; it's unrealistic to expect an overnight transformation. The bigger the organization and the greater the cultural shift needed to produce a culture-strategy fit, the longer it takes. In large companies, changing the corporate culture in significant ways can take two to five years. In fact, it is usually tougher to reshape a deeply ingrained culture that is not strategy-supportive than it is to instill a strategy-supportive culture from scratch in a brand-new organization.

7.5 ENTREPRENEURSHIP AND INTRAPRENEURSHIP

7.5.1 Concept of Entrepreneur

Entrepreneurship is the attempt to create value through recognition of business opportunity, the management of risk taking appropriate to the opportunity and through management skills to mobilize financial, human and material resources necessary to create an enterprise. Entrepreneurship involves creation of a business idea and the fusion of capital, technology and human talent to give practical shape to the idea. The person who perceives the business idea and take steps to implement the idea is known as an entrepreneur.

Entrepreneurship is an attitude of mind to seek opportunities, take calculated risk and drive benefits by starting and running a venture. It comprises of numerous activities involved in the conception, creation and running an enterprise.

An entrepreneur is a person who searched for business opportunity and starts a new enterprise to make use of that opportunity.

An entrepreneur is an individual who conceives the idea of starting a new venture, takes all types of risks, not only to put the product or service into reality but also to make it an extremely demanding one. An entrepreneur is one who:

- Initiates and innovates a new concept.
- Recognises and utilises opportunity.
- Arranges and coordinates resources such as man, material, machine and capital.
- Faces risks and uncertainties.
- Establishes a startup company.
- Adds value to the product or service.
- Takes decisions to make the product or service a profitable one.
- Is responsible for the profits or losses of the company.

7.5.2 Concept of Intrapreneur

The terms Entrepreneur and Intrapreneur are frequently used in the business world. Many people use these terms interchangeably because they think that they both contain the same elements. However, the fact is that there exists a fine line amidst, these two terms. While the former refers to a person who starts his own business with a new idea or concept, the latter represents an employee who promotes innovation within the limits of the organisation.

An intrapreneur is nothing but an entrepreneur who operates within the boundaries of an organisation. He is an employee of a large organisation, who is vested with authority of initiating creativity and innovation in the company's products, services and projects, redesigning the processes, workflows and systems.

The intrapreneurs believe in change and do not fear failure. They discover new ideas, look for such opportunities that can benefit the whole organisation and take risks, promote innovation to improve the performance and profitability of the organisation. The job of an intrapreneur is extremely challenging. They get recognition and reward for the success achieved by them.

It has now become a trend that large corporations appoint intrapreneur within the organisation, to bring operational excellence and gain competitive edge in the market.

SUMMARY

The chapter considers the relationship between strategy and structure. Often, organization structure is redesigned to make it support strategy implementing and control though in some cases strategy is redesigned in tune with the organization structure. According to Chandler thesis, structure follows strategy. Several types of structure are used by different firms for strategy implementation under different situations. These includes simple structure, functional structure, divisional structure, multiple structure, strategic business units (SBUs), matrix structure, network structure and hourglass structure. We have discussed SBUs as grouping of related businesses, which is amenable to separate and composite strategic treatment.

Later, strategic leadership is discussed. Strategic leadership is the ability of influencing others to voluntarily make decisions that enhance prospects for the organization's long-term success while maintaining short-term financial stability. The chapter covers the leadership role in strategic implementation and also explains the two basic approaches of leadership styles, viz., transformational leadership and transactional leadership style. It also covers the concept of entrepreneurship and intrapreneurship.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

Question 1

- _____ leadership style may be appropriate in turbulent environment.
 - Transactional
 - Transformational
 - Autocratic
 - None of these
- A strategic business unit is a grouping of _____ businesses.
 - unrelated
 - differentiated
 - related
 - None of these.
- An entrepreneur is one who:
 - Initiates and innovates a new concept.
 - Does not recognize and utilizes opportunities.
 - Does not want to face risks and uncertainties.
 - None of these.
- An organizational structure with constricted middle level is:
 - Divisional structure
 - Network structure
 - Hour Glass structure
 - Matrix structure
- Change in company's _____ requires re allocation of resources necessitating need for changes in _____.
 - Structure, Strategy
 - Strategy, Structure
 - Structure, Structure

- (d) Strategy, Strategy
6. In strategic management, there are two main styles of leadership. These are transformational and:
- (a) Transparent
 - (b) Transitional
 - (c) Translational
 - (d) Transactional
7. A person who searched for business opportunity and starts a new enterprise to make use of that opportunity called
- (a) Employee
 - (b) Entrepreneur
 - (c) Intrapreneur
 - (d) Investor
8. Select a distinguishing feature between divisional and functional structure?
- (a) Both functional departments and divisional process departments are accountable for profits or revenues.
 - (b). Functional departments are not accountable for profits or revenues, whereas divisional process departments are evaluated on these criteria.
 - (c) None of functional departments and divisional process departments are accountable for profits or revenues.
 - (d) Both the structures are same.
9. Which of the following situation will most likely suit a transformational leader?
- (a) An organization that is in trouble.
 - (b) A growing organization.
 - (c) An organization in a stable environment.
 - (d) An organization at maturity stage of product life cycle.
- (10) Corporate Culture refers to:
- (a) Company's values and beliefs
 - (b) Company's business principles

- (c) Internal work environment
- (d) All the above.

Answer

- 1 (b) 2 (c) 3 (a) 4 (c) 5 (b) 6 (d)
7 (b) 8 (b) 9 (a) 10 (d)

Descriptive Questions**Question 2**

What is a strategic business unit? What are its advantages?

Answer

A strategic business unit (SBU) is any part of a business organization which is treated separately for strategic management purposes. The concept of SBU is helpful in creating an SBU organizational structure. It is discrete element of the business serving product markets with readily identifiable competitors and for which strategic planning can be concluded. It is created by adding another level of management in a divisional structure after the divisions have been grouped under a divisional top management authority based on the common strategic interests.

Advantages of SBU are:

- ◆ Establishing coordination between divisions having common strategic interests.
- ◆ Facilitates strategic management and control on large and diverse organizations.
- ◆ Fixes accountabilities at the level of distinct business units.
- ◆ Allows strategic planning to be done at the most relevant level within the total enterprise.
- ◆ Makes the task of strategic review by top executives more objective and more effective.
- ◆ Helps allocate corporate resources to areas with greatest growth opportunities.

Question 3

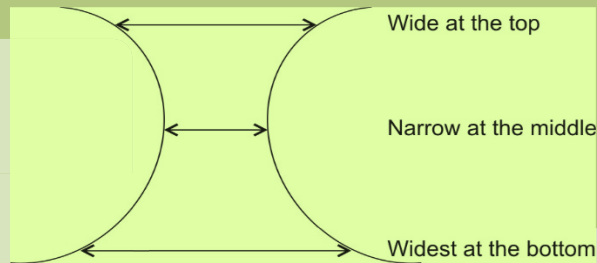
What is an 'hour glass structure'? How can this structure benefit an organization?

Answer

In the recent years information technology and communications have significantly altered the functioning of organizations. The role played by middle management is diminishing as the tasks performed by them are increasingly being replaced by the

technological tools. Hourglass organization structure consists of three layers in an organisation structure with constricted middle layer. The structure has a short and narrow middle management level.

Information technology links the top and bottom levels in the organization taking away many tasks that are performed by the middle level managers. A shrunken middle layer coordinates diverse lower level activities.



Hourglass Organization Structure

Hourglass structure has obvious benefit of reduced costs. It also helps in enhancing responsiveness by simplifying decision making. Decision making authority is shifted close to the source of information so that it is faster. However, with the reduced size of middle management, the promotion opportunities for the lower levels diminish significantly.

Question 4

What do you mean by strategic leadership? What are two approaches to leadership style?

Answer

Strategic leadership is the ability of influencing others to voluntarily make decisions that enhance prospects for the organisation's long-term success while maintaining short-term financial stability. It includes determining the firm's strategic direction, aligning the firm's strategy with its culture, modelling and communicating high ethical standards, and initiating changes in the firm's strategy, when necessary. Strategic leadership sets the firm's direction by developing and communicating a vision of future and inspire organization members to move in that direction. Unlike strategic leadership, managerial leadership is generally concerned with the short-term, day-to-day activities.

Two basic approaches to leadership can be transformational leadership style and transactional leadership style.

Transformational leadership style use charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leadership style

may be appropriate in turbulent environments, in industries at the very start or end of their life-cycles, in poorly performing organizations when there is a need to inspire a company to embrace major changes. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit more dramatic changes in organizational performance. Such a leadership motivates followers to do more than originally affected to do by stretching their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

Transactional leadership style focuses more on designing systems and controlling the organization's activities and are more likely to be associated with improving the current situation. Transactional leaders try to build on the existing culture and enhance current practices. Transactional leadership style uses the authority of its office to exchange rewards, such as pay and status. They prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement.

Transactional leadership style may be appropriate in static environment, in growing or mature industries, and in organizations that are performing well. The style is better suited in persuading people to work efficiently and run operations smoothly.

Question 5

How can you differentiate between transformational and transactional leaders

Answer

Difference between transformational and transactional leadership

1. Transformational leadership style uses charisma and enthusiasm to inspire people to exert them for the good of organization. Transactional leadership style uses the authority of its office to exchange rewards such as pay, status symbols etc.
2. Transformational leadership style may be appropriate in turbulent environment, in industries at the very start or end of their cycles, poorly performing organisations, when there is a need to inspire a company to embrace major changes. Transactional leadership style can be appropriate in static environment, in growing or mature industries and in organisations that are performing well.
3. Transformational leaders inspire employees by offering excitement, vision, intellectual stimulation and personal satisfaction. Transactional leaders prefer a more formalized approach to motivation, setting clear goals with explicit rewards

or penalties for achievement and non-achievement. Transactional leaders focus mainly to build on existing culture and enhance current practices.

Question 6

Discuss the leadership role played by the managers in pushing for good strategy execution.

Answer

A strategy manager has many different leadership roles to play: visionary, chief entrepreneur and strategist, chief administrator, culture builder, resource acquirer and allocator, capabilities builder, process integrator, crisis solver, spokesperson, negotiator, motivator, arbitrator, policy maker, policy enforcer, and head cheerleader. Managers have five leadership roles to play in pushing for good strategy execution:

1. Staying on top of what is happening, closely monitoring progress, working through issues and obstacles.
2. Promoting a culture that mobilizes and energizes organizational members to execute strategy and perform at a high level.
3. Keeping the organization responsive to changing conditions, alert for new opportunities and remain ahead of rivals in developing competitively valuable competencies and capabilities.
4. Ethical leadership and insisting that the organization conduct its affairs like a model corporate citizen.
5. Pushing corrective actions to improve strategy execution and overall strategic performance.

Question 7

What is corporate culture? How is it both strength and weakness of an organisation?

Answer

Corporate culture distinguishes one organisation from another. It refers to a company's values, beliefs, business principles, traditions, and ways of operating and internal work environment. Every corporation has a culture that exerts powerful influences on the behaviour of managers. Culture affects not only the way managers behave within an organization but also the decisions they make about the organization's relationships with its environment and its strategy.

A culture grounded in values, practices, and behavioural norms that match what is needed for good strategy execution helps energize people throughout the company to do their jobs in a strategy-supportive manner, adding significantly to the power and effectiveness of strategy execution

Culture is both a strength and a weakness as follows:

Culture as a strength: As a strength, culture can facilitate communication, decision-making & control and create cooperation & commitment. An organization's culture could be strong and cohesive when it conducts its business according to a clear and explicit set of principles and values, which the management devotes considerable time to communicating to employees and which values are shared widely across the organization.

Culture as a weakness: As a weakness, culture may obstruct the smooth implementation of strategy by creating resistance to change. An organization's culture could be characterized as weak when many subcultures exist, few values and behavioral norms are shared and traditions are rare. In such organizations, employees do not have a sense of commitment and loyalty with the organisation.

Scenario based questions

Question 8

Ramesh, is owner of a popular brand of Breads. Yashpal, his son after completing Chartered Accountancy started assisting his father in running of business. The approaches followed by father and son in management were very different. While Ramesh preferred to use authority and having a formal system of defining goals and motivation with explicit rewards and punishments, Yashpal believed in involving employees and generating enthusiasm to inspire people to deliver in the organization.

Discuss the difference in leadership style of father and son.

Answer

Ramesh is a follower of transactional leadership style that focuses on designing systems and controlling the organization's activities. Such a leader believes in using authority of its office to exchange rewards, such as pay and status. They prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement. Transactional leaders try to build on the existing culture and enhance current practices. The style is better suited in persuading people to work efficiently and run operations smoothly.

On the other hand, Yashpal is follower of transformational leadership style. The style uses charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit more dramatic changes in organizational performance. Such a leadership motivates followers to do more than originally affected to do by stretching their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

Question 9

Suresh Sinha has been recently appointed as the head of a strategic business unit of a large multiproduct company. Advise Mr Sinha about the leadership role to be played by him in execution of strategy.

Answer

Leading change has to start with diagnosing the situation and then deciding which of several ways to handle it. Managers have five leadership roles to play in pushing for good strategy execution:

- (i) Staying on top of what is happening, closely monitoring progress, solving out issues, and learning what obstacles lie in the path of good execution.
- (ii) Promoting a culture of esprit de corps that mobilizes and energizes organizational members to execute strategy in a competent fashion and perform at a high level.
- (iii) Keeping the organization responsive to changing conditions, alert for new opportunities, bubbling with innovative ideas, and ahead of rivals in developing competitively valuable competencies and capabilities.
- (iv) Exercising ethical leadership and insisting that the company conduct its affairs like a model corporate citizen.
- (v) Pushing corrective actions to improve strategy execution and overall strategic performance.

Question 10

KaAthens Ltd., a diversified business entity having business operations across the globe. The company leadership has just changed as Mr. D. Bandopadhyay handed over the pedals to his son Aditya Bandopadhyay, due to his poor health. Aditya is a highly educated with an engineering degree from IIT, Delhi. However, being very young he is not clear about his role and responsibilities,

In your view, what are the responsibilities of Aditya Bandopadhyay as CEO of the company.

Answer

Aditya Bandopadhyay, an effective strategic leader of KaAthens Ltd. must be able to deal with the diverse and cognitively complex competitive situations that are characteristic of today's competitive landscape.

A Strategic leader has several responsibilities, including the following:

- ◆ Making strategic decisions.
- ◆ Formulating policies and action plans to implement strategic decision.
- ◆ Ensuring effective communication in the organisation.
- ◆ Managing human capital (perhaps the most critical of the strategic leader's skills).
- ◆ Managing change in the organisation.
- ◆ Creating and sustaining strong corporate culture.
- ◆ Sustaining high performance over time.

STRATEGY IMPLEMENTATION AND CONTROL



LEARNING OUTCOMES

After studying this chapter, you will be able to -

- ❑ Understand the concept of strategy implementation.
- ❑ Appreciate the relationship between strategy formulation and strategy implementation.
- ❑ Examine the issues in strategy implementation.
- ❑ Discuss the process of strategic control.
- ❑ Explain the concept of strategy audit.
- ❑ Discuss Business Process Reengineering as a strategic tool.
- ❑ Understand Benchmarking as a strategic tool.

Winning companies know how to do their work better.

– Michael Hammer and James Champy
Bruce Henderson

CHAPTER OVERVIEW



8.1 INTRODUCTION

Strategic management process does not end when the firm decides what strategies to pursue. There must be a translation of strategic thought into strategic action. This requires support of all managers and employees of the business. Implementing strategy affects an organization from top to bottom; it affects all the functional and divisional areas of a business. Strategy implementation requires introduction of change in the organisation to make organisational member adapt to the new environment.

Strategic control is an integral part of strategic management. It focuses on whether the strategy is being implemented as planned and the results produced are those intended. In addition, we will also have an overview of the emerging concepts in strategic management, namely, strategy audit, business process reengineering and benchmarking.

8.2 STRATEGY IMPLEMENTATION

Strategy implementation concerns the managerial exercise of putting a freshly chosen strategy into action. It deals with the managerial exercise of supervising

the ongoing pursuit of strategy, making it work, improving the competence with which it is executed and showing measurable progress in achieving the targeted results. Strategic implementation is concerned with translating a strategic decision into action, which presupposes that the decision itself (i.e., the strategic choice) was made with some thought being given to feasibility and acceptability. The allocation of resources to new courses of action will need to be undertaken, and there may be a need for adapting the organization's structure to handle new activities as well as training personnel and devising appropriate systems.

Relationship with strategy formulation

Many managers fail to distinguish between strategy formulation and strategy implementation. Yet, it is crucial to realize the difference between the two because they both require very different skills. Also, a company will be successful only when the strategy formulation is sound and implementation is excellent. There is no such thing as successful strategic design. This sounds obvious, but in practice the distinction is not always made. Often people, blame the strategy model for the failure of a company while the main flaw might lie in failed implementation. Thus, organizational success is a function of good strategy and proper implementation. The matrix in the figure below represents various combinations of strategy formulation and implementation:

Strategy Formulation	Sound	A	B
	Flawed	C	D
		Weak	Excellent

Strategy Implementation

Figure: Strategy formulation and implementation matrix

The Figure shows the distinction between sound/flawed strategy formulation and excellent/ weak strategy implementation.

Square A is the situation where a company apparently has formulated a very competitive strategy, but is showing difficulties in implementing it successfully. This can be due to various factors, such as the lack of experience (e.g. for startups), the lack of resources, missing leadership and so on. In such a situation the company will aim at moving from square A to square B, given they realize

their implementation difficulties. Square B is the ideal situation where a company has succeeded in designing a sound and competitive strategy and has been successful in implementing it.

Square D is the situation where the strategy formulation is flawed, but the company is showing excellent implementation skills. When a company finds itself in square D the first thing they have to do is to redesign their strategy before readjusting their implementation/execution skills.

Square C is denotes for companies that haven't succeeded in coming up with a sound strategy formulation and in addition are bad at implementing their flawed strategic model. Their path to success also goes through business model redesign and implementation/execution readjustment.

Taken together all the elements of business strategy, it is to be seen as a chosen set of actions by means of which a market position relative to the competing enterprises is sought and maintained. This gives us the notion of competitive position.

It needs to be emphasized that 'strategy' is not synonymous with 'long-term plan' but rather consists of an enterprise's attempts to reach some preferred future state by adapting its competitive position as circumstances change. While a series of strategic moves may be planned, competitors' actions will mean that the actual moves will have to be modified to take account of those actions.

In contrast to this view of strategy there is another approach to management practice, which has been followed in many organizations. In organizations that lack strategic direction there has been a tendency to look inwards in times of stress, and for management to devote their attention to cost cutting and to shedding unprofitable divisions. In other words, the focus has been on efficiency (i.e., the relationship between inputs and outputs, usually with a short time horizon) rather than on effectiveness (which is concerned with the attainment of organisational goals - including that of desired competitive position). While efficiency is essentially introspective, effectiveness highlights the links between the organization and its environment. The responsibility for efficiency lies with operational managers, with top management having the primary responsibility for the strategic orientation of the organization.

		Strategic Formulation	
		Effective	ineffective
Operational Management	Efficient	1 Thrive	2 Die Slowly
	Inefficient	3 Survive	4 Die Quickly

Figure: Principal combinations of efficiency and effectiveness

An organization that finds itself in cell 1 is well placed and thrives, since it is achieving what it aspires to achieve with an efficient output/input ratio. In contrast, an organization in cell 2 or 4 is doomed, unless it can establish some strategic direction. The particular point to note is that cell 2 is a worse place to be than is cell 3 since, in the latter, the strategic direction is present to ensure effectiveness even if rather too much input is being used to generate outputs. To be effective is to survive whereas to be efficient is not in itself either necessary or sufficient for survival.

In crude terms, to be effective is to do the right thing, while to be efficient is to do the thing right. An emphasis on efficiency rather than on effectiveness is clearly wrong. But who determines effectiveness? Any organization can be portrayed as a coalition of diverse interest groups each of which participates in the coalition in order to secure some advantage. This advantage (or inducement) may be in the form of dividends to shareholders, wages to employees, continued business to suppliers of goods and services, satisfaction on the part of consumers, legal compliance from the viewpoint of government, responsible behaviour towards society and the environment from the perspective of pressure groups, and so on.

Even the most technically perfect strategic plan will serve little purpose if it is not implemented effectively. Many organizations tend to spend an inordinate amount of time, money, and effort on developing the strategic plan, treating the means and circumstances under which it will be implemented as afterthoughts. Change comes through implementation and evaluation, not through the plan. A technically imperfect plan that is implemented well will achieve more than the perfect plan that never gets off the paper on which it is typed.

Successful strategy formulation does not guarantee successful strategy implementation. It is always more difficult to do something (strategy implementation) than to say you are going to do it (strategy formulation). Although inextricably linked, strategy implementation is fundamentally different from strategy formulation. Strategy formulation and implementation can be contrasted in the following ways:

Strategy Formulation Vs. Strategy Implementation

Strategy Formulation	Strategy Implementation
◆ Strategy formulation focuses on effectiveness.	◆ Strategy implementation focuses on efficiency.
◆ Strategy formulation is primarily an intellectual process.	◆ Strategy implementation is primarily an operational process.
◆ Strategy formulation requires conceptual intuitive and analytical skills.	◆ Strategy implementation requires motivation and leadership skills.
◆ Strategy formulation requires coordination among the executives at the top level.	◆ Strategy implementation requires coordination among the executives at the middle and lower levels.

Strategy formulation concepts and tools do not differ greatly for small, large, for-profit, or non-profit organizations. However, strategy implementation varies substantially among different types and sizes of organizations. Implementation of strategies requires such actions as altering sales territories, adding new departments, closing facilities, hiring new employees, changing an organization's pricing strategy, developing financial budgets, developing new employee benefits, establishing cost-control procedures, changing advertising strategies, building new facilities, training new employees, transferring managers among divisions, and building a better management information system. These types of activities obviously differ greatly among manufacturing, service, and governmental organizations.

It is to be noted that the division of strategic management into different phases is only for the purpose of orderly study. In real life, the formulation and implementation processes are intertwined. Two types of linkages exist between these two phases of strategic management. The forward linkages deal with the impact of strategy formulation on strategy implementation while the backward linkages are concerned with the impact in the opposite direction.

Forward Linkages: The different elements in strategy formulation starting with

objective setting through environmental and organizational appraisal, strategic alternatives and choice to the strategic plan determine the course that an organization adopts for itself. With the formulation of new strategies, or reformulation of existing strategies, many changes have to be effected within the organization. For instance, the organizational structure has to undergo a change in the light of the requirements of the modified or new strategy. The style of leadership has to be adapted to the needs of the modified or new strategies. In this way, the formulation of strategies has forward linkages with their implementation.

Backward Linkages: Just as implementation is determined by the formulation of strategies, the formulation process is also affected by factors related with implementation. While dealing with strategic choice, remember that past strategic actions also determine the choice of strategy. Organizations tend to adopt those strategies which can be implemented with the help of the present structure of resources combined with some additional efforts. Such incremental changes, over a period of time, take the organization from where it is to where it wishes to be.

It is to be noted that while strategy formulation is primarily an entrepreneurial activity, based on strategic decision-making, the implementation of strategy is mainly an administrative task based on strategic as well as operational decision-making. The next section focuses on the various issues involved in the implementation of strategies.

8.3 ISSUES IN STRATEGY IMPLEMENTATION

The different issues involved in strategy implementation cover practically everything that is included in the discipline of management studies. A strategist, therefore, has to bring a wide range of knowledge, skills, attitudes, and abilities. The implementation tasks put to test the strategists' abilities to allocate resources, design organisational structure, formulate functional policies, and to provide strategic leadership.

- ◆ The strategic plan devised by the organization proposes the manner in which the strategies could be put into action. Strategies, by themselves, do not lead to action. They are, in a sense, a statement of intent. Implementation tasks are meant to realise the intent. Strategies, therefore, have to be activated through implementation.
- ◆ Strategies should lead to formulation of different kinds of programmes. A programme is a broad term, which includes goals, policies, procedures,

rules, and steps to be taken in putting a plan into action. Programmes are usually supported by funds allocated for plan implementation.

- ◆ Programmes lead to the formulation of projects. A project is a highly specific programme for which the time schedule and costs are predetermined. It requires allocation of funds based on capital budgeting by organizations. Thus, research and development programme may consist of several projects, each of which is intended to achieve a specific and limited objective, requires separate allocation of funds, and is to be completed within a set time schedule.

Implementation of strategies is not limited to formulation of plans, programmes, and projects. Projects would also require resources. After resources have been provided, it would be essential to see that a proper organizational structure is designed, systems are installed, functional policies are devised, and various behavioural inputs are provided so that plans may work.

Given below in sequential manner the issues in strategy implementation which are to be considered:

- ◆ Project implementation
- ◆ Procedural implementation
- ◆ Resource allocation
- ◆ Structural implementation
- ◆ Functional implementation
- ◆ Behavioural implementation

It should be noted that the sequence does not mean that each of the above activities are necessarily performed one after another. Many activities can be performed simultaneously, certain other activities may be repeated over time; and there are activities, which are performed only once. Thus there can be overlapping and changes in the order in which these activities are performed.

In all but the smallest organizations, the transition from strategy formulation to strategy implementation requires a shift in responsibility from strategists to divisional and functional managers. Implementation problems can arise because of this shift in responsibility, especially if strategic decisions come as a surprise to middle and lower-level managers. Managers and employees are motivated more by perceived self-interests than by organizational interests, unless the two coincide. Therefore, it is essential that divisional and functional managers be

involved as much as possible in the strategy-formulation process. Similarly, strategists should also be involved as much as possible in strategy-implementation activities.

Management issues central to strategy implementation include establishing annual objectives, devising policies, allocating resources, altering an existing organizational structure, restructuring and reengineering, revising reward and incentive plans, minimizing resistance to change, developing a strategy-supportive culture, adapting production/operations processes, developing an effective human resource system and, if necessary, downsizing. Management changes are necessarily more extensive when strategies to be implemented move a firm in a new direction.

Managers and employees throughout an organization should participate early and directly in strategy-implementation activities. Their role in strategy implementation should build upon prior involvement in strategy-formulation activities. Strategists' genuine personal commitment to implementation is a necessary and powerful motivational force for managers and employees. Too often, strategists are too busy to actively support strategy-implementation efforts, and their lack of interest can be detrimental to organizational success. The rationale for objectives and strategies should be understood clearly throughout the organization. Major competitors' accomplishments, products, plans, actions, and performance should be apparent to all organizational members. Major external opportunities and threats should be clear, and managers and employees' questions should be answered satisfactorily. Top-down flow of communication is essential for developing bottom-up support.

Firms need to develop a competitor focus at all hierarchical levels by gathering and widely distributing competitive intelligence; every employee should be able to benchmark her or his efforts against best-in-class competitors so that the challenge becomes personal. This is a challenge for strategists of the firm. Firms should provide training for both managers and employees to ensure that they have and maintain the skills necessary to be world-class performers.

8.4. STRATEGIC CHANGE

The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies. Strategic change is a complex process that involves a corporate strategy focused on new markets, products, services and new ways of doing business.

Steps to initiate strategic change: For initiating strategic change, three steps can be identified as under:

- (i) **Recognize the need for change:** The first step is to diagnose which facets of the present corporate culture are strategy supportive and which are not. This basically means going for environmental scanning involving appraisal of both internal and external capabilities may be through SWOT analysis and then determining where the lacuna lies and scope for change exists.
- (ii) **Create a shared vision to manage change:** Objectives of both individuals and organization should coincide. There should be no conflict between them. This is possible only if the management and the organization members follow a shared vision. Senior managers need to constantly and consistently communicate the vision to all the organizational members. They have to convince all those concerned that the change in business culture is not superficial or cosmetic. The actions taken have to be credible, highly visible and unmistakably indicative of management's seriousness to new strategic initiatives and associated changes.
- (iii) **Institutionalise the change:** This is basically an action stage which requires implementation of changed strategy. Creating and sustaining a different attitude towards change is essential to ensure that the firm does not slip back into old ways of thinking or doing things. Capacity for self-renewal should be a fundamental anchor of the new culture of the firm. Besides, change process must be regularly monitored and reviewed to analyse the after-effects of change. Any discrepancy or deviation should be brought to the notice of persons concerned so that the necessary corrective actions are taken. It takes time for the changed culture to prevail.

Kurt Lewin's Model of Change: To make the change lasting, Kurt Lewin proposed three phases of the change process for moving the organization from the present to the future. These stages are unfreezing, changing and refreezing.

- (a) **Unfreezing the situation:** The process of unfreezing simply makes the individuals aware of the necessity for change and prepares them for such a change. Lewin proposes that the changes should not come as a surprise to the members of the organization. Sudden and unannounced change would be socially destructive and morale lowering. The management must pave the way for the change by first "unfreezing the situation", so that members would be willing and ready to accept the change.

Unfreezing is the process of breaking down the old attitudes and behaviours, customs and traditions so that they start with a clean slate. This can be achieved by making announcements, holding meetings and promoting the new ideas throughout the organization.

- (b) **Changing to the new situation:** Once the unfreezing process has been completed and the members of the organization recognise the need for change and have been fully prepared to accept such change, their behaviour patterns need to be redefined. H.C. Kellman has proposed three methods for reassigning new patterns of behaviour. These are compliance, identification and internalisation.

Compliance: It is achieved by strictly enforcing the reward and punishment strategy for good or bad behaviour. Fear of punishment, actual punishment or actual reward seems to change behaviour for the better.

Identification: Identification occurs when members are psychologically impressed upon to identify themselves with some given role models whose behaviour they would like to adopt and try to become like them.

Internalization: Internalization involves some internal changing of the individual's thought processes in order to adjust to the changes introduced. They have given freedom to learn and adopt new behaviour in order to succeed in the new set of circumstances.

- (c) **Refreezing:** Refreezing occurs when the new behaviour becomes a normal way of life. The new behaviour must replace the former behaviour completely for successful and permanent change to take place. In order for the new behaviour to become permanent, it must be continuously reinforced so that this new acquired behaviour does not diminish or extinguish.

Change process is not a one time application but a continuous process due to dynamism and ever changing environment. The process of unfreezing, changing and refreezing is a cyclical one and remains continuously in action.

8.5 STRATEGIC CONTROL

Controlling is one of the important functions of management, and is often regarded as the core of the management process. It is a function intended to ensure and make possible the performance of planned activities and to achieve the pre-determined goals and results. Control is intended to regulate and check,

i.e., to structure and condition the behaviour of events and people, to place restraints and curbs on undesirable tendencies, to make people conform to certain norms and standards, to measure progress to keep the system on track. It is also to ensure that what is planned is translated into results, to keep a watch on proper use of resources, on safeguarding of assets and so on.

The controlling function involves monitoring the activity and measuring results against pre-established standards, analysing and correcting deviations as necessary and maintaining/adapting the system. It is intended to enable the organisation to continuously learn from its experience and to improve its capability to cope with the demands of organisational growth and development.

The process of control has the following elements:

- (a) Objectives of the business system which could be operationalized into measurable and controllable standards.
- (b) A mechanism for monitoring and measuring the performance of the system.
- (c) A mechanism (i) for comparing the actual results with reference to the standards (ii) for detecting deviations from standards and (iii) for learning new insights on standards themselves.
- (d) A mechanism for feeding back corrective and adaptive information and instructions to the system, for effecting the desired changes to set right the system to keep it on course.

Primarily there are three types of organizational control, viz., operational control, management control and strategic control.

Operational Control: The thrust of operational control is on individual tasks or transactions as against total or more aggregative management functions. For example, procuring specific items for inventory is a matter of operational control, in contrast to inventory management as a whole. One of the tests that can be applied to identify operational control areas is that there should be a clear-cut and somewhat measurable relationship between inputs and outputs which could be predetermined or estimated with least uncertainty.

Many of the control systems in organisations are operational and mechanistic in nature. A set of standards, plans and instructions are formulated. The control activity consists of regulating the processes within certain 'tolerances', irrespective of the effects of external conditions on the formulated standards, plans and instructions. Some of the examples of operational controls can be stock control (maintaining stocks between set limits), production control

(manufacturing to set programmes), quality control (keeping product quality between agreed limits), cost control (maintaining expenditure as per standards), budgetary control (keeping performance to budget).

Management Control: When compared with operational control, management control is more inclusive and more aggregative, in the sense of embracing the integrated activities of a complete department, division or even entire organisation, instead of mere narrowly circumscribed activities of sub-units.

The basic purpose of management control is the achievement of enterprise goals – short range and long range – in a most effective and efficient manner. The term management control is defined by Robert Anthony as ‘the process by which managers assure the resources are obtained and used effectively and efficiently in the accomplishment of the organisation’s objectives. Controls are necessary to influence the behaviour of events and ensure that they conform to plans.

Strategic Control: According to Schendel and Hofer “Strategic control focuses on the dual questions of whether: (1) the strategy is being implemented as planned; and (2) the results produced by the strategy are those intended.”

There is often a time gap between the stages of strategy formulation and its implementation. A strategy might be affected on account of changes in internal and external environments of organisation. There is a need for warning systems to track a strategy as it is being implemented. Strategic control is the process of evaluating strategy as it is formulated and implemented. It is directed towards identifying problems and changes in premises and making necessary adjustments.

Types of Strategic Control: There are four types of strategic control as follows:

- **Premise control:** A strategy is formed on the basis of certain assumptions or premises about the complex and turbulent organizational environment. Over a period of time these premises may not remain valid. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built. It primarily involves monitoring two types of factors:
 - (i) Environmental factors such as economic (inflation, liquidity, interest rates), technology, social and legal-regulatory.
 - (ii) Industry factors such as competitors, suppliers, substitutes.

It is neither feasible nor desirable to control all types of premises in the same manner. Different premises may require different amount of control. Thus, managers are required to select those premises that are

likely to change and would severely impact the functioning of the organization and its strategy.

- **Strategic surveillance:** Contrary to the premise control, the strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy. It involves casual environmental browsing. Reading financial and other newspapers, business magazines, attending meetings, conferences, discussions and so on can help in strategic surveillance.

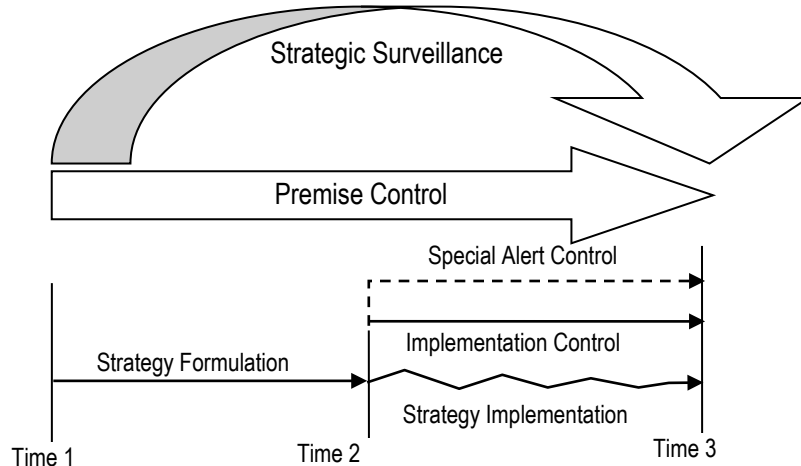
Strategic surveillance may be loose form of strategic control, but is capable of uncovering information relevant to the strategy.

- **Special alert control:** At times, unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, terrorist attacks, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy. To cope up with such eventualities, the organisations form crisis management teams to handle the situation.

Implementation control: Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and results associated with incremental steps and actions.

Strategic implementation control is not a replacement to operational control. Unlike operational control, it continuously monitors the basic direction of the strategy. The two basic forms of implementation control are:

- (i) **Monitoring strategic thrusts:** Monitoring strategic thrusts helps managers to determine whether the overall strategy is progressing as desired or whether there is need for readjustments.
- (ii) **Milestone Reviews:** All key activities necessary to implement strategy are segregated in terms of time, events or major resource allocation. It normally involves a complete reassessment of the strategy. It also assesses the need to continue or refocus the direction of an organization.



Source: John A Pearce II, Richard B Robinson, Jr. and AmitaMital "Strategic Management-Formulation, Implementation and Control".

These four strategic controls steer the organisation and its different sub-systems to the right track. They help the organisation to negotiate through the turbulent and complex environment.

8.6 STRATEGY AUDIT

The audit of management performance with regard to its strategies helps an organization identify problem areas and correct the strategic approaches that have not been effective so far. An assessment of the external environment shows where changes happen and where organization's strategic management no longer match the demands of the marketplace. Based on such analysis, the organization can improve business performance by periodically conducting such an audit.

Companies review their business plans and strategies on regular basis to identify weaknesses and shortcomings to enable a successful development plan. The strategy audit secures that all necessary information for the development of the company are included in the business plan and that the management supports it.

The core of Strategy Audit, for any corporate entity, lies on following important questions:

- ◆ How well is the current strategy working?
- ◆ How well will the current strategy be working in future?
- ◆ How can this be evaluated in present and future?

- ◆ How urgent is there a need to change the strategy?

For this, a periodic review and evaluation of the fundamental characteristics of a strategy are necessary.

A strategy audit is an examination and evaluation of areas affected by the operation of a strategic management process within an organization.

A strategy audit provides an excellent platform for discussion with the top management regarding necessary corporate actions or changes in the existing business plan. It also identifies the need to adjust the existing business strategies and plans.

Need of Strategy Audit

A strategy audit is needed under the following conditions:

- ◆ When the performance indicators reflect that a strategy is not working properly or is not producing desired outcomes.
- ◆ When the goals and objectives of the strategy are not being accomplished.
- ◆ When a major change takes place in the external environment of the organization.
- ◆ When the top management plans:
 - (a) to fine-tune the existing strategies and introduce new strategies and
 - (b) to ensure that a strategy that has worked in the past continues to be in-tune with subtle internal and external changes that may have occurred since the formulation of strategies.

Adequate and timely feedback is the cornerstone of effective strategy audit. Strategy audit can be no better than the information on which it is based.

Strategy Audit includes three basic activities:

1. Examining the underlying bases of a firm's strategy,
2. Comparing expected results with actual results, and
3. Taking corrective actions to ensure that performance conforms to plans.

Richard Rumelt's Criteria for Strategy Audit

- a. **Consistency:** A strategy should not present inconsistent goals and policies. Organizational conflict and interdepartmental bickering are often symptoms of managerial disorder, but these problems may also be a sign of strategic

inconsistency. Three guidelines help determine if organizational problems are due to inconsistencies in strategy:

- ◆ If managerial problems continue despite changes in personnel and if they tend to be issue-based rather than people-based, then strategies may be inconsistent.
- ◆ If success for one organizational department means, or is interpreted to mean, failure for another department, then strategies may be inconsistent.
- ◆ If policy problems and issues continue to be brought to the top for resolution, then strategies may be inconsistent.

- b. **Consonance:** Consonance refers to the need for strategists to examine sets of trends, as well as individual trends, in auditing strategies. A strategy must represent an adaptive response to the external environment and to the critical changes occurring within it. One difficulty in matching a firm's key internal and external factors in the formulation of strategy is that most trends are the result of interactions among other trends. For example, the day-care school/centre came about as a combined result of many trends that included a rise in the average level of education, need for different education pedagogy, increase in income, inflation, and an increase in women in the workforce. Although single economic or demographic trends might appear steady for many years, there are waves of change going on at the interaction level.
- c. **Feasibility:** A strategy must neither overtax available resources nor create unsolvable sub-problems. The final broad test of strategy is its feasibility; that is, can the strategy be attempted within the physical, human, and financial resources of the enterprise? The financial resources of a business are the easiest to quantify and are normally the first limitation against which strategy is audited. It is sometimes forgotten, however, that innovative approaches to financing are often possible. Devices, such as captive subsidiaries, sale-leaseback arrangements, and tying plant mortgages to long-term contracts, have all been used effectively to help win key positions in suddenly expanding industries. A less quantifiable, but actually more rigid, limitation on strategic choice is that imposed by individual and organizational capabilities. In auditing a strategy, it is important to examine whether an organization has demonstrated in the past that it possesses the abilities, competencies, skills, and talents needed to carry out a given strategy.

- d. **Advantage:** A strategy must provide for the creation and/or maintenance of a competitive advantage in a selected area of activity. Competitive advantages normally are the result of superiority in one of three areas:
- (1) resources, (2) skills, or (3) position.

The idea that the positioning of firm's resources that enhance their combined effectiveness is familiar to military theorists and chess players. Position can also play a crucial role in an organization's strategy. Once gained, a good position is defensible—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 and environmental factors that underlie it remain stable. This is why entrenched firms can be almost impossible to unseat, even if their skill levels are only average. Although not all positional advantages are associated with size, it is true that larger organizations tend to operate in markets and use procedures that turn their size into advantage, while smaller firms seek product/market positions that exploit other types of advantage. The principal characteristic of good position is that it permits the firm to obtain advantage from policies that would not similarly benefit rivals without the same position. Therefore, in auditing strategy, organizations should examine the nature of positional advantages associated with a given strategy.

Reasons why strategy evaluation is more difficult today include the following trends:

- ◆ A dramatic increase in the environment's complexity.
- ◆ The increasing difficulty of predicting the future with accuracy.
- ◆ The increasing number of variables in the environment.
- ◆ The rapid rate of obsolescence of even the best plans.
- ◆ The increase in the number of both domestic and world events affecting organizations.
- ◆ The decreasing time span for which planning can be done with any degree of certainty.



8.7 BUSINESS PROCESS REENGINEERING

Waiting in a queue in a post office or bank, a person may feel a need for improvement in processes. In case of queue, the process begins with your

stepping into the queue, and ends with receiving the desired service and leaving the place. The steps of the process are the activities that you and the personnel providing services perform to complete the transaction.

Buying a ticket is a simple business process. There are other business processes such as purchasing raw materials, logistic movements of finished products, developing new products, etc. that are much more tricky to deal with. Business processes are simply a set of activities that transform a set of inputs into a set of outputs for another person or process.

In order to have a better appreciation of what Business Process Reengineering (BPR) really means it would be pertinent to have preliminary knowledge of business processes. What is a business process and how it differs from other processes is the question that may come to mind. Business process or business activities are not discrete or unrelated pieces of work. They are parts of recurrent work processes within which they are located, sequenced and organized.

What is a Business Process? A process is a set of logically related tasks or activities oriented towards achieving a specified outcome. It is a collection of activities which creates an output of value to the customer and often transcends departmental or functional boundaries. *For example*, one common process found almost in every organization is the order fulfilment. Order fulfilment begins with procuring an order and ends with delivery of goods to the customer. It also includes all other related activities in between. Likewise, other basic processes may include developing a new product or service, launching a new product in the market, procuring goods from suppliers, preparing the organization's budget, processing and paying insurance claims, and so on.

Typically, a business process involves a number of steps performed by different people in different departments. The structural elements that constitute a process provide the basis for its analysis, appraisal, and redesign for achieving higher levels of efficiency and effectiveness, economy and speed, and quality and output.

A set of interconnected processes comprise a business system. The performance of business firm is, thus, the outcome of the interrelated operations of its constituent work processes. The redesign of processes, therefore, provides a powerful basis for improving the performance of a business enterprise.

Core Processes: Some processes turn out to be extremely critical for the success and survival of the enterprise. BPR focuses on such critical business processes out of the many processes that go on in any company. These are the core business

processes of the company. A core business process creates value by the capabilities it provides to the competitiveness. Core business processes are critical in a company's evaluation by its customers. They are vital for success in the industry sector within which the company is positioned. They are crucial for generating competitive advantages for a firm in the marketplace.

While some core business processes are easily identifiable, some core business processes may not always be immediately apparent. The following instances serve to show that core processes need to be identified carefully in terms of their bearing on a firm's competitiveness:

1. In the electronics and semi-conductor industries, new product development is a core process.
2. In a fast moving consumer goods industry marketing is a core process.
3. In the banking industry, the activities that help mobilise deposits and generate funds for advances to customers, is a core business process.
4. In the insurance industry, the actual work that leads to a balance of competitive premium for customers, and profit after claims for the company, is a core business process.

The core processes of a company may change over a period of time according to the shifting requirements of its competitiveness. Since the objective of reengineering is to provide competitive advantage to the enterprise, it is extremely important to identify those core processes which need to be focussed for achieving excellence. In order to do this, we have to necessarily start from the organization's business vision, and drive from there the processes that have to be best in the world in order to realize that vision.

One of the reason for which an imperative need is felt for process change is that most of the processes that the organizations are engaged in might have been developed by their functional units over a period of time and might have been evolved based on a series of unplanned decisions. Seldom there has been any serious effort to systematically analyse the processes and measure their effectiveness towards the organizational efficiency. Quite often the individual departments or units of a company aim at optimising their own performance disregarding the resultant effect on other areas of operation. This may result in a sub-optimal performance for the organization as a whole. The overall business processes in an organization extending over several departments may be quite lengthy, time consuming, costly and inefficient. Also, the existing business processes and work patterns might have largely obsolete and irrational because

of change in information and communication technologies.

Fragmentation of work processes makes it difficult to improve the quality of work performance and also develops a narrow vision among the employees. As a result, the employees tend to focus more on the narrow goals of their own department at the cost of larger goals of the organization as a whole. This results in piecemeal accomplishment of tasks without looking at the overall goal. As the small fragments of work move from person to person and from unit to unit, delays keep on mounting and it enhances the chances of errors. In such a situation, the emerging critical issues often remain unattended as they do not fit into the narrow definitions of tasks or roles of an individual department.

It must be remembered that most of the existing work processes were developed before the advent of computers and IT revolution. Even after the massive penetration of information technology, many organizations have usually applied the technology only in a limited way to automate their existing work methods or to speed up the isolated or narrow components of a larger existing work process. This has resulted only in some sort of mechanization of the existing work methods without bringing in any appreciable change in the process and output. Examples from established Japanese industries as well as new entrepreneurial ventures in Japan proves that it is possible to achieve a much higher level of process performance by redesigning the process. It has been possible to double the speed of normal production, utilize assets several times more productively and respond to customers' needs and expectations much more rapidly. This could be achieved by effecting a total change in the process instead of a piecemeal change. It is, therefore, imperative that for many organizations on the decline, changing the process or redesigning the process may be the only viable alternative for turnaround. They must break themselves free from their primitive and archaic work processes that drag them down. Issues that emerge from the foregoing discussions on the need for change form the underlying premises of Business Process Reengineering (BPR), are briefly outlined as follows:

- ◆ The operational excellence of a company is a major basis for its competitiveness.
- ◆ The business strategy of a company should be oriented towards leveraging its operational excellence into the marketplace.
- ◆ A customer-focussed organization needs to be realigned in terms of a process orientation.
- ◆ Process need to be managed, not only its components.

- ◆ For considering totally new ways of redesigning processes, each and every concept, assumption, purpose, and principle, needs to be abandoned temporarily.
- ◆ Continuous improvement is lacking in the organisation. The company is far behind the industry standards, and needs rapid quantum leaps in performance.
- ◆ Dramatic improvement in performance is the prerequisite for overcoming competition.
- ◆ How to compete is more important than deciding about where to compete?

Concept and Nature of BPR: Business Process Reengineering (BPR) refers to the analysis and redesign of workflows and processes both within and between the organizations. The orientation of the redesign effort is radical, i.e., it is a total deconstruction and rethinking of a business process in its entirety, unconstrained by its existing structure and pattern. Its objective is to obtain quantum gains in the performance of the process in terms of time, cost, output, quality, and responsiveness to customers. The redesign effort aims at simplifying and streamlining a process by eliminating all redundant and non-value adding steps, activities and transactions, reducing drastically the number of stages or transfer points of work, and speeding up the work-flow through the use of IT systems.

BPR is an approach to unusual improvement in operating effectiveness through the redesigning of critical business processes and supporting business systems. It is revolutionary redesign of key business processes that involves examination of the basic process itself. It looks at the minute details of the process, such as why the work is done, who does it, where it is done and when it is done. BPR focuses on the process of producing the output and output of an organization is the result of its process.

“Business process reengineering means starting all over, starting from scratch.” Reengineering, in other words, means putting aside much of the age-old practices and procedures of doing a thing. It implies forgetting how work has been done so far, and deciding how it can best be done now. The elements of BPR are as follows:

- i. **Reengineering begins with a fundamental rethinking.** In doing reengineering people must ask some most basic questions about their organizations and about their operations. They try to find out answers to such questions like “Why do we do what we do? And why do we do it the way we do?” An attempt to find out answers to such questions may

startlingly reveal certain rules, assumptions and operational processes as obsolete and redundant. Reengineering does not begin with anything given or with any assumptions. The thinking process in reengineering begins with a totally free state of mind without having any preconceived notion. Reengineering first determines what a company must do. And then it decides on how to do it. Reengineering ignores what the existing process is and concentrates on what it should be. If something is not required to be done it is outright discarded.

- ii. **Reengineering involves radical redesigning of process.** Radical redesigning means going to the root of the problem areas and not attempting to make any superficial changes. Radical redesign involves completely discarding all existing structures and procedures and evolving completely new ways of doing the work. "Reengineering is about business reinvention – not business improvement, business enhancement, or business modification."
- iii. **Reengineering aims at achieving dramatic improvement in performance.** If an organization feels the need for marginal improvement in any area of operation at any point of time, the same can be achieved by conventional methods of adjustments in operating processes and reengineering is not the answer. Reengineering is meant for replacement of the old process by altogether new one to achieve dramatic improvement in the performance.

It follows from the above that the main focus of reengineering is on the process. In an attempt to improve performance, most people in business focus their attention on tasks, jobs, people, structure, but fail to pay adequate attention on the process. Business process, as already mentioned earlier, has been defined as the series of activities that utilizes various inputs to create output that are valued by customers. Not all the processes in an enterprise enjoy equal importance in creating customers value. In order to improve its competitive position a firm must try to identify the generic business processes which significantly add to the value for its output to the customer and should try to focus on reengineering these processes first. The generic business processes of a firm needing redesign may be classified into three broad categories as follows:

- ◆ **Processes pertaining to development and delivery of product(s) and/or services:** These may include research, design, engineering, manufacturing, and logistics, besides purchasing / procurement and materials management.

- ◆ **Processes involving interface(s) with customers:** These usually include marketing, advertising, order fulfilment, and service.
- ◆ **Processes comprising management activities:** These include strategy formulation, planning and budgeting, performance measurement and reporting, human resource management, and building infrastructure.

In the context of these generic business processes, BPR may be viewed as a means of solving business problems through an imaginative leveraging of IT capabilities.

Rationale of BPR: Improving business processes is paramount for businesses to stay competitive in today's marketplace. Over the last three decades several factors have accelerated the need to improve business processes. The most obvious is technology. New technologies (like Information Technology) are rapidly bringing new capabilities to businesses, thereby raising the strategical options and the need to improve business processes dramatically.

After opening up of Indian economy, companies have been forced to improve their business processes because of increased competition. More companies have entered the market place, and competition has become harder. In today's market place, major changes are required to just stay even. It has become a matter of survival for most companies.

Customers are also demanding better products and services. If they do not receive what they want from one supplier, they have many others to choose from. They are ready to try new suppliers and new brands.

Implementing BPR in Organizations: In a crude sense, companies began business process improvement with a continuous improvement model. This model attempts to understand and measure the current processes, and make performance improvements. However, some companies make reengineering efforts under the assumption that the current processes are wrong and irrelevant. Under such perspectives designers of business process disassociate themselves from existing processes. This helps in looking at the problem with a clean mind, free of any biases.

The approach to BPR begins with defining the scope and objectives of the reengineering project. Persons entrusted with the tasks of BPR have to undertake research in the light of scope and objectives. They have to go through a learning process. They have to research customers, employees, competitors, new technology, etc. With the help of this research base BPR designers are in a position to create a vision for the future and design new business processes.

They also create a plan of action based on the gap between the current and proposed processes, technologies and structures. Steps in BPR are as follows:

- i. **Determining objectives:** Objectives are the desired end results of the redesign process which the management and organization attempts to realise. They will provide the required focus, direction, and motivation for the redesign process and help in building a comprehensive foundation for the reengineering process.
- ii. **Identify customers and determine their needs:** The process designers have to understand customers - their profile, their steps in acquiring, using and disposing a product. The purpose is to redesign business process that clearly provides value addition to the customer.
- iii. **Study the existing processes:** The study of existing processes will provide an important base for the process designers. The purpose is to gain an understanding of the 'what', and 'why' of the targeted process. However, as discussed earlier, some companies go through the reengineering process with clean perspective without laying emphasis on the past processes.
- iv. **Formulate a redesign process plan:** The information gained through the earlier steps is translated into an ideal redesign process. Formulation of redesign plan is the real crux of the reengineering efforts. Customer focussed redesign concepts are identified and formulated. In this step alternative processes are considered and the best is selected.
- v. **Implement the redesigned process:** It is easier to formulate new process than to implement them. Implementation of the redesigned process and application of other knowledge gained from the previous steps is key to achieve dramatic improvements. It is the joint responsibility of the designers and management to operationalise the new process.

Role of Information Technology in BPR

The accelerating pace at which information technology has developed during the past few years had a very large impact in the transformation of business processes. Various studies have conclusively established the role of the information technology in the transformation of business processes. That information technology is going to play a significant role in changing the business processes during the years to come, has been established beyond doubt.

A reengineered business process, characterised by IT-assisted speed, accuracy, adaptability and integration of data and service points, is focussed on meeting the customer needs and expectation quickly and adequately, thereby enhancing

his/her satisfaction level.

Globalization and competition call for better management, faster response to change and adherence to globally accepted standards of quality and services.

Impact of IT-systems are identified as:

- ◆ Compression of time
- ◆ Overcoming restrictions of geography and/or distance
- ◆ Restructuring of relationships.

IT-initiatives, thus, provide business values in three distinct areas:

- ◆ Efficiency – by way of increased productivity,
- ◆ Effectiveness – by way of better management,
- ◆ Innovation – by way of improved products and services

All these can bring about a radical change in the quality of products and services, thereby improving the competitiveness and customer satisfaction. Information technology (IT) is a critical factor in the success of bringing this change.

Central Thrust of BPR

Improvement on quality and cost follows after improvement on thrust area. BPR is a continuous improvement process. Although BPR is a multi-dimensional approach in improving the business performance its thrust area may be identified as “the reduction of the total cycle time of a business process.” BPR aims at reducing the cycle time of process by eliminating the unwanted and redundant steps and by simplifying the systems and procedures and also by eliminating the transit and waiting times as far as possible. Even after redesigning of a process, BPR maintains a continuous effort for more and more improvement.

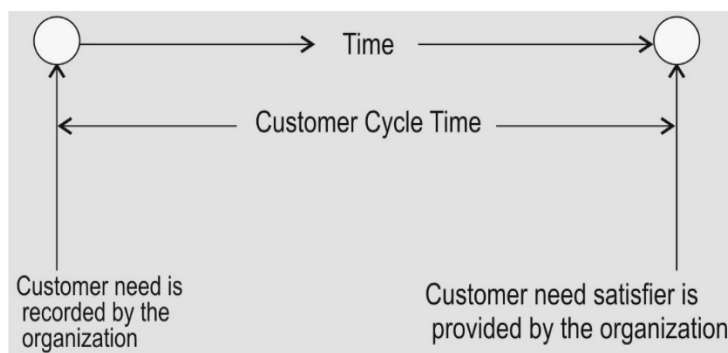


Figure: Customer Time Cycle

BPR and other processes

Reengineering does not mean any partial modification or marginal improvement in the existing work processes. Reengineering is a revolutionary approach towards radical and total redesigning of the business processes. While reengineering may lead to restructuring of organization, any restructuring does not necessarily mean reengineering. The basic principles that differentiate reengineering from any other drive on improving organizational efficiency may be summarized as follows:

- ◆ At the core of reengineering lies the concept of discontinuous thinking. Reengineering does not have any scope for any partial modification or marginal improvement in the existing business processes. It aims at achieving excellence and a breakthrough in performance by redesigning the process entirely and radically. Obviously, it requires challenging the necessity of existing rules and procedures and discarding the same to evolve altogether new processes.
- ◆ BPR approach recognizes that most of the existing rules and procedures of work methods are based on certain assumptions about technology, people and the goals of the organization. These assumptions may not be valid any more. Besides many of these systems and procedures have failed to reap the benefit of massive development of information technology during the past few years. BPR recognizes “the” vast and expanding potential of IT for the most rational, simple, and efficient redesign of work structure.” BPR aims at utilizing information technology for evolving a new process, instead of automating the existing process.
- ◆ While reengineering starts with the process it does not end there. The fundamental and radical changes that takes place while reengineering the process has its own implication on other parts of the organization – almost on every part of it. Reengineering requires viewing a process from cross-functional perspective. Reengineering effort, therefore, focuses on a multidimensional approach disregarding the constraints of departmental boundaries.
- ◆ BPR efforts involve managing massive organizational change.” Reengineering is not just changing the process. The change in process is almost always accompanied by a whole lot of changes in other areas too. Work changes from task oriented to process oriented. People have the choice of making their own decisions instead of being directed. “Functional departments find their existence as redundant. Practically every aspect of the organization changes beyond recognition.

In view of the massive organizational changes involved in reengineering, it is imperative that a reengineering drive is supported by the vision and commitment of the top leadership of the organization.

Also, efficiently redesigned business processes provide a firm with many more opportunities for trying, testing, modifying and learning.

Problems in BPR

- ◆ Reengineering is a major radical improvement in the business process. Only a limited number of companies are able to have enough courage for having BPR because of the challenges posed. It disturbs established hierarchies and functional structures and creates serious repercussions and involves resistance among the work-force.
- ◆ Reengineering involves time and expenditure, at least in the short run, that many companies are reluctant to go through the exercise. Even there can be loss in revenue during the transition period.
- ◆ Setting of targets is tricky and difficult. If the targets are not properly set or the whole transformation not properly carried out, reengineering efforts may turn-out to be a failure.

8.8 BENCHMARKING

Benchmarking helps an organization to get ahead of competition. The organizations can possess a large amount of information that help them in taking strategic and other important decisions. Companies that translate this information to knowledge and use it in their planning and decision making are the winners.

A benchmark may be defined as a standard or a point of reference against which things may be compared and by which something can be measured and judged. In this sense, at a naïve level, it may be compared to the concept of control as the similarities do exist. However, the concept of benchmarking is much broader than mere controlling as there are major strategic dimensions involved. The term has presumably been adapted from physical sciences wherein it refers to a surveyor's mark made on a stationary object at previously determined position and elevation and used as a reference point to measure altitudes.

The scientific studies conducted by Frederick Taylor in the latter part of the nineteenth century represent an early use of the benchmarking concept. However, the term got popularity much later in the seventh decade of twentieth century. Initially, the concept evolved in companies operating in an industrial environment.

Over a period of time it covered other spheres of business activity. In recent years, different commercial and non-commercial organizations are discovering the value of benchmarking and are applying it to improve their processes and systems.

What is Benchmarking?

In simple words, benchmarking is an approach of setting goals and measuring productivity based on best industry practices. It developed out of the need to have information against which performances can be measured. For example, a customer support engineer of a television company attends a call within forty-eight hours. If the industry norm is that all calls are attended within twenty-four hours, then the twenty-four hours can be a benchmark. 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 not a panacea for all problems. Rather, it studies the circumstances and processes that help in superior performance. Better processes are not merely copied. Efforts are made to learn, improve and evolve them to suit the organizational requirements. Further, benchmarking exercises are also repeated periodically so that the organization does not lag behind in the dynamic environment.

Benchmarking is a process of continuous improvement in search for competitive advantage. It measures a company's products, services and practices against those of its competitors or other acknowledged leaders in their field. Xerox pioneered this process in late 70's by benchmarking its manufacturing costs against those of domestic and Japanese competitors and got dramatic improvement in the manufacturing cost. Firms can use benchmarking process to achieve improvement in diverse range of management functions like:

Maintenance operations

- ◆ Assessment of total manufacturing costs
- ◆ Product development
- ◆ Product distribution
- ◆ Customer services
- ◆ Plant utilization levels
- ◆ Human resource management

Steps in Benchmarking Process

Benchmarking processes used by different organisations lack standardization. However, common elements are as follows:

- (1) **Identifying the need for benchmarking:** 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) **Clearly understanding existing business processes:** This step will involve compiling information and data on performance. This will include mapping processes. Information and data is collected by different methods such as interviews, visits and filling of questionnaires.
- (3) **Identify best processes:** Within the selected framework, best processes are identified. These may be within the same organization or external to it.
- (4) **Compare own processes and performance with that of others:** While comparing gaps in performance between the organization and better performers is identified. Further, gaps in performance are analysed to seek explanations. Such comparisons have to be meaningful and credible. Feasibility of making the improvements in the light of the conditions that apply within the organization is also examined.
- (5) **Prepare a report and Implement the steps necessary to close the performance gap:** A report on the Benchmarking initiatives containing recommendations is prepared. Such a report includes the action plan(s) for implementation.
- (6) **Evaluation:** A business organization must evaluate the results of the benchmarking process in terms of improvements vis-à-vis objectives and other criteria set for the purpose. It should also periodically evaluate and reset the benchmarks in the light of changes in the conditions that impact its performance.

SUMMARY

Strategic management is a comprehensive process that involves formulation, implementation and control of strategies. This chapter begins with elaboration of the concept of strategy implementation and its relationship with strategy formulation. It further highlights the issues in strategy implementation. Implementation of strategies requires strategic change in the organization, the

steps introducing strategic change along with Kurt Lewin change model have also been discussed. It is followed by a discussion on the significance of a process of strategic control. Strategy Audit is also covered in this chapter.

Business process reengineering is an approach to unusual improvement in operating effectiveness through the redesigning of critical business processes and supporting business systems. It has become an essential technique of strategic management. This chapter describes the meaning, rationale, implementation, thrust and problems of BPR.

Another emerging technique in strategic management is benchmarking. Benchmarking is an approach of setting goals and measuring productivity based on best industry practices. It helps businesses in improving performance by learning from the best practices. Some of the common elements of benchmarking process are also covered in this chapter.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

Question 1

1. You are working as a senior manager of a company. You are entrusted with the task of putting a strategy in place and see that it is implemented properly. Out of the following, what is the most important thing that you will have to prepare your organization for?
 - (i) Strategic Audit
 - (ii) Business process reengineering
 - (iii) Strategic Change
 - (iv) Strategic Control
 - (a) i & iii
 - (b) iii & ii
 - (c) i & iv
 - (d) i & ii
2. You are the operations manager and your top management wants to adopt a strategy that you don't endorse, what problems would this lead to in implementation of the strategy?
 - (a) No problem

- (b) Coordination problem
 - (c) technical problem
 - (d) Behavioural problem
3. After an earnest attempt to bring in a strategic change in your organization, you the operational head of XYZ Ltd, succeeded but still your organization couldn't achieve the desired competitive position in the market. Out of the following what could be the reason?
- (a) Strategy Formulation
 - (b) Strategy Model
 - (c) Strategy Implementation
 - (d) Strategy Decision
4. As a strategist, what is your understanding of how strategies are put into action?
- (a) Strategies are statements of Intent realized through Implementation.
 - (b) Strategies are statements of Intent that are automatically activated.
 - (c) Strategies, by themselves, lead into action.
 - (d) By strategy formulation and not through implementation.
5. The employees of XYZ Ltd have been facing problems regarding the difference between the understanding of strategy formulation and strategy implementation. In order to address this problem, you, the president operations, made four groups and asked each group to write in points their understanding of the same. The following points were compiled from their knowing of strategy formulation and implementation.
- (1) Strategy Formulation focuses on efficiency while Strategy Implementation focuses on effectiveness.
 - (2) Strategy Formulation requires motivation and leadership Skills while Strategic Implementation require conceptual intuitive and analytical skills.
 - (3) Strategy Formulation is an intellectual process while Strategy Implementation is primarily an operational process.
 - (4) Strategy Formulation requires coordination between Executives at middle and lower level while Strategy Implementation requires

coordination among the executives at the top levels.

Out of the following views, what all needs to be corrected?

- (a) 1,3 &4
 - (b) 1& 2 & 3
 - (c) 1,2 &4
 - (d) 1,2,3 & 4
6. You being the core strategist of your company, entrusted with bringing about strategic change in your company, how will you initiate "unfreezing of the situation"?
- (a) Promoting new ideas throughout the organization
 - (b) Promoting compliance throughout the organization
 - (c) Promoting change in process throughout the organization
 - (d) None of the above
7. You are the head of operations of a company. When you focus on total or aggregate management functions in the sense of embracing the integrated activities of a complete department et al, you are practicing: -
- (a) Strategic Control
 - (b) Management control
 - (c) Administrative Control
 - (d) Operations Control
8. Which of the following would be chosen by the core strategist to implement operational control: -
- (a) Premise Control
 - (b) Special Alert Control
 - (c) Implementation Control
 - (d) Budgetary Control
9. In which of the following circumstances would you initiate a strategic audit in your company?
- I. When top management feels the need

- II. When the goals and objectives of the strategy are not being accomplished
 - III. When a major change takes place in the external environment of the organization
 - iv. When the performance indicators reflect that a strategy is not working properly or is not producing the desired outcome.
- (a) I, II, IV
 - (b) II, III, IV
 - (c) I, II, III
 - (d) All of the above
10. When it comes to identifying problem areas and correct the strategic approaches that have not been effective so far, what should a strategic manager choose to do out of the following:
- (a) BPR
 - (b) Benchmarking
 - (c) Strategic Change
 - (d) Strategic Audit
11. With reference to Richard Rumelt's criteria for Strategic Audit, what out of the following is the first limitation against which strategy is audited?
- (a) Financial Resource
 - (b) Human Resource
 - (c) Physical Resource
 - (d) All of the above
12. The model of change has been propounded by:
- (a) Michael Hammer
 - (b) Michael Porter
 - (c) Kurt Lewin
 - (d) Kurt Louis

13. Compliance, Identification and Internalization are the three processes involved in:
- (a) Refreezing
 - (b) Defreezing
 - (c) Changing behavior patterns
 - (d) Breaking down old attitudes
14. As the head of an MNC, you have been asked to bring in radical changes in your organisation through BPR. Which of these is the thrust area you would focus on reducing:
- (a) Total cycle time
 - (b) Total order time
 - (c) Total inventory time
 - (d) None
15. Business Process Reengineering involves:
- (a) Partial Modification
 - (b) None of the two
 - (c) Massive Improvement
 - (d) Replacing Engineers
16. Strategy evaluation is more difficult today due to the following trends except:
- (a) A dramatic increase in the environment's complexity.
 - (b) The increasing difficulty of predicting the future with accuracy.
 - (c) The increasing number of variables in the environment.
 - (d) Firms have unlimited resources.
17. With reference to benchmarking, select the correct statement out of the following:
- (a) The focus of benchmarking is to study existing processes and eliminate the ones that are redundant.
 - (b) Traditional controlling has been rephrased as benchmarking.

- (c) Benchmarking helps in setting goals and measuring productivity based on best industry practices.
- (d) Benchmarking solves all business problems.
18. BPR is an unusual improvement in operating effectiveness through the redesigning of _____ business process and supporting business systems.
- (a) usual
- (b) common
- (c) critical
- (d) none of these
19. The purpose of strategy evaluation is to
- (a) increase the budget annually.
- (b) alert management to problems or potential problems.
- (c) make budget changes.
- (d) evaluate employees' performance.
20. Which one is not the basic activity of Strategy Audit?
- (a) Examining the underlying bases of a firm's strategy.
- (b) Setting the goals and objectives of the firm.
- (c) Comparing expected results with actual results.
- (d) Taking corrective actions to ensure that performance conforms to plans.
21. Which one is NOT a type of strategic control?
- (a) Operational control
- (b) Strategic surveillance
- (c) Special alert control
- (d) Premise control

Answer

- 1** (c) **2** (b) **3** (c) **4** (a) **5** (c) **6** (a)
- 7** (b) **8** (d) **9** (d) **10** (d) **11** (a) **12** (c)
- 13** (c) **14** (a) **15** (c) **16** (d) **17** (c) **18** (c)

19 (b) 20 (b) 21 (a)

Descriptive Questions

Question 2

Is strategy formulation an intellectual process? How is it different from strategy implementation?

Answer

Yes, strategy formulation is primarily an intellectual process. It is based on strategic decision-making which requires analysis and thinking. Although inextricably linked, strategy implementation is fundamentally different from strategy formulation in the following ways:

Strategy Formulation	Strategy Implementation
◆ Strategy formulation focuses on effectiveness.	◆ Strategy implementation focuses on efficiency.
◆ Strategy formulation is primarily an intellectual process.	◆ Strategy implementation is primarily an operational process.
◆ Strategy formulation requires conceptual intuitive and analytical skills.	◆ Strategy implementation requires motivation and leadership skills.
◆ Strategy formulation requires coordination among the executives at the top level.	◆ Strategy implementation requires coordination among the executives at the middle and lower levels.

Question 3

What is strategic change? Explain the change process proposed by Kurt Lewin that can be useful in implementing strategies?

Answer

The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies. Strategic change is a complex process and it involves a corporate strategy focused on new markets, products, services and new ways of doing business.

To make the change lasting, Kurt Lewin proposed three phases of the change process for moving the organization from the present to the future. These stages are unfreezing, changing and refreezing.

- (a) **Unfreezing the situation:** The process of unfreezing simply makes the individuals or organizations aware of the necessity for change and prepares them for such a change. Lewin proposes that the changes should not come as a surprise to the members of the organization. Sudden and unannounced change would be socially destructive and morale lowering. The management must pave the way for the change by first "unfreezing the situation", so that members would be willing and ready to accept the change.

Unfreezing is the process of breaking down the old attitudes and behaviours, customs and traditions so that they start with a clean slate. This can be achieved by making announcements, holding meetings and promoting the ideas throughout the organization.

- (b) **Changing to New situation:** Once the unfreezing process has been completed and the members of the organization recognise the need for change and have been fully prepared to accept such change, their behaviour patterns need to be redefined. H.C. Kellman proposed three methods for reassigning new patterns of behavior as compliance, identification and internalisation.
- (c) **Refreezing:** Refreezing occurs when the new behaviour becomes a normal way of life. The new behaviour must replace the former behaviour completely for successful and permanent change to take place. In order for the new behaviour to become permanent, it must be continuously reinforced so that this newly acquired behaviour does not diminish or extinguish.

Change process is not a one time application but a continuous process due to dynamism and ever changing environment. The process of unfreezing, changing and refreezing is a cyclical one and remains continuously in action.

Question 4

Discuss three methods for reassigning new patterns of behavior as proposed by H.C. Kellman.

Answer

H.C. Kellman has proposed three methods for reassigning new patterns of behaviour. These are compliance, identification and internalisation.

- ◆ **Compliance:** It is achieved by strictly enforcing the reward and punishment strategy for good or bad behaviour. Fear of punishment, actual punishment or actual reward seems to change behaviour for the better.
- ◆ **Identification:** Identification occurs when members are psychologically impressed upon to identify themselves with some given role models whose behaviour they would like to adopt and try to become like them.
- ◆ **Internalization:** Internalization involves some internal changing of the individual's thought processes in order to adjust to a new environment. They have given freedom to learn and adopt new behaviour in order to succeed in the new set of circumstances.

Question 5

What are the differences between operational control and management control.

Answer

Differences between Operational Control and Management Control are as under:

- (i) The thrust of operational control is on individual tasks or transactions as against total or more aggregative management functions. When compared with operational, management control is more inclusive and more aggregative, in the sense of embracing the integrated activities of a complete department, division or even entire organisation, instead of mere narrowly circumscribed activities of sub-units. For example, procuring specific items for inventory is a matter of operational control, in contrast to inventory management as a whole.
- (ii) Many of the control systems in organisations are operational and mechanistic in nature. A set of standards, plans and instructions are formulated. On the other hand the basic purpose of management control is the achievement of enterprise goals – short range and long range – in an effective and efficient manner.

Question 6

What is strategic control? Briefly explain the different types of strategic control?

Answer

Strategic Control focuses on the dual questions of whether: (1) the strategy is being implemented as planned; and (2) the results produced by the strategy are those intended.

There are four types of strategic control:

- ◆ **Premise control:** A strategy is formed on the basis of certain assumptions or premises about the environment. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built.
- ◆ **Strategic surveillance:** Strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy.
- ◆ **Special alert control:** At times, unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy.
- ◆ **Implementation control:** Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and results.

Question 7

What is implementation control? Discuss its basic forms.

Answer

Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and results associated with incremental steps and actions.

Strategic implementation control is not a replacement to operational control. Strategic implementation control, unlike operational controls continuously monitors the basic direction of the strategy. The two basic forms of implementation control are:

- (i) **Monitoring strategic thrusts:** Monitoring strategic thrusts help managers to determine whether the overall strategy is progressing as desired or whether there is need for readjustments.
- (ii) **Milestone Reviews.** All key activities necessary to implement strategy are segregated in terms of time, events or major resource allocation. It normally involves a complete reassessment of the strategy. It also assesses the need to continue or refocus the direction of an organization.

Question 8

What is Business Process Reengineering (BPR)?

Answer

Business Process Reengineering (BPR) is an approach to unusual improvement in operating effectiveness through the redesigning of critical business processes and supporting business systems. It is revolutionary redesign of key business processes that involves examination of the basic process itself. BPR refers to the analysis and redesign of workflows and processes both within the organization and between the organization and the external entities like suppliers, distributors, and service providers. The orientation of redesigning efforts is basically radical. In other words, it is a total deconstruction and rethinking of business process in its entirety, unconstrained by its existing structure and pattern.

Question 9

What steps would you recommend to implement BPR in an organization?

Answer

BPR is a revolutionary redesigning of key business processes. BPR involves the following steps:

- i. **Determining objectives:** Objectives are the desired end results of the redesign process which the management and organization attempts to realise. They will provide the required focus, direction, and motivation for the redesign process and help in building a comprehensive foundation for the reengineering process.
- ii. **Identify customers and determine their needs:** The process designers have to understand customers - their profile, their steps in acquiring, using and disposing a product. The purpose is to redesign business process that clearly provides value addition to the customer.
- iii. **Study the existing processes:** The study of existing processes will provide an important base for the process designers. The purpose is to gain an understanding of the 'what', and 'why' of the targeted process. However, as discussed earlier, some companies go through the reengineering process with clean perspective without laying emphasis on the past processes.
- iv. **Formulate a redesign process plan:** The information gained through the earlier steps is translated into an ideal redesign process. Formulation of redesign plan is the real crux of the reengineering efforts. Customer focussed redesign concepts are identified and formulated. In this step alternative processes are considered and the best is selected.

- v. **Implement the redesigned process:** It is easier to formulate new process than to implement them. Implementation of the redesigned process and application of other knowledge gained from the previous steps is key to achieve dramatic improvements. It is the joint responsibility of the designers and management to operationalise the new process.

Question 10

What is Benchmarking? Explain briefly the elements involved in Benchmarking process.

Answer

Benchmarking is an approach of setting goals and measuring productivity of firms based on best industry practices or against the products, services and practices of its competitors or other acknowledged leaders in the industry. It developed out of need to have information against which performance can be measured. Benchmarking helps businesses in improving performance by learning from the best practices and the processes by which they are achieved. Thus, benchmarking is a process of continuous improvement in search for competitive advantage. Firms can use benchmarking practices to achieve improvements in diverse range of management functions like product development, customer services, human resources management, etc.

The various steps in Benchmarking Process are as under:

- (i) **Identifying the need for benchmarking:** 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.
- (ii) **Clearly understanding existing decisions processes:** The step will involve compiling information and data on performance.
- (iii) **Identify best processes:** Within the selected framework best processes are identified. These may be within the same organization or external to them.
- (iv) **Comparison of own process and performance with that of others:** Benchmarking process also involves comparison of performance of the organization with performance of other organization. Any deviation between the two is analysed to make further improvements.
- (v) **Prepare a report and implement the steps necessary to close the performance gap:** A report on benchmarking initiatives containing recommendations is prepared. Such a report also contains the action plans for implementation.

- (vi) **Evaluation:** Business organizations evaluate the results of the benchmarking process in terms of improvements vis-à-vis objectives and other criteria set for the purpose. They also periodically evaluate and reset the benchmarks in the light of changes in the conditions that impact the performance.

Scenario based Questions

Question 11

Swift Ltd and Quick Ltd are two companies that are in the business of light industrial machines. While Swift is the market leader the sales of Quick has been falling. In the year 2017-18 the market share of the two companies was forty per cent and five per cent respectively. During the last five years the market share of quick reduced from third to sixth position. As an immediate corrective measure top management of Quick decided to emulate the successful standards of Swift Ltd and set them as their own yardsticks. With the help of standards they intended to compare, measure and judge their performance.

What is the strategic tool Quick Ltd is adopting? How is it implemented?

Answer

The top management of Quick Ltd is doing benchmarking. The benchmarking helps an organization to get ahead of competition. A benchmark may be defined as a standard or a point of reference against which things may be compared and by which something can be measured and judged. In simple words, benchmarking is an approach of setting goals and measuring productivity based on best industry practices. In recent years, different commercial and non-commercial organizations are discovering the value of benchmarking and are applying it to improve their processes and systems.

Benchmarking processes used by different organisations lack standardization. However, common elements are as follows:

- I. **Identifying the need for benchmarking:** 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.
- II. **Clearly understanding existing business processes:** This step will involve compiling information and data on performance. This will include mapping processes.
- III. **Identify best processes:** Within the selected framework, best processes are identified. These may be within the same organization or external to it.

- IV. Compare own processes and performance with that of others:** While comparing gaps in performance between the organization and better performers is identified. Further, gaps in performance are analysed to seek explanations. Feasibility of making the improvements is also examined.
- V. Prepare a report and Implement the steps necessary to close the performance gap:** A report on the Benchmarking initiatives containing recommendations is prepared. Such a report includes the action plan(s) for implementation.
- VI. Evaluation:** A business organization must evaluate the results of the benchmarking process in terms of improvements vis-à-vis objectives and other criteria set for the purpose. It should also periodically evaluate and reset the benchmarks in the light of changes in the conditions that impact its performance.

Question 12

Kewal Kapadia is the Managing Director of KK industries located in Kanpur. In a review meeting with the head of finance, Kuldeep Khaitan he said that in the first five years of last decade the company grew between 8-10 percent every year, then the growth rate started falling and in previous year the company managed 1 per cent. Kuldeep replied that the company is facing twin issues, one the strategy is not being implemented as planned; and two the results produced by the strategy are not in conformity with the intended goals. There is mismatch between strategy formulation and implementation. Kewal disagreed and stated that he takes personal care in implementing all strategic plans.

You have been hired as a strategy consultant by the KK Industries. Advise way forward for the company to identify problem areas and correct the strategic approaches that have not been effective.

Answer

The company needs to conduct strategy audit.

A strategy audit is needed under the following conditions:

- ◆ When the performance indicators reflect that a strategy is not working properly or is not producing desired outcomes.
- ◆ When the goals and objectives of the strategy are not being accomplished.
- ◆ When a major change takes place in the external environment of the organization.

- ◆ When the top management plans:
 - to fine-tune the existing strategies and introduce new strategies and
 - to ensure that a strategy that has worked in the past continues to be in-tune with subtle internal and external changes that may have occurred since the formulation of strategies.

Adequate and timely feedback is the cornerstone of effective strategy audit. Strategy audit can be no better than the information on which it is based.

Strategy Audit includes three basic activities:

- (i) Examining the underlying bases of a firm's strategy,
- (ii) Comparing expected results with actual results, and
- (iii) Taking corrective actions to ensure that performance conforms to plans.

Question 13

HQ is a service company? Two years back the company hired a reputed management consultant to formulate its strategy. The consultant recommended an aggressive expansion plan. Now in an internal review meeting the company finds that many of the suggestions are not even fully considered.

Which part of strategic management process is missing in HQ?

Answer

Strategy implementation is missing in HQ. Implementation is the managerial exercise of putting a chosen strategy into action. It deals with the managerial exercise of supervising the ongoing pursuit of strategy, making it work, improving the competence with which it is executed and showing measurable progress in achieving the targeted results.

Strategic implementation is concerned with translating a strategic decision into action, which presupposes that the decision itself (i.e., the strategic choice) was made with some thought being given to feasibility and acceptability. The allocation of resources to new courses of action will need to be undertaken, and there may be a need for adapting the organization's structure to handle new activities as well as training personnel and devising appropriate systems.

It is crucial to realize the difference between the formulation and implementation because they both require very different skills. Also, a company will be successful only when the strategy formulation is sound and implementation is excellent.