

Professional Competence Course

Strategic Management



Board of Studies
The Institute of Chartered Accountants of India
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New Delhi

PROFESSIONAL COMPETENCE COURSE

STUDY MATERIAL

**STRATEGIC
MANAGEMENT**

PAPER 6B

Strategic Management



BOARD OF STUDIES
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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Website : www.icai.org.

E-mail : bosnoida@icai.org

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PREFACE

The Paper 6 of Professional Competence Course is divided into two sections viz. Information Technology and Strategic Management. This book has been prepared to help in learning of section B of the Paper – Strategic Management. Information technology and strategic Management are as such two different subjects with different focus. In the examinations also students shall be using separate answer books to attempt different sections. However, at the same time there are some commonalities between the two subjects. Strategic management of information technology in business organizations is an emerging area that requires altogether different managerial skills to handle. Managing information technology is an important aspect that assists in gaining competitive advantage and entails integration of the two subjects. There are two broad issues that emerges. They are (a) strategic management of information technology and (b) using information technology in strategic management. These two issues are not sought to be covered in the study material except for a few inklings here and there. For our purpose, considering that the objective is to provide working knowledge, they shall remain entirely different subjects.

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 in chartered accountancy is included in the education and training. Chartered Accountants reaching high in the corporate ladder also need to be sound in the concepts and principles of strategic management.

As a student of Chartered Accountancy course, you must be keenly going through financial newspapers, reading, inter alia, about mergers, acquisitions, divestments and corporate successes or failures. An inquisitive mind will have several questions. How does a company become successful? How a company remains at the top? How a company identifies its potential and is able to deliver its best? How an organisation is able to cope up and gain command over the dynamic and turbulent environment? Answers to these simple questions are really difficult. The turbulence in the environment forces business organisations to find newer ways to function. Business organisations to perform and excel need a clearer sense of strategic vision and improved understanding of a rapidly changing environment. They need to strategically manage their enterprises. It is interesting to see that businesses compete by selling products that are similar in nature to the same group of customers. They differentiate their products in order to sell. Business organisations that are able to exploit some form of advantage are more profitable than their rivals. With the help of this self-study material on

Strategic Management the student are expected to get some insight in the tools and techniques of strategic management.

The world of business organisations and their strategic management is wonderful, exciting and the literature on this world is even more so. The knowledge in the field and its quality is ever-growing. Numerous books are being written on the subject and hundreds of journals are publishing research and other articles on emerging strategical issues in business organisation. 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 organisations. 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.

Bringing out study material on the subject requires efforts of many. Dr. Saroj Datta, has meticulously prepared a draft of the study material. Acknowledgements are also due to Dr. Sanjeev Shukla and Dr. Sudhir Dikshit who have also contributed in some of the chapters with their writings on selected topics. Last but not the least the efforts taken by Mr. Shaleen Suneja, Assistant Director are well appreciable, who has helped in giving the final shape to this study material.

In case you find any problem or have any observation on the subjects or study material, you are welcome to write a letter to the Institute at C-1, Sector -1, Noida, 201301. Students, staying in (or visiting) New Delhi and NCR may drop-in and take benefit of personally meeting the concerned faculty in the Board of Studies. You will get the needed help provided you are clear what do you want.

Wish you all the best in your study endeavours.

Paper – 6 : Information Technology & Strategic Management

Section B: Strategic Management (50 Marks)

Objectives:

- (a) To develop an understanding of the general and competitive business environment,
- (b) To develop an understanding of strategic management concepts and techniques,
- (c) To be able to solve simple cases.

Contents

1. Business Environment

General Environment — Demographic, Socio-cultural, Macro-economic, Legal/political, Technological, and Global; Competitive Environment.

2. Business Policy and Strategic Management

Meaning and nature; Strategic management imperative; Vision, Mission and Objectives; Strategic levels in organizations.

3. Strategic Analyses

Situational Analysis – SWOT Analysis, TOWS Matrix, Portfolio Analysis — BCG Matrix.

4. Strategic Planning

Meaning, stages, alternatives, strategy formulation.

5. Formulation of Functional Strategy

Marketing strategy, Financial strategy, Production strategy, Logistics strategy, Human resource strategy.

6. Strategy Implementation and Control

Organizational structures; Establishing strategic business units; Establishing profit centers by business, product or service, market segment or customer; Leadership and behavioural challenges.

7. Reaching Strategic Edge

Business Process Reengineering, Benchmarking, Total Quality Management, Six Sigma, Contemporary Strategic Issues.

CONTENTS

CHAPTER 1 : BUSINESS ENVIRONMENT

1.	Introduction	1.1
2.	Business	1.1
3.	Objectives of a Business	1.2
4.	Environmental Influences on Business	1.4
5.	Why Environmental Analysis?	1.6
6.	Characteristics of Business Environment	1.7
7.	Components of Business Environment.....	1.8
8.	Relationship between Organization and its Environment	1.9
9.	The Micro and Macro Environment	1.11
10.	Elements of Micro Environment	1.13
11.	Elements of Macro Environment.....	1.15
12.	Strategic Responses to the Environment.....	1.27
13.	Competitive Environment	1.28
14.	Porter's Five Forces Model - Competitive Analysis.....	1.30

CHAPTER 2 : BUSINESS POLICY AND STRATEGIC MANAGEMENT

1.	Introduction.....	2.1
2.	Business Policy as a Discipline	2.1
3.	What is a Strategy.....	2.2
4.	Generic strategic alternatives.....	2.5
5.	The Dynamics of Competitive Strategy	2.8
6.	Strategic Management	2.9
7.	Strategic Decision Making.....	2.11
8.	The Task of Strategic Management.....	2.12

9.	Vision, Mission and Objectives.....	2.14
10.	Strategic Levels in Organisations.....	2.21

CHAPTER 3 : STRATEGIC ANALYSIS

1.	Introduction.....	3.1
2.	Strategic Analyses.....	3.1
3.	Situational Analysis.....	3.3
4.	The Methods of Industry and Competitive Analysis.....	3.6
5.	Swot Analysis.....	3.12
6.	Tows Matrix.....	3.17
7.	Portfolio Analyses.....	3.18

CHAPTER 4 : STRATEGIC PLANNING

1.	Introduction.....	4.1
2.	Corporate Strategy.....	4.2
3.	The Stages of Corporate Strategy Formulation-Implementation Process.....	4.4
4.	Strategic Alternatives.....	4.12

CHAPTER 5 : FORMULATION OF FUNCTIONAL STRATEGY

1.	Introduction.....	5.1
2.	Marketing Strategy Formulation.....	5.2
3.	Financial Strategy Formulation.....	5.8
4.	Production Strategy Formulation.....	5.12
5.	Logistics Strategy.....	5.13
6.	Research and Development.....	5.14
7.	Human Resource Strategy Formulation.....	5.16

CHAPTER 6: STRATEGY IMPLEMENTATION AND CONTROL

1.	Introduction	6.1
2.	Interrelationships between Strategy Formulation and Implementation	6.2
3.	Issues in Strategy Implementation	6.6
4.	Organization and Strategy Implementation	6.8
5.	Strategic Business Units & Core Competence	6.21
6.	Leadership and Strategic Implementation	6.28
7.	Building a Strategy-Supportive Corporate Culture	6.32

CHAPTER 7: REACHING STRATEGIC EDGE

1.	Introduction	7.1
2.	Business Process Reengineering	7.1
3.	Benchmarking	7.9
4.	Total Quality Management (TQM)	7.12
5.	Six Sigma and Management	7.16
6.	Contemporary Strategic Issues	7.22

CHAPTER 1

BUSINESS ENVIRONMENT

LEARNING OBJECTIVES

- ◆ Understand the term business and its objectives.
- ◆ Know what are the factors that influence a business.
- ◆ Understand what is environmental analysis and why is it needed.
- ◆ Have an basic knowledge of various types of environment.
- ◆ Have an understanding of different micro-economic factors that are affecting business.
- ◆ Know the various macro-economic factors and how they are related to business.
- ◆ Understand the various components of the competitive environment.

Awareness of the environment is not a special project to be undertaken only when warning of change becomes deafening...

Kenneth R. Andrews

It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change.

Charles Darwin

1. INTRODUCTION

Each business organization operates in its unique environment. Environment influence businesses and also gets influenced by it. No business can function free of interacting and influencing forces that are outside its periphery.

2. BUSINESS

Etymologically the term business refers to the state of being busy for an individual, group, organization or society. The term is also interpreted as one's regular occupation or profession.



In addition, the term refers to a particular entity, company or corporation. It is also interpreted as a particular market sector such as the computer business. Thus the term is wide and amenable to different usages. A business for our purposes can be any activity consisting of purchase, sale, manufacture, processing, and/or marketing of products and/or services.

It is said that a business exists for profits. Profit, as a surplus of business, accrues to the owners. It is their share, just as wages are the share of workers. People invest in business for getting a return. It is a reward for risk taking, so far as the owners are concerned. As a motive, profit serves as a stimulant for business effort.

For business enterprises, profit is often regarded as the overall measure of performance. It is treated as a financial yardstick for measuring business efficiency and for evaluating managerial competence – how well the decisions and actions of managers turn out to be effective; how well they are able to combine and utilise resources and to sustain the enterprise as a going and a growing concern. Other things being equal, the higher the efficiency the greater is the level and volume of profit. Business efficiency is often expressed in terms of percentage of profit to sales volume, to capital employed, to market value of corporate shares and so on. Outside investors also equate profit with the degree of business efficiency and managerial competence and commit their funds in light of such equation and other related assessments.

Peter F Drucker has drawn some conclusions about what is a business that are useful for an understanding of the term. The first thing about a business is that it is created and managed by people. There will be a group of people who will take decisions that will determine whether an organization is going to prosper or decline, whether it will survive or will eventually perish. This is true of every business. The second conclusion drawn is that the business cannot be explained in terms of profit. The economic criterion of maximising profits for a firm has little relevance in the present times. Profit maximization, in simple terms is selling at a higher price than the cost. Profit maximization has been qualified with the long-term perspective and has been modified to include development of wealth, to include several non-financial factors such as goodwill, societal factors, relations and so on.

3. OBJECTIVES OF A BUSINESS

A business has some purpose. A valid purpose of business is to create customers. It is for the businesses to create a customer or market. A purpose of business is that business exists to create customers. It is the customer who determines what a business is. The customer is the foundation of business and keeps it in existence. A still broader view of business purpose is that business exists and functions for catering to the material needs and requirements of society, within the framework of general considerations of social interest. Business is society's organ of economic expansion, growth and change.

Enterprises pursue multiple objectives rather than a single objective. In general, we may



identity a set of business objectives pursued by a large cross-section of enterprises. These relate to profitability, productive efficiency, growth, technological dynamism, stability, self-reliance, survival, competitive strength, customer service, financial solvency, product quality, diversification, employee satisfaction and welfare, and so on. Enterprises seek to balance these objectives in some appropriate manner. We may now elaborate some of the more important objectives of business

Survival: Survival is the will and anxiety to perpetuate into the future as long as possible. It is a basic, implicit objective of most organizations. While survival is an obvious objective, it gains more value and prominence during the initial stage of the establishment of the enterprise and during general economic adversity. The ability to survive is a function of the nature of ownership, nature of business competence of management, general and industry conditions, financial strength of the enterprise and so on. However, business and other enterprises are interested in more than mere survival.

Stability: One of the most important of objectives of business enterprises is stability. It is a cautious, conservative objective. In a sense, stability is a least expensive and risky objective in terms of managerial time and talent and other resources. A stable and steady enterprise minimises managerial tensions and demands less dynamism from managers. It is a strategy of least resistance in a hostile external environment.

Growth: This is a promising and popular objective which is equated with dynamism, vigour, promise and success. Enterprise growth may take one or more of the forms like increase in assets, manufacturing facilities, increase in sales volume in existing or through new products, improvement in profits and market share, increase in manpower employment, acquisition of other enterprises and so on. Growth may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.

Efficiency: Business enterprises seek efficiency in rationally choosing appropriate means to achieve their goals, doing things in the best possible manner and utilising resources in a most suitable combination to get highest productivity. In a sense, efficiency is an economic version of the technical objective of productivity—designing and achieving suitable input output ratios of funds, resources, facilities and efforts. Efficiency is a very useful operational objective.

Profitability: It is generally asserted that private enterprises are primarily motivated by the objective of profit. Some may go even further and emphasise that profit is the sole motive of business enterprises. All other objectives are facilitative objectives and are meant to be subservient to the profit motive. It is pointed out that private business enterprises are operated on behalf of and for the benefit of the owners who have assumed the business risk of investing their funds.



4. ENVIRONMENTAL INFLUENCES ON BUSINESS

All living creatures including human beings live within an environment. Apart from the natural environment, environment of humans include family, friends, peers and neighbours. It also includes man-made structures such as buildings, furniture, roads and other physical infrastructure. The individuals do not live in a vacuum. They continuously interact with their environment to live their lives.

Just like human beings, business also does not function in an isolated vacuum. Businesses function within a whole gambit of relevant environment and have to negotiate their way through it. The extent to which the business thrives depends on the manner in which it interacts with its environment. A business which continually remains passive to the relevant changes in the environment is destined to gradually fade-away in oblivion. To be successful business has to not only recognise different elements of the environment but also respect, adapt to or have to manage and influence them. The business must continuously monitor and adapt to the environment if it is to survive and prosper. Disturbances in the environment may spell extreme threats or open up new opportunities for the firm. A successful business has to identify, appraise, and respond to the various opportunities and threats in its environment.

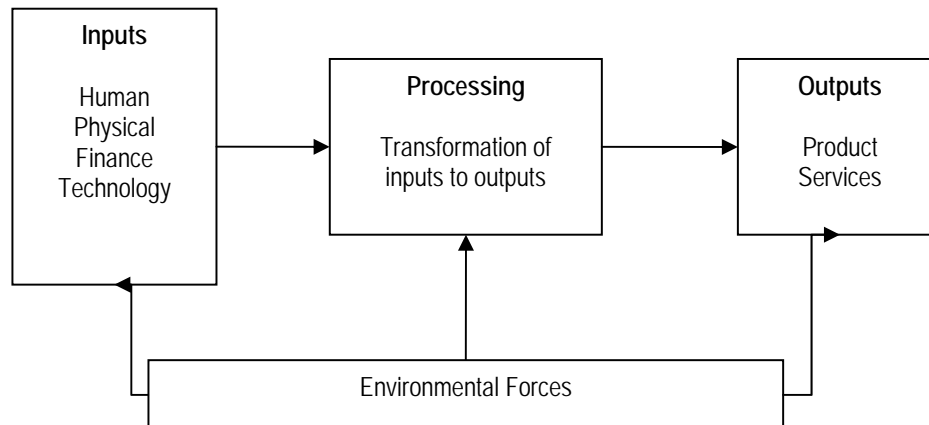
Environment is sum of several external and internal forces that affect the functioning of business. According to Barry M. Richman and Melvyn Copen "Environment factors or constraint are largely if not totally, external and beyond the control of individual industrial enterprises and their managements. These are essentially the 'givers' within which firms and their managements must operate in a specific country and they vary, often greatly, from country to country." A strategist looks on the environment as posing threats to a firm or offering immense opportunities for exploitation. Stressing this aspect, Glueck and Jauch wrote: "The environment includes factors outside the firm which can lead to opportunities for or threats to the firm. Although there are many factors, the most important of the sectors are socio-economic, technological, supplier, competitors, and government. "

Business functions as a part of broader environment. The inputs in the form of human, physical, financial and other related resources are drawn from the environment. The business converts these resources through various processes into outputs of products and/or services. The latter are partly exchanged with the external client groups, say customers. The exchange process brings in some surplus (or profits, reputation, good public image and so on) to the business, which could be stored and used for further development and growth.

Different organizations use different inputs, adopt different processes and produce different outputs. For example, an educational institution produces literate people. A hospital provides health and medical services. Organizations depend on the external environment for the inputs required by them and for disposing of their outputs in a mutually beneficial manner. The inputs-output exchange activity is a continuous process and calls for an active interaction with



the external environment.



4.1 Problems in understanding the environmental influences

In trying to understand the environment, managers face different problems as follows:

- ◆ The environment encapsulates many different influences; the difficulty is in making sense of this diversity in a way which can contribute to strategic decision-making. Listing all conceivable environmental influences may be possible, but it may not be much use because no overall picture emerges of really important influences on the organization.
- ◆ The second difficulty is that of uncertainty. Managers typically claim that the pace of technological change and the speed of global communications mean more and faster change now than ever before. Whether or not change is in fact faster now than hitherto, and whether or not the changes are more unpredictable, it remains the case that, while it is important to try to understand future external influences on an organization, it is very difficult to do so.
- ◆ Managers are no different from other individuals in the way they cope with complexity. They tend to simplify such complexity by focusing on aspects of the environment, which, perhaps, have been historically important, or confirm prior views. These are not perverse managerial behaviours; they are the natural behaviour of everyone faced with complexity. Arguably, one of the tasks of the strategic manager is to find ways & means to break out of oversimplification or bias in the understanding of their environment, while still achieving a useful and usable level of analysis.

4.2 Framework to understand the environmental influences

In spite of the problems in understanding business environment, organizations can not ignore it. We will make an attempt to identify a framework for understanding the environment of



organizations. This will help in identifying key issues, find ways of coping with complexity and also assist in challenging managerial thinking.

- ◆ Firstly, it is useful to take an initial view of the nature of the organizations environment in terms of how uncertain it is. Is it relatively static or does it show signs of change, and in what ways? Is it simple or complex to comprehend? This helps in deciding what focus the rest of the analysis is to take.
- ◆ The next step might be the auditing of environmental influences. Here the aim is to identify which of the many different environmental influences are likely to affect the organization's development or performance. This is done by considering the way in which political, economic, social and technological influences have a bearing on organizations. It is increasingly useful to relate such influences to growing trends towards globalization of industries. It may also be helpful to construct pictures - or scenarios - of possible futures, to consider the extent to which strategies might need to change.
- ◆ The final step is to moves the focus more towards an explicit consideration of the immediate environment of the organization - for example, the competitive arena in which the organization operates. In competitive environment we will study five forces analysis (*discussed later*) that aims to identify the key forces at work in the immediate or competitive environment and why they are significant. From these steps should emerge a view of the really important developments taking place around the organization. It may be that there are relatively few of outstanding significance; or it could be that there are many interconnected developments. What matters is that there should be an attempt to understand why these are of strategic significance. It is also required to analyse the organization's competitive position: that is, how it stands in relation to those other organizations competing for the same resources, or customers, as itself.

5. WHY ENVIRONMENTAL ANALYSIS?

When the company ceases to adjust the environment to its strategy or does not react to the demands of the environment by changing its strategy, the result is lessened achievement of corporate objectives. From environmental analysis strategists get time to anticipate opportunities and to plan to take optional responses to these opportunities. It also helps strategists to develop an early warning system to prevent threats or to develop strategies which can turn a threat to the firm's advantage. It is clear that because of the difficulty to assessing the future, not all future events can be anticipated. But some can and are. To the extent that some or most are anticipated by this analysis and diagnosis, managerial decisions are likely to be better. And the process reduces the time pressures on the few which are not anticipated. Thus, the managers can concentrate on these few instead of having to deal with all the environmental influences.

In general, environmental analysis has three basic goals as follows:



- ◆ *First*, the analysis should provide an understanding of current and potential changes taking place in the environment. It is important that one must be aware of the existing environment. At the same time one must have a long term perspective about the future too.
- ◆ *Second*, environmental analysis should provide inputs for strategic decision making. Mere collection of data is not enough. The information collected must be useful for and used in strategic decision making.
- ◆ *Third*, environment analysis should facilitate and foster strategic thinking in organizations- typically a rich source of ideas and understanding of the context within which a firm operates. It should challenge the current wisdom by bringing fresh viewpoints into the organization.

"Positive trends in the environment breed complacency. That underscores a basic point: in change there is both opportunity and challenge". - Clifton Garvin

6. CHARACTERISTICS OF BUSINESS ENVIRONMENT

Business environment exhibits many characteristics. Some of the important – and obvious – characteristics are briefly described here.

- ◆ **Environment is complex:** the environment consists of a number of factors, events, conditions and influences arising from different sources. All these do not exist in isolation but interact with each other to create entirely new sets of influences. It is difficult to comprehend at once what factors constitute a given environment. All in all, environment is a complex that is somewhat easier to understand in parts but difficult to grasp in totality.
- ◆ **Environment is dynamic:** the environment is constantly changing in nature. Due to the many and varied influences operating, there is dynamism in the environment causing it to continuously change its shape and character.
- ◆ **Environment is multi-faceted:** What shape and character an environment assumes depends on the perception of the observer. A particular change in the environment, or a new development, may be viewed differently by different observers. This is frequently seen when the same development is welcomed as an opportunity by one company while another company perceives it as a threat.
- ◆ **Environment has a far reaching impact:** The environment has a far reaching impact on organizations. The growth and profitability of an organization depends critically on the environment in which it exists. Any environment change has an impact on the organization in several different ways.



7. COMPONENTS OF BUSINESS ENVIRONMENT

The environment in which an organization exists could be broadly divided into two parts *the external* and *the internal* environment. Since the environment is complex, dynamic, multi-faceted and has a far reaching impact, dividing it into external and internal components enables us to understand it better. Here we deal with the appraisal of the external environment. We start with gaining an understanding of the concept of environment. This is done through a description of four important characteristics of the environment, dividing the environment into its external and internal parts, observing how a systematic approach can help in environmental appraisal, and classifying the external environment into two parts, the general and the relevant environment. Next, we see how the external environment can be divided into different components.

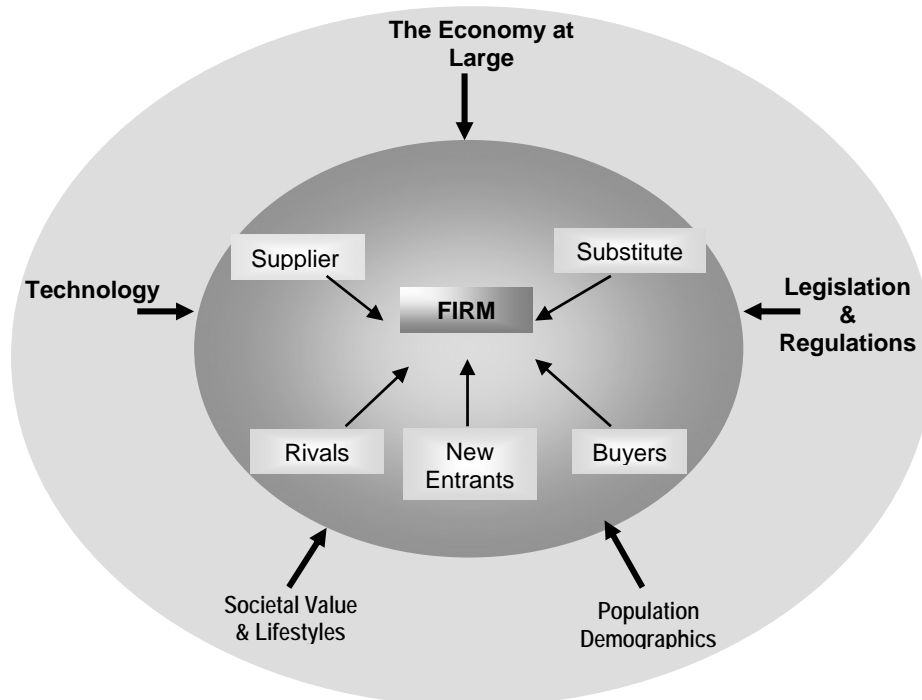


Figure: A Company's Business Environment

The *external environment* (Macro Environment) includes all the factors outside the organization which provide opportunity or pose threats to the organization. The *internal environment* (Micro Environment) refers to all the factors within an organization which impart strengths or cause weaknesses of a strategic nature.

The environment in which an organization exists can, therefore, be described in terms of the



opportunities and threats operating in the external environment apart from the strengths and weaknesses existing in the internal environment. The four environmental influences could be described as follows:

- ◆ *An opportunity* is a favourable condition in the organization's environment which enables it to consolidate and strengthen its position. An example of an opportunity is growing demand for the products or services that a company provides.
- ◆ *A threat* is an unfavourable condition in the organization's environment which creates a risk for, or causes damage to, the organization. An example of a threat is the emergence of strong new competitors who are likely to offer stiff competition to the existing companies in an industry.
- ◆ *A strength* is an inherent capacity which an organization can use to gain strategic advantage over its competitors. An example of a strength is superior research and development skills which can be used for new product development so that the company gains competitive advantage.
- ◆ *A weakness* is an inherent limitation or constraint which creates a strategic disadvantage. An example of a weakness is over dependence on a single product line, which is potentially risky for a company in times of crisis.

An understanding of the external environment, in terms of the opportunities and threats, and the internal environment, in terms of the strengths and weaknesses, is crucial for the existence, growth and profitability of any organization.

A systematic approach to understanding the environment is the SWOT analysis. Business firms undertake *SWOT analysis* to understand the external and internal environment. SWOT, which is the acronym for *strengths, weaknesses, opportunities and threats*. Through such an analysis, the strengths and *weaknesses existing* within an organization can be matched with the opportunities and threats operating in the environment so that an effective strategy can be formulated. An effective organizational strategy, therefore, is one that capitalises on the opportunities through the use of strengths and neutralises the threats by minimizing the impact of weaknesses. The process of strategy formulation starts with, and critically depends on, the appraisal of the external and internal environment of an organization. We will learn SWOT analysis in the third chapter.

8. RELATIONSHIP BETWEEN ORGANIZATION AND ITS ENVIRONMENT

In relation to the individual corporate enterprise, the external environment offers a range of opportunities, constraints, threats and pressures and thereby influences the structure and functioning of the enterprise. As a sub-system, the corporate enterprise draws certain inputs of resources, information and values from the larger environmental system, transforms them into outputs of products, services, goals and satisfactions and exchanges with or transmits them



into the external environment. In the process, it generates energy and sustains itself.

The relationship between the organization and its environment may be discussed in terms of interactions between them in several major areas which are outlined below:

- ◆ *Exchange of information:* The organization scans the external environmental variables, their behaviour and changes, generates important information and uses it for its planning, decision-making and control purposes. Much of the organizational structure and functioning is attuned to the external environmental information. Information generation is one way to get over the problems of uncertainty and complexity of the external environment. Information is to be generated on economic activity and market conditions, technological developments, social and demographic factors political-governmental policies and postures, the activities of other organizations and so on. Both current and projected information is important for the organization.

Apart from gathering information, the organization itself transmits information to several external agencies either voluntarily, inadvertently or legally. Other organizations and individuals may be interested in the organization and its functioning and hence approach the organization for information. It is also possible to glean information from the behaviour of the organization itself, from its occasional advertisements, and from annual reports. Also, the organization may be legally or otherwise bound to supply information on its activities to governmental agencies, investors, employees, trade unions, professional bodies and the like.

- ◆ *Exchange of resources:* The organization receives inputs—finance, materials, manpower, equipment etc., from the external environment through contractual and other arrangements. It sustains itself by employing the above inputs for involving or producing output of products and services. The organization interacts with the factor markets for purposes of getting its inputs; it competes sometimes and collaborates sometimes with other organizations in the process of ensuring a consistent supply of inputs.

The organization is dependent on the external environment for disposal of its output of products and services to a wide range of clientele. This is also an interaction process—perceiving the needs of the external environment and catering to them, satisfying the expectations and demands of the clientele groups, such as customers, employees, shareholders, creditors, suppliers, local community, general public and so on. These groups tend to press on the organization for meeting their expectations, needs and demands and for upholding their values and interests.

- ◆ *Exchange of influence and power:* Another area of organizational-environmental interaction is in the exchange of power and influence. The external environment holds considerable power over the organization both by virtue of its being more inclusive as also by virtue of its command over resources, information and other inputs. It offers a range of



opportunities, incentives and rewards on the one hand and a set of constraints, threats and restrictions on the other. In both ways, the organization is conditioned and constrained. The external environment is also in a position to impose its will over the organization and can force it to fall in line. Governmental control over the organization is one such power relationship. Other organizations, competitors, markets, customers, suppliers, investors etc., also exercise considerable collective power and influence over the planning and decision making processes of the organization.

In turn, the organization itself is sometimes in a position to wield considerable power and influence over some of the elements of the external environment by virtue of its command over resources and information. The same elements which exercise power over the organization are also subject to the influence and power of the organization in some respects. To the extent that the organization is able to hold power over the environment it increases its autonomy and freedom of action. It can dictate terms to the external forces and mould them to its will.

In delineating the relationship between the organization and the environment, one has to be clear on the diversity of both these entities. On the one hand, the nature of relationship depends on the size of the organization, its age, the nature of business, the nature of ownership, degree of professionalization of management, etc. On the other hand, the relationship depends on the fact whether the external environmental elements behave in a random or structured manner (uncertainty *v.* predictability), whether such elements are placid or turbulent, whether they are slow-changing or fast changing, whether they are simple or complex, and so forth. The degree of interaction between the organization and the external environment is set by the above characteristics. It follows therefore that all organizations do not behave in the same way in relation to their external environment. Their structures and functions are shaped in tune with the demands of the external environment.

9. THE MICRO AND MACRO ENVIRONMENT

The environment of business can be categorised into two broad categories micro-environment and macro-environment. Micro-environment is related to small area or immediate periphery of an organization. Micro-environment influences an organization regularly and directly. Within the micro or the immediate environment within which the firm operates we need to address the following issues:

- ◆ The employees of the firm, their characteristics and how they are organised.
- ◆ The customer base on which the firm relies for business.
- ◆ The ways in which the firm can raise its finance.
- ◆ Who are the firms suppliers and how are the links between the two being developed?
- ◆ The local community within which the firm operates.



Strategic Management

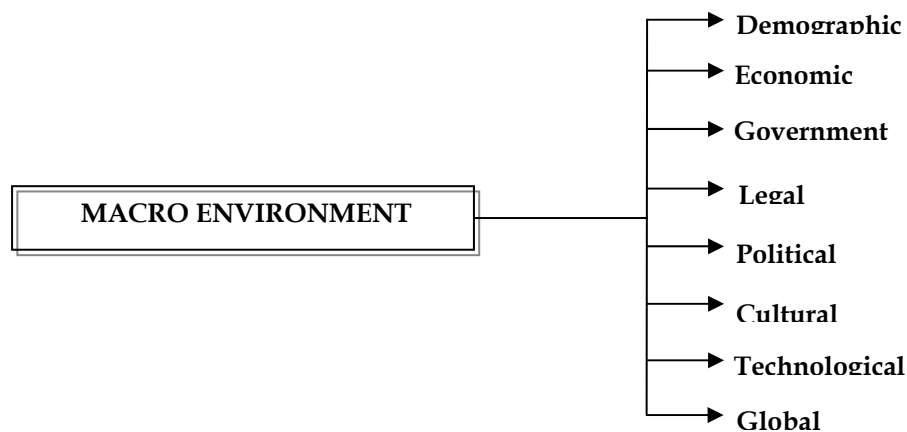
- ◆ The direct competition and how they perform.

This last point might act as a convenient linking point as we move towards the macro issues influencing the way a firm reacts in the market place. Macro environment has broader dimensions. It mainly consist of economic, technological, political legal and socio-cultural. The issues concerning an organization are:

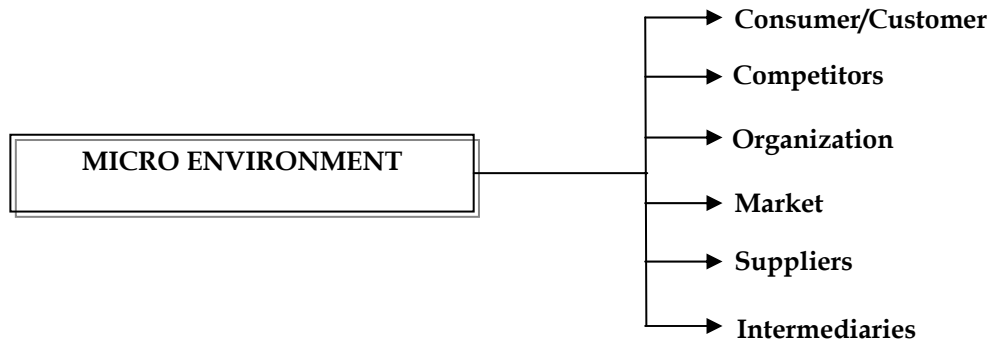
- ◆ Who are their threats in the competitive world in which they operate and why?
- ◆ Which areas of technology might pose a threat to their current product range and why?
- ◆ The bargaining power of suppliers and customers?
- ◆ The type of competition they are facing and their perceived threats and weaknesses?

The classification of the relevant environment into components or sectors helps an organization to cope with its complexity, comprehend the different influences operating, and relating the environmental changes to its strategic management process. Different bases for classification have been adopted. As already discussed earlier there are two types of environmental forces, which influences an organizations business operation. Some of these forces are external to the firm and the organization has little control over them. Whereas the other types of forces which comes from within the organization and can be controlled by it. Hence, the business environment can be divided into two major components:

Macro Environment: consists of demographics and economic conditions, socio-cultural factors, political and legal systems, technological developments, etc. These constitute the general environment, which affects the working of all the firms.



Micro environment: consist of suppliers, consumers, marketing intermediaries, etc. These are specific to the said business or firm and affects it's working on short term basis.



Environmental Scanning

Environmental scanning also known as Environmental Monitoring is the process of gathering information regarding company's environment, analysing it and forecasting the impact of all predictable environmental changes. Successful marketing depends largely on how a company can synchronise its marketing programmes with its environmental changes.

10. ELEMENTS OF MICRO ENVIRONMENT

This is also known as the task environment and affects business and marketing in the daily operating level. When the changes in the macro environment affect business in the long run, the effect micro environmental changes are noticed immediately. Organizations have to closely analyse and monitor all the elements of micro environment in order to stay competitive.

10.1 Consumers/Customers

According to Peter Drucker the aim of business is to create and retain customer. Customers are the people who pay money to acquire an organization's products. The products may be both in form of goods or services. The organizations cannot survive without customers. They will cease to exist. Customers may or may not be a consumer. Consumer is the one who ultimately consumes or uses the product or service. A father may buy a product as a customer for his daughter who will be a consumer. A consumer occupies the central position in the marketing environment. The marketer has to closely monitor and analyse changes in consumer tastes and preferences and their buying habits.

- ◆ Who are the customers/consumers?
- ◆ What benefits are they looking for?
- ◆ What are their buying patterns?

10.2 Competitors

Competitors are the other business entities that compete for resources as well as markets.



Competition shapes business. A study of the competitive scenario is essential for the marketer, particularly threats from competition. Following are a few of major questions that may be addressed for analysing competitions:

- ◆ Who are the competitors?
- ◆ What are their present strategy and business objective?
- ◆ Who are the most aggressive and powerful competitors?

Competition may be direct or indirect. Direct competition is between organizations, which are in same business activity. At the same time competition can also be indirect. For example, competition between a holiday resort and car manufacturing company for available discretionary income of affluent customers is indirect competition.

10.3 Organization

Individuals occupying different positions or working in different capacities in organizations consists of individuals who come from outside. They have different and varied interests. In micro environment analysis, nothing is important as self-analysis by the organization itself. Understanding its own strengths and capabilities in a particular business, i.e., understanding a business in depth should be the goal of firm's internal analysis. The objectives, goals and resource availabilities of a firm occupy a critical position in the micro environment.

"We have met the enemy and he is us" - Pogo.

An organization has several non-specific elements of the organization's surroundings that may affect its activities. These consists of specific organizations or groups that are likely to influence an organization. These are:

- ◆ *Owners:* They are individuals, shareholders, groups, or organizations who have a major stake in the organization. They have a vested interest in the well-being of the company.
- ◆ *Board of directors:* Board of directors are found in companies formed under the Companies Act, 1956. The board of directors is elected by the shareholders and is charged with overseeing the general management of the organization to ensure that it is being run in a way that best serves the shareholders' interests.
- ◆ *Employees:* Employees are the people who actually do the work in an organization. Employees are the major force within an organization. It is important for an organization that employees embrace the same values and goals as the organization. However, they differ in beliefs, education, attitudes, and capabilities. When managers and employees work toward different goals everyone suffers.

10.4 Market

The market is larger than customers. The market is to be studied in terms of its actual and



potential size, its growth prospect and also its attractiveness. The marketer should study the trends and development and the key success factors of the market he is operating. Important issues are :

- ◆ Cost structure of the market.
- ◆ The price sensitivity of the market.
- ◆ Technological structure of the market.
- ◆ The existing distribution system of the market.
- ◆ Is the market mature?

10.5 Suppliers

Suppliers form an important component of the micro environment. The suppliers provide raw materials, equipment, services and so on. Large companies rely on hundreds of suppliers to maintain their production. Suppliers with their own bargaining power affect the cost structure of the industry. They constitute a major force, which shapes competition in the industry. Also organizations have to take a major decision on “outsourcing” or “in-house” production depending on this supplier environment.

10.6 Intermediaries

Intermediaries exert a considerable influence on the business organizations. They can also be considered as the major determining force in the business. In many cases the consumers are not aware of the manufacturer of the products they buy. They buy product from the local retailers or big departmental stores such as Big bazaars that are increasingly becoming popular.

11. ELEMENTS OF MACRO ENVIRONMENT

Macro environment is explained as one which is largely external to the enterprise and thus beyond the direct influence and control of the organization, but which exerts powerful influence over its functioning. The external environment of the enterprise consists of individuals, groups, agencies, organizations, events, conditions and forces with which the organization comes into frequent contact in the course of its functioning. It establishes interacting and interdependent relations, conducts transactions, designs and administers appropriate strategies and policies to cope with fluctuations therein and otherwise negotiates its way into the future.

11.1 Demographic environment

The term demographics denotes characteristics of population in a area, district, country or in world. It includes factors such as race, age, income, educational attainment, asset ownership,



home ownership, employment status and location. Data with respect to these factors within a demographic variable, and across households, are both of interest, as well as trends over time to businessmen in addition to economist. Marketers and other social scientists often group populations into categories based on demographic variables. Some of the demographic factors have great impact on the business. Factors such as general age profile, sex ratio, education, growth rate affect the business with different magnitude. India has relatively younger population as compared to some countries. China on the other hand is having an aging population. Multinationals are interested in India considering its population size. With having approximately sixteen percent of the world's population, the country holds huge potential for overseas companies.

Business Organizations need to study different demographic factors. Particularly, they need to address following issues:

- ◆ What demographic trends will affect the market size of the industry?
- ◆ What demographic trends represent opportunities or threats?

The business, as such, is concerned with a population's size, age structure, geographic distribution, ethnic make-up, and distribution of income. While each of the major elements of discussed below, the challenge for strategists is to determine what the changes, that have been identified in the demographic characteristics or elements of a population, imply for the future strategic competitiveness of the company. We will briefly discuss a few factors that are of interest to a business.

(i) *Population Size*: While population size itself, large or small, may be important to companies that require a "critical mass" of potential customers, changes in the specific make-up of a population's size may have even more critical implications. Among the most important changes in a population's size are:

- ◆ Changes in a nation's birth rate and/or family size;
- ◆ Increases or declines in the total population;
- ◆ Effects of rapid population growth on natural resources or food supplies.

Changes in a nation's birth rate or life expectancy can have important implications for companies. Are people living longer? What is the life expectancy of infants? There will be implications for the health care system (for companies serving that segment) and for the development of products and services targeted at older (or younger) population.

(ii) *Geographic Distribution*: Population shifts from one region of a nation to another or from non-metropolitan to metropolitan areas may have an impact on a company's strategic competitiveness. Issues that should be considered include:



- ◆ The attractiveness of a company's location may be influenced by governmental support.
- ◆ Companies may have to consider relocation if population shifts have a significant impact on the availability of a qualified workforce.
- ◆ The concepts of working-at-home and commuting electronically on the information highway have also started in India in an very small level. These may imply changes in recruiting and managing the workforce.

(iii) *Ethnic Mix*: This reflects the changes in the ethnic make-up of a population and has implications both for a company's potential customers and for the workforce. Issues that should be addressed include:

- ◆ What do changes in the ethnic mix of the population imply for product and service design and delivery?
- ◆ Will new products and services be demanded or can existing ones be modified?
- ◆ Managers prepared to manage a more culturally diverse workforce?
- ◆ How can the company position itself to take advantage of increased workforce heterogeneity?

(iv) *Income Distribution*: Changes in income distribution are important because changes in the levels of individual and group purchasing power and discretionary income often result in changes in spending (consumption) and savings patterns. Tracking, forecasting, and assessing changes in income patterns may identify new opportunities for companies

11.2 Economic environment

The economic environment refers to the nature and direction of the economy in which a company competes or may compete. The economic environment includes general economic situation in the region and the nation, conditions in resource markets (money market, manpower market, raw material components, services, supply markets and so on) which influence the supply of inputs to the enterprise, their costs, quality, availability and reliability of supplies.

Economic environment determines the strength and size of the market. The purchasing power in an economy depends on current income, prices, savings, circulation of money, debt and credit availability. Income distribution pattern determines the marketing possibilities. The important point to consider is to find out the effect of economic prospect and inflation on the operations of the firms. Strategists must scan, monitor, forecast, and assess a number of key economic factors mentioned in the table below for both domestic and key international markets.



Key Economic Factors

◆ Shift to a service economy	◆ Availability of credit
◆ Level of disposable income	◆ Propensity of people to spend
◆ Interest rates	◆ Inflation rates
◆ Tax rates	◆ Money market rates
◆ Government budget deficits	◆ Gross national product trend
◆ Consumption patterns	◆ Trade Block Formations
◆ Demand shifts for different categories of goods and services	◆ Income differences by region and consumer groups
◆ Price fluctuations	◆ Worker productivity levels
◆ Global movement of labour and capital	◆ Monetary & Fiscal policies
◆ Stock market trends	◆ Foreign countries' economic conditions
◆ Import/export factors	◆ Company of Petroleum Exporting Countries (OPEC) policies
◆ Coalitions of Countries/ Regional blocks	◆ Unemployment trends

11.3 Political-Legal Environment

This is partly general to all similar enterprises and partly specific to an individual enterprise. It includes such factors as the general state of political development, the degree of politicalization of business and economic issues, the level of political morality, the law and order situation, political stability, the political ideology and practices of the ruling party, the purposefulness and efficiency of governmental agencies, the extent and nature of governmental intervention in the economy and the industry, Government policies (fiscal, monetary, industrial, labour and export-import policies), specific legal enactments and framework in which the enterprise has to function and the degree of effectiveness with which they are implemented, public attitude towards business in general and the enterprise in particular and so on. There are three important elements in political-legal environment.

- (i) **Government:** Business is highly guided and controlled by government policies. Hence the type of government running a country is a powerful influence on business: A strategist has to consider the changes in the regulatory framework and their impact on the business.

Taxes and duties are other critical area that may be levied and affect the business. For example, introduction of Fringe benefits Tax has major impact on the business.



- (ii) **Legal:** Business Organizations prefer to operate in a country where there is a sound legal system. However, in any country businesses must have a good working knowledge of the major laws protecting consumers, competitions and organizations. Businesses must understand the relevant laws relating to companies, competition, intellectual property, foreign exchange, labour and so on.
- (iii) **Political:** Political pressure groups influence and limit organizations. Apart from sporadic movements against certain products, service and organizations, politics has deeply seeped into unions. Also special interest groups and political action committees put pressure on business organizations to pay more attention to consumer's rights, minority rights, and women rights.

11.4 Socio-Cultural environment

This is too general an entity which influence almost all enterprises in a similar manner. It is a complex of factors such as social traditions, values and beliefs, level and standards of literacy and education, the ethical standards and state of society, the extent of social stratification, conflict and cohesiveness and so forth.

Socio-cultural environment consist of factors related to human relationships and the impact of social attitudes and cultural values which has bearing on the business of the organization. The beliefs, values and norms of a society determine how individuals and organizations should be interrelated. The core beliefs of a particular society tend to be persistent. It is difficult for businesses to change these core values, which becomes a determinant of its functioning.

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

- ◆ Social concerns, such as the role of business in society, environmental pollution, corruption, use of mass media, and consumerism.
- ◆ Social attitudes and values, such as expectations of society from business, social customs, beliefs, rituals and practices, changing lifestyle patterns, and materialism.
- ◆ Family structure and changes in it, attitude towards and within the family, and family values.
- ◆ Role of women in society, position of children and adolescents in family and society.
- ◆ Educational levels, awareness and consciousness of rights, and work ethics of members of society.

The social environment primarily affects the strategic management process within the organization in the areas of mission and objective setting, and decisions related to products and markets.



11.5 Technological environment

The most important factor, which is controlling and changing people's life, is technology. Technology has literally created wonder. Man could realise its dream of walking in the moon, traveling in spaceships, and go to the other side of the globe within few hours. They have already started dreaming of living of very extended life of hundreds years with the latest development of genetic sciences and technology.

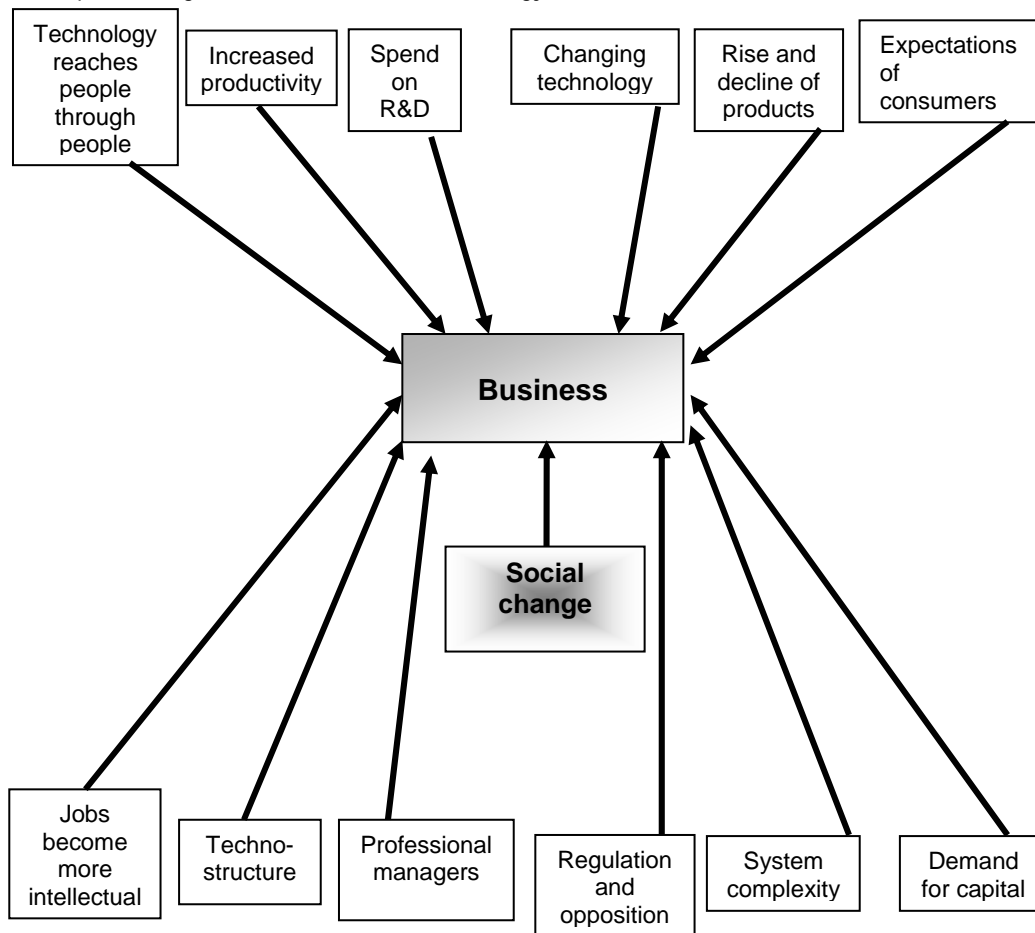


Figure: Interference between Business & Technology

Technology has changed the way people communicate with the advent of Internet and telecommunication system. Technology has changed the ways of how business operates now. This is leading to many new business opportunities as well as making obsolete many existing



systems. The following factors are to be considered for the technological environment:

- ◆ The pull of technological change.
- ◆ Opportunities arising out of technological innovation.
- ◆ Risk and uncertainty of technological development.
- ◆ Role of R&D in a country and government's R&D budget.

The technology and business are highly interrelated and interdependent also. The fruits of technological research and development are available to society through business only and this also improves the quality of life of the society. Hence, technology is patronized by business. Then again technology also drives business and makes a total change on how it is carried out. The interface between business and technology is explained in the figure: Interface between Business & Technology. Important technology-related issues that might affect a broad variety of companies include:

- ◆ Access to the "information highway" through the Internet which may enable large numbers of employees to work from home or provide strategists with access to richer sources of information,
- ◆ Business-to-business sales and exchanges,
- ◆ Providing customers with access to online shopping through the Internet.

For example, Dell Computer Corporation reduces its paperwork flow, schedules its payments more efficiently, and is able to coordinate its inventories efficiently and effectively by using the capabilities of the Internet. This helps to eliminate/reduce paperwork, flatten companies, and shrink time and distance, thus capturing a competitive premium for the company. Because the technological aspects are so important, some of the key questions that can be asked in assessing the technological environment are given below.

- ◆ What are the technologies {both manufacturing and information technologies} used by the company?
- ◆ Which technologies are utilised in the company's business, products, or their parts?
- ◆ How critical is each technology to each of these products and businesses?
- ◆ Which external technologies might become critical and why? Will they remain available outside the company?
- ◆ What has been the investment in the product and in the process side of these technologies? For the company and for its competitors? Design? Production? Implementation and service?



- ◆ What are the other applications of the company's technologies? In which applications does the company currently participate and why? In which applications does the company not participate and why?
- ◆ Which technological investments should be curtailed or eliminated?
- ◆ What additional technologies will be required in order to achieve the current corporate business objectives? .
- ◆ What are the implications of the technology and business portfolios for corporate strategy?

11.6 Global environment

Today's competitive landscape requires that companies must analyse global environment as it is also rapidly changing. The new concept of global village has changed how individuals and organizations relate to each other. Further, new migratory habits of the workforce as well as increased offshore operation are changing the dynamics of business operation. Among the global environmental factors that should be assessed are:

- ◆ Potential positive and negative impact of significant international events such as a sport meet or a terrorist attack.
- ◆ Identification of both important emerging global markets and global markets that are changing. This includes shifts in the newly industrialised countries in Asia that may imply the opening of new markets for products or increased competition from emerging globally competitive companies in countries such as South Korea and China.
- ◆ Differences between cultural and institutional attributes of individual global markets.

Due to economic reforms, Indian businessmen are also out to see beyond the physical boundaries of the country. The Indian companies are acquiring business in different countries. The need to think and act from global perspective is universal. For a long time businessmen everywhere believed that home markets were adequate and safe. They never felt the need to explore the overseas markets in a big way. "If they could pick up some extra sales through exporting, these businessmen were more than satisfied. The scenario is different now. The companies are increasingly interested in globalising.

Nature of Globalization

Globalization means several things for several people. For some it is a new paradigm - a set of fresh beliefs, working methods, and economic, political and socio-cultural realities in which the previous assumptions are no longer valid. 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) it also means 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.

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. Nestle International is an example of an enterprise that has become multinational. It sells its products in most countries and manufactures in many. 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 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:

- ◆ One reason could be the rapid shrinking of time and distance across the globe thanks to faster communication, speedier transportation, growing financial flows and rapid technological changes.



Strategic Management

- ◆ 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. Some European companies have gone global for similar reason.
- ◆ According to Raymond Vernon companies that develop attractive new products sell them first in their home markets. Sooner or later, foreigners may learn about these products. At this stage, most companies would export the product or service rather than produce it abroad. But as foreign demand grows, the economics of foreign production change. Eventually, the foreign market becomes large enough to justify foreign investment.
- ◆ Another reason for going overseas may also vary by industry. Petroleum and mining companies often go global to secure a reliable or cheaper source of raw-materials. Some manufacturing companies, by contrast, have often ventured overseas to protect old markets or to seek new ones. For example cheap labour in India lure foreign investors.
- ◆ Companies often set up overseas plants to reduce high transportation costs. The higher the ratio of the unit cost to the selling price per unit, the more significant the transportation factor becomes.
- ◆ The motivation to go global in high-tech industries is slightly different. Companies in electronics and telecommunications must spend large sums on research and development for new products and thus may be compelled to seek ways to improve sales volume to support high overhead expenses. If domestic sales and exports do not generate sufficient cash flow, the companies naturally might look to overseas manufacturing plants and sales branches to generate higher sales and better cash flow.

The following developments are also responsible for transnational operation of companies.

- ◆ Increasing emphasis on market forces and a growing role for the private sector in nearly all developing countries;
- ◆ Rapidly changing technologies that are transforming the nature, organization, an location of international production;
- ◆ The globalization of firms and industries;
- ◆ 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 select developing countries.

Manifestation of globalization

Globalization manifests itself in many ways. important of them are:

- ◆ **Configuring anywhere in the world:** An MNC can locate its different operations in



different countries on the basis of raw material availability, consumer markets and low-cost labour.

- ◆ **Interlinked and independent economies:** In terms of economic-welfare, globalization refers to the unique economically interdependent international environment. Each country's prosperity is interlinked with the rest of the world. No nation can any longer hope to lead an existence of solitude and isolation in which only domestic industries can function.
- ◆ **Lowering of trade and tariff barriers:** The apparent and real collapse of international trade barriers proposes a new global cooperative arrangement and a redefinition of 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. World over, governments are pulling out from commercial business. The trade tariffs and custom barriers are getting lowered, resulting in cheaper and abundant supply of goods.
- ◆ **Infrastructural resources and inputs at International prices:** Infrastructural inputs must be ensured at competitive prices, if the companies were to compete globally. The advantages of cheap labour (and other inputs) evaporate in the face of continuous inflation and high infrastructural costs.
- ◆ **Increasing trend towards privatization:** Governments are everywhere withdrawing from owning and running business enterprises. Private entrepreneurs are given greater access and freedom to run business units. The role of government is reduced to the provider of infrastructure for private business to prosper.
- ◆ **Entrepreneur and his unit have a central economic role:** In the emerging world order, the entrepreneur and his unit become central figures in the process of economic growth and development of a nation. Given the right environment, businesses are able to innovate, bring in new products, and contribute to nation's wealth. For the risk he takes and efforts he puts in, the businesses are rewarded with profits. Related to this is the viability of the business unit. Only firms which are cost effective and quality oriented survive and prosper. Weak and marginal firms die their natural death.
- ◆ **Mobility of skilled resources:** Skilled labour was once considered to be the decisive factor in plant location and even in determining comparative advantage of a



nation. Not any more. Skilled labour is highly mobile. Modern factories use highly skilled labour which is freely mobile. Where labour is unskilled, managements are spending vast sums of money to train workers become skilled in their jobs. Besides labour, other factors of production (land and capital) are also mobile. A developing country which is long on land and short on capital can invite foreign investment and make good the deficiency. Similarly, a developed country which is long on capital and short on land can use a developing country as a base for its manufacturing operations.

Thus, the traditional factors of production, viz., land, labour and capital, are no more immobile or restricted for usage with. They are transferable from any part of the world to any other part of the globe. The entire world has become a global village.

- ◆ **Market-side efficiency:** Integration of global markets implies that costs, quality processing time, and terms of business become dominant competition drivers. Customers can make a genuine choice of products and services on the basis of maximum value for money. The exclusive markets which were once enjoyed are no longer available to a firm. The inexorable pressure of technology and need for its integration means that customers no longer have to be satisfied with shoddy products and services provided by the state monopolies.
- ◆ **Formation of regional blocks:** A final corollary to globalization is the formation of trade blocks. The reasons for forming such blocks are obvious. Countries, like corporations, have to form strategic alliances to ward off economic and technological threats and leverage their respective comparative and competitive advantages. The signing of NAFTA (North American Free Trade Area) among N. America, Canada, and Mexico creates new markets and manufacturing opportunities for these countries and threatens to disrupt the plans and strategies of world powers such as Japan. Similarly formation of European Union and ASEAN affects the World trade balance.

India is part of South Asian Association for Regional cooperation (SAARC). SAARC consist of seven South Asian Countries with Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Srilanka as its members in addition of India. SAARC endeavours to accelerate economic growth in the Region. It also strives for social progress and cultural development in the region, promotion of active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields and strengthening of cooperation among the member states in the International forums on matters of common interest.



12. STRATEGIC RESPONSES TO THE ENVIRONMENT

The business organization and its many environments have innumerable interrelationships that at times, it becomes difficult to determine exactly where the organization ends and where its environment begins. It is also difficult to determine exactly what business should do in response to a particular situation in the environment. Strategically, the businesses should make efforts to exploit the opportunity and thought the threats.

In this context following approaches may be noted:

- (i) **Least resistance:** Some businesses just manage to survive by way of coping with their changing external environments. They are simple goal-maintaining units. They are very passive in their behaviour and are solely guided by the signals of the external environment. They are not ambitious but are content with taking simple paths of least resistance in their goal-seeking and resource transforming behaviour.
- (ii) **Proceed with caution:** At the next level, are the businesses that take an intelligent interest to adapt with the changing external environment. They seek to monitor the changes in that environment, analyse their impact on their own goals and activities and translate their assessment in terms of specific strategies for survival, stability and strength. They regard that the pervasive complexity and turbulence of the external environmental elements as 'given' within the framework of which they have to function as adaptive-organic sub-systems. This is an admittedly sophisticated strategy than to wait for changes to occur and then take corrective-adaptive action.
- (iii) **Dynamic response:** At a still higher sophisticated level, are those businesses that regard the external environmental forces as partially manageable and controllable by their actions. Their feedback systems are highly dynamic and powerful. They not merely recognise and ward off threats; they convert threats into opportunities. They are highly conscious and confident of their own strengths and the weaknesses of their external environmental 'adversaries'. They generate a contingent set of alternative courses of action to be picked up in tune with the changing environment.

Shaping external environment

How far is it possible for organizations to actively shape their relevant environments is an critical question? Can human organizations ever become such super-powerful entities? Is total environmental control and command worth the cost? What are the self-defeating elements in such an approach? Admittedly, the very dominating behaviour of command organizations may generate powerful countervailing pressures and forces in the environment. It should be remembered that the external environment is larger and more inclusive than the individual organization; presumably the former commands more resources and its interests and values are much broader than those of the latter.



A innovative and autonomous organization generates its own constraints. It is not above the rule of law and logic of the external environment. Within certain limits, such an organization can shape part of its relevant external environment on a reciprocal basis.

13. COMPETITIVE ENVIRONMENT

The essence of strategy formulation is coping with competition. Intense competition is neither a coincidence nor bad luck. All organizations have competition. Multinationals and large organizations clash directly on every level of product and service. Mid-sized and small business also chase same customers and find that prices and product quality are bounded by the moves of their competitors. Even large public sector monopolies are gradually getting privatised and facing competition. The monopolies enjoyed by the Bharat Sanchar Nigam Ltd and Mahanagar Telephone Nigam Ltd have faded away after entry of private players. For a single business organization the competition spells out freedom of entry and exit in the market and affects its prices and scale of operations

The nature and extent of competition that a business is facing in the market is one of the major factors affecting the rate of growth, income distribution and consumer welfare. Businesses have to consider competitors' strategies, profits levels, costs, products and services when preparing and implementing their business plans.

While formulating strategies, organizations have to separately identify and concentrate on the competitors who are significantly affecting the business. Lesser attention may be given to smaller competitors who have little or no impact the business. There can be several competitors vying to satisfy same needs of customers. Competition is not necessarily restricted to same product or services. Coke and Pepsi may be obvious competitors. At the same time they have to compete with other companies such as Hindustan Lever Ltd whose Kisan squashes will be directed towards same needs. They have to also compete with natural juices such as Real.

A better understanding of the nature and extent of competition may be reached by answering the following questions:

- (i) Who are the competitors?
- (ii) What are their product and services?
- (iii) What are their market shares?
- (iv) What are their financial positions?
- (v) What gives them cost and price advantage?
- (vi) What are they likely to do next?
- (vii) Who are the potential competitors?



Cooperation in a Competitive Environment: In economics we study oligopoly, wherein a small number of only manufactures/sellers of a product may join together to have monopolistic behaviour. An example of oligopoly can be Organization of the Oil Exporting Countries (OPEC), which is collective group of nations extracting and exporting oil. Its aim according to its Statute, is 'the coordination and unification of the petroleum policies of member countries and the determination of the best means for safeguarding their interests, individually and collectively; ways and means of ensuring the stabilization of prices in international oil markets with a view to eliminating harmful and unnecessary fluctuations. The cooperation in organizations forming *cartels* (a term used to define the groups in oligopoly) may be in form of deciding market shares, prices and profits. It is not necessary that the organizations form explicit cartels as they may have tacit arrangements not known to general public.

The cooperation may also be witnessed in highly competitive business environment. Tata and Fiat have arrangements in relations to cars. Such cooperation is not necessarily restricted to the organizations producing or dealing in same product or services. They may identify some common interest for cooperation between them. A cold drink manufacture may enter into arrangement with a chain of restaurants to offer its beverages to the clients of restaurants. Lately, various credit card companies are entering into arrangements with other businesses to launch co-branded credit cards. Such arrangements help in reaching greater number of customers. The benefits of cooperation are also seen in Japan, where large cooperative networks of businesses are known as *kieretsus*. These are formed in order to enhance the abilities of individual member businesses to compete in their respective industries. A *kieretsu* is a loosely-coupled group of companies, usually in related industries. *Kieretsu* members are peers and may own significant amounts of each other's stock and have many board members in common. However, they are different from conglomerates (Common in western countries and also found in India) wherein all members are lineated through ownership pattern. A *kieretsu* also differs from a consortium or an association, as the primary purpose of a *kieretsu* is not to share information or agree industry standards, but to share purchasing, distribution or any other functions. In *Kieretsu* members remain independent companies in their own right: the only strategy they have in common is to prefer to do business with other *kieretsu* members, both when buying and when selling.

Cooperation on account of family ownership: Theoretically, cooperation generates automatically in businesses owned by a same family. The ownership, groups are engaged in the management of their enterprise in a direct manner. Commonly, the ownership group is nothing but a family and its kith and kin. In India, a very large number of business enterprises, big, medium and small, are family-managed enterprises. These include large business houses such as Tata, Birla, Godrej, Reliance, Modi, Escorts and *et al*. Major decisions and sometimes even minor decisions are made by members of the family who manage the enterprise. The interests of the family largely influence the managerial decisions and activities of the enterprise. There is a total identity between the needs and goals of the family and of the



enterprise.

Sometimes, quarrels and conflicts among the managing members of the family on family matters tend to distort their behaviour in managing the enterprise also and thereby damage its functioning. Succession remains a tricky and conflicting issue in businesses. Be it the Ambanis of Reliance Industries, the Bajajs of Bajaj Auto, the Nandas of Escorts, or the Modis of Modi Rubber - each family has, in the recent past, faced succession and ownership issues and found them tough to resolve. However, one can count several counter examples of family-run businesses that have resolved these issues amicably. The Murugappa Group in the South, the Burmans of Dabur India and the Thapars have settled succession issues without coming into the public eye.

14. PORTER'S FIVE FORCES MODEL - COMPETITIVE ANALYSIS

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. Thinking strategically about a company's competitive environment entails using some well defined concepts and analytical tools.

The character, mix, and subtleties of competitive forces are never the same from one industry to another. A powerful and widely used tool for systematically diagnosing the principal competitive pressures in a market and assessing the strength and importance of each is the *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 maneuvering 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 way one uses the five-forces model to determine what competition is like in a given industry is to build the picture of competition in three 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.

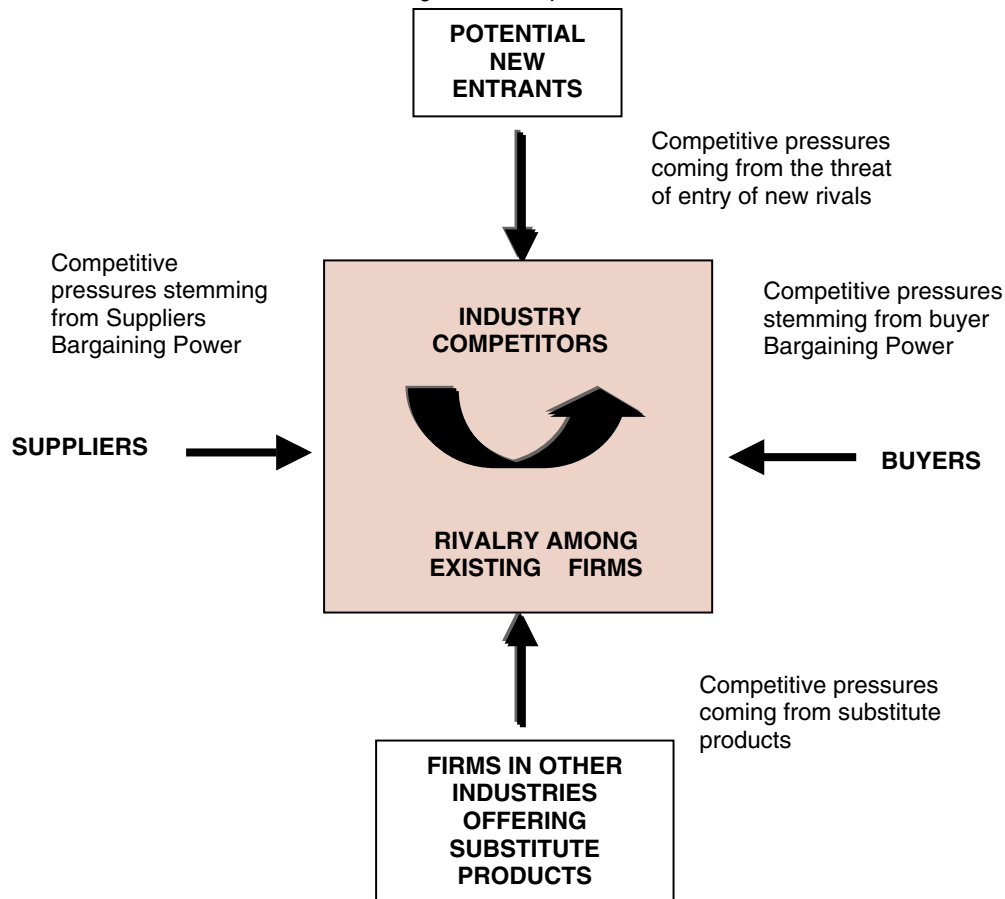


Figure: The Five Force model of Competition

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.

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 in matters such as price, quality and delivery. Two top CDMA service providers Reliance and Tata Teleservices are putting a simultaneous pressure on Qualcomm to reduce the royalties on the CDMA based handsets. Such a collusion on the part of buyers can be a major force in some industries. 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.

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.

Rivalry among current players: The rivalry among existing players is an idea that can be easily understood. This is what is normally understood as competition. And it is obvious that for any player, the competitors influence prices as well as the costs of competing in the industry, in production facilities product development, advertising, sales force, etc.

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.

So, in addition to existing rivals or competitors proper, forces such as new entrants, customers, suppliers, and substitutes have all to be viewed as forces governing competition in the industry. A firm has to give due weightage to each of these forces as a fight can emerge from any quarter.

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 as also within a given

Self-Examination Questions

Multiple Choice Questions

1. All are elements of micro environment except:
 - (a) Consumer.
 - (b) Suppliers.
 - (c) Competitors.
 - (d) Society.
2. All are elements of macro environment except:
 - (a) Society.
 - (b) Government.
 - (c) Competitors.
 - (d) Technology.
3. Select the correct statement out of the following:
 - (a) Environmental factors are totally beyond the control of a single industrial enterprise.
 - (b) Environmental factors are largely beyond the control of a single industrial enterprise.
 - (c) Environmental factors are totally within the control of a single industrial enterprise.
 - (d) None of the above.
4. In response to the changes in the environment organizations in general should:
 - (a) Understand the impact of changes on the strategy and make appropriate modifications.
 - (b) Make efforts that changes are reverted back so that organizations can function smoothly.
 - (c) Ignore the changes.



- (d) None of the above.
5. Read the following three statements:
- (i) The environment is constantly changing in nature
 - (ii) Various environmental constituents exist in isolation and do not interact with each other.
 - (iii) The environment has a far reaching impact on organizations.
- From the combinations given below select an alternative that represent statements that are true:
- (a) (i) and (ii).
 - (b) (ii) and (iii)
 - (c) (i) and (iii)
 - (d) (i), (ii) and (iii)

Short answer Questions

1. What is a kieretsus?
2. What is demographic environment of business?
3. Write a short note on micro environment.

Essay type Questions

1. Do you advocate that organizations should concern themselves with the elements of its outside world? Why?
2. Discuss the relations between organizations and their external environment? How organizations strategically respond to their environment?
3. What do you mean by micro and macro environment?
4. Briefly discuss various elements of macro environment.
5. What is competitive environment? Discuss the five forces driving industry competition as given by Porter.

Case Study

Information technology (IT) exports from the Software Technology Park in Sohanpur in Uttar Pradesh has increased from Rs 1005 crore to Rs 1455 crore in the last five years. To further this growth and discuss the common issues various IT professionals of different companies assembled for a meeting. Their agenda included discussion on the issues relevant for the development of the technology park and available opportunities in IT industry for companies



planning to set up IT and processing businesses in Sohanpur.

It was felt by a few persons that the absence of an airport and availability of uninterrupted round the clock power supply were major hurdles towards the development of the park. The nearest airport is 600 km away in New Delhi.

One of the participant highlighted the importance of world-class telecommunication facilities in the area. He felt that the telecommunications technology in the region is primitive and is not able to meet the present needs of the region. He also spoke at length about the problems of frequent job changes by present youth. He highlighted that a major problem is lack of patience in the young generation of IT professionals. He said retention was a major problem in Sohanpur as professional also preferred bigger cities. He suggested that the IT businesses should get together to create a conducive working climate for retention as well as growth.

Read the above case and answer the following questions:

- (1) List out different environmental factors for a new entrepreneur who wants to start a new IT project in the Technology park. Segregate them as positive and negative.
- (2) What is importance of an Airport in the city? Discuss.
- (3) Suggest how manpower issues can be dealt by the businesses in the park.

Answers - Multiple Choice Questions

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

CHAPTER 2

BUSINESS POLICY AND STRATEGIC MANAGEMENT

LEARNING OBJECTIVES

- ◆ Learn what business policy and strategy is all about.
- ◆ Know the framework and importance of strategic management.
- ◆ Know the strategic management process.
- ◆ Have an understanding of corporate vision and mission.
- ◆ Learn how strategy operates at different levels of the organization.

Without a strategy the organization is like a ship without a rudder.

Joel Ross and Michael Kami

Strategic management is not a box of tricks or a bundle of techniques. It is analytical thinking and commitment of resources to action.

Peter Drucker

1. INTRODUCTION

This chapter introduces the concept of business policy and strategic management. With the increased competition, the management of business has acquired strategic dimension. All professionals, including the chartered accountants, working towards growth of their businesses must possess sound knowledge of strategic management. Business policy and strategic management are highly intertwined.

2. BUSINESS POLICY AS A DISCIPLINE

The origins 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. This course was based on interactive case studies which had been in use at the



Strategic Management

school for instructional purposes since 1908. The course was intended to enhance general managerial capability of students. 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. During the next few decades, business policy as a course spread to different management institutes across different nations and become an integral part of management curriculum. Basically, business policy is considered as a capstone, integrative course offered to students who have previously been through a set of core functional area courses. The term 'Business Policy' has been traditionally used though new titles for the course have begun to be introduced in recent years.

According to Glueck, development in business policy arose from 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 strategic decision making.

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. Such a framework enables a person to make preparations for handling general management responsibilities.

3. WHAT IS A STRATEGY

A typical dictionary will define the word strategy as something that has to do with war and deception of an enemy. In business organizational context the term is not much different. Businesses have to respond to a dynamic and often hostile environment for pursuit of their mission. Strategy seeks to relate the goals of the organization to the means of achieving them. A company's strategy is the game plan management is using to stake out market position, conduct its operations, attract and please customers, compete successfully, and achieve organizational objectives.



Business Policy and Strategic Management

A company's strategy consists of the combination of competitive moves and business approaches that managers employ to please customers, compete successfully and achieve organizational objectives. We may define 'strategy' as a long range blueprint of an organization's desired image, direction and destination what it wants to be, what it wants to do and where it wants to go. Following other definitions are also important 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 was 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 achieve effectiveness, to mobilise resources, to direct effort and behaviour, to handle events and problems, to perceive and utilise opportunities, and to meet challenges and threats to corporate survival and success. In corporate strategy, the set of goals has a system of priorities; the combination, the sequence and the timing of the moves, means and approaches are determined in advance, the initiative and responses have a cogent rationale behind them, are highly integrated and pragmatic; the implications of decisions and action programmes are corporate wide, flexible and contingent.

The very injection of the idea of strategy into business organizations is intended to unravel complexity and to reduce uncertainty of the environment. 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.

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 and to make major decisions in general. Top management operates in an environment of partial ignorance and uncertainty.

In general, a corporate strategy has the following characteristics:

- ◆ It is generally long-range in nature, though it is valid for short-range situations also and has short-range implications.
- ◆ It is action oriented and is more specific than objectives.
- ◆ It is multipronged and integrated.



Strategic Management

- ◆ It is flexible and dynamic.
- ◆ It is formulated at the top management level, though middle and lower level managers are associated in their formulation and in designing sub-strategies.
- ◆ It is generally meant to cope with a competitive and complex setting.
- ◆ It flows out of the goals and objectives of the enterprise and is meant to translate them into realities.
- ◆ It is concerned with perceiving opportunities and threats and seizing initiatives to cope with them. It is also concerned with deployment of limited organizational resources in the best possible manner.
- ◆ It gives importance to combination, sequence, timing, direction and depth of various moves and action initiatives taken by managers to handle environmental uncertainties and complexities.
- ◆ It provides unified criteria for managers in function of decision making.

Strategies are meant to fill in the need of enterprises for a sense of direction, focus and coherent functioning. Strategies provide an integral framework for management to negotiate its way through a complex and turbulent external environment. They provide a systematic basis for the enterprise to stand its ground in the face of challenge and change as also quickly adjust to them. They obviate the occasions for impulsive and crisis decisions, false starts, misdirected moves, wasted resource uses and the like. Without a network of well designed strategies, followed up by policies, corporate objectives and goals tend to remain as mere aspirations and good intentions. Even if they get off the ground, they will be lacking drive and direction. The role of strategies thus stems from the fact that achievement of organizational objectives is best with uncertainties and pitfalls.

Strategies are formulated at the corporate, divisional and functional level. Corporate strategies are formulated by the top managers. They include the determination of the business lines, 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.

However, strategy is no substitute for sound, alert and responsible management. Strategy can never be perfect, flawless and optimal. It is in the very nature of strategy that it is flexible and pragmatic; it is art of the possible; it does not preclude second-best choices, trade-offs, sudden emergencies, pervasive pressures, failures and frustrations. However, in a sound strategy, allowances are made for possible miscalculations and unanticipated events.



4. GENERIC STRATEGIC ALTERNATIVES

According to William F Glueck and Lawrence R Jauch there are four generic ways in which strategic alternatives can be considered. These are stability, expansion, retrenchment and combinations.

4.1 Stability strategies: 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 products and services.
- ◆ The strategic decisions focus on incremental improvement of functional performance

Stability strategies are implemented by approaches wherein few functional changes are made in the products or markets. It 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 mature business organizations. Some small organizations will also frequently use stability as a strategic focus to maintain comfortable market or profit position.

4.2 Expansion Strategy: Expansion strategy is implemented by redefining the business by adding the scope of business substantially increasing the efforts of the current business. Expansion is a promising and popular strategy that tends to be equated with dynamism, vigor, promise and success. An enterprise on the move is a 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. The strategy may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.

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 of 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 through acquisitions and mergers: 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.

4.3 Retrenchment Strategy: A business organization can redefine its business by divesting a major product line or market. Retrenchment or retreat becomes necessary or expedient for coping with particularly hostile and adverse situations in the environment and when any other strategy is likely to be suicidal—'Strategic retreat' is often resorted to in military engagements. In business parlance also, retreat is not always a bad proposition to save the enterprise's vital interests, to minimise the adverse effects of advancing forces, or even to regroup and recoup the resources before a fresh assault and ascent on the growth ladder is launched.

The nature, extent and timing of retrenchment are matters to be carefully decided by management, depending upon each contingency. The enterprise has several options open to it in designing and acting upon its strategy. In cases of temporary and partial setbacks, the enterprise can endeavour to cut back on its capital and revenue expenditures—new administrative blocks, replacement of worn-out machinery, advertising, R & D activities, employee welfare subsidies, community development projects, executives perks, and so on. In somewhat more serious cases of hard times, inventory levels, manufacturing level,



manpower, plant maintenance, dividend to shareholders and interest on deposits, are some of the areas for slashing or postponement as the case may be. In the next stage, the enterprise may think of withdrawing from some marginal markets, withdrawal of some brands and sizes of products, withdrawal of even some slow moving products, winding up some branch offices, abolition of some executive positions and so on. In the fourth stage, the enterprise may resort to sale of some manufacturing facilities and individual product divisions which are a drag on the enterprise's resources. It may also seek retirement either from the production or the marketing stage. It is also possible to think of offering itself for take-over by another more viable enterprise. As a last option an enterprise may seek liquidation which means corporate death. This is the difficult solution, an answer to all problems of existence and a liberation from the fetters of frustration.

4.4 Combination Strategies: 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.

5. THE DYNAMICS OF COMPETITIVE STRATEGY

Strategic thinking involves orientation of the firm's internal environment with the changes of the external environment. The competitive strategy evolves out of consideration of several factors that are external to the firm as shown in the figure - Context in which competitive strategy is formulated

The economic and technical component of the external environment are considered as major factors leading to new opportunities for the organization and also closing threats. Similarly the broader expectation of the society in which the organization operates is again an important factor to determine the competitive strategy. The strengths and weaknesses of organizations are the internal factors, which determine the corporate strategy. It is to be analysed and find out in which functional area such as marketing, R & D, operations, etc. the organization has superiority over the competitors. The strength is to be considered in the context of the opportunities arising in the external environment. The personal values of the key implementers also play major roles in formulating the competitive strategy.

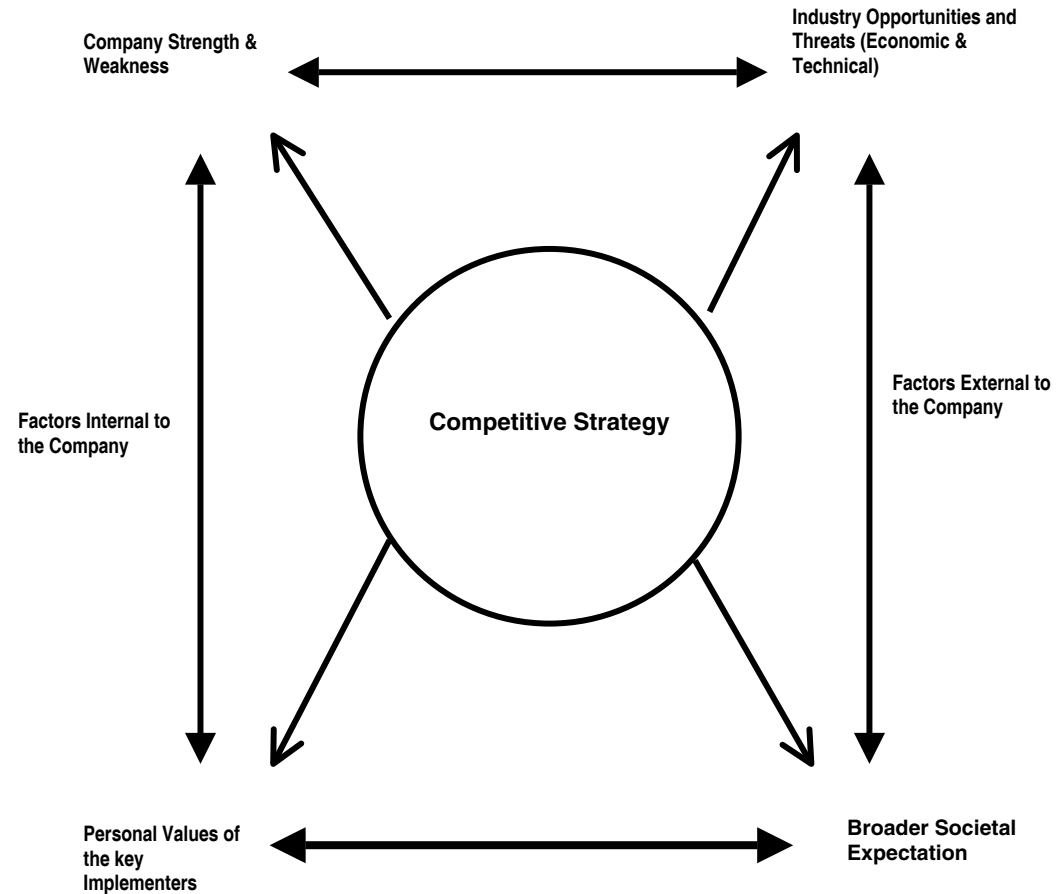


Figure: Context in which Competitive Strategy is Formulated

6. 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 adopt 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. 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 present 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 it may be change introduced to the firms 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.

Strategic management starts with developing a company mission (to give it direction), objectives and goals (to give it means and methods for accomplishing its mission), business portfolio (to allow management to utilize all facets of the organization), and functional plans (plans to carry out daily operations from the different functional disciplines).

No matter how well the strategic processes have been designed and implemented, success depends on how well each department performs its customer-value-adding activities and how well the departments work together to serve the customer. Value chains and value delivery networks have become popular with organizations that are sensitive to the wants and needs of consumers. Ultimately the aim of strategic management is to save the company's business products, services and communications so that they achieve targeted profits and growth.

The term strategic management refers to the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy, and then overtimes initiating whatever corrective adjustments in the vision, objectives, strategy, and execution are deemed appropriate.

6.1 Framework

The basic framework of strategic process can be described in a sequence of five stages as shown in the figure - *Framework of strategic management*: The five stages are as follows:

Stage one: This is the starting point of strategic planning and consists of doing a situational analysis of the firm in the environmental context. Here the firm must find out its relative market position, corporate image, its strength and weakness and also environmental threats and opportunities. This is also known as SWOT (Strength, Weakness, Opportunity, Threat) analysis. You may refer third chapter for a detailed discussion on SWOT analysis.

Stage two: This is a process of goal setting for the organization after it has finalised its vision and mission. A strategic vision is a roadmap of the 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.

An organization's Mission states what customers it serves, what need it satisfies, and what type of product it offers.



Stage three: Here the organization deals with the various strategic alternatives it has.

Stage four: Out of all the alternatives generated in the earlier stage the organization selects the best suitable alternative in line with its SWOT analysis.

Stage five: This is a implementation and control stage of a suitable strategy. Here again the organization continuously does situational analysis and repeats the stages again.

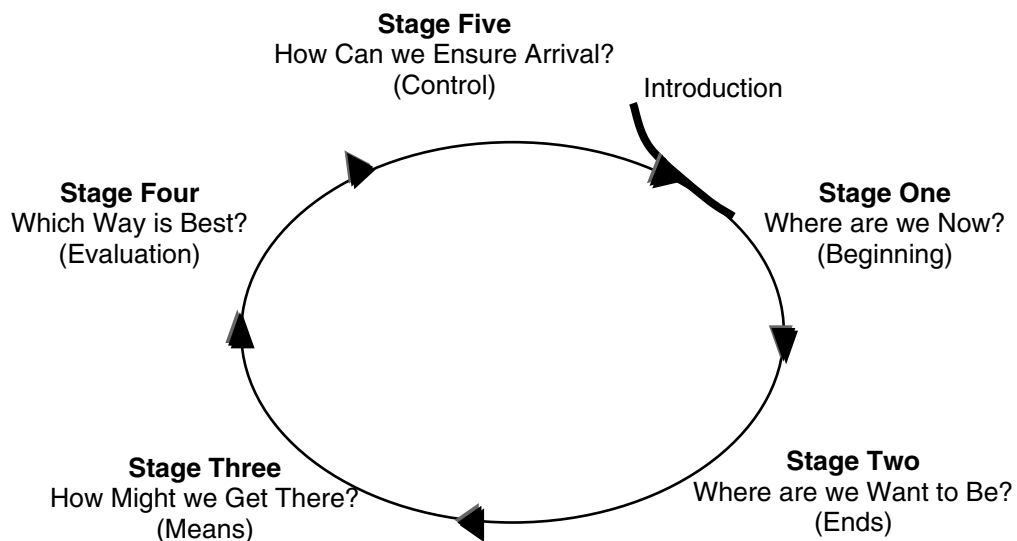


Figure - Framework of strategic management

6.2 Importance of Strategic Management

Strategic management provides the framework for all the major business decisions of an enterprise such as decisions on businesses, products and markets, manufacturing facilities, investments and organizational structure. In a successful corporation, strategic planning works as the pathfinder to various business opportunities; simultaneously, it also serves as a corporate defence mechanism, helping the firm avoid costly mistakes in product market choices or investments.

Strategic management has the ultimate burden of providing a business organization with certain core competencies and competitive advantages in its fight for survival and growth. It is not just a matter of projecting the future. It is not just a forecasting job; it is concerned with ensuring a good future for the firm. It seeks to prepare the corporation to face the future and even shape the future in its favour. Its ultimate burden is influencing the environmental forces in its favour, working into the environs and shaping it, instead of getting carried away by its turbulence or uncertainties. It is environmental uncertainty that makes strategy and strategic conduct essential in a business. The more intense the



environmental uncertainty, more critical is the need for strategic management.

Quite naturally, considerable thought, expertise and effort goes into the process of strategic management. The success of the efforts and activities of the enterprise depends heavily on the quality of strategic management, i.e. the vision, insight, experience, quality of judgment and the perfection of methods and measures.

Strategic planning and implementation have become a must 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' organization but those who can change and adapt successfully to the changes in business environment. Just like the extinction of the dinosaur who ruled the earth one time but failed to survive in change condition of earth natural environment many organizational giants have also followed the path of extinction failing to manage drastic changes in the business environment. Also business follows the war principle of 'win or lose', and not necessarily win-win situation arises in business world. Hence the organization has to build its competitive advantage over the competitors in the business warfare in order to win. This can be done only following strategic analysis, formulation and implementation.

7. STRATEGIC DECISION MAKING

Decision making is a managerial process and function of choosing a particular course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. Decisions may relate to general day to day operations. They may be major or minor. They may also be strategic in nature. Strategic decisions are different in nature than all other decisions which are taken at various levels of the organization during day-to-day working of the organizations. The major dimensions of strategic decisions are given below:

- ◆ *Strategic issues require top-management decisions:* Strategic issues involve thinking in totality of the organizations and also there is lot of risk involved. Hence, problems calling for strategic decisions require to be considered by top management.
- ◆ *Strategic issues involve the allocation of large amounts of company resources:* It may require huge financial investment to venture into a new area of business or the organization may require huge number of manpower with new set of skills in them.
- ◆ *Strategic issues 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 issues are future oriented:* Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.



Strategic Management

- ◆ *Strategic issues usually have major multifunctional or multi-business consequences:* As they involve organization in totality they affect different sections of the organization with varying degree.
- ◆ *Strategic issues 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.

8. THE TASK OF STRATEGIC MANAGEMENT

The strategy-making/strategy-implementing process consists of five interrelated managerial tasks. These are

- ◆ *Setting vision and mission:* Forming a strategic vision of where the organization is headed, so as to provide long-term direction, delineate what kind of enterprise the company is trying to become and infuse the organization with a sense of purposeful action.
- ◆ *Setting objectives:* Converting the strategic vision into specific performance outcomes for the company to achieve.
- ◆ *Crafting a strategy to achieve the desired outcomes.*
- ◆ *Implementing and executing the chosen strategy efficiently and effectively.*
- ◆ *Evaluating performance and initiating corrective adjustments in vision, long-term direction, objectives, strategy, or execution in light of actual experience, changing conditions, new ideas, and new opportunities.*

Strategic management model

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 modal 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.

Identifying an organization's existing vision, mission, objectives, and strategies is the starting point for any strategic management process because an organization present situation and condition may preclude certain strategies and may even dictate a particular course of action. Every organization has a vision, mission, objectives, and strategy, 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.

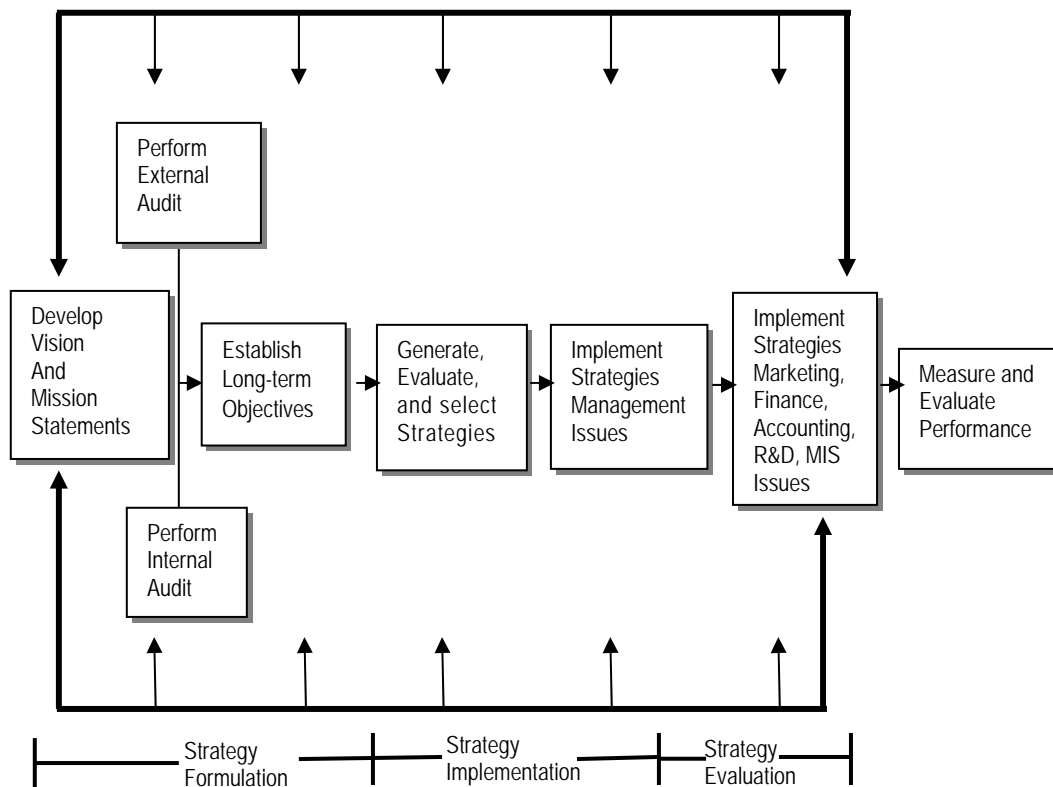


Figure Strategic Management Model

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 and candour from participants



Strategic Management

are encouraged in meeting. Good communication and feedback are needed throughout the strategic management process.

Application of the strategic management process is typically more formal in larger and well-established organizations. Formality refers to the extent that participants, responsibilities, authority, duties, and approach are specified. Smaller businesses tend to be less formal. Firms that compete in complex, rapidly changing environments, such as technology companies, tend to be more formal in strategic planning. Firms that have many divisions, products, markets, and technologies also tend to be more formal in applying strategic-management concepts. Greater formality in applying the strategic management process is usually positively associated with the cost, comprehensiveness, accuracy, and success of planning across all types and sizes of organizations.

9. VISION, MISSION AND OBJECTIVES

Amongst the various steps in the strategic management model we will restrict discussion to vision, mission and objectives in this chapter.

How can you lead if you do not know where are you going?

George Newman, The Conference Board

Management's job is not to see the company as it isbut as it can become.

- John W Teets, CEO, Greyhound Corporation

9.1 The Vision

Very early in the strategy making process, a company's senior managers must wrestle with 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 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 business, providing a panoramic view of the "where we are going" and a convincing rationale for why this makes good business sense for the company. A strategic vision thus points an organization in a particular direction, charts a strategic path for it to follow in preparing for the future, and molds 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



Business Policy and Strategic Management

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:

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 arouse organization wide commitment.

How to develop 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.
- ◆ Many successful organizations need to change direction not in order to survive but in order to maintain their success.
- ◆ A well-articulated strategic vision creates enthusiasm for the course management has charted and engages members of the organization.
- ◆ The best-worded vision statement clearly and crisply illuminate the direction in which organization is headed.

9.2 Mission

According to Glueck & Jauch mission is answer to the question 'what business are we in' that is faced by corporate-level strategist. Analysis shows that in actual practice many business firms fail to conceptualise and articulate the mission and business definition with the required clarity. And such firms are seen to fumble in the selection of opportunities and the choice of strategies. Firms wedded to the idea of strategic management of their enterprise cannot afford to be lax in the matter of mission and business definition, as the two ideas are absolutely central to strategic planning.

Why organization should have mission?

- ◆ To ensure unanimity of purpose within the organization.



Strategic Management

- ◆ To provide a basis for motivating the use of the organization's resources.
- ◆ To develop a basis, or standard, for allocating organizational resources.
- ◆ To establish a general tone or organizational climate, for example, to suggest a businesslike operation.
- ◆ To serve as a focal point for those who can identify with the organization's purpose and direction, and to deter those who cannot form participating further in the organization's activities.
- ◆ 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 should contain elements of long-term strategy as well as desired out comes they often basic values and the philosophy of the organizations that is perceived by the senior managers at the senior level who write them. A good mission statement should be of precise, clear, feasible, distinctive and motivating. It should indicate major components of strategy. Following points are useful while writing mission of a company :

- ◆ The mission is not to make a profit.
- ◆ 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 situated companies.
- ◆ A company's business is defined by what needs it trying to satisfy, by which customer groups it is targeting and by the technologies and competencies it uses and the activities it performs.
- ◆ Technology, competencies and activities are important in defining a company's business because they indicate the boundaries on its operation.
- ◆ Good mission statements are highly personalized – unique to the organization for which they are developed.

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?
- ◆ Do we know our customer?
- ◆ 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 import of these questions; those were 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.



Strategic Management

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.

A mission does not represent a specific target. At the same time it is not all euphoria either. It represents the whole thrust of the firm. To quote Thomas Watson, Jr., former chairman of IBM, "The basic philosophy, spirit, and drive of an organization have far more to do with its relative achievements than technological or economic resources, organizational structure, innovation and timing. It also expresses the core values and beliefs of the firm".

Every organization functions through a network of aims. Mission is the foundation from which the network of aims 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
AT&T	We operate a long-distance telephone company.	We provide multiple forms of reliable, efficient and inexpensive telecommunication services
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
Eastman	We make cameras and film.	We help preserve beautiful memories



Business Policy and Strategic Management

Kodak		
Revlon	In the factory, we make cosmetics.	In the drugstore, we sell hope

Understanding Mission and Purpose

The mission is a statement which defines the role that an organization plays in the society. The organisations also have some purpose that is anything that an organization 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. Both have different purposes but an identical mission:

Some examples of vision, mission and objectives

Mission and vision of the Institute of Chartered Accountants of India

<i>Mission</i>	The Indian Chartered Accountancy Profession will be the valued Trustees of World Class Financial Competencies, Good Governance and Competitiveness.
<i>Vision</i>	<p>Recognise the changes in Economy/Business Environment such as focus on value, dynamic business and organization structures, developments in Information Technology and Telecommunication, new Government policies, globalization of business and competitive pressures.</p> <p>Recognise the path to success by adapting to the changes, knowledge management and acquiring skills to work with future environment influenced by technological and other changes.</p> <p>Recognise the opportunities for Chartered Accountants in the emerging areas such as new audit and assurance needs, performance measurement services, change management services, strategy</p>



Strategic Management

	<p>management, general practice specialization and servicing global organizations.</p> <p>Recognise the Institute's role as a proactive, innovative and flexible organization, in equipping Chartered Accountants with top quality education and values.</p> <p>Recognise the need to be known as World Class Advisor.</p>
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Mission of Unilever: "The mission of our company, as William Hasketh Lever saw it, is to make cleanliness commonplace, to lessen work for women, to foster health, and to contribute to personal attractiveness that life may be more enjoyable for the people who use our products."

Mission of Mckinsey & Co: "To help business corporation and governments to be more successful".

Mission of Cadbury India: "To attain leadership position in the confectionary market and achieve a strong presence in the food drinks sector."

Mission of Reliance Industries: "To become a major player in the global chemicals business and simultaneously grow in other growth industries like infrastructure."

Mission of Ranbaxy: "To become a \$1 billion research-based global pharmaceuticals company."

9.3 Objectives and Goals

Business organization translate their vision and mission into objectives. As such the term objectives is synonymous with goals, however, we will make an attempt to distinguish the two. Objectives are open-ended attributes that denote the future states or outcomes. Goals are close-ended attributes which are precise and expressed in specific terms. Thus the goals are more specific and translate the objectives to short term perspective. However, this distinction is not made by several theorists on the subject. Accordingly, we will also use the term interchangeably. 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 are organizations performance targets – the results and outcomes it wants to achieve. They function as yardstick for tracking an organizations performance and progress.



Objectives with strategic focus relate to outcomes that strengthen an organizations overall business position and competitive vitality. Objective to be meaningful to serve the intended role must possess 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.
- ◆ Objectives should be understandable.
- ◆ Objectives should be concrete and specific
- ◆ Objectives should be related to a time frame
- ◆ Objectives should be measurable and controllable
- ◆ Objectives should be challenging
- ◆ Different objectives should correlate with each other
- ◆ Objectives should be set within constraints

10. STRATEGIC LEVELS IN ORGANISATIONS

In most companies, there are two main types of managers: *general managers*, who bear responsibility for the overall performance of the company or for one of its major self-contained subunits or divisions, and *functional managers*, who are responsible for supervising a particular function, that is, a task, activity, or operation. Like finance and accounting, production, marketing, R&D, information technology, or materials management.

An organization is divided into several functions and departments that work together to bring a particular product or service to the market. If a company provides several 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 general managers is for the health of the whole company or division under their direction; they are responsible for deciding how to create a competitive advantage and achieve high profitability with the resources and capital they have at their disposal. Figure 'levels of strategic management' shows the organization of a multidivisional company that is, a company that competes in several different businesses and has created a separate self-contained division to manage each of these. As you can see, there are three main levels of management: corporate, business, and functional. General managers are found at the



Strategic Management

first two of these levels, but their strategic roles differ depending on their sphere of responsibility.

The corporate level of management consists of the chief executive officer (CEO), other senior executives, the board of directors, and corporate staff. These individuals occupy the apex of decision making within the organization. The CEO is the principal general manager. In consultation with other senior executives, 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.

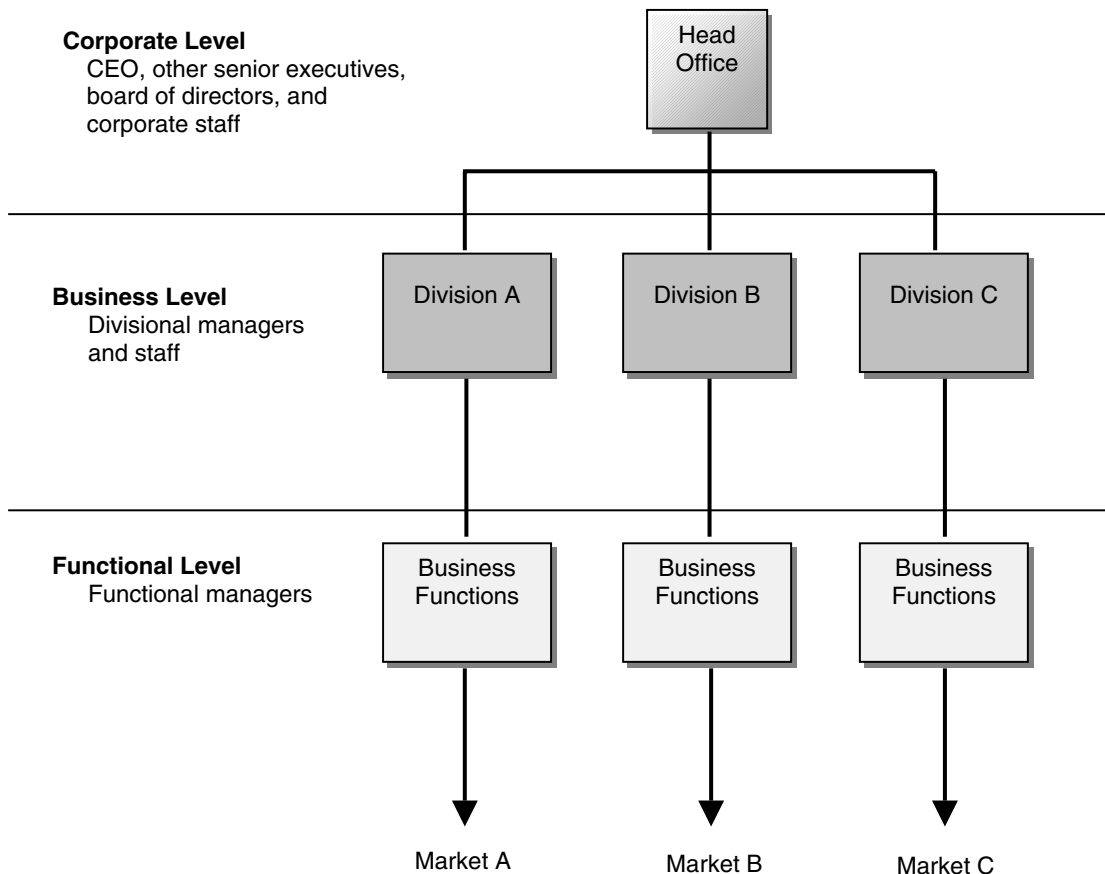


Figure : Level of Strategic Management



Business Policy and Strategic Management

Consider General Electric (GE) as an example. GE is active in a wide range of businesses, including lighting equipment, major appliances, motor and transportation equipment, turbine generators, construction and engineering services, industrial electronics, medical systems, aerospace, aircraft engines, and financial services. The main strategic responsibilities of its CEO, Jeffrey Immelt, 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 Immelt to develop strategies that span individual businesses; his concern is with building and managing the corporate portfolio of businesses to maximize corporate profitability.

It is *not* his 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 the general managers in these different businesses or *business level managers*. However, it is Immelt's responsibility to probe the strategic thinking of business-level managers to make sure that they are pursuing robust strategies that will contribute toward the maximization of GE's long-run profitability and to hold them into account for their performance.

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 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 general managers are concerned with strategies that span individual businesses, business-level general managers are concerned with strategies that are specific to a particular business. At GE, a major corporate goal is to be first or second in every business in which the corporation competes. Then the general managers in each division work out for their business the details of a strategy that is consistent with this objective.

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



Strategic Management

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 fulfill the strategic objectives set by business- and corporate-level general managers.

In GE's aerospace business, for instance, manufacturing managers are responsible for developing manufacturing strategies consistent with the corporate objective of being first or second in that industry. Moreover, 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.

Characteristics of strategic management decisions at different levels

Characteristic	Level of Strategy		
	Corporate	Business	Functional
Type	Conceptual	Mixed	Operational
Measurability	Value judgments dominant	Semi quantifiable	Usually Quantifiable
Frequency	Periodic or Sporadic	Periodic or Sporadic	Periodic
Relation to present activities	Innovative	Mixed	Supplementary
Risk	Wide Range	Moderate	Low
Profit Potential	Large	Medium	Small
Cost	Major	Medium	Modest
Time horizon	Long Range	Medium Range	Short Range
Flexibility	High	Medium	Low
Cooperation Required	Considerable	Moderate	Little



SELF EXAMINATION QUESTIONS

Multiple choice questions

1. 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)
2. 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.
3. The first step of strategy formulation in strategic management model is:
 - (a) Undertake internal analysis.
 - (b) Undertake external analysis.
 - (c) Set major objectives.
 - (d) Determine vision and mission.
4. 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.



Strategic Management

5. 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.

Short answer questions

1. Write a short note on business policy.
2. Explain diversification as strategy.

Essay type questions

1. What do you understand by Strategy? What are major strategic alternatives available to a business organisation?
2. Discuss different strategic levels in organizations.
3. Discuss the process of strategic management.

Case Study

Delhi-based Ace International is close to acquiring popular household brands Yummy and Tasty from Beetroot Ltd. The deal, at rupees thirty-five crores was announced at a joint press conference.

It was sometime back that Beetroot felt the need to restructure its unwieldy product portfolio and exit brands which had low business potential for the company. Beetroot had put these brands on sale late last year. Ace has emerged as the highest bidder for them. The company, stated in the press release that Ace is buying the brands but not their manufacturing facility at Noida (near Delhi), because the plant also makes other food products which are Beetroot's core food brands.

While Yummy and Tasty are marginal businesses for Beetroot, (around Rs 20 crore per annum) management consultants felt that they are a good fit in Ace's product portfolio. The company makes the same genre of products and can grow the brands without additional input or distribution costs. Tasty and Yummy are food brands that Ace can



Business Policy and Strategic Management

manufacture in its existing plants spread across seven locations in Punjab and Maharashtra. The company can also use the same set of distributors to place these brands in shops. Financial Analysts expect them to add 8-10% to Alpha's Rs 250 crore turnover in the first year.

- (a) Discuss the business strategy for Ace
- (b) Discuss the business strategy for Beetroot.

Answers – Multiple Choice Questions

1. (a) 2. (b) 3. (d) 4. (a) 5. (a)

CHAPTER 3

STRATEGIC ANALYSIS

LEARNING OBJECTIVES

- ◆ 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.
- ◆ Know what is SWOT and TOWS analysis.
- ◆ Have an understanding of some of the methods used in portfolio analysis.

Analysis is the critical starting point of strategic thinking.

Kenichi Ohmae

If you're not faster than your competitor, you're in a tenuous position, and if you're only half as fast, you're terminal.

George Salk

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

Bruce Henderson

1. INTRODUCTION

The strategic management process, after deciding the vision, mission, goals and objectives of the organization, turns its focus to scanning of environment in which all organizations work as sub-systems. That is environmental scanning covers both scanning of external environment and internal environment. The scanning of external environment leads to the identification of the opportunities and threats thrown open to organizations while the internal analysis leads to the study of strengths and weaknesses which will decide as to what extent each company is going to capitalize the opportunities and threats thrown open.

2. STRATEGIC ANALYSES

Strategy formulation is not a task in which managers can get by with opinions, good instincts, and creative thinking. Judgments about what strategy to pursue need to flow directly from *solid analysis* of a company's external environment and internal situation. The two most important situational considerations are (1) industry and competitive conditions and (2) a company's own competitive capabilities, resources, internal strengths and weaknesses, and market position.



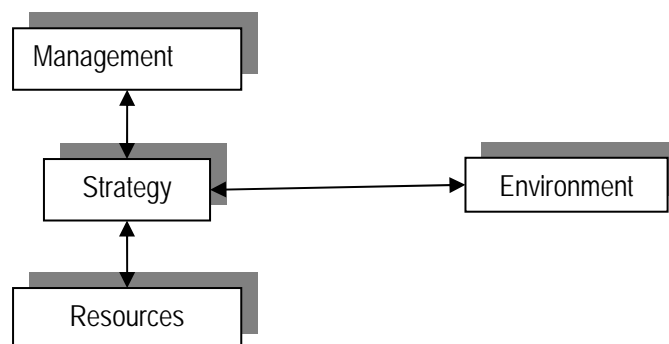
Strategic Management

What is involved in sizing up a company's overall situation and deciding on a strategy? The analytical sequence is from strategic appraisal of the company's external and internal situation, to evaluation of alternatives, to choice of strategy. Accurate diagnosis of the company's situation is necessary 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 concoct 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 analyses

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 business, 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: 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 analyses involve 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 some extent, however, there will be several others that are beyond the control of a manager.



Risk: In the 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 organization. The lives that we lead is uncertain and the business is no exception. Competitive



Strategic Analysis

markets, liberalization, globalization, booms, recessions, technological advancements, inter-country relationships all affect businesses and pose risk at varying degree. 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 analyses is given below:

		Time	
		<i>Short-term</i>	<i>Long-term</i>
Strategic Risks	<i>External</i>	Errors in interpreting the environment cause strategic failure.	Changes in the environment lead to obsolescence of strategy.
	<i>Internal</i>	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

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 an routine basis.

3. SITUATIONAL ANALYSIS

All companies operate in a "macro environment" shaped by influences emanating from the economy at large, population demographics, societal values and lifestyles, governmental legislation and regulation, technological factors. These factors have been discussed in chapter 1. Strictly speaking, a company's macro environment includes all relevant factors and influences outside the company's boundaries; by relevant, we mean important enough to have a bearing on the decisions the company ultimately makes about its direction, objectives, strategy, and business model. For the most part, influences coming from the outer ring of the macro environment have a low impact on a company's business situation and shape only the edges of the company's direction and strategy. There are notable exceptions, though. There are enough strategically relevant trends and developments in the macro environment to justify a watchful eye. As company managers scan the external environment, they must watch for potentially important environmental forces, assess their impact and influence, and adapt the company's direction and strategy as needed.



Strategic Management

However, the factors and forces in a company's macro environment having the biggest strategy-shaping impact almost always pertain to the company's immediate industry and competitive environment.

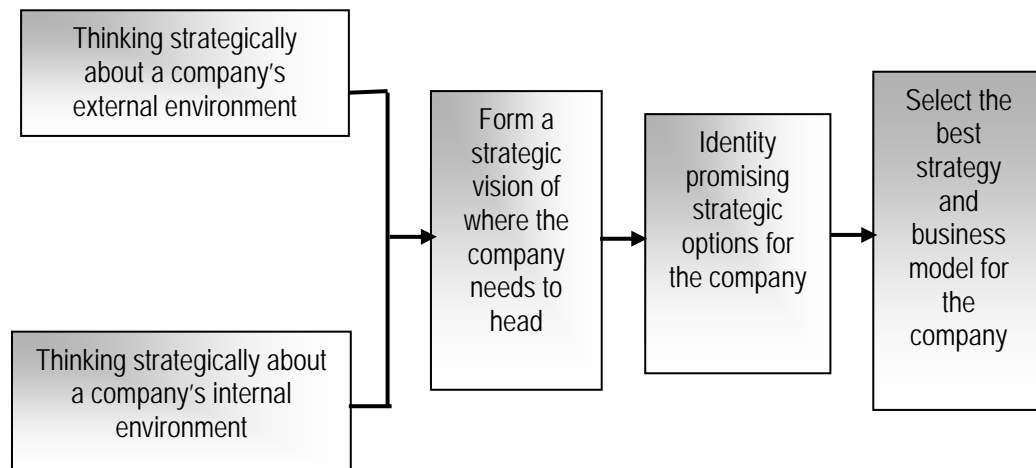


Figure: From Thinking Strategically about the Company's Situation to Choosing a Strategy

Also before developing any given marketing strategy it is important to conduct some form of analysis. This should form an essential part of any business plan and should be reviewed over time to ensure that it is kept current. Many ask what factors are important when doing this. The following is just a raw introduction to what to take into account when conducting an analysis and provides a checklist of the most important factors to take into account.

The elements worth considering include:

- ◆ *Product situation:* What is my current product? You may want to break this definition up into parts such as the core product and any secondary or supporting services or products that also make up what you sell. It is important to observe this in terms of its different parts in order to be able to relate this back to core client needs.
- ◆ *Competitive situation:* Analyze your main competitors - who are they what are they up to - how do they compare. What are their competitive advantages?
- ◆ *Distribution situation:* Review your distribution Situation - how are you getting your product to market? Do you need to go through distributors or other intermediaries?
- ◆ *Environmental factors:* What external and internal environmental factors are there that need to be taken into account. This can include economic or sociological factors that impact on your performance.
- ◆ *Opportunity and issue analysis:* Things to write down here are what current opportunities that



Strategic Analysis

are available in the market, the main threats that business is facing and may face in the future, the strengths that the business can rely on and any weaknesses that may effect the business performance.

We have seen earlier in the framework of strategic management that the first question to ask: 'where are we now'? So, strategic analysis is the starting point of strategic management as shown in the figure below:

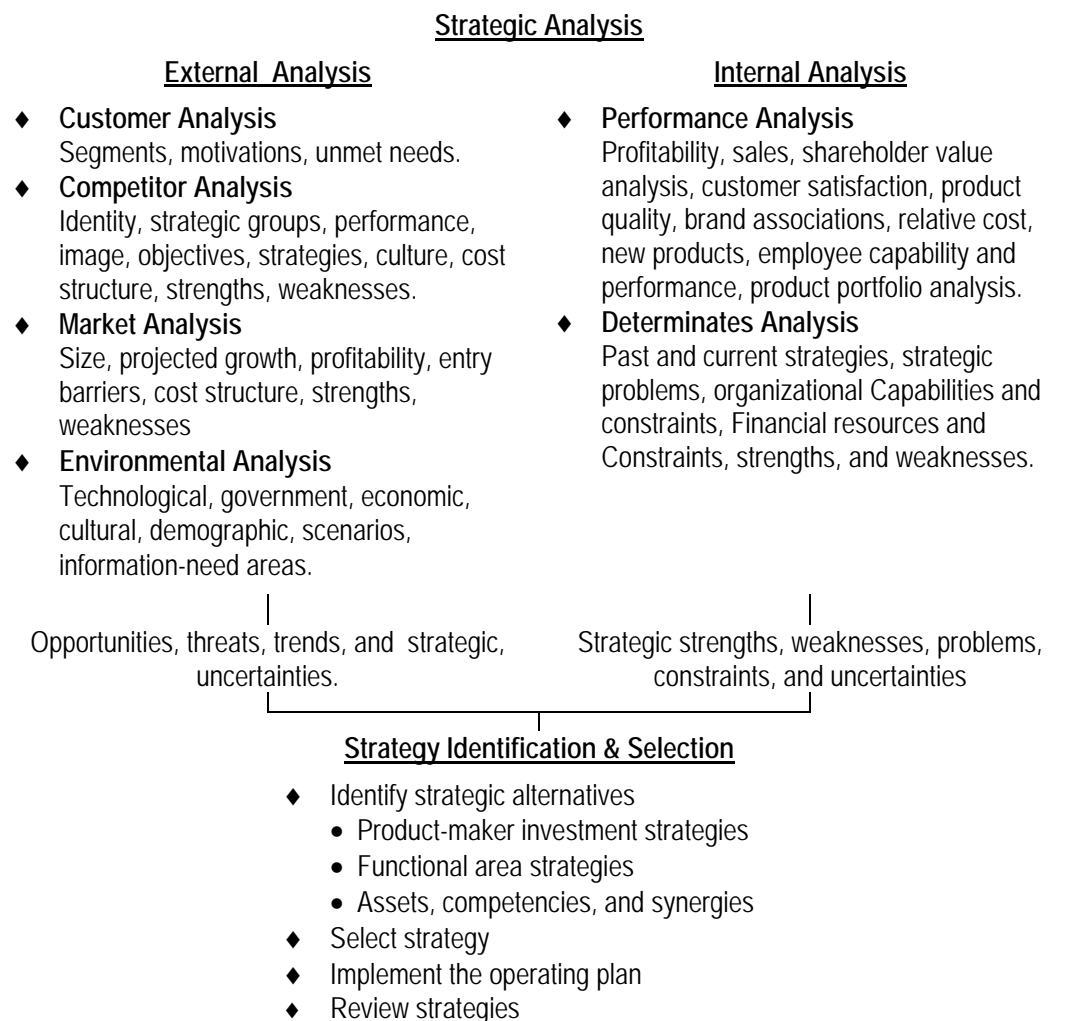


Figure: Framework of Strategic Analysis

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 business.

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. Moreover, in some industries competition focuses on who has the best price, while in others competition is centered 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 turn in good performances.

4. THE METHODS OF INDUSTRY AND COMPETITIVE ANALYSIS

Industry and competitive analysis can be done using a set of concepts and techniques to get a clear fix on key industry traits, the intensity of competition, the drivers of industry change, the market positions and strategies of rival companies, the keys to competitive success, and the industry's profit outlook. 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 company funds. The analysis entails examining a company's business in the context of a much 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 given below:

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 consider in profiling an industry's economic features are fairly standard and are given as follows:



- ◆ Market size.
- ◆ 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, maturity, saturation and stagnation, decline).
- ◆ Number of rivals and their relative sizes.
- ◆ Small companies dominant companies?
- ◆ 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 companies 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.

4.2 Nature and strength of competition

One 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 included in the first chapter is useful in understanding the competition. It is a powerful tool for systematically diagnosing the principle 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.

4.3 Triggers of change

An industry's economic features and competitive structure say 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 keyed 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.

The concept of 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 create 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.

The 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 the new 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 forms.
- ◆ Diffusion of technical know-how across more companies and more countries.
- ◆ Changes in cost and efficiency.

4.4 Identifying the companies that are in the strongest/weakest positions

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 with similar competitive approaches and positions in the market. Companies in the same strategic group can resemble one another in any of 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

4.5 Likely strategic moves of rivals

Unless a company 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. As in sports, scouting the opposition is essential. 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.

4.6 Key factors for competitive success

An industry's Key Success Factors (KSFs) are those things that most affect industry members'



Strategic Management

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?

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). In tin and aluminium cans, because the cost of shipping empty cans is substantial, one of the keys is having plants located close to end-use customers so that the plant's output can be marketed within economical shipping distances (regional market share is far more crucial than national share).

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 kinds 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, a company 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, companies 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.

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 company or whether the company's 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 company's competitive position 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 lackluster 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 company's 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 factor 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 industry participants 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



Strategic Management

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.

5. SWOT ANALYSIS

The next 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 a 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.

Its central purpose is to identify the strategies that will create a firm-specific business model that will best align, fit, or match a company's 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. Thinking strategically requires managers to identify the set of strategies that will create and sustain a competitive advantage:

- ◆ *Functional-level strategy*, directed at improving the effectiveness of operations within a company, such as manufacturing, marketing, materials management, product development, and customer service.
- ◆ *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.



Strategic Analysis

- ◆ *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.
- ◆ *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?

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 its ability to protect against the threat

The significance of SWOT analysis lies in the following points:

- ◆ It provides a Logical Framework 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 differences in 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. In case a different strategy is needed, as situation varies.
- ◆ 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.



Strategic Management

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

Figure: SWOT Analysis: What to Look for in Sizing Up a Company's 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.
- ◆ Too narrow a product line relative to 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 attracting 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.



Strategic Management

- ◆ 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.

SWOT Analyses at Moser Baer

Strengths	Weaknesses
<ul style="list-style-type: none"> ◆ Integrated manufacturing allowing cost efficiencies and enhanced speed to market. ◆ Lower capital investment, manpower and overhead costs allow cost leadership. ◆ Strong focus on R&D and engineering to constantly innovate products and reduce costs. ◆ Committed shareholders add strength, longevity and sustainability to future plans. 	<ul style="list-style-type: none"> ◆ Need to scale up operations and evolve internal controls to meet exponential growth. ◆ Need to constantly expand capacities, requiring continuing capital investment.



Strategic Analysis

Opportunities	Threats
<ul style="list-style-type: none"> ◆ Exploding DVD-R market: With world-class capacities, existing top-tier customer base and efficient in-house technology, the Company is well positioned to tap this opportunity. ◆ Domestic market: India has one of the largest movie industries in the world and customers are shifting to CDs for audio and DVDs for video requirements. ◆ Blu-ray/HD-DVD: Efforts are on worldwide to define and develop the next-gen storage format and Moser Baer is part of that effort. 	<ul style="list-style-type: none"> ◆ Emerging technologies: In a dynamic technology environment, the Company's business could be threatened from more efficient emerging technologies. However, the extent of the threat is mitigated by the explosive growth in digital content, low cost and ease of storage on optical media, the huge installed base of read/write drives and time to market for a new format. ◆ Anti-dumping and anti-subsidy levies: The Company derives a significant part of its revenues from international markets. These have seen a growing protectionist attitude and a tendency by some local governments to use anti-dumping and trade protection tools to provide protection to local businesses. However, the Company continues to keep a close watch on this front and take necessary steps to minimize any fallout. ◆ Fall in product prices: As products move into the mature phase in their life-cycle, they start to emulate commodity-type characteristics. Also, as the industry is characterized by high volumes, large capacities and investments, a sharp reduction in product pricing can impact performance. Pricing could fall due to oversupply, low demand, cost reduction due to reduction in input costs or setting up of capacities in low-cost regions

About Moser Baer: Moser Baer, incorporated in 1983, is one of India's leading technology companies and ranks among the top three media manufacturers in the world. Based in New Delhi, India. it has a broad and robust product range of floppy disks, compact discs (CDs) and digital versatile discs (DVDs). (Source: http://moserbaer.com/investor_swot.asp)

6. TOWS MATRIX

Heinz Weihrich has developed a matrix called TOWS matrix by comparing strengths and



Strategic Management

weaknesses of organization with that of market opportunities and threats. It has been criticized that after conducting the SWOT Analysis managers frequently fail to come to terms with the strategic choices that the outcomes demand. In order to overcome this, Piercy argues for the TOWS Matrix, which, while using the same inputs (Threats, Opportunities, Weakness and Strengths) reorganizes them and integrates them more fully into the strategic planning process. The matrix is outlined below:

<i>Internal</i> <i>External</i> Elements	Organizational strengths	Organizational weaknesses
	Strategic options	
Environmental opportunities (and risks)	SO : strengths can be used to capitalize or build upon existing or emerging opportunities	WO : the strategies developed need to overcome organizational weaknesses if existing or emerging opportunities are to be exploited
Environmental threats	ST : strengths in the organization can be used to minimize existing or emerging threats	WT : the strategies pursued must minimize or overcome weaknesses and as far as possible, cope with threats existing or emerging threats

Figure : The TOWS Matrix (Source: Wehrich, H)

7. PORTFOLIO ANALYSES

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 analyses 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.



Strategic Analysis

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 in an optimal manner.

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

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

After identifying SBUs the businesses have to 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.

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.



Strategic Management

It is also used to build market share and discourage competition. In the contemporary Indian two wheeler market, the experience curve phenomenon seems to be working in favour of Bajaj Auto, which for the past decade has been selling, on an average, 5 lakh scooters a year and retains more than 60 per cent of the market. Its only serious competitor is LML Vespa Ltd., which has a far lesser share of the market. The primary strategic advantage that Bajaj Auto has is in terms of costs. Other competitors like Gujarat Narmada and Kinetic Honda find it extremely difficult to compete due to the cost differentials that currently exist. The likely strategic choice for underdog competitors could 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 (slow down in growth rate) and decline (sharp downward drift). If businesses are substituted for product, the concept of PLC could work just as well. The main advantage of PLC 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 could 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.

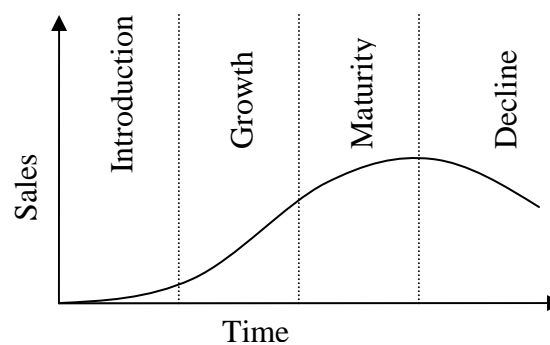


Figure: Product Life Cycle

7.2 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



Strategic Analysis

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:

- ◆ **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.

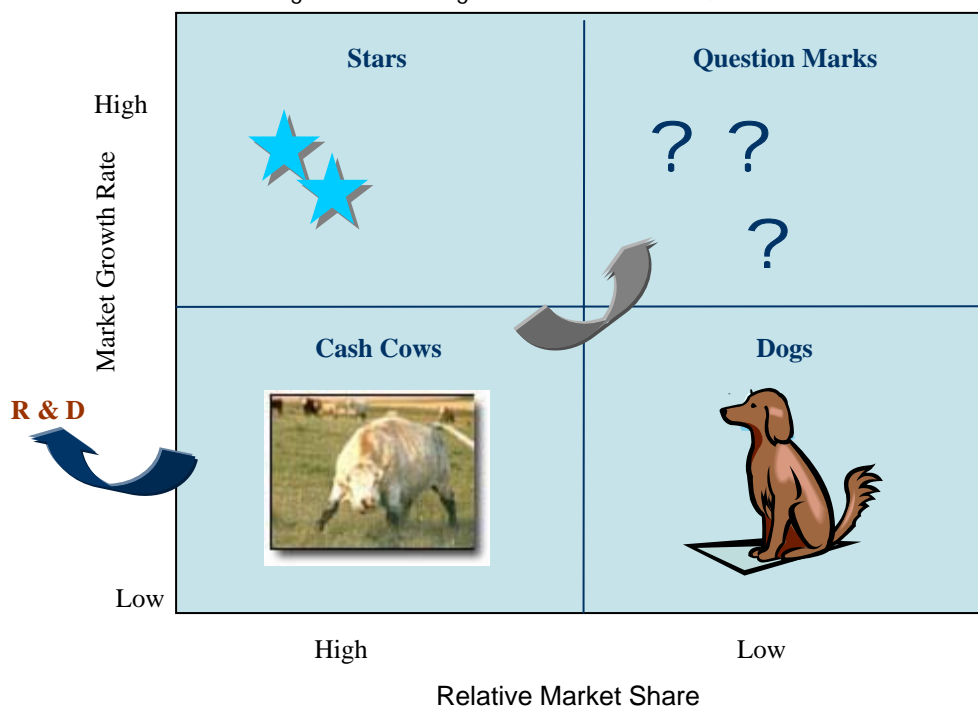


Figure: BCG Growth-Share Matrix

- ◆ **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



Strategic Management

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.

Once the organisations have 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.**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.**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 study; however, there are problems and limitations with the method. 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 giving up on established units too quickly.

7.3 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 company growth opportunities.

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



Strategic Analysis

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 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. 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.

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

Figure: Ansoff's Product Market Growth Matrix

7.4 ADL matrix

The ADL matrix has derived its name from Arthur D. Little is a portfolio analysis method 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, favorable, tenable, weak. It is 4 by five matrix as follows:



	Stage of industry maturity			
Competitive position	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 stand 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 opportunity for improvement do exist.

7.5 The General Electric Model

The General Electric Model (developed by GE with the assistance of the consulting firm McKinsey & Company) 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. This also uses two factors in a matrix / grid situation as shown below:

		Business Position		
		High	Medium	Low
Market Attractiveness	High	Invest	Invest	Protect
	Medium	Invest	Protect	Harvest
	Low	Protect	Harvest	Divest

Figure : The GE Matrix

Each of the above two factors is rated according to criteria such as the following:



Strategic Management

Evaluating the ability to compete: Business position	Evaluating the Market Attractiveness
Size Growth Share by segment Customer loyalty Margins Distribution Technology skills Patents Marketing Flexibility Organization	Size Growth Customer satisfaction levels Competition: quality, types, Effectiveness, commitment Price levels Profitability Technology Government regulations Sensitivity to economic trends

Figure: Criteria for rating Business Position and Market Attractiveness

The criteria used to rate market attractiveness and business position assigned different ways because some criteria are more important than others. Then each SBU is rated with respect to all criteria. Finally, overall rating for both factors are calculated for each SBU. Based on these ratings, each SBU is labelled as high, medium or low with respect to (a) market attractiveness, and (b) business position.

Every organization has to make decisions about how to use its limited resources most effectively. That's where this planning models can help determining which SBU should be stimulated for growth, which one maintained in their present market position and which one eliminated.

Self-Examination Questions

Multiple Choice Questions

1. What is an industry?
 - (a) Industry is a group of diverse businesses under common owners.
 - (b) Industry is a group of firms whose products have same and similar attributes such that they compete for the same buyers.



Strategic Analysis

- (c) Industry is any business organization engaged in manufacturing activities.
- (d) All business organizations excluding those in service sector are industry.
2. 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
3. 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
4. Which of the following does "B" stand for in the BCG Matrix?
- (a) Boom
- (b) Balance
- (c) Bankruptcy
- (d) Boston
5. Which of the following competitive position of a firm is not as per ADL Matrix?
- (a) Dominant
- (b) Favourable
- (c) Difficult
- (d) Tenable

Short answer questions

1. What is a key success factor?
2. What is product development?
3. Explain dogs in BCG matrix?



Essay type questions

1. Why organisations undertake portfolio analyses? Discuss any one model of portfolio analysis in detail.
2. What is TOWS matrix? Is it same as SWOT analysis? Discuss.

Case Study

The Managing Director of Big Ltd. called an internal meeting of senior managers to discuss issues involved in acquiring Small Ltd. for about Rs. 350 crores. He started the meeting with following observations:

'After acquiring Small, we will become the second largest consumer goods company in India with sales of over Rs. 4500 crores. We will have more money for marketing initiatives, product launches and aggressive price-cuts. The key reason behind buying Small is to create shareholder value over and above that of the sum of the two companies. Recent years have been tough for both the companies with strong competition. The merged company hopes to gain a greater market share and achieve greater efficiency.'

Different issues were discussed between the managers. Pertinent points that were raised were as follows:

Head Production. 'Although, I am involved little, till now, in the discussion regarding the acquisition, I have closely studied various production facilities available to both the companies. I feel production facilities of both the companies need to be synergised. There is also need to close down production facilities of two locations out of seven locations of Small. The costs of production of these locations is very high and also they are located in eastern India, whereas our major sales is in south and west.'

Head Marketing. We need to analyse it further. The market of the products is in mature phase with low growth rate. Small Ltd. has little presence in some regions and is not a major competitor for us. Further, there is marginal gap between our existing third position and second position. We can easily achieve second position if we are able to fully utilise our capacities.

- (a) In a low growth product what are the different options available to a company.
- (b) If you are appointed as a consultant, advise the Big Ltd. how to proceed before arriving at decision to acquire any company.
- (c) Conduct SWOT analysis from the facts given in the case.

Answers – Multiple Choice Questions:

1. (b) 2. (d) 3. (b) 4. (d) 5. (c)

Chapter 4

STRATEGIC PLANNING

LEARNING OBJECTIVES

- ◆ Learn the meaning of strategic intent and vision.
- ◆ Understand the process of strategy formulation.
- ◆ Know the different stages of strategy-formulation-implementation process.
- ◆ Have knowledge of different generic strategies as taken up by corporates.
- ◆ To have a basic knowledge of alternative growth/directional strategies.

Chance favors the prepared mind.

Louis Pasteur

Far better an approximate answer to the right question, which is often vague, than an exact answer to the wrong question, which can be made precise.

John Tukey, Statistician

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

Bruce D. Henderson

1. INTRODUCTION

Generally, the strategic planning process 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 ironed out is the appropriate one-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



2. CORPORATE STRATEGY

At an initial level, the concept of strategy has been discussed in the second chapter. Now we will take the concept forward. Corporate strategy is basically the growth design of the firm; it spells out the growth objective of the firm - the direction, extent, pace and timing of the firm's growth. It also spells out the strategy for achieving the growth. Thus, we can also describe corporate strategy as the objective-strategy design of the firm. And, to arrive at such an objective-strategy design is the basic burden of corporate strategy formulation.

2.1 Nature, scope and concerns of corporate strategy

Corporate strategy is basically concerned with the choice of businesses, products and markets. The following points will clarify the corporate strategy.

- ◆ It can also be viewed as the objective-strategy design of the firm.
- ◆ It is the design for filling the firm's strategic planning gap.
- ◆ It is concerned with the choice of the firm's products and markets; it actually denotes the changes / additions / deletions in the firm's existing product-market postures. It spells out the businesses in which the firm will play, the markets in which it will operate and the customer needs it will serve.
- ◆ It ensures that the right fit is achieved between the firm and its environment.
- ◆ It helps build the relevant competitive advantages for the firm.
- ◆ Corporate objectives and corporate strategy together describe the firm's concept of business.

2.2 What does corporate strategy ensure?

Corporate strategy in the first place ensures the growth of the firm and ensures the correct alignment of the firm with its environment. It serves as the design for filling the strategic planning gap. It also helps build the relevant competitive advantages. Masterminding and working out the right fit between the firm and its external environment is the primary contribution of corporate strategy. Basically the purpose of corporate strategy is to harness the opportunities available in the environment, countering the threats embedded therein. How does corporate strategy actually accomplish this task? It is by matching the unique capabilities of the firm with the promises and threats of the environment that it achieves this task.

It is obvious that responding to environment is part and parcel of a firm's existence. The question is how good or how methodical is the response. This is where strategy steps in. Strategy is the opposite of adhoc responses to the changes in the environment-in competition, consumer tastes, technology and other variables. It amounts to long-term, well thought-out and prepared responses to the various forces in the business environment.



2.3 Strategy is partly proactive and partly reactive

A company's strategy is typically a blend of (1) proactive actions on the part of managers to improve the company's market position and financial performance and (2) as needed reactions to unanticipated developments and fresh market conditions. 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 patronage.

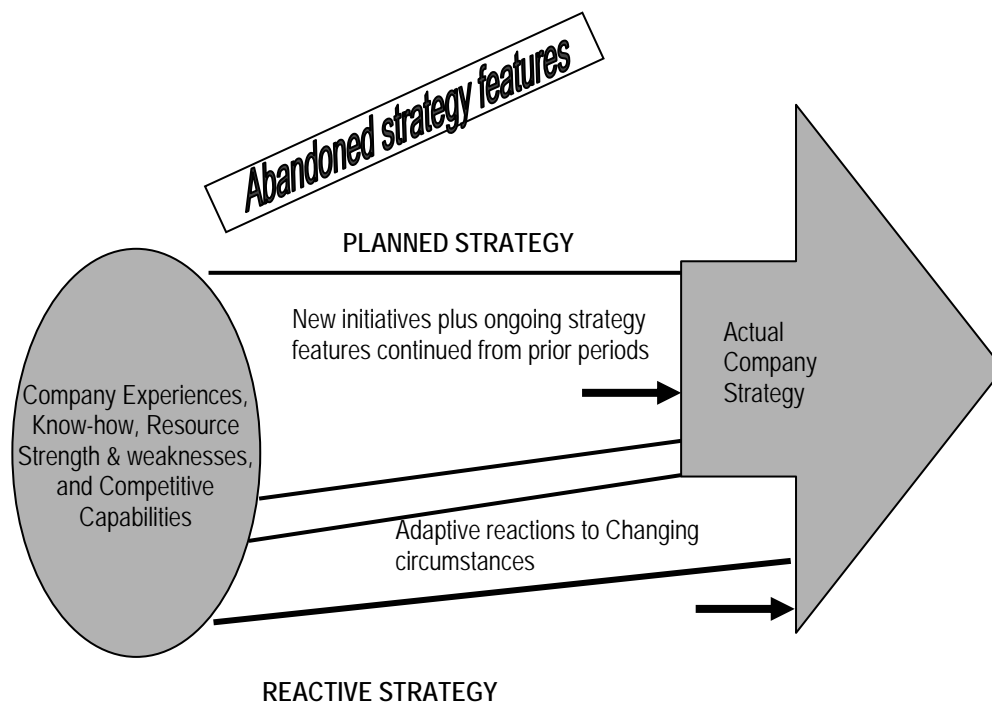


Figure: A Company's Actual Strategy Is Partly Planned & Partly Reactive

But not every strategic move is the result of proactive plotting 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 on the fly, coming as a reasoned response to unforeseen developments-fresh strategic maneuvers on the part of rival firms, shifting customer requirements and expectations, new technologies and market opportunities, a changing political or economic climate, or other



unpredictable or unanticipated happenings in the surrounding environment. 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.

2.3 Dealing with strategic uncertainty

Strategic uncertainty, uncertainty that has strategic 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 the 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 a strategic uncertainty: Each strategic uncertainty involves potential trends or events that could have an impact on present, proposed, and even potential strategic business units (SBUs). 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 proposed or growth SBUs for which present sales, profits, or costs may not reflect the true value to a firm. Finally, because an information-need area may affect several SBUs, the number of involved SBUs can also be relevant to a strategic uncertainty's impact.

3. THE STAGES OF CORPORATE STRATEGY FORMULATION- IMPLEMENTATION PROCESS

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?

Crafting and executing a company's strategy is a five-stage managerial process as given below:

1. Developing a strategic vision of where the company needs to head and what its future product-customer-market-technology focus should be.



2. Setting objectives and using them as yardsticks for measuring the company's performance and progress.
3. Crafting a strategy to achieve the desired outcomes and move the company along the strategic course that management has charted.
4. Implementing and executing the chosen strategy efficiently and effectively.
5. Monitoring developments and initiating corrective adjustments in the company's long-term direction, objectives, strategy, or execution in light of the company's actual performance, changing conditions, new ideas, and new opportunities.

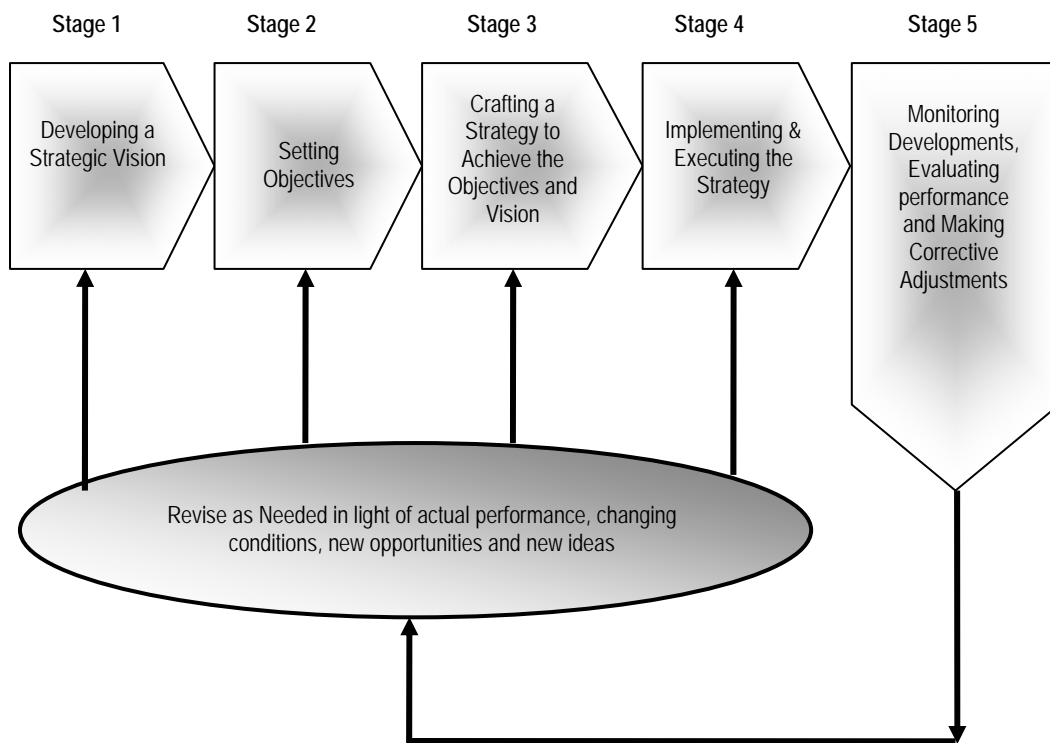


Figure: The Stages of Corporate Strategy Formulation- Implementation Process

Stage 1 : Developing a strategic vision

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 stake 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 business and points an organization in a particular direction, charts a strategic path for it to follow in preparing for the future, and molds 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.

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 or strategic intent. 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.

The managers of a subsidiary, charged with developing a strategy for that business, also need to be clear where they fit into the corporate whole. As Hamel and Prahalad have highlighted, the importance of clear strategic intent can go much further: it can help galvanise motivation and enthusiasm throughout the organization by providing what they call a sense of destiny and discovery. In the absence of this, there is a risk of the different parts of the organization, different levels of management, indeed all members of the organization, pulling in different directions.

Decisions on overall mission in a major corporation will exercise constraints elsewhere. Does the corporation aspire to short-term profits or long-term growth; to a focused set of highly related businesses or a more diversified set of businesses; to global coverage or the focus on selected countries; to investment in internal innovation and new products, or the acquisition of other businesses? These are, of course, all matters of strategic choice, but they are unlikely to change regularly. The overall stance of the corporation with regard to such matters may develop over many years, but by being made explicit it can help direct strategic choice.

Stage 2 : Setting objectives

Corporate 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.

The balanced scorecard approach: A combination of strategic and financial objectives – The balanced scorecard approach for measuring company performance requires setting both financial and strategic objectives and tracking their achievement. Unless a company is in deep financial difficulty, such that its very survival is threatened, company managers are well advised to put more emphasis on achieving strategic objectives than on achieving financial objectives whenever a trade-off has to be made. The surest path to sustained future profitability quarter after quarter and year after year is to relentlessly pursue strategic outcomes that strengthen a company's business position and, ideally, give it a growing competitive advantage over rivals. What ultimately enables a company to deliver better financial results from operations is the achievement of strategic objectives that improve its competitiveness and market strength.

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,

Qualities of Long-Term Objectives

- ◆ Acceptable.



- ◆ Flexible.
- ◆ Measurable.
- ◆ Motivating.
- ◆ Suitable.
- ◆ Understandable.
- ◆ Achievable.

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 stair-steps or milestones.

Concept of Strategic Intent: A company exhibits strategic intent when it relentlessly pursues an ambitious strategic objective and concentrates its full resources and competitive actions on achieving that objective. A company's objectives sometimes play an other role – that of signaling unmistakable strategic intent to make quantum gains in competing against key rivals and establish itself as a clear-cut winner in the marketplace, often against long odds. A company's strategic intent can entail becoming the dominant company in the industry, unseating the existing industry leader, delivering the best customer service of any company in the industry (or the world), or turning a new technology into products capable of changing the way people work and live. Ambitious companies almost invariably begin with strategic intents that are out of proportion to their immediate capabilities and market positions. But they are undeterred by a grandiose objective that may take a sustained effort of 10 years or more to achieve. So intent are they on reaching the target that they set aggressive stretch objectives and pursue them relentlessly, sometimes even obsessively.

The need for objectives 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.

The ideal situation is a team effort in which each organizational unit strives to produce results in its area of responsibility that contribute to the achievement of the company's performance targets and strategic vision. Such consistency signals that organizational units know their strategic role and are on board in helping the company move down the chosen strategic path and produce the desired results.

Stage 3: Crafting a strategy to achieve the objectives and vision

A company's strategy is at full power only when its many pieces are united. Ideally, the pieces and layers of a company's strategy should fit together like a jigsaw puzzle. To achieve this unity, the strategizing process generally has proceeded from the corporate level to the business level and then from the business level to the functional and operating levels. Midlevel and frontline managers cannot do good strategy making without understanding the company's long-term direction and higher-level strategies. All the strategy makers in a company are on the same team and the many different pieces of the overall strategy crafted at various organizational levels need to be in sync and united. Anything less than a unified collection of strategies weakens company performance.

Achieving unity in strategy making is partly a function of communicating the company's basic strategy themes effectively across the whole organization and establishing clear strategic principles and guidelines for lower-level strategy making. Cohesive strategy making down through the hierarchy becomes easier to achieve when company strategy is distilled into pithy, easy-to-grasp terminology that can be used to drive consistent strategic action throughout the company. The greater the numbers of company personnel who know, understand, and buy in to the company's basic direction and strategy, the smaller the risk that people and organization units will go off in conflicting strategic directions when decision making is pushed down to frontline levels and many people are given a strategy-making role. Good communication of strategic themes and guiding principles thus serves a valuable strategy-unifying purpose.

A company's strategic plan lays out its future direction, performance targets, and strategy. Developing a strategic vision, setting objectives, and crafting a strategy are basic direction-setting tasks. They map out the company's direction, its short-range and long-range performance targets, and the competitive moves and internal action approaches to be used in achieving the targeted business results. Together, they constitute a strategic plan for coping with industry and competitive conditions, the expected actions of the industry's key players, and the challenges and issues that stand as obstacles to the company's success.

In making strategic decisions, inputs from a variety of assessments are relevant. However, the core



of any strategic decision should be based on three types of assessments. The first concerns organizational strengths and weaknesses. The second evaluates competitor strengths, weaknesses, and strategies, because an organization's strength is of less value if it is neutralized by a competitor's strength or strategy. The third assesses the competitive context, the customers and their needs, the market, and the market environment. These assessments focus on determining how attractive the selected market will be, given the strategy selected.

The goal is to develop a strategy that exploits business strengths and competitor weaknesses and neutralizes business weaknesses and competitor strength. The ideal is to compete in a healthy, growing industry with a strategy based on strengths that are unlikely to be acquired or neutralized by competitor. Figure below summarizes how these assessments combine to influence strategy.

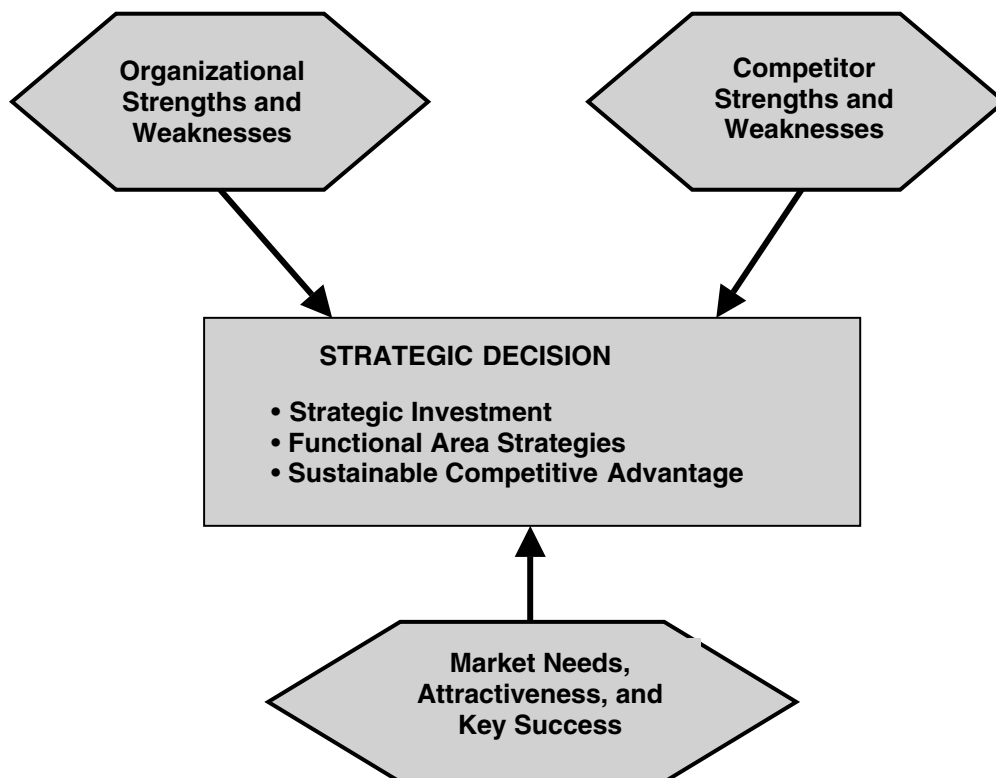


Figure: Structuring Strategic Decisions

Stage 4 : Implementing & executing the strategy

Managing 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 easily 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, managing the strategy-execution process includes the following principal aspects:

- ◆ Staffing the organization with the needed skills and expertise, consciously building and strengthening strategy-supportive competencies and competitive capabilities, and organizing the work effort.
- ◆ Developing budgets that steer ample resources into those activities critical to strategic success.
- ◆ 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
- ◆ Tying rewards and incentives directly to the achievement of performance objectives and good strategy execution.
- ◆ 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 : Monitoring developments, evaluating performance and making corrective adjustments

A company's vision, objectives, strategy, and approach to strategy execution are never final; managing strategy is an ongoing process, not an every now and then task. The fifth stage of the strategy 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.

4. STRATEGIC ALTERNATIVES

We have learnt a few generic strategies in the second chapter. In this chapter we will see a few more strategic alternatives from the perspective of planning.

4.1 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 calls these base generic strategies. 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.

Porter stresses the need for strategists to perform cost-benefit analyses to evaluate "sharing opportunities" among a 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.



STRATEGIC ADVANTAGE

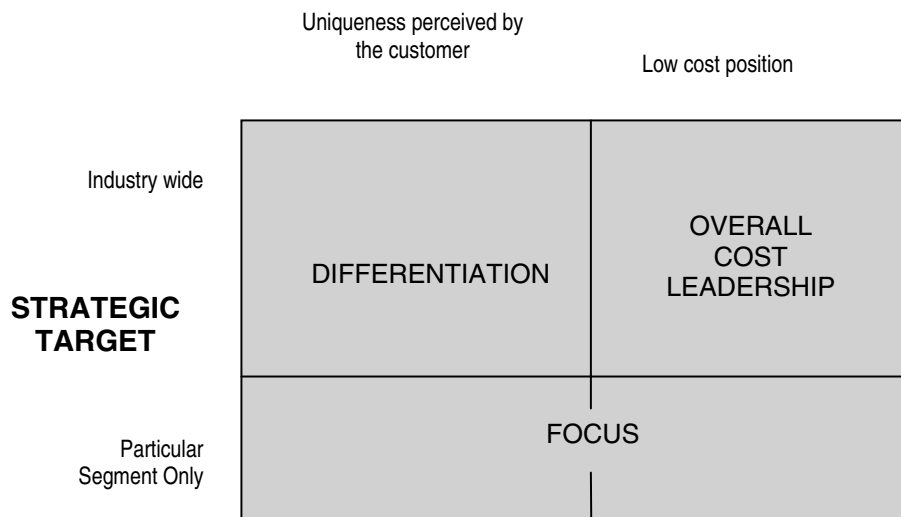


Figure: Michael Porter's Generic Strategy

Cost Leadership Strategies

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, labor 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 under price 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.

Differentiation Strategies

Different strategies offer different degrees of differentiation. 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 best. 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.

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 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 highly 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.

Common organizational requirements for a successful differentiation strategy include strong coordination among the R&D and marketing functions and substantial amenities to attract scientists and creative people.

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.

The comparative skill and resource requirement for these generic strategies is given below:

Generic Strategy	Commonly Required Skills and Resources	Common Organizational Requirements
Overall Cost Leadership	<ul style="list-style-type: none"> ◆ Sustained capital investment and access to capital ◆ Process engineering skills ◆ Intense supervision of labour ◆ Products designed for ease in manufacture ◆ Low-cost distribution system 	<ul style="list-style-type: none"> ◆ Tight cost control ◆ Frequent, detailed control reports ◆ Structured organization and responsibilities ◆ Incentive based on meeting strict quantitative targets
Differentiation	<ul style="list-style-type: none"> ◆ Strong marketing abilities ◆ Product engineering ◆ Creative flair ◆ Strong capability in basic research ◆ Corporate reputation for quality or technological leadership ◆ Long tradition in the industry or unique combinations of skills drawn from other business ◆ Strong cooperation from channels 	<ul style="list-style-type: none"> ◆ Strong coordination among function in R & D, product development, and marketing. ◆ Subjective measurement and incentives instead of quantitative measures ◆ Amenities to attract highly skilled labour, scientists, or creative people.
Focus	<ul style="list-style-type: none"> ◆ Combination of the above policies directed at the particular strategic target 	<ul style="list-style-type: none"> ◆ Combination of the above policies directed at the particular strategic target

4.2 Best-Cost Provider Strategy

The new model of best cost provider strategy is a further development of above three generic strategies.

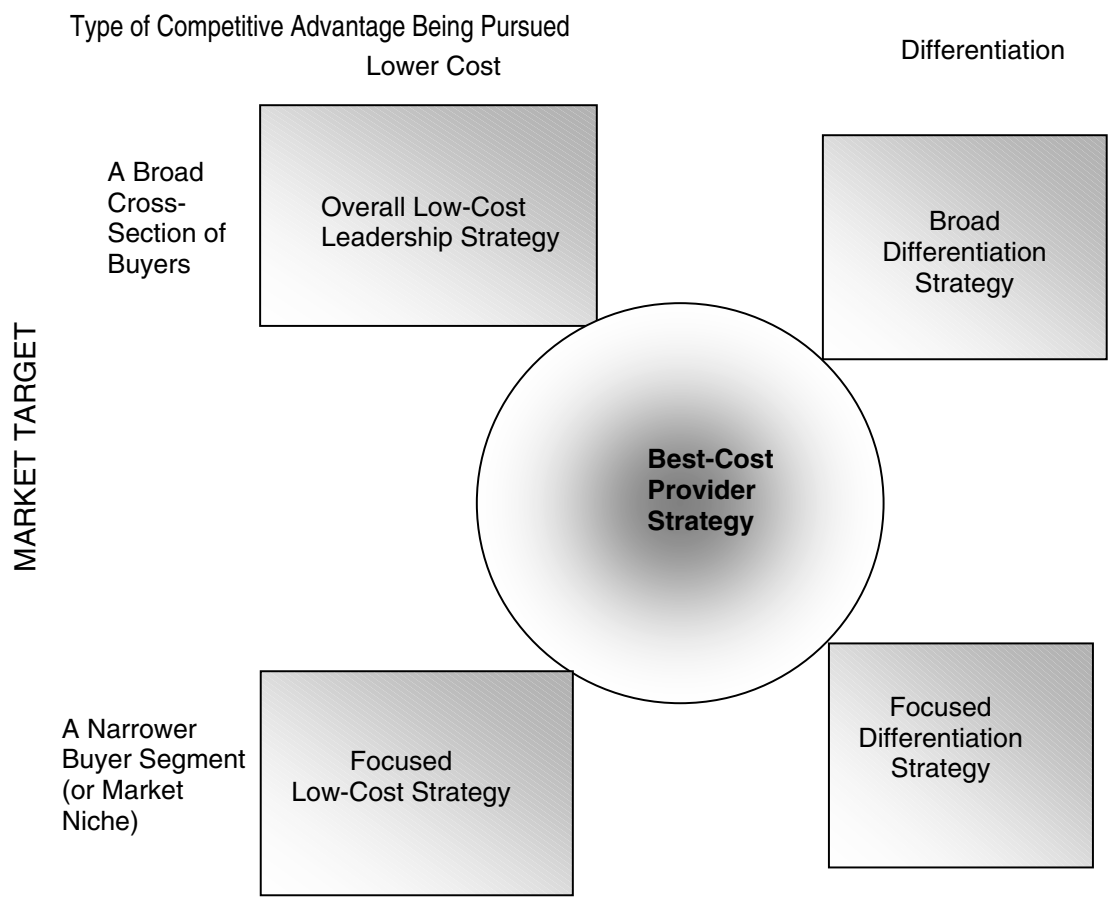


Figure: The Five Generic Competitive Strategies

Distinctive features of the generic competitive strategies are given below :

Type of Feature	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



<ul style="list-style-type: none"> ◆ Basic of competitive advantage 	<ul style="list-style-type: none"> ◆ Lower costs than competitors 	<ul style="list-style-type: none"> ◆ An ability to offer buyers something different from competitors 	<ul style="list-style-type: none"> ◆ More value for the money 	<ul style="list-style-type: none"> ◆ Lower cost in serving the niche (focused low cost) or special attributes that appeal to the tastes or requirements of niche members (focused differentiation)
<ul style="list-style-type: none"> ◆ Market emphasis 	<ul style="list-style-type: none"> ◆ Try to make a virtue out of product features that lead to low cost 	<ul style="list-style-type: none"> ◆ Build in whatever features buyers are willing to pay for ◆ Charge a premium price to cover the extra costs of differentiating features 	<ul style="list-style-type: none"> ◆ Either underprice rival brands with comparable features or match the price of rivals and provide better features-to build a reputation for delivering the best value 	<ul style="list-style-type: none"> ◆ Communicate how the focuser's product attributes and capabilities aim at catering to niche member tastes and/or specialised requirements



◆ Sustaining the strategy	<ul style="list-style-type: none"> ◆ Offer economical prices/good value ◆ Aim at contributing to a sustainable cost advantage- the key is to manage costs down, year after year, in every area of the business 	<ul style="list-style-type: none"> ◆ Communicate the points of difference in credible ways ◆ 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. 	◆ Develop unique expertise in simultaneously managing costs down and upscaling features and attributes	◆ Remain totally dedicated to serving the niche better than other competitors; don't blunt the firm's 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

4.3 Grand strategies/directional strategies Various strategy alternatives are available to a firm for achieving its growth objective. Here we shall see what these alternatives are, how they have been classified into a few broad categories, We shall also analyse the scope of each of these



alternatives, since it is in view of their scope that firms choose the particular alternative. The corporate strategies a firm can adopt have been classified into four broad categories: *stability*, *expansion*, *retrenchment* and *combination* known as grand strategies. Grand strategies, which are often called master or business strategies, are intended to provide basic direction for strategic actions. They are seen as the basic of coordinated and sustained efforts directed toward achieving long-term business objectives.

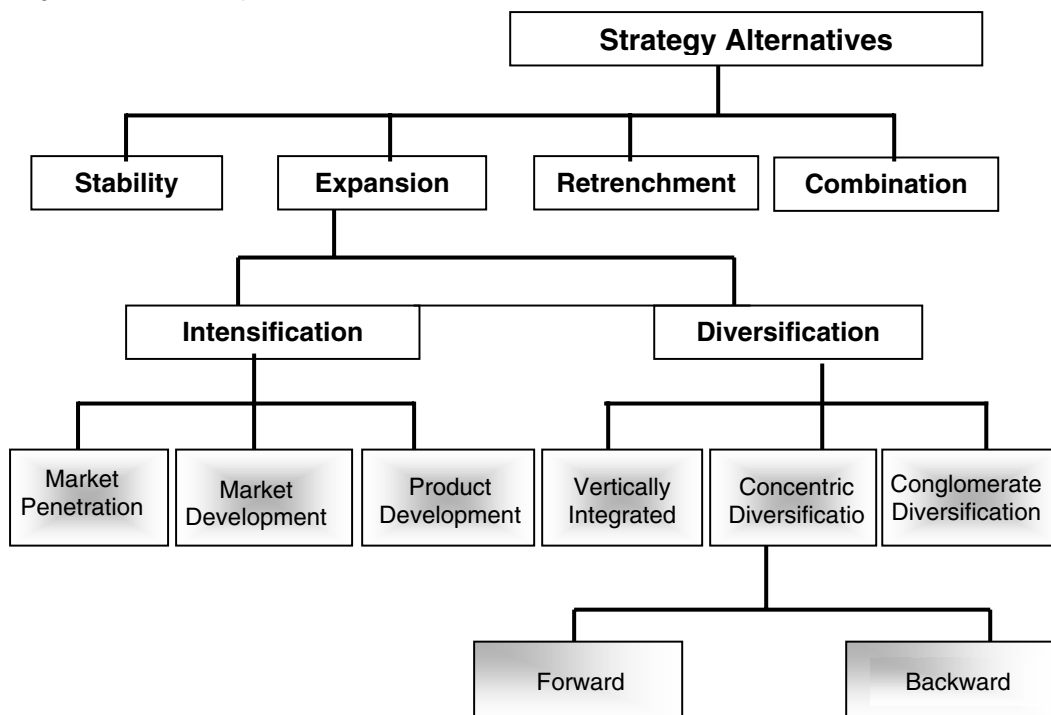


Figure: Grand Strategies

The basic features of the grand strategies is 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 a given 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 requirement of the firm.

Characteristics and Scope of Various Grand Strategies

A. 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.
- ◆ Naturally, the growth objective of firms employing this strategy will be quite modest. Conversely, only firms with modest growth objective will vote for this strategy.
- ◆ 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.
- ◆ The risk is also less.
- ◆ It is a fairly frequently employed strategy.
- ◆ With the stability strategy, the firm has the benefit of concentrating its resources and attention on the existing businesses/products and markets.
- ◆ But the strategy does not permit the renewal process of bringing in fresh investments and new products and markets for the firm.

B. Expansion strategy:

- ◆ 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 is the most frequently employed generic strategy.
- ◆ Expansion strategy is the true growth strategy. A firm with a mammoth growth ambition can meet its objective only through the expansion strategy.
- ◆ Expansion strategy involves a redefinition of the business of the corporation.



- ◆ 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.
- ◆ With intensification strategy, the firm pursues growth by working with its current businesses.
- ◆ Intensification, in turn, encompasses three alternative routes:
 - ◆ Market penetration strategy
 - ◆ Market development strategy
 - ◆ Product development strategy
- ◆ Diversification strategy involves expansion into new businesses that are outside the current businesses and markets.
- ◆ There are three broad types of diversification
 - ◆ Vertically integrated diversification
 - ◆ Concentric diversification
 - ◆ Conglomerate diversification
- ◆ Vertically integrated diversification involves going into new businesses that are related to the current ones.
- ◆ It has two components – forward integration and backward integration.
- ◆ The firm remains vertically within the given product-process sequence; the intermediaries in the chain become new businesses.
- ◆ In concentric diversification, too, the new products are connected to the firm's existing process/technology. But the new products are not vertically linked to the existing ones. They are not intermediates. They serve new functions in new markets. A new business is spinned off from the firm's existing facilities.
- ◆ In conglomerate diversification too, a new business is added to the firm's portfolio. But, it is disjointed from the existing businesses; in process/ technology/function, there is no connection between the new business and the existing ones. It is unrelated diversification.



C. Divestment strategy:

- ◆ Divestment strategy involves retrenchment 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
 - ◆ Obsolescence of product/process
 - ◆ Business becoming unprofitable
 - ◆ High competition
 - ◆ Industry overcapacity
 - ◆ Failure of strategy

Major reasons for organizations adopting different grand strategies:

A. Stability strategy is adopted because:

- ◆ It is less risky, involves less changes and people feel comfortable with things as they are.
- ◆ The environment faced is relatively stable.
- ◆ Expansion may be perceived as being threatening.
- ◆ Consolidation is sought through stabilising after a period of rapid expansion.

B. Expansion strategy is adopted because:

- ◆ It may become imperative when environment demands increase in pace of activity.
- ◆ Psychologically, 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.
- ◆ Increasing size may lead to more control over the market vis-a-vis competitors.
- ◆ Advantages from the experience curve and scale of operations may accrue.

C. 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.

D. Combination strategy is adopted because:

- ◆ 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.

Expansion Strategy

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

I. Growth in existing product markets Increase market share Increase product usage Increase the frequency used Increase the quantity used Find new application for current users	II. Product development Add product features, product refinement Develop a new-generation product Develop new product for the same market
III. Market development Expand geographically Target new segments	IV. Diversification involving new products and new markets Related Unrelated

Figure: Product-Market Expansion Greed

Market Penetration

The most common expansion strategy is market penetration/concentration on the current business. The firm directs its resources to the profitable growth of a single product, in a single market, and with a single technology.

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.

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.

Diversification Strategy

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

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 It 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. The example of Reliance Industries provided at the close of this chapter illustrates this dimension of vertically integrated diversification.

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.

<u>RELATED DIVERSIFICATION</u>	<u>UNRELATED DIVERSIFICATION</u>
<ul style="list-style-type: none"> • Exchange or share assets or competencies, thereby 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"> • Manage and allocate cash flow. • Obtain high ROI. • Obtain a bargain price. • Refocus a firm. • Reduce risk by operating in multiple product markets. • Tax benefits. • Obtain liquid assets. • Vertical integration. • Defend against a takeover.

Figure: Related Diversification Options For A Manufacturer

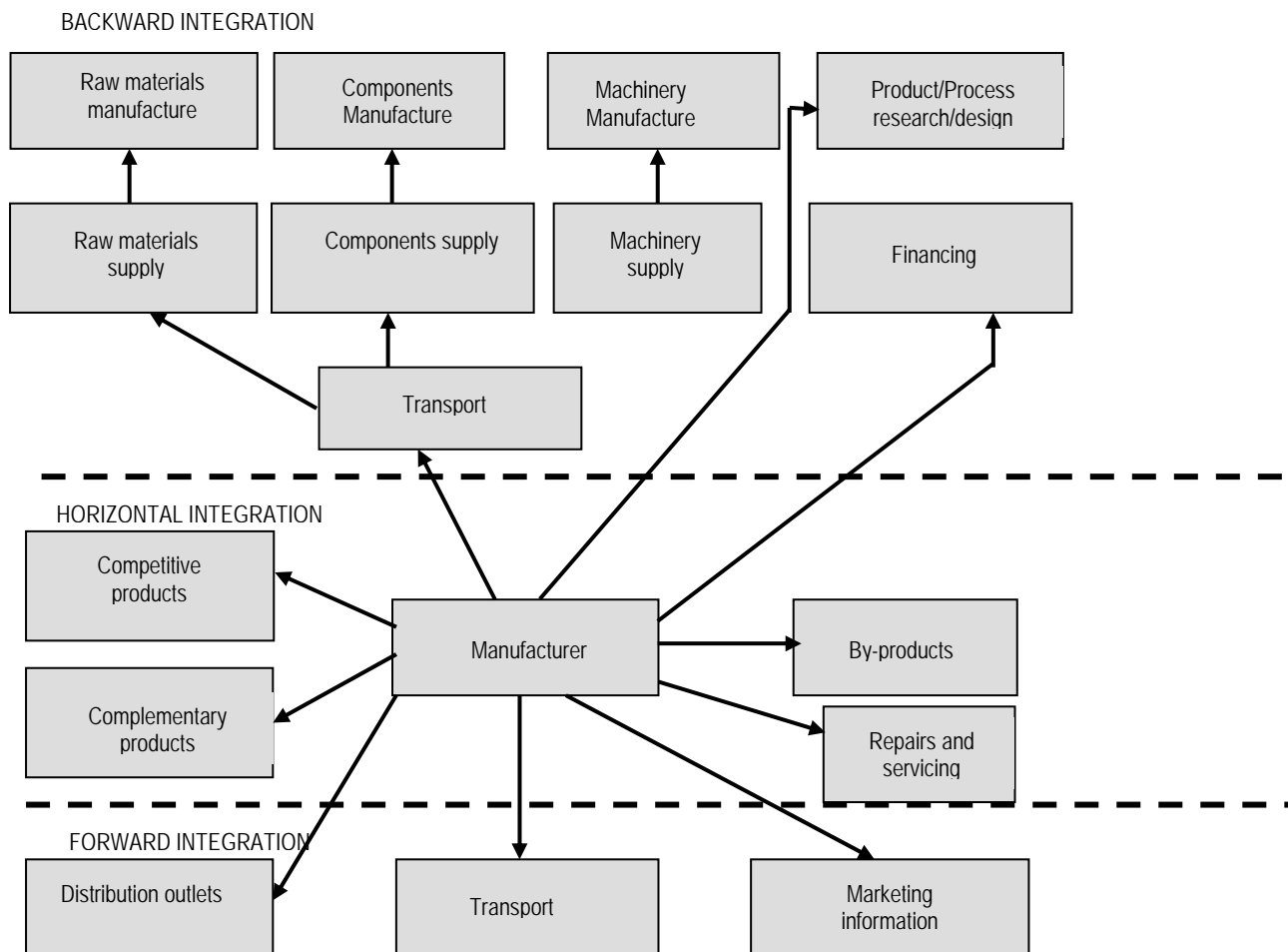


Figure : Motivations for Diversification Concentric diversification

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.



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.

Retrenchment, Divestment and Liquidation Strategies

Retrenchment grand 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. 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.

Turnaround Strategies

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 organization has to survive. These danger signs are:

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

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 should include:

Analysis of product, market, production processes, competition, and market segment positioning.

Clear thinking about the market place and production logic.

Implementation of plans by target-setting, feedback, and remedial action.

A set of ten elements that contribute to turnaround are:



- ◆ Changes in the top management
- ◆ Initial credibility-building actions
- ◆ Neutralising external pressures
- ◆ Initial control
- ◆ Identifying quick payoff activities
- ◆ Quick cost reductions
- ◆ Revenue generation
- ◆ Asset liquidation for generating cash
- ◆ Mobilization of the organizations
- ◆ Better internal coordination.

Divestment Strategies

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.

Liquidation Strategies

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. Under the Companies Act, 1956, liquidation (termed as winding up) may be either by the court, voluntary, or subject to the supervision of the court.

Self-Examination Questions

Multiple Choice Questions

1. 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.
2. In Michael Porter's generic strategy _____ emphasizes producing standardized products at a very low per unit-cost for consumers who are price sensitive.
 - (a) Cheap leadership.
 - (b) Inferior product leadership.
 - (c) Cost leadership.
 - (d) Cost benefit.
3. Focus strategies are _____ when consumers have _____ preferences and when rival firms are not attempting to specialize in the same target segment.
 - (a) effective, no
 - (b) effective, distinctive
 - (c) ineffective, clear



- (d) fragmented, fragmented
4. Concentric diversification amounts to _____ diversification.
- (a) related
- (b) unrelated
- (c) non integrated
- (d) uninitiated

Short answer questions

1. What do you understand by focus strategy?
2. What is differentiation strategy?
3. Explain conglomerate diversification.

Essay type questions

1. Strategy is partly proactive and partly reactive. Discuss.
2. Discuss various stages in strategic formulation and implementation process.
3. Discuss strategic alternatives with reference Michael Porter's strategies.

Case Study

Cool Garments is exploring options of picking up a strategic equity stake in north based Jazzy Wear, a Kanpur -based garment manufacture catering to gents segment. The takeover may boost its production of premium garments. This will also increase Cool Garments' presence in the North.

The size of the acquisition would be small — within Rs 50 crore — compared to Cool Garments recent big deals in other states. Jazzy Wear special products fit perfectly into Cool Garment's future plans. Acquiring Jazzy will give it a bigger product portfolio and also a considerable presence in the north Indian market.

With the fragmented shareholding the top managers of Jazzy Wear know that the Cool Garments will be definitely able to acquire controlling share in their company. They feel that if a deal is struck it would also be in their favour. However, they are not clear how to formulate right strategy for the Jazzy Wear.

If you are appointed as strategic consultant by the Jazzy Wear, explain to their top managers the process of strategy formulation.

Discuss the nature of strategy for both the companies.

Answers – Multiple Choice Questions:

1. (b) 2. (c) 3. (b) 4. (a)

CHAPTER 5

FORMULATION OF FUNCTIONAL STRATEGY

LEARNING OBJECTIVES

- ◆ Understand how functional strategies are formulated.
- ◆ To have a fair idea about the role of marketing strategy in implementation.
- ◆ Learn different aspects of financial strategy.
- ◆ Know how to formulate production, HR, MIS strategy.

As market windows open and close more quickly, it is important that R&D be tied more closely to corporate strategy

William Spender

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

1. INTRODUCTION

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. Functional area strategy: (marketing, financial, production and Human Resource), is based on the functional capability factors. For each functional area, first the major sub areas are identified and then follows a discussion of each of these sub functional areas regarding the content of functional strategies, important factors, and their importance in the process of strategy implementation.

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.



Financial Management

Functional strategies, are made within the guidelines set at higher levels. 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.

The reasons why functional strategies are needed:

- ◆ The strategic decisions are implemented by all the parts of an organization.
- ◆ There is a basis available 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.
- ◆ Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers.
- ◆ Coordination across the different functions takes place where necessary.

The development of functional strategies is aimed at making the strategies-formulated at the top management level-practically feasible at the functional level. 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. Organizational strategies affect the choice of functional strategies. Finally, the actual process of choice is influenced by objective as well as subjective factors. Functional strategies affect, and are affected by, the resource allocation decisions.

2. MARKETING STRATEGY FORMULATION

Ordinary marketing is an activity performed by business organizations. In the present day it is considered to be 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 relationship to marketing to the other business functions can be understood by the following points:

- ◆ Marketing alone cannot produce superior value for the consumer. All company departments must work together to accomplish this.
- ◆ Each department is a link in the value chain (discussed in chapter 6).
- ◆ A company's value chain is only as strong as the weakest link.
- ◆ Marketers are challenged to find ways to get all departments to "think customer."
- ◆ In its search for competitive advantage, the firm needs to look beyond its own value chain and into the value chains of its suppliers, distributors, and ultimately customers. This "partnering" will produce a **value delivery network**.

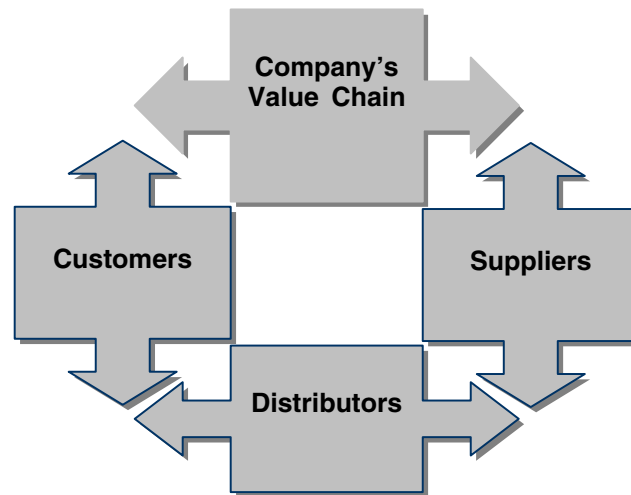


Figure 5.1 : Value Delivery Network

2.1 Marketing Issues

Countless marketing variables affect the success or failure of strategy implementation. Some examples of marketing decisions that may require policies are as follows:

1. To use exclusive dealerships or multiple channels of distribution.
2. To use heavy, light, or no TV advertising.
3. To limit (or not) the share of business done with a single customer.
4. To be a price leader or a price follower.
5. To offer a complete or limited warranty.
6. To reward salespeople based on straight salary, straight commission, or or a combination salary/commission.
7. To advertise online or not.

2.2 The Marketing Process

- ◆ Once the strategic plan has defined the company's overall mission and objectives, marketing plays a role in carrying out these objectives.
- ◆ 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 center of the marketing process.



Connecting with consumers

To succeed in today's competitive marketplace, companies must be customer centered. They must win customers from competitors and keep them by delivering greater value. Since companies cannot satisfy all consumers in a given market, they must divide up the total market (**market segmentation**), choose the best segments (**market targeting**), and design strategies for profitably serving chosen segments better than the competition (**market positioning**).

Developing the marketing mix

Once the company has decided on its overall competitive marketing strategy, it is ready to begin planning the details of the marketing mix. 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 "four Ps."

- ◆ **Product** stands for the "goods-and-service" combination 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.
- ◆ **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. Also, pricing strategies for entering a market, specially with a new product, must be designed.
- ◆ **Place** stands for company activities that make the product available to target consumers. 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 purchases by the final customers. Strategies applicable to the middleman such as wholesalers and retails must be designed.
- ◆ **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.

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 seems to take the seller's view rather than the buyer's view.

Perhaps a better classification would be the 4 Cs:

- a. Product = Customer Solution.
- b. Price = Customer Cost.



Formulation of Functional Strategy

- c. Place = Convenience.
- d. Promotion = Communication.

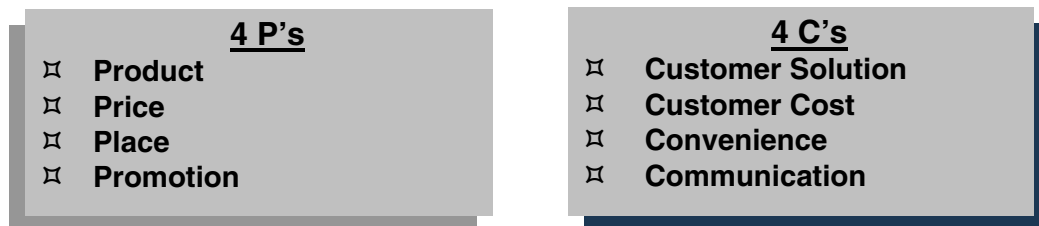


Figure: The 4 P's & 4 C's of the Marketing

Expanded Marketing Mix

In addition to the traditional four Ps the new marketing mix (particularly for services) includes people, physical evidence and process

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.

Marketing Analysis

- ◆ Marketing analysis involves a complete analysis of the company's situation.
- ◆ The company performs analysis by
- ◆ Identifying environmental opportunities and threats.
- ◆ Analyzing company strengths and weaknesses to determine which opportunities the company can best pursue.
- ◆ Feeding information and other inputs to each of the other marketing management functions.

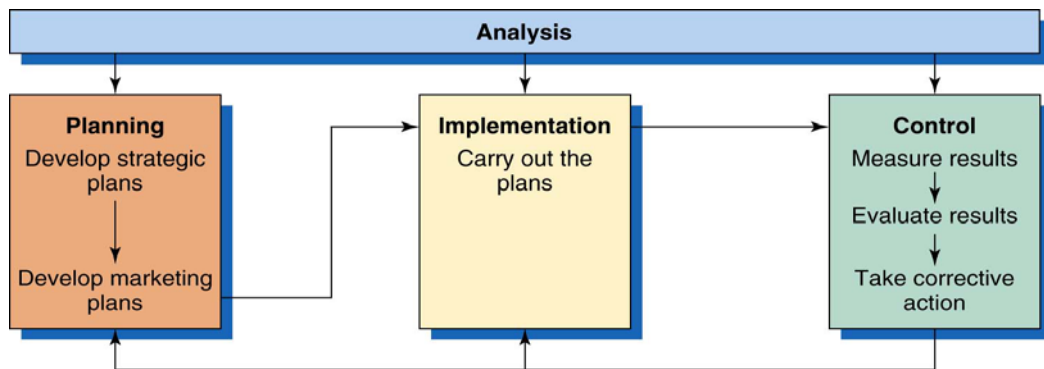


Figure: Managing the marketing effort

Marketing Planning

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 are forced to anticipate 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 created for all marketing mix components.



Formulation of Functional Strategy

- ◆ The marketing budget is a section of the marketing plan that shows projected revenues, costs, and profits.
- ◆ The last section of the marketing plan outlines the controls that will be used to monitor progress. This allows for progress checks and corrective action.

Dealing with the Marketing Environment

The 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:

- ◆ Forces close to the company such as its ability to serve customers, other company departments, channel members, suppliers, competitors, and publics.
- ◆ Broader forces such as demographic and economic forces, political and legal forces, technological and ecological forces, and social and cultural forces.

Marketing strategy techniques

- ◆ **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 in Delhi.
- ◆ **Augmented Marketing.** It is provision of additional customer services and benefits built around the care and actual products that relate to introduction of hi-tech services like movies on demand, on-line 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, 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 stakeholder. For example, British Airways offers special lounges with showers at 199 airports for frequent flyers. Thus, providing special benefits to select customers to strength 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 or behavior towards particular people. For



Financial Management

example, politicians, sports stars, film stars, professional i.e., market themselves to get votes, or to promote their careers and income.

- ◆ **Organization Marketing:** It consists of activities undertaken to create, maintain, or change attitudes and behavior of target audiences towards an organization. Both profit and nonprofit organizations practice organization marketing.
- ◆ **Place Marketing:** Place marketing involves activities undertaken to create, maintain, or change attitudes and behavior towards particular places say, business sites marketing, tourism marketing.
- ◆ **Enlightened Marketing:** 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:** A market-coverage strategy in which a firm decides to target several market segments and designs separate offer for each. For example. Hindustan Lever Limited has Lifebuoy, Lux and Rexona in popular segment and Liril and Pears in premium segment.
- ◆ **Synchromarketing:** When the demand for the product is irregular due to season, some parts of the day, or on hour basis, causing idle capacity or over-worked capacities, synchromarketing can be used to find ways to alter the same pattern of demand through flexible pricing, promotion, and other incentives. For example woollens or coolers; or hospitals underbooked on weekend or end of the week.
- ◆ **Concentrated Marketing:** A market-coverage strategy in which a firm goes after a large share of one or few sub-markets.
- ◆ **Demarketing:** 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 over-crowded on Saturdays, Sundays and holidays. Here demarketing can be applied to regulate demand.

3. FINANCIAL STRATEGY FORMULATION

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. Strategists need to formulate strategies in these areas so that they are implemented. Some examples of decisions that may require finance/accounting policies are:

1. To raise capital with short-term debt, long-term debt, preferred stock, or common stock.



Formulation of Functional Strategy

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. 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 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. Organisations 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 statements 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-



Financial Management

implementation approaches.

Primarily as a result of the Enron collapse and accounting scandal, 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 almost as many different types of financial budgets as there are types of 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. 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.

Management / usage 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 is inefficient, leading to less than an optimum utilization of resources. An example is of Modi Cement, which followed a deliberate policy of generous capital investment in setting up its plant based on the latest technology. As compared to its competitor Jaypee Rewa's plant, which cost Rs 120 crore, Modi's plant had an investment of Rs 153 crore. The result was high interest liability and



Formulation of Functional Strategy

depreciation, causing a serious dent in profitability in the initial years. Other factors of usage of funds are also considered by companies to attract and retain shareholders' interest. Payout policies for dividends and bonus distribution play an important role in the usage of funds.

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 utilisation of funds objectives which are central to any strategic action. Organisations 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 an organization or of the firm itself. Thousands of transactions occur each year in which businesses are bought or sold in the United States. In all these cases, it is necessary to establish the financial worth or cash value of a business to successfully implement strategies.

All the various methods 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. If a firm has goodwill, it will be listed on the balance sheet, perhaps as "intangibles".
- ◆ 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. When using the approach, remember that firms normally suppress earnings in their financial statements to minimize taxes.

- ◆ 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, even though substantial information on firms that buy or sell to other firms is available in major libraries. 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. As indicated in the Global Perspective, European firms aggressively are acquiring American firms, using these and perhaps other methods for evaluating the worth of their target companies.

4. PRODUCTION STRATEGY FORMULATION

The strategy for production are related to the production system, operational planning and control, and research and development (R&D). The strategy adopted 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.

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, adopts 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. Another example is of Lakshmi Machine



Formulation of Functional Strategy

Works, where operations policy related to the product range is aimed at the successive enlargement of its textile machinery range. This is done through a policy of mastering the process of production by absorption of technology, indigenisation, and adaptation to customer needs.

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 utilised 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 organisational activity that is aimed at translating the objectives into reality. For instance, Instrumentation Ltd is a public sector company engaged in the business of process control and automation and is currently following a strategy of expansion and diversification. Operations planning and control at this company is based on the policy of ancillarisation. There are about 259 ancillary units that supply sub-assemblies and components. The company's centralised production is at Kota in Rajasthan and its operations plans are based on the plans of its ancillary units. The centralised production provides all the basic inputs to ancillaries and performs the functions of testing, standardising, and fabricating the equipment.

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.

5. LOGISTICS STRATEGY

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 organization 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?



Financial Management

- ◆ 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 organization 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. RESEARCH AND DEVELOPMENT

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.



Formulation of Functional Strategy

- ◆ 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.

Many firms wrestle with the decision to acquire R&D expertise from external firms and develop R&D expertise internally. 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.

7. HUMAN RESOURCE STRATEGY FORMULATION

The job of human resource manager is changing rapidly as there companies that downsize and



Financial Management

reorganize. 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. This plan must consider how best to manage spiraling healthcare insurance costs. Employers' health coverage expenses consume an average 26 percent of firms' net profits, even though most companies now require employees to pay part of their health insurance premiums. The plan must also include how to motivate employees and managers.

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 stock ownership plan (ESOP), instituting an effective childcare policy, and providing leadership for managers and employees in a way that allows them to balance work and family.

A well-designed strategic-management system can fail if insufficient attention is given to the human resource dimension. Human resource problems that arise when business implement 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 behavior 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.



Formulation of Functional Strategy

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 involved 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.

The firm's external opportunities and threats on the one hand and its internal strengths and weaknesses on the other. In Human Resource Strategic management, 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 is very important. The following points should be kept in mind :

1. *Recruitment and selection:* The workforce will be more competent if a firm can successfully identify, attracts, and select the most competent applicants.



Financial Management

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.

Strategy and Human Resource Management

The human resource strategy of 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 in 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 Management

The prominent areas where the human resource manager can play strategic role are as follows:

1. **Providing purposeful direction:** The human resource management must be able to lead people and the organization towards the desired direction involving people right from the



Formulation of Functional Strategy

beginning. The most important tasks of a professional management is to ensure that the object of an organization has been internalized by each individual working in the organization. Goals of an organization states the very purpose and justification of its existence.

The management have to ensure that the objects of an organization becomes the object of each person working in the organization and the objectives are set to fulfill the same. Objectives are specific aims which must be in the line with the goal of the organization and the all actions of each person must be consistent with the objectives defined.

2. Creating competitive atmosphere: Present's globalized market maintaining a competitive gain is the object of any organization. There are two important ways of business can achieve a competitive advantages 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.

3. Facilitation of change: The Human resource will be more concerned with substance rather than form, accomplishments rather than activities, and practice rather than theory. The personnel function will be responsible for furthering the organization not just maintaining it. Human resource management will have to devote more time to promote changes than to maintain the status quo.

4. Diversion of workforce: In the modern organization 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 fulfillment. 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.

5. Empowerment of human resources: Empowerment means authorizing every number of a society or organization to take of 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.

6. 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 organization 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.

6. Development of works ethics and culture: Greater efforts will be needed to achieve cohesiveness because workers 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 people and to encourage creative ideas by the people. Far reaching changes with the help of technical knowledge will be required for this purpose.

Self-Examination Questions

Multiple Choice Questions

1. 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
2. A core competence is a _____ of an organization which may not be shared by others.
 - (a) Unique strength
 - (b) Unique opportunity
 - (c) Unique product
 - (d) None of the above
3. If both technical progress and market growth are fast, R&D expertise should be obtained through:
 - (a) Acquisition of a technologically sound and well-established firm.
 - (b) In-house development.
 - (c) Hiring management consultant
 - (d) None of the above.
4. Functional managers need _____ from the business strategy in order to _____.
 - (a) to function, control



Formulation of Functional Strategy

- (b) guidance make decisions
- (c) money, purchase raw material.
- (d) None of the above.

Short answer questions

1. Write a short note on marketing mix?
2. Write a short note on evaluating worth of a business.
3. How proper logistics management helps business.

Essay type questions

1. What is human resource management? Discuss its role in implementation of strategy.
2. Discuss the concept of production strategy formulation
3. What is financial strategy? How worth of a business can be evaluated?

Case Study

Many companies are harping on making their products affordable to the mass consumers as part of their growth strategy. Two years back Clean Head Ltd started selling their shampoo at an affordable price of Rs 10 for 40 ml bottle. The price of 100 ml and 200 bottles were retained at Rs 45 and 85 respectively. The product was aggressively pushed in small and mofussil towns. The company expected that the existing customers would continue with the convenience of bigger bottles and purchase them. Contrary to the expectations, big cities also witnessed a shift towards smaller size bottles. There was some increase in the volumes, but squeeze in the margins tremendously reduced the profits. Moreover, the turnover did not increase as forecasted.

The chairman of the company called a meeting of all the functional heads and made following observations:

“We have to chart out long-term strategies for our company. At this moment, sustainable but profitable growth is sacrosanct for us, but may prove to be elusive. We are not in a position to offer lower-priced shampoos with declining profits. If we continue like this, gradually the company may start incurring losses. Our competitors have also followed us by reducing their prices. My dilemma is if we roll back our prices, our competitors may not do so.”

- (a) What went wrong? Give your assessment of the situation
- (b) How competitors are related to the internal decisions?
- (c) What is the strategy used by Clean Head Ltd.

Answers – Multiple Choice Questions:

1. (d) 2. (a) 3. (a) 4. (a)

CHAPTER 6

STRATEGY IMPLEMENTATION AND CONTROL

LEARNING OBJECTIVES

- ◆ Learn the concept of strategy implementation.
- ◆ Understand why strategy implementation is more difficult than strategy formulation.
- ◆ Understand the importance of organizational structure in strategy implementation.
- ◆ Understand how to establish strategic Business Units.
- ◆ Understand the role of leadership in the execution of strategy.
- ◆ Learn how to build a supportive corporate culture.

Winning companies know how to do their work better

– Michael Hammer and James Champy

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

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. Translation 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.



2. INTERRELATIONSHIPS BETWEEN STRATEGY FORMULATION AND IMPLEMENTATION

Strategy implementation concerns the managerial exercise of putting a freshly chosen strategy into place. Strategy execution 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 decision into action, with 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 system.

The basic elements of strategic management are summarized in the figure below:

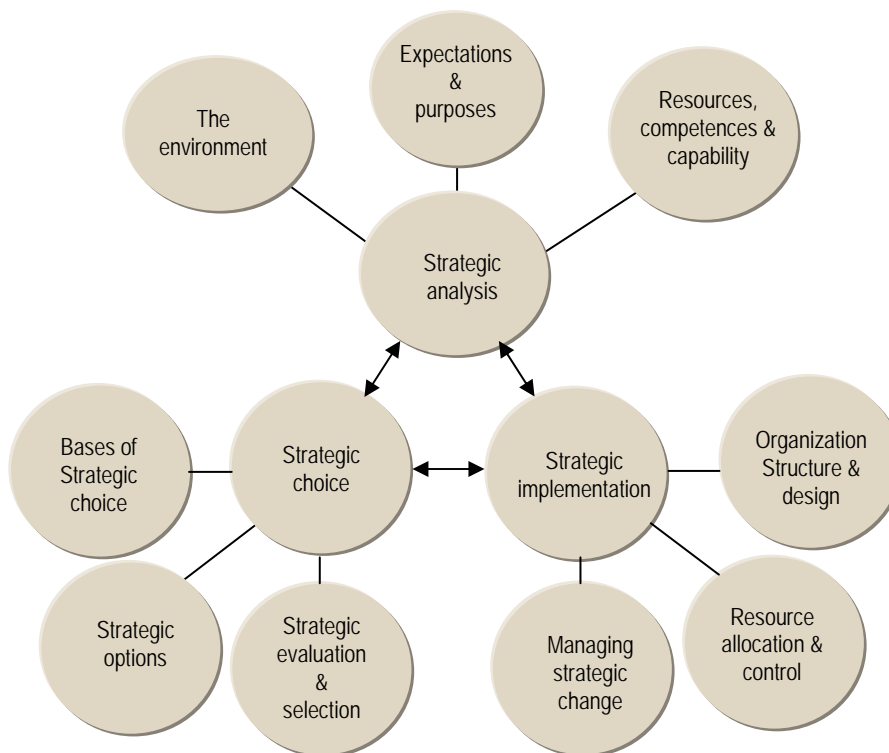


Figure: A summary model of the elements of strategic management

Source : Johnson and Scholes (1988)



Strategy Implementation and Control

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 per se. 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 represent various combination of strategy formulation and implementation:

Strategy formulation	Sound	A	B (Success)
	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 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 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 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 reserved 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.



Strategic Management

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 other 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 common 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 organization's attainment of 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 management	
		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



Strategy Implementation and Control

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. 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	Strategy implementation
◆ Strategy formulation is positioning forces before the action.	◆ Strategy implementation is managing forces during the action.
◆ 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 good intuitive and analytical skills.	◆ Strategy implementation requires special motivation and leadership skills
◆ Strategy formulation requires coordination among a few individuals	◆ Strategy implementation requires combination among many individuals.

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. Implementing 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 between 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 the formulation on 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.

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 to his or her task a wide range of knowledge, skills, attitudes, and abilities. The implementation tasks put to test the strategists' abilities to allocate resources, design structures, formulate functional policies, and take into account the leadership styles required, besides dealing with various other issues.

- ◆ 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 plans. For instance, if stability strategies have been formulated, they may lead to the formulation of various plans. One such plan could be a modernization plan. Plans result in 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. An example of a programme is a research and development programme for the development of a new product.
- ◆ 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 programmes 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.
- ◆ Projects create the needed infrastructure for the day-to-day operations in an organization. They may be used for setting up new or additional plants, modernising the existing facilities, installation of newer systems, and for several other activities that are needed for the implementation of strategies.

Implementation of strategies is not limited to formulation of plans, programmes, and projects. Projects would also require resources. After that is 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

But it should be noted that the sequence does not mean that each of the following 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.

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 strategy-formulation 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 strategy-formulation activities. Of equal importance, strategists should 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, matching managers with strategy, developing a strategy-supportive culture, adapting production/operations processes, developing an effective human resource function and, if necessary, downsizing. Management changes are necessarily more extensive when strategies to be implemented move a firm in major new direction.

Managers and employees throughout an organization should participate early and directly in strategy-implementation decisions. 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 communicated throughout an 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. 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.

4. ORGANIZATION AND STRATEGY IMPLEMENTATION

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 strategy often require changes in the way an organization is structured for two major



reasons. First, structure largely dictates how objectives and policies will be established. 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. 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.

Changes in strategy lead to changes in organizational structure. Structure should be designed to facilitate the strategic pursuit of a firm and, therefore, follows strategy. Without a strategy or reasons for being (mission), companies find it difficult to design an effective structure. 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 or type of organization. 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.

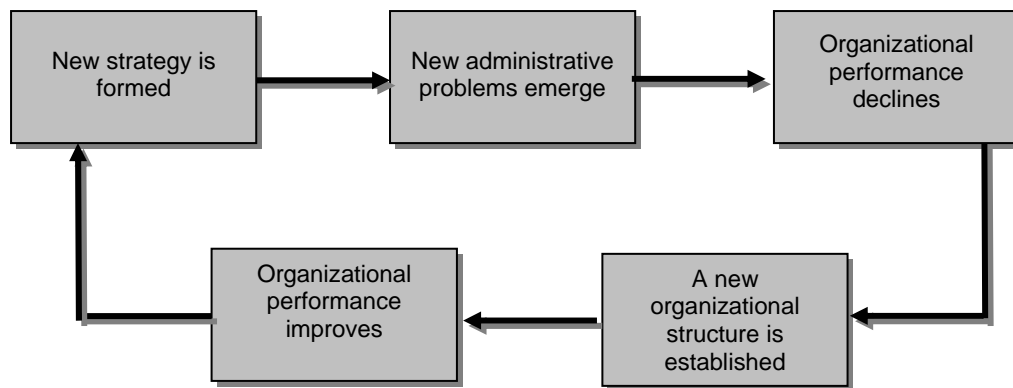


Figure: Chandler's Strategy-Structure Relationship

Numerous external and internal forces affect an organization; no firm could change its structure in response to every one 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 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 undeniably can and does influence strategy. Strategies formulated must be workable, so if a certain new strategy required massive structural changes it would not be an attractive choice. In this way, structure can shape the choice of strategies. 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 examine this issue by focusing on seven basic types of organizational structure: functional, divisional by geographic area, divisional by product, divisional by customer, divisional process, strategic business unit (SBU), and matrix.

4.1 The Functional Structure

The most widely used structure is the functional or centralized type because this structure is the simplest and least expensive of the seven alternatives. 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. Some disadvantages of a functional structure are that it forces accountability to the top, minimizes career development opportunities, and is sometimes characterized by low employee morale, line/staff conflicts, poor delegation of authority, and inadequate planning for products and markets. Most large companies abandoned the functional structure in favour of decentralization and improved accountability.

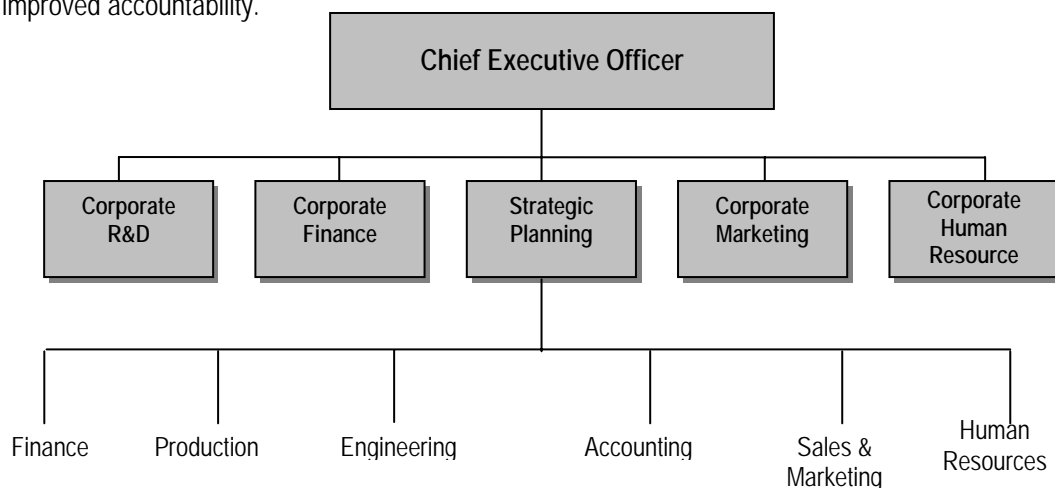


Figure: Functional Organization Structure



A competitive advantage is created when there is a proper match between strategy and structure. Ineffective strategy/structure matches may result in company rigidity and failure, 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.

Access to reliable information is imperative if executives are to reach decisions regarding the selection of a structure that is sufficiently flexible and stable. Useful information contributes to the formation and use of effective structures and controls, which yield improved decision making.

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.

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.

The functional structure consists of a chief executive officer or a managing director and limited corporate staff with functional line managers in dominant functions such as production, 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.

The 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.

The 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.

The new, innovative structure called 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 enables 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.

4.2 The Divisional Structure

As a small organization grows, it has more difficulty 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 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 separate division.

Cisco Systems discarded its divisional structure by customer and reorganized into a functional structure. CEO John Chambers replaced the three-customer structure based on big businesses, small business, and telecoms, and now the company has centralized its engineering and marketing units so that they focus on technologies such as wireless networks. Chambers says the goal was to eliminate duplication, but the change should not be viewed as a shift in strategy. Chambers' span of control in the new structure is reduced to 12 managers reporting directly to him from 15.

Kodak reduced its number of business units from seven by-customer divisions to five by-product divisions. As consumption patterns become increasingly similar worldwide, a by-product structure is becoming more effective than a by-customer or a by-geographic type divisional structure. In the restructuring, Kodak eliminated its global operations division and distributed those responsibilities



across the new by-product divisions.

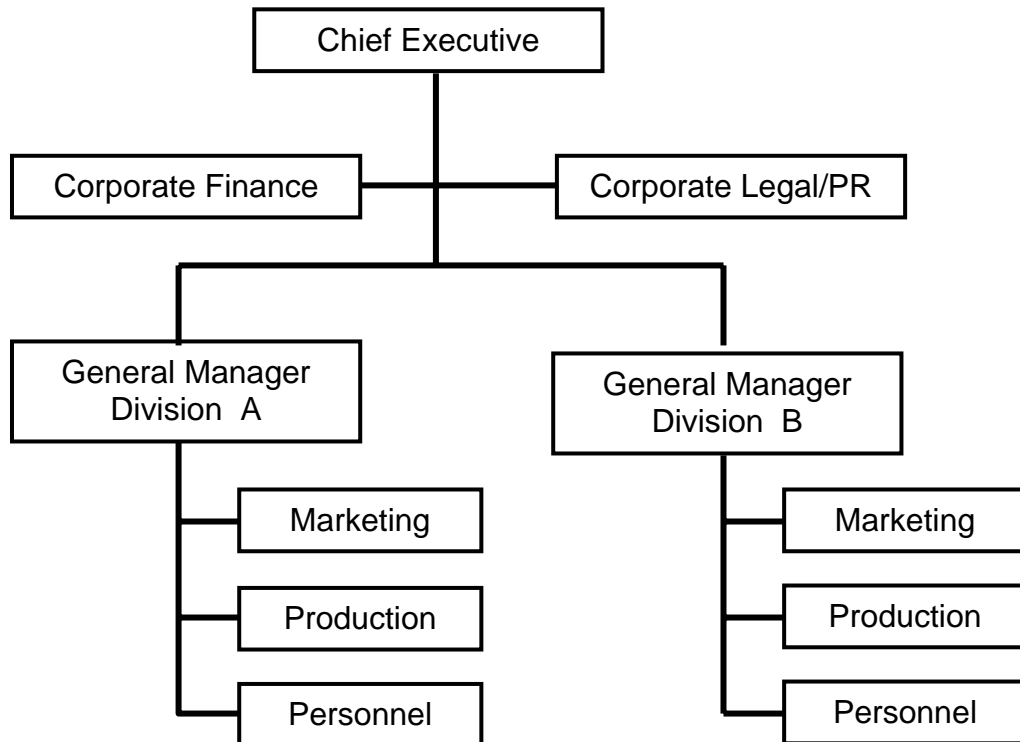


Figure : Divisional Structure

A divisional structure has some clear advantages. First and perhaps 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 to be added easily.

The divisional design is not without some limitations, however. 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 require 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 need to be tailored to fit the particular needs and characteristics of customers indifferent geographic areas. This type of structure can be most appropriate for organization 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. Merrill Lynch is organized into separate divisions that cater to different groups of customers, including wealthy individuals, institutional investors, and small corporations.

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.

4.3 The Strategic Business Unit (SBU) Structure

As the number, size, and diversity of divisions in an organization increase, controlling and evaluating divisional operations become increasingly difficult for strategists. Increases in sales often are not accompanied by similar increases in profitability. The span of control becomes too large at top levels of the firm. Because of limits to an individual chief executive officer's ability to process complex strategic information, problems related to isolation of functional area managers, and increasing diversification, the structure of the company needs to change. In these instances, the SBU structure is most appropriate. Also in multidivisional organizations, an SBU structure can greatly facilitate strategy implementation efforts.



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 divisions 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. In the ninety-division conglomerate just mentioned, the ninety divisions could perhaps be regrouped into ten SBUs according to certain common characteristics, such as competing in the same industry, being located in the same area, or having the same customers.

Two disadvantages of an SBU structure are that it requires an additional layer of management, which increases salary expenses, and the role of the group vice president is often ambiguous. However, these limitations often do not outweigh the advantages of unproved coordination and accountability.

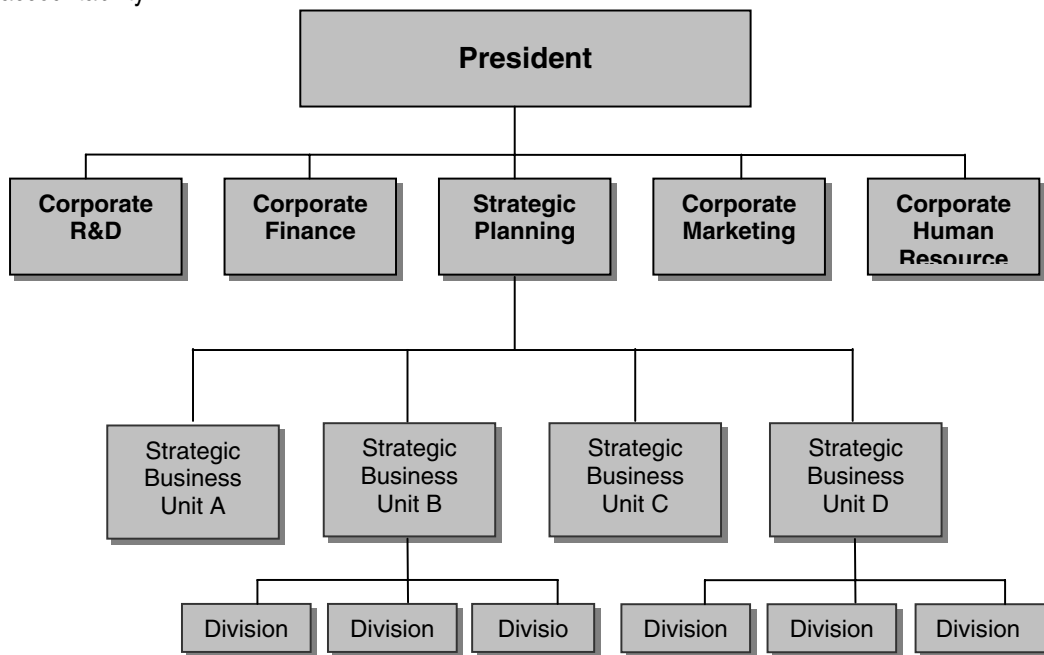


Figure: SBU Structure

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.



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 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. It will implement this strategy through the SBU structure.

For General Electric, this structure will enable the company to "walk, talk and think" like smaller companies by making decisions and introducing innovative products more rapidly. GE's SBU form is made up of 10 strategic business units which should enable it to act quickly and more effectively. Structural flexibility is perceived to be of equal importance with strategic flexibility and both of them would enable the company to respond more rapidly to emerging opportunities.

Newer Forms of Organization Structures

As companies successfully implement business-level strategies and achieve above average returns, they may diversify their operations by offering different products or following a product diversification strategy or offering the same or additional products in new markets or by following a market diversification strategy. Following such diversification, companies generally formulate and implement a corporate-level strategy and business-level strategies for individual units.

However, the structural and control characteristics of the functional structure do not adequately support the successful implementation of corporate-level strategies that call for diversification beyond the single or dominant-business level. Increased levels of diversification call for newer structures that enable fast decision making and where other structures do not seem to be working properly.

4.4 The 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 their situations. In matrix structures,



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 sales – 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 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 structures used more frequently by American businesses because firms 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, and line of bus II have roughly equal strategic priorities, a matrix organization can be an effective structural form.

The matrix structure was developed to combine the stability of the functional structure with the flexibility of the product form. The matrix structure 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 exist: 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.

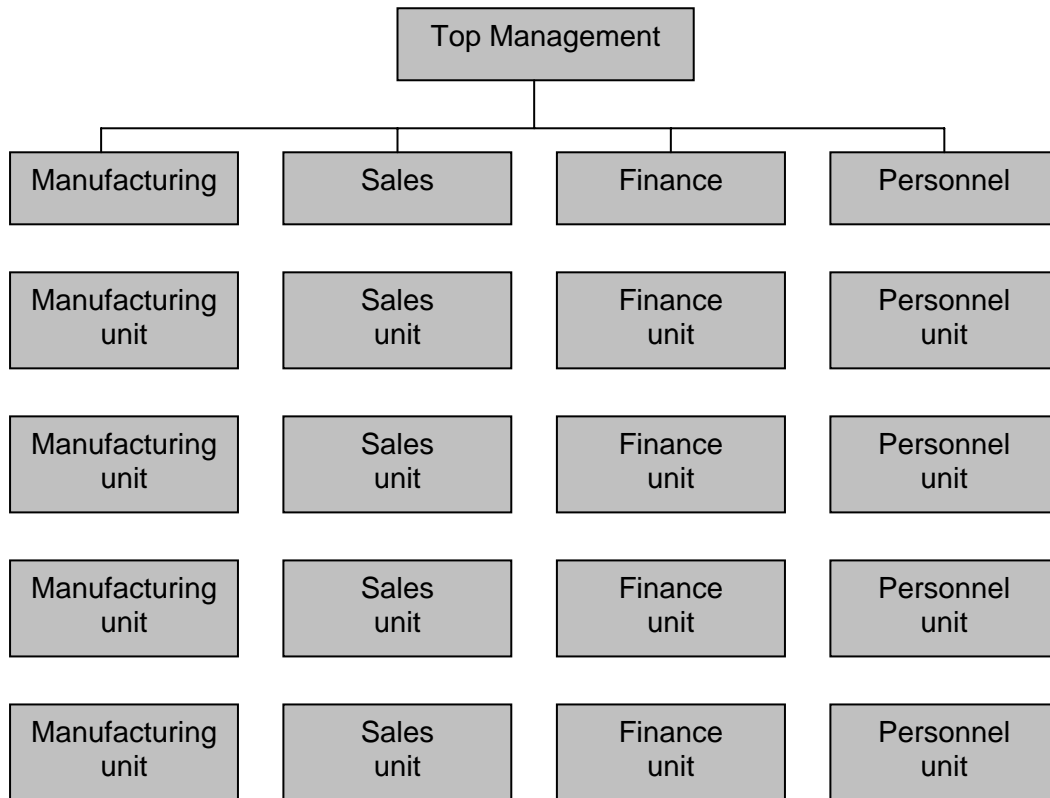


Figure: Matrix Organization Structure
Changing organizational design

Old Organizational Design	New Organizational Design
◆ One large corporation	◆ Mini-business units & 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.

4.5 Network Structure

A newer and somewhat more 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 worldwide. 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 companies. In its ultimate form, the network organization is a series of independent firms or business units linked together by computers in an information system that designs, produces, and markets a product or service.

Companies like Nike, Reebok and Benetton 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, such as those faced by DuPont, the world's largest chemical company. With new organizational forms, many workers become deskilled—that is, they cannot perform well in a new structure that often demands constant innovation and adaptation. 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.

5. STRATEGIC BUSINESS UNITS & CORE COMPETENCE

At this juncture, it is pertinent to introduce the concept of Strategic Business Unit (SBU). In modern times, most corporations organise their businesses into appropriate SBUs. And in their internal appraisal they carry out an assessment of their SBUs. The student must have a good grasp of this concept, since it is a vital idea in the strategic planning and strategic management endeavour. In fact, reference to this idea will keep recurring in our subsequent discussions in this text.

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.

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 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 idea.

- ◆ 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 three most important Characteristics of 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.
- ◆ Has its own set of competitors.
- ◆ Has a manager who has responsibility for strategic planning and profit performance, and who has control of profit-influencing factors.

The identification of SBUs is a convenient starting point for planning since once the company's strategic business units have been identified, the responsibilities for strategic planning can be more clearly assigned.

The 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 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. These 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.

One of the key aspects of value chain analysis is the recognition that organizations are much more than a random collection of machines, money and people. These resources are of no value unless deployed into activities and organised into routines and systems 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.

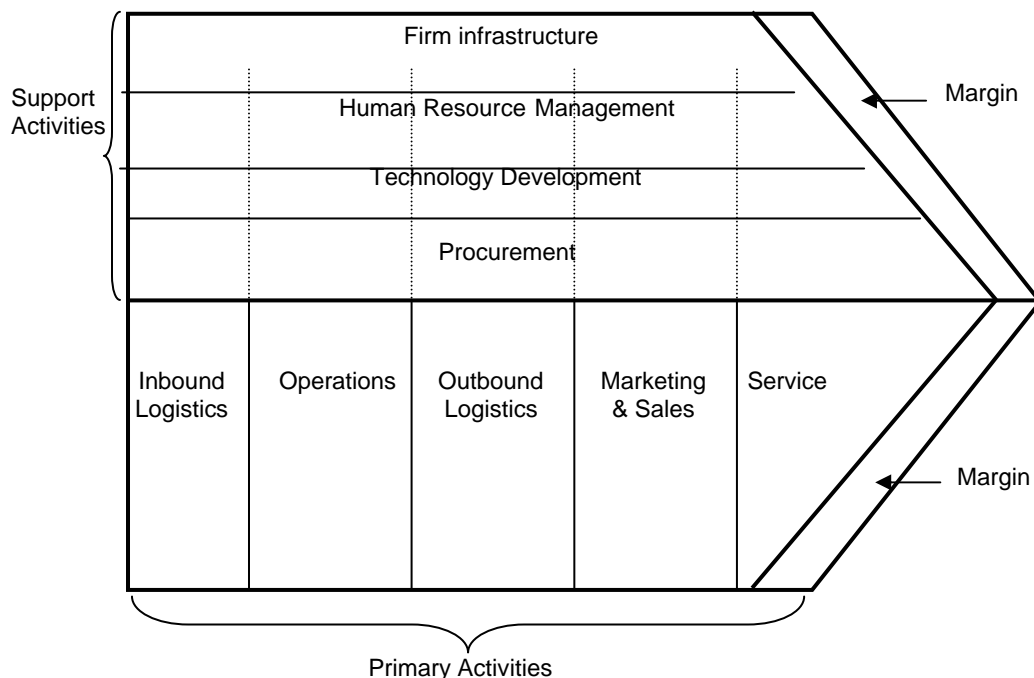


Figure: Value Chain (Michael Porter)

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 various 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.

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, consider how small shops compete with supermarkets in grocery retailing. All shops need to have a threshold competence in the basic activities of purchasing, stocking, display, etc. However, the major supermarkets are pursuing strategies which provide lower prices to consumers through their core competences in merchandising, securing lower cost supplies and managing in-store activities more efficiently. This gives a supermarket competitive



advantage over smaller shops: it is difficult for smaller shops to imitate these competences, since they are underpinned by key resources such as computerised stock/ordering systems and own brand labels. So the typical 'corner shop' grocery store gains competitive advantage over supermarkets by concentrating more on convenience and service through different core competences - the personal service to customers, extended opening hours, informal credit, home deliveries, etc. The key resources for the successful corner shop are the style of the owner and the choice of location. These aspects of service are valued by some consumers and are difficult for the supermarkets to imitate without substantially increasing their costs.

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. They are necessary resources and threshold competences to survive as a supermarket. The competitive rivalry between supermarkets is therefore achieved through other unique resources (perhaps a key site) or core competences (perhaps in the management of 'own brand' supply). In this industry, experience shows that these tend to be easily imitated. So long-term competitive advantage needs to be secured by continually shifting the ground of competition.

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. The competitive arena then switched to competences which would create some uniqueness of product in an increasingly 'commodity-like' industry. The new core competences became the ability to provide unique product designs/features at low volumes of manufacture - the so-called 'lifestyle niche' was produced by companies like Mazda. This agility in design and manufacturing techniques became a new and important core competence in the global competition.

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, as illustrated in this example. 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. The subsections which follow look at how different bases of organizational competences can be analysed and understood.

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. An assessment needs to be made of 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 production. However, at the same time, the marketing team may be selling speed, flexibility and variety to the customers. So high levels of competence in separate activities are not enough if, as here, the competences are incompatible: that is, they are not related to the same view of what value for money means to the customer.
- ◆ 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 provide 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. 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. They have allowed the organizations to create genuinely new services from these core competences or to expand rapidly into new markets.

- ◆ 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.
- ◆ The merchandising activities which manufacturers undertake with their distributors are now much improved and are an important

6. LEADERSHIP AND STRATEGIC IMPLEMENTATION

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



The litany of good strategic management is simple enough: craft a sound strategic plan, implement it, execute it to the fullest, adjust as needed, win! But it's easier said than done. 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. Sometimes it is useful to be authoritarian and hardnosed; sometimes it is best to be a perceptive listener and a compromising decision maker; sometimes a strongly participative, collegial approach works best; and sometimes being a coach and adviser is the proper role. Many occasions call for a highly visible role and extensive time commitments, while others entail a brief ceremonial performance with the details delegated to subordinates.

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, ferreting out issues, and learning what obstacles lie in the path of good execution.
2. Promoting a culture and 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 ethics 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, Infosys, is a celebrated leader because of the value he has added over his tenure at the company. One of the great legacies he will leave with Infosys is a strong management development program that builds management talent that other companies want and that will fill in managerial gaps after his retirement. Mr. Murthy whom some consider the master strategic leader, truly focuses on developing human capital.

Mr. Dhirubhai Ambani, Reliance Group, was an icon in himself because of his ability to conceptualise and communicate sweeping strategies, knowledge of operations to reach financial goals, and proficiency in implementing a new vision for the company. Mr. Ambani was an excellent strategic leader because he was able to provide clear direction for the company and his strong interpersonal skills that inspire loyalty among employees.



Leadership role in implementation

The changes confronting strategic leaders above provide obvious examples of the importance of strategic leadership, their effects on organizational outcomes, and the great challenges faced by strategic leaders. This indicates that effective 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 of appropriate strategic actions and providing guidance that results in strategic competitiveness and earning above-average returns.

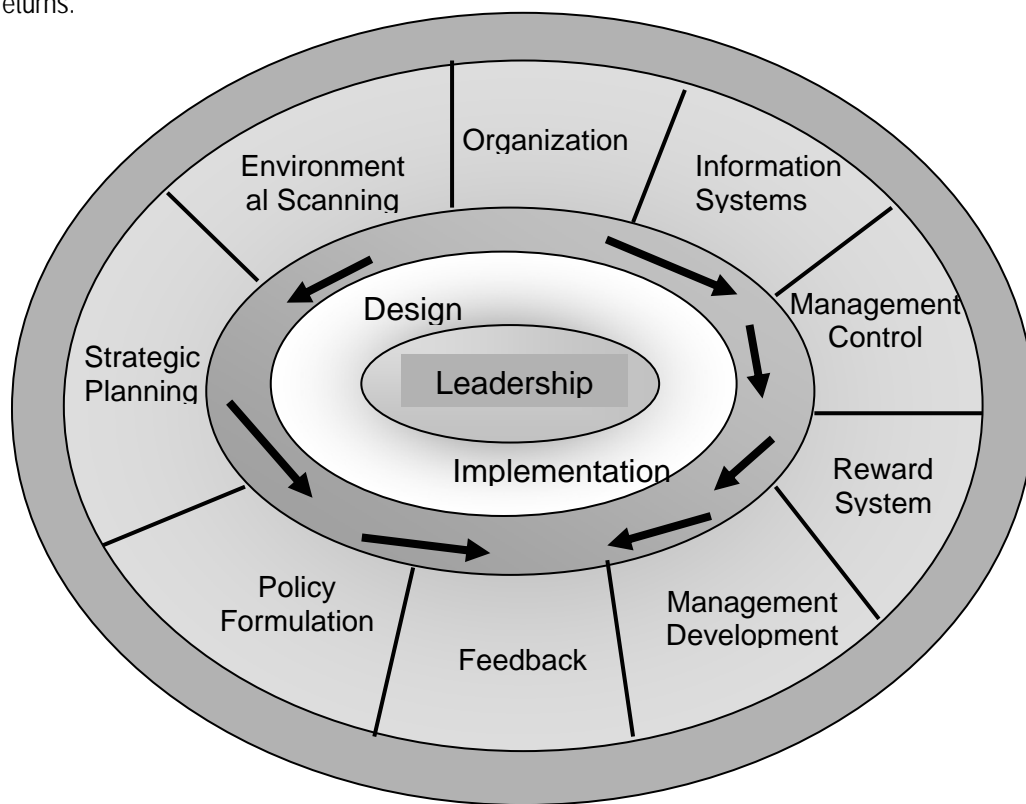


Figure : Strategy Design and Implementation: Interrelationship of Elements

Strategic leadership entails the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessary. 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.

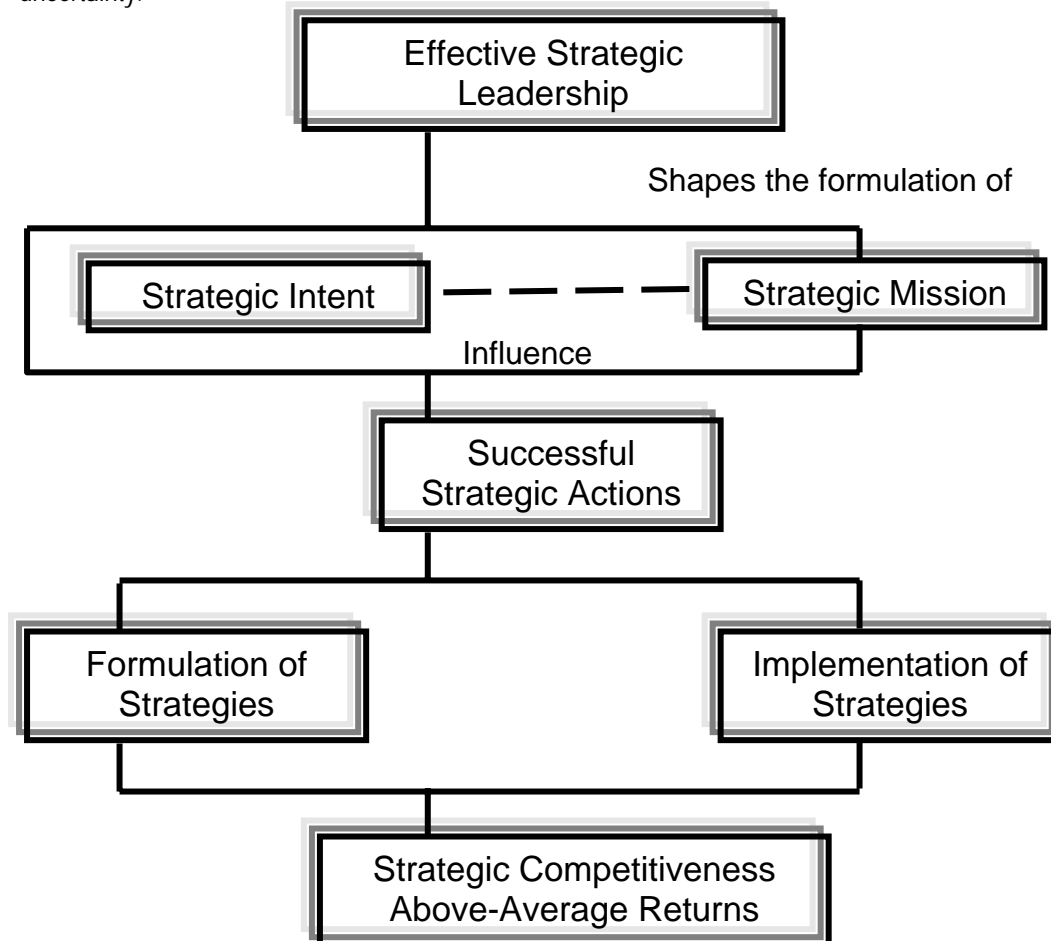


Figure: Effective Strategic Leadership

Strategic leaders are those at the top of the company (in particular, the CEO), but other commonly recognised strategic leaders include members of the board of directors, the top management team, and division general managers. The ability to manage human capital may be the most critical skill that a strategic leader possesses.

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.

The strategic leader has several responsibilities, including the following:

- ◆ Managing human capital (perhaps the most critical of the strategic leader's skills). Effectively managing the company's operations.
- ◆ Sustaining high performance over time.
- ◆ Being willing to make candid, courageous, yet pragmatic, decisions.
- ◆ Seeking feedback through face-to-face communications.
- ◆ Having decision-making responsibilities that cannot be delegated.

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.

7. BUILDING A STRATEGY-SUPPORTIVE CORPORATE CULTURE

Every company has a unique organizational culture. Each has its own business philosophy and principles, its own ways of approaching problems and making decisions, its own work climate, its own embedded patterns of "how we do things around here," *its* own lore (stories told over and over to illustrate company values and what they mean to stakeholder), its own taboos and political don'ts-in other words, its own ingrained beliefs, behaviour and thought patterns, business practices, and personality that define its **corporate culture**. Corporate culture refers to a company's values, beliefs, business principles, traditions, ways of operating, and internal work environment. The bedrock of Wal-Mart's culture is dedication to customer satisfaction, zealous pursuit of low costs, a strong work ethic. At Microsoft, there are stories of the long hours programmers put in, the emotional peaks and valleys in encountering and overcoming coding problems, the exhilaration of completing a complex program on schedule, the satisfaction of working on cutting-edge projects, the rewards of being part of a team responsible for a popular new software program, and the tradition of competing aggressively. These are reflections of Bill Gates marvellous leadership.

Where Does Corporate Culture Come From?

An organization's culture is bred from a complex combination of socio-logical forces operating within its boundaries. 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, and in the "chemistry" and the "vibrations" 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

The role of stories. 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 be compatible with its culture or they may not. When they are, 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.

How culture can promote better strategy execution a culture

Strong cultures promote good strategy execution when there's fit and hurt execution when there's little 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 responsibility is very conducive to successful execution of a strategy of delivering superior customer service.

A tight culture-strategy alignment acts in two ways to channel behaviour and influence employees to do their jobs in a strategy-supportive fashion.

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.

The 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. Once a culture is executed, it is difficult to change.

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 problem cultures 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.

Culture-changing actions

While being out front personally and symbolically leading the push for new behaviours and communicating the reasons for new approaches is crucial, strategy implementers have to convince all those concerned that the culture-changing effort is more than cosmetic. Talk and symbolism have to be complemented by substantive actions and real movement. The actions taken have to be credible, highly visible, and unmistakably indicative of the seriousness of management's commitment to new strategic initiatives and the associated cultural changes. There are several ways to accomplish this. One is to engineer some quick successes that highlight the benefits of strategy-culture changes, thus making enthusiasm for the changes contagious. However, instant results are usually not as important as having the will and patience to create a solid, competent team psychologically committed to pursuing the strategy in a superior fashion. The strongest signs that management is truly committed to creating a new culture include replacing old-culture traditionalist managers with "new-breed" managers, changing long-standing policies and operating practices that are dysfunctional or that impede new initiatives, undertaking major reorganization moves that bring structure into better alignment with strategy, tying compensation incentives directly to the new measures of strategic predominance, and making major budgetary reallocations that shift substantial resources from old-strategy projects and programs to new-strategy projects and programs.

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 word 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 officers, department heads, and middle managers have to reiterate values, "walk the talk," 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.

Self-Examination Questions

Multiple Choice Questions

1. 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.
2. Strategy formulation is primarily an _____ process and strategy implementation is primarily an _____ process.
 - (a) intellectual, operational
 - (b) operational, intellectual
 - (c) intelligent; interim
 - (d) intellectual; intellectual
3. When strategic Management is ineffective and operational management is efficient, organization will:
 - (a) Thrive.
 - (b) Survive.
 - (c) Die Slowly.
 - (d) Die Quickly.
4. When a set of product groups are superimposed across functional departments, this creates a _____ type of organization design.
 - (a) Matrix
 - (b) M-form
 - (c) U-form
 - (d) Virtual



Short answer questions

1. What is corporate culture?
2. Compare newer form of organisational structure with the traditional structure.
3. Explain the concept of backward linkages in strategy formulation and implementation.

Essay type questions

1. What is strategic implementation? How far is it different from strategy formulation?
2. What is a Strategic Business Unit?
3. Explain the concept of Value Chain Analysis.

Case Study

Speed Technologies is an Indian company with three major divisions: (1) notebooks, (2) desktops and (3) accessories. Its total revenue for the last year approximated Rs. 1130 crores, and its net operating income was Rs. 53 crores.

The organizational structure of the company is considered to be quite formal. Each division operates as an independent unit and is responsible for its own activities, with only modest direction from the corporate office. It also has offices located in Nepal and Sri Lanka. These offices function as liaising office for local importers. The monthly requisitions from the importers are directly despatched by the corporate office. The sales of the company from these two countries is marginal and their market share in markets is also low. However, there is huge potential. Considering this, the company intends to expand its network in both the countries with little control from the head office. It intends to increase the workforce and setup local assembling units.

- (a) Is the present structure of Speed Technologies functional or divisional? Discuss.
- (b) What kind of structure will you suggest in two countries?

Answers

Multiple Choice Questions

1. (b) 2. (a) 3. (c) 4. (d)

Chapter 7

Reaching Strategic Edge

LEARNING OBJECTIVES:

- ◆ Learn how Business Process Reengineering can be used as a strategic tool.
- ◆ Learn basic of TQM and how it leads to organizational success.
- ◆ Learn the concept of six sigma quality standards
- ◆ Have an overview of some of contemporary issues in strategic management.

Even if you're on the right track, you'll get run over if you just sit there.

– Will Rogers, Humorist

1. INTRODUCTION

Business organizations evolve different kind of strategies in response to the environmental forces. There was a time when diversification was strategic buzzword and different organizations believed in entering into newer business irrespective of any relationship with their existing business. Then the basic ideology of businesses shifted from diversification to core-competencies. There are several such changes in strategic ideology. With the changes in the environment of the business, strategic management is also evolving. In this chapter we will discuss some of the recent and evolving issues in the subject.

2. BUSINESS PROCESS REENGINEERING

Waiting in a queue in a post office or bank, a person may feel need for improvement in processes. In case of queue the process begins with your stepping into the queue, and ends with receiving the desired items or 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 material, 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 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. "A process 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.

A business process comprises a combination of number of such independent or interdependent processes as:

- ◆ Developing new product
- ◆ Customer order processing
- ◆ Bill payment system

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 operation of its constituent work processes. The redesign of processes, therefore, provides a powerful basis for improving the performance of a business enterprise.

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:

- ◆ 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.
- ◆ In the banking industry, the activities that help mobilise deposits and generate funds for advances to customers, is a core business process.
- ◆ In a fast moving consumer goods industry marketing and brand management is a core process.
- ◆ In the electronics and semi-conductor industries, new product development is a core 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 reasons 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 are largely obsolete and irrational.

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.

We must remember 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, most 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



Strategic Management

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). They may be 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 managed, not functions.
- ◆ For considering totally new ways of redesigning processes, each and every concept, assumption, purpose, and principle, needs to abandoned temporarily.
- ◆ Continuous improvement is a deficient approach when a 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.

Definition 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 is it 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 pulling aside much of the age-old practices and procedures of doing a thing developed over hundred years of management experience. It implies forgetting how work has been done so far, and deciding how it can best be done now.

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.

Another key element in the 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.”

The next key concept that lies behind reengineering is that it 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 and also from the characteristics of the definition of reengineering that its main focus 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:



Strategic Management

- ◆ 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.
- ◆ Process involving interface(s) with customers. These usually include marketing, advertising, order fulfilment, and service.
- ◆ Process 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 problem 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 decade 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 and 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 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:

Determining objectives and Framework: Objectives are the desired end results of the redesign process which the management and organization attempts to realise. This will provide the required focus, direction, and motivation for the redesign process. It helps in building a comprehensive foundation for the reengineering process.

Identify Customers and Determine their Needs: The 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 added value to the customer.

Study the Existing Process: The existing processes will provide an important base for the redesigners. 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.

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.

Implement the redesign: 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.

The 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 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.



Strategic Management

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 continuous improvement process. Although BPR is a multi-dimensional approach in improving the business performance it's 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.

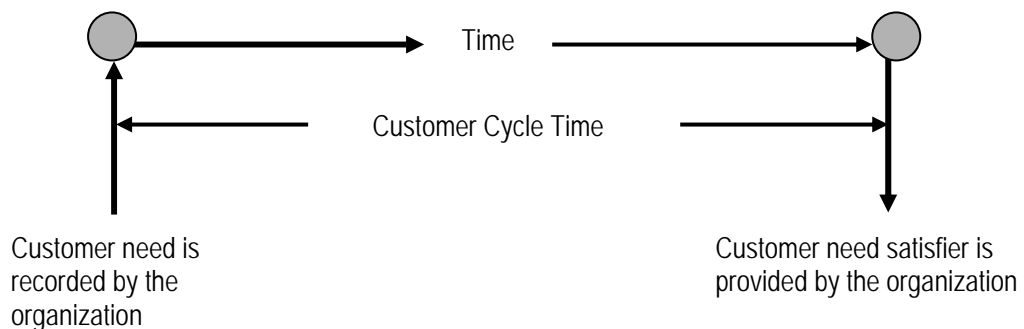


Figure : Customer Time cycle

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 briefly 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 organizational structure departmental boundaries.
- ◆ “BPR efforts involves 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 organizations top leadership to see through its successful completion.

Also faster and efficient redesigned business processes provide a firm with many more opportunities for trying, testing, modifying and learning.

Problems in BPR

Reengineering is a major and 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 takes 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 as a failure.

3. BENCHMARKING

Two men were passing through a jungle. They saw a tiger at a distance. One of them immediately started running away. ‘No use’ the other claimed ‘We cannot outrun him. We are sure to be killed’. The first person replied ‘I need to outrun you and not him’.



Strategic Management

Similarly, in cut-throat competition it is important for organizations to gain an edge over their competitors. Benchmarking helps organization to get ahead of competition. The organizations possess a large amount of information that helps 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.

Dictionary defines a benchmark as a standard or a point of reference against which things may be compared and by which something can be measured 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 need to have information against which performances can be measured. For example, a customer support engineer of a television manufacturer 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 circumstances. 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. Subsequently ALCOA, Eastman Kodak, IBM adopted



benchmarking. Firms can use benchmarking process to achieve improvement in diverse range of management function like:

- ◆ Maintenance operations
- ◆ Assessment of total manufacturing costs
- ◆ Product development
- ◆ Product distribution
- ◆ Customer services
- ◆ Plant utilization levels
- ◆ Human resource management

The Benchmarking Process

Benchmarking processes lack standardization. However, common elements are as follows:

- (1) *Identifying the need for benchmarking and planning:* This step will define the objectives 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 for example, 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 them.
- (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 is 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:* Business organizations evaluate the results of the benchmarking process in terms of improvements vis-à-vis objectives and other criteria set for the purpose. It also periodically evaluates and reset the benchmarks in the light of changes in the conditions that impact the performance.



4. TOTAL QUALITY MANAGEMENT (TQM)

The Total Quality Management movement (or simply TQM, as it is more commonly known) has caught on in essentially every corner of industry. The TQM philosophy is a guiding force in all industrialized nations like USA, European nations, Japan, etc.

What is TQM? A definition of total quality was endorsed in 1992 by the chairs and CEOs of nine major U.S. corporations in cooperation with deans of business and engineering departments of major universities and recognized consultants:

Total Quality Management (TQM) is a people-focused management system that aims at continual increase in customer satisfaction at continually lower real cost.

TQM is a total system approach (not a separate area or program) and an integral part of high-level strategy; it works horizontally across functions and departments, involves all employees, top to bottom, and extends backward and forward to include the supply chain and the customer chain. TQM stresses learning and adaptation to continual change as keys to organizational success.

To understand this concept fully, it makes sense first to understand some of the underlying concepts of quality management that have guided industrial development. The concept of quality control as a distinct discipline emerged in the United States in the 1920s. At the time, quality control was intended simply to control, or limit, the creation of defective items in industrial processes. There are numerous disadvantages to this sorting process, especially if the sorting is performed by different people from those manufacturing the product. Pioneering work by Shewhart, Deming, Juran, Feigenbaum, Crosby, and others indicated that perhaps better ways to approach the quality control concept existed. Perhaps simply sorting good products from bad, they reasoned, was not the most efficient way to assure a quality output. A more effective management philosophy might focus on actions to prevent a defective product from ever being created, rather than simply screening it out. Also, these and other men soon recognized that the concept of quality control need not be restricted only to manufacturing processes. The idea of assuring quality could also be applied to administrative processes service industries and all sphere of organization activity.

The TQM philosophy greatly emerged under Deming's guidance, who many be regarded as the father of TQM. Interestingly, Deming's quality management philosophies were first developed in the years prior to World War II. Deming believed quality management should be pervasive, and should not focus on merely sorting good products from bad. Deming believed the responsibility for quality should be shared by everyone in an organization. Perhaps most significantly, Deming recognized that most quality problems were system-induced and were therefore not related to workmanship. But Deming's work only saw limited application in the United States prior to World War II, Subsequently Deming was brought to Japan by General Douglas MacArthur to serve as a management consultant to the Japanese as they rebuilt their industrial base. Deming's message had essentially fallen on deaf ears in the United States, but not so in Japan.

Japan, then as now, was an island nation that had to import all its raw materials. But Japan, as a



formerly industrialized nation, had to rebuild its industrial base from essentially nothing. The Japanese had no preconceived approaches about sorting defective products from acceptable ones. They were willing to learn. What followed in Japan during the ensuing decades has been well studied and is now well known. The Japanese dominated almost every market they chose to enter: electronics, cameras, automobiles, steel, shipbuilding, motorcycles, and several others. Superior quality became a common theme of Japanese market dominance. Much of the Japanese quality superiority occurred as a result of statistical manufacturing methods and other management philosophies now recognized as Total Quality Management. The Japanese made additional contributions to the TQM philosophy, most notably in the areas of variability reduction, problem solving, teamwork, and defining and satisfying customer expectations: Taguchi and Ishikawa contributed heavily to these disciplines.

4.1 Principles guiding TQM

Implementing TQM requires organization wide support. There are several principles that guide success of TQM. Various principles that guide the total quality management philosophy are as follows:

- ◆ **A sustained management commitment to quality:** An organization's personality and culture will ultimately reflect its senior management's values. If an organization is serious about implementing TQM, the commitment to do so has to start at the top, and the organization's senior management has to be unwavering in its commitment to quality. Almost any organization's senior managers will claim they are committed to quality, but how they act at the end of the month (when shipments are due) really sets the tone for the entire organization. If management is willing to let a defective product go out the door in order to make sales, all the talk in the world about quality won't make a difference to the people making the product. If management is willing to take a sales hit if quality levels are not up to requirements, the rest of the organization will understand the commitment to quality is real.
- ◆ **Focusing on the customer:** According to Lee Iacocca had only three rules: Satisfy the customer, satisfy the customer, and satisfy the customer. That about sums up the TQM philosophy on customer focus.
- ◆ **Preventing rather than detecting defects:** TQM is a management philosophy that seeks to prevent poor quality in products and services, rather than simply to detect and sort out defects. "An ounce of prevention is worth a pound of cure." That wisdom says it all, from a TQM perspective.
- ◆ **Universal quality responsibility:** Another basic TQM precept is that the responsibility for quality is not restricted to an organization's quality assurance department, but is instead a guiding philosophy shared by everyone in an organization. Other organizations traditionally relied on inspection to assure quality. TQM means this thinking is reversed, and everyone takes responsibility for quality. As quality improves, the quality assurance department gets



Strategic Management

smaller. A few companies fully committed to TQM have done away completely with their quality assurance organizations.

- ◆ **Quality measurement:** There is another saying relevant to TQM, and it is:

If you don't know where you're going, you'll probably end up somewhere.

The quality measurement aspect of TQM asks the question: Where are we, and where are we going? A basic TQM concept is that quality is a measurable commodity, and in order to improve, we need to know where we are (or stated differently, what the current quality levels are), and we need to have some idea where we are going (or what quality levels we aspire to). This is an extremely important concept

- ◆ **Continuous improvement and learning:** TQM espouses a philosophy of continuous improvement in all areas of an organization. This philosophy ties in closely with the quality measurement and universal quality responsibility concepts mentioned above. Quality measurement is needed in order to focus improvement efforts appropriately.

Continuous improvement is part of the management of all systems and processes. Achieving the highest levels of performance requires a well-defined and well-executed approach to continuous improvement and learning. "Continuous improvement" refers to both incremental and "breakthrough" improvement. Improvements may be of several types:

- Enhancing value to the customer through new and improved products and services;
- Developing new business opportunities;
- Reducing errors, defects, and waste;
- Improving responsiveness and cycle time performance; and
- Improving productivity and effectiveness in the use of all resources.

"Learning" refers to adaptation to change, leading to new goals or approaches. Improvement and learning need to be embedded in the way an organization operates. This means they should be a regular part of daily work, seek to eliminate problems at their source, and be driven by opportunities to do better as well as by problems that need to be corrected.

- ◆ **Root cause corrective action:** Most of us have experienced instances in which problems we thought were corrected continued to occur. TQM seeks to prevent this by identifying the root causes of problems, and by implementing corrective actions that address problems at the root cause level.
- ◆ **Employee involvement and empowerment:** Another fundamental TQM concept is that employees must be involved and empowered. Employee involvement means every employee is involved in running the business and plays an active role in helping the organization meet its goals. Employee empowerment means employees and management recognize that many obstacles to achieving organizational goals can be overcome by employees who are provided



with the necessary tools and authority to do so.

- ◆ **The synergy of teams:** In addition to the TQM concepts of empowerment and involvement of employees, taking advantage of the synergy of teams is an effective way to address the problems and challenges of continuous improvement. Dr. Kaoru Ishikawa first formalized the teams concept as part of the TQM philosophy by developing quality circles in Japan.
- ◆ **Thinking statistically:** Statistical thinking is another basic TQM philosophy. Quality efforts often require reducing process or product-design variation, and statistical methods are ideally suited to support this objective.
- ◆ **Inventory reduction:** Largely in response to their lack of natural resources (as well as the 1970s worldwide oil shortages), the Japanese pioneered the concept of reducing inventories. This management philosophy became known as Just-in- Time (or JIT, for short) inventory management. The Japanese JIT inventory management concepts caught on in the United States and other nations. Although the concept was originally intended to address material shortages, an interesting side effect immediately emerged: As inventories grew smaller, quality improved.
- ◆ **Value improvement:** The linkage between continuous improvement and value improvement is simultaneously obvious and subtle. This linkage becomes apparent when one considers the definition of quality, which is the ability to meet or exceed customer requirements and expectations. The essence of value improvement is the ability to meet or exceed customer expectations while removing unnecessary cost. But simply cutting costs, however, will not improve value if the focus does not remain on satisfying customer requirements and expectations.
- ◆ **Supplier teaming:** Another principle of the TQM philosophy is to develop long-term relationships with a few high-quality suppliers, rather than simply selecting those suppliers with the lowest initial cost.
- ◆ **Training:** Training is basic to the TQM process. The concept is based on of empowering employees by providing the tools necessary for continuous improvement. One of the most basic tools is training.

"TQM is a management philosophy, an abstract entity!"

But TQM is not an overnight cure for an organization's quality problems. The TQM implementation process is not a program. A TQM implementation effort has a beginning, but if implemented properly, it does not have an ending. The continuous improvement process continues indefinitely in organizations that successfully implement TQM. We advise patience when embarking on this journey.

4.2 TQM and traditional management practices

TQM is quite different from traditional management practices, requiring changes in organizational



Strategic Management

processes, beliefs and attitudes, and behaviours. "Traditional management" means the way things are usually done in most organizations in the absence of a TQM focus. Many "traditional" organizations have been applying TQM principles all along, so not all of these comments pertain to every organization. The nature of TQM differs from common management practices in many respects. Some of the key differences are as follows:

- ◆ **Strategic Planning and Management:** Quality planning and strategic business planning are indistinguishable in TQM. Quality goals are the cornerstone of the business plan. Measures such as customer satisfaction, defect rates, and process cycle times receive as much attention in the strategic plan as financial and marketing objectives.
- ◆ **Changing Relationships with Customers and Suppliers:** In TQM, quality is defined as products and services beyond present needs and expectations of customers. Innovation is required to meet and exceed customers' needs. Traditional management places customers outside of the enterprise and within the domain of marketing and sales. TQM views everyone inside the enterprise as a customer of an internal or external supplier, and a supplier of an external or internal customer. Marketing concepts and tools can be used to assess internal customer needs and to communicate internal supplier capabilities.
- ◆ **Organizational Structure:** TQM views the enterprise as a system of interdependent processes, linked laterally over time through a network of collaborating (internal and external) suppliers and customers. Each process is connected to the enterprise's mission and purpose through a hierarchy of micro- and macro-processes. Every process contains sub-processes and is also contained within a higher process. This structure of processes is repeated throughout the hierarchy.
- ◆ **Organizational Change:** In TQM the environment in which the enterprise interacts is considered to be changing constantly. Management's job, therefore, is to provide the leadership for continual improvement and innovation in processes and systems, products, and services. External change is inevitable, but a favourable future can be shaped.
- ◆ **Teamwork:** In TQM individuals cooperate in team structures such as quality circles, steering committees, and self-directed work teams. Departments work together toward system optimization through cross-functional teamwork.
- ◆ **Motivation and Job Design:** TQM managers provide leadership rather than overt intervention in the processes of their subordinates, who are viewed as process managers rather than functional specialists. People are motivated to make meaningful contributions to what they believe is an important and noble cause, of value to the enterprise and society. The system enables people to feel like winners.

5. SIX SIGMA AND MANAGEMENT

Six sigma is often related to Motorola, the company that has invented it. In the eighth decade of the 20th century, Motorola's significantly changed the discussion of quality from one where quality



levels were measured in percentages (parts per hundred) to parts per million or even parts per billion. It pointed out that modern technology was so complex that old ideas about acceptable quality levels are no longer acceptable. The success of Motorola effectively changed the focus of quality worldwide. Many giants like Xerox, Boeing, GE, Kodak followed Motorola's lead. In India also Tata's, WIPRO and Bharti's and others are effectively reaping the benefits of six-sigma.

Human quest for better quality is unending. With the help of technology and newer tools organizations enhance quality of their products that are seemingly of very good quality. Quality refers to the degree of excellence and standard. Better quality is often correlated with superior processes and products. Strategically, a product of good quality should be able to meet the specifications of customer and should be able to satisfy him. If battery of a wristwatch lasts for eight months, but is expected to last for a year by the customer, then the product battery is not of desired quality. Good quality should not always be associated with good products. Another dimension of quality is that it should not be restricted to satisfying the existing desires of customers. It should not put a boundary on quality by limiting it to the current information and perspective of customers. Rather it should be futuristic, i.e., in addition to meeting customer's present expectations, it should be able to improve them.

5.1 What is Six Sigma?

Primarily Six Sigma means maintenance of the desired quality in processes and end products. It means taking systemic and integrated efforts toward improving quality and reducing cost.

It is a highly disciplined process that helps in developing and delivering near-perfect products and services. It strives to meet and improve organizational goals on quality, cost, scheduling, manpower, new products and so on. It works continuously towards revising the current standards and establishing higher ones.

Six Sigma has its base in the concept of probability and normal distribution in statistics. Six Sigma strives that 99.99966% of products manufactured are defect free. Six Sigma is a smarter way to manage a business or a department. Six Sigma puts the customer first and uses facts and data to drive better solutions.

Six Sigma efforts target three main areas:

- ◆ Improving customer satisfaction
- ◆ Reducing cycle time
- ◆ Reducing defects

Improvements in these areas usually represent dramatic cost savings to businesses, as well as opportunities to retain customers, capture new markets, and build a reputation for top performing products and services.

Although it involves measuring and analyzing an organization's business processes, Six Sigma is not merely a quality initiative; it is a business initiative. Achieving the goal of Six Sigma requires



Strategic Management

more than small, incremental improvements; it requires breakthroughs in every area of an operation. In statistical terms, "reaching Six Sigma" means that your process or product will perform with almost no defects.

But the real message of Six Sigma goes beyond statistics. Six Sigma is a total management commitment and philosophy of excellence, customer focus, process improvement, and the rule of measurement rather than gut feel. Six Sigma is about making every area of the organization better able to meet the changing needs of customers, markets, and technologies - with benefits for employees, customers, and shareholders.

The background of Six Sigma stretches back eighty-plus years, from management science concepts developed in the United States to Japanese management breakthroughs to "Total Quality" efforts in the 1970s and 1980s. But its real impact can be seen in the waves of change and positive results sweeping such companies as GE, Motorola, Johnson & Johnson, and American Express.

GE's Key Concepts of Six Sigma	
At its core, Six Sigma revolves around a few key concepts.	
Critical to Quality:	Attributes most important to the customer
Defect:	Failing to deliver what the customer wants
Process Capability:	What your process can deliver
Variation:	What the customer sees and feels
Stable Operations:	Ensuring consistent, predictable processes to improve what the customer sees and feels
Design for Six Sigma:	Designing to meet customer needs and process capability

Source: <http://www.ge.com/sixsigma/sixsigstrategy.html>

5.2 Six sigma methodology

For implementing six sigma there are two separate key methodologies for existing and new processes. Conceptually there is some overlapping between the two. The two methodologies as follows:

1. **DMAIC:** DMAIC methodology is an acronym for five different steps used in six sigma directed towards improvement of existing product, process or service. The five steps are as follows:
 - ◆ *Define:* To begin with six sigma experts define the process improvement goals that are consistent with the strategy of the organization and customer demands. They discuss different issues with the senior managers so as to define what needs to done.



- ◆ *Measure*: The existing processes are measured to facilitate future comparison. Six sigma experts collect process data by mapping and measuring relevant processes.
 - ◆ *Analyze*: Verify cause-and-effect relationship between the factors in the processes. Experts need to identify the relationship between the factors. They have to make an comprehensive analyses to identify hidden or not so obvious factor.
 - ◆ *Improve*: On the basis of the analysis experts make a detailed plan to improve.
 - ◆ *Control*: Initial trial or pilots are run to establish process capability and transition to production. Afterwards continuously measure the process to ensure that variances are identified and corrected before they result in defects.
2. **DMADV**: DMADV is again acronym for the steps followed in implementing six sigma. It is a strategy for designing new products, processes and services.
- ◆ *Define*: As in case of DMAIC six sigma experts have to formally define goals of the design activity that are consistent with strategy of the organization and the demands of the customer.
 - ◆ *Measure*: Next identify the factors that are critical to quality (CTQs). Measure factors such as product capabilities and production process capability. Also assess the risks involved.
 - ◆ *Analyze*: Develop and design alternatives. Create high-level design and evaluate to select the best design.
 - ◆ *Design*: Develop details of design and optimise it. Verify designs may require using techniques such as simulations.
 - ◆ *Verify*: Verify designs through simulations or pilot runs. Verified and implemented processes are handed over to the process owners.

5.3 What's New About Six Sigma?

In the 1980s, Total Quality Management (TQM) was popular. It too was an improvement-focused program, but it ultimately died a slow and silent death in many companies. What makes Six Sigma different?

Three key characteristic separate Six Sigma from other quality programs of the past. .

1. *Six Sigma is customer focused*. It's almost an obsession to keep external customer needs in plain sight, driving the improvement effort. (External customers are mostly those who buy business's products and services.)
2. *Six Sigma projects produce major returns on investment*. GE's CEO, Jack Welch, wrote in the annual report that in just three years, Six Sigma had saved the company more than \$2 billion.
3. *Six Sigma changes how management operates*. Six Sigma is much more than improvement



Strategic Management

projects. Senior executives and leaders throughout a business are learning the tools and concepts of Six Sigma: new approaches to thinking, planning, and executing to achieve results. In a lot of ways, Six Sigma is about putting into practice the notions of working smarter, not harder.

Six Sigma has produced some impressive numbers. But reaching them requires a great deal of organizational teamwork. It means having the systems to provide customers what they want when they want it. It means providing employees with the time and training to tackle work challenges with some basic, and some sophisticated, analytical tools.

When a business violates important customer requirements, it is generating defects, complaints, and cost. The greater the number of defects that occur, the greater the cost of correcting them, as well as the risk of losing the customers. Ideally, your company wants to avoid any defects and the resulting cost in money and customer satisfaction.

But if a company have lots of customers, some defects are bound to slip through, right? The problem is that even a seemingly low percentage of defects can mean a lot of unhappy customers. If company processed 250,000 credit card bills a month and operated at 99.38 percent accuracy (4 sigma), we would have about 1,550 unhappy customers every month.

The goal of Six Sigma is to help people and processes aim high in aspiring to deliver defect-free products and services. The notion of zero defects is not at work here; Six Sigma recognizes that there's always some potential for defects, even in the best run processes or best-built product. But at 99.9997 percent performance, Six Sigma sets a performance target where defects in many processes and products are almost nonexistent.

Also defects can lead to lost customers, and turned-off customers tell others about their experiences, making it that much more difficult to recover from defects. As customers get more and more demanding and impatient, these high levels of defects put a company in serious risk. But keeping customers happy is good and profitable for the business. A 5 percent increase in customer retention has been shown to increase profits more than 25 percent. It is estimated that companies lose 15 percent to 20 percent of revenues each year to ineffective, inefficient processes-although some might suggest that it's even higher. Six Sigma provides a goal that applies to both product and service activities and that sets attainable, short-term goals while striving for long-range business objectives.

5.4 Six Sigma as a system of management

A significant difference between Six Sigma and seemingly similar programs of past years is the degree to which management plays a key role in regularly monitoring program results and accomplishments. When Jack Welch introduced the Six Sigma program at GE, he told senior executives that 40 percent of their annual bonus would be based on their involvement and success in implementing Six Sigma.

That focused executive attention on turbo-charging Six Sigma in their individual divisions. Training



in GE was given a huge boost, and thousands of teams were trained in large sessions. At the same time, executives throughout GE participated in days and sometimes weeks of Six Sigma training.

But training alone is not a management system. A management system involves accountability for results and ongoing reviews to ensure results. With both accountability and regular reviews, managers can begin to use Six Sigma as a guide to leading their businesses.

As a management system, though, Six Sigma is not owned by senior leaders (although their role is critical) or driven by middle management (although their participation is key). The ideas, solutions, process discoveries, and improvements that arise from Six Sigma take place at the front lines of the organization. Six Sigma companies are striving to put more responsibility into the hands of the people who work directly with customers.

In short, Six Sigma is a system that combines both strong leadership and grassroots energy and involvement. In addition, the benefits of Six Sigma are not just financial. People at all levels of a Six Sigma company find that better understanding of customers, clearer processes, meaningful measures, and powerful improvement tools make their work more rewarding.

5.5 Six Themes of Six Sigma

The critical elements of Six Sigma can be put into six themes as follows:

Theme one – genuine focus on the customer: Companies launching Six Sigma have often been appalled to find how little they really understand about their customers. In Six Sigma, customer focus becomes the top priority. For example, the measures of Six Sigma performance begin with the customer. Six Sigma improvements are defined by their impact on customer satisfaction and value.

Theme two – data and fact-driven management: Six Sigma takes the concept 'of "management by fact" to a new, more powerful level. Despite the attention paid in recent years to improved information systems, knowledge management, and so on, many business decisions are still being based on opinions and assumptions. Six Sigma discipline begins by clarifying what measures are key to gauging business performance and then gathers data and analyzes key variables. Then problems can be much more effectively defined, analyzed, and resolved-permanently. At a more down-to-earth level, Six Sigma helps managers answer two essential questions to support data-driven decisions and solutions.

- ◆ What data/information do I really need?
- ◆ How do we use that data/information to maximum benefit?

Theme three – processes are where the action is: Whether focused on designing products and services, measuring performance, improving efficiency and customer satisfaction, or even running the business, Six Sigma positions the process as the key vehicle of success. One of the most remarkable breakthroughs in Six Sigma efforts to date has been convincing leaders and managers-



Strategic Management

particularly in service-based functions and industries-that mastering processes is a way to build competitive advantage in delivering value to customers.

Theme four – proactive management: Most simply, being proactive means acting in advance of events rather than reacting to them. In the real world, though, proactive management means making habits out of what are, too often, neglected business practices: defining ambitious goals and reviewing them frequently, setting clear priorities, focusing on problem prevention rather than fire-fighting, and questioning why we do things instead of blindly defending them.

Far from being boring or overly analytical, being truly proactive is a starting point for creativity and effective change. Six Sigma, encompasses tools and practices that replace reactive habits with a dynamic, responsive, proactive style of management.

Theme five – boundaryless collaboration: "Boundarylessness" is one of Jack Welch's mantras for business success. Years before launching Six Sigma, GE's chairman was working to break barriers and to improve teamwork up, down, and across organizational lines. The opportunities available through improved collaboration within companies and with vendors and customers are huge. Billions of dollars are lost every day because of disconnects and outright competition between groups that should be working for a common cause: providing value to customers.

Theme six – drive for perfection; tolerate failure: How can you be driven to achieve perfection and yet also tolerate failure? In essence, though, the two ideas are complementary. No company will get even close to Six Sigma without launching new ideas and approaches-which always involve some risk. If people who see possible ways to be closer to perfect are too afraid of the consequences of mistakes, they'll never try.

Finally we must bear in mind that Six Sigma is a gradual process. It starts with a dream or a vision: the goal of near-perfect products and services and superb customer satisfaction. If you are willing to take on this challenge and if your company is willing to support your effort, you will find that few endeavours in your career yield as much satisfaction.

6. CONTEMPORARY STRATEGIC ISSUES

If we want to stay competitive, we need to be in e-commerce

– Jessica Chu, Marketing manager, Aaeon Technology, Taiwan

Our strategy is to integrate the internet into all of our core business.

– Thomas Middelhoff, CEO, Bertelsmann AG, Germany

6.1 Strategies for Internet Economy

The impact of the Internet and the rapidly emerging e-commerce environment is profound. The advent of the Internet and online networks changes everything. There can be no doubt that the Internet is a driving force of historical and revolutionary proportions. The coming of e-commerce has changed the character of the market, created new driving forces and key success factors and



bred the formation of new strategic groups. The creativeness with which a company incorporates e-commerce practices holds enormous potential for reconfiguring its value chain and affecting its company's competitiveness. Also the Internet economy presents opportunities and threats that demand strategic response and that require managers to craft bold new strategies.

What is Internet Technology?

The Internet is an integrated network of banks of servers and high-speed computers, digital switches and routers, telecommunications equipment and lines, and individual users' computers. The backbone of the Internet consists of telecommunications lines (fibre optic lines, high-capacity telephone lines) criss-crossing countries, continents, and the world that allow computers to transfer data in digital form at very high speed. The bandwidth of the line determines the capacity or speed of the data transfer. These lines are connected to computer like digital switches that move traffic along the backbone lines; many of these switches act as routers, deciding which way to direct the traffic and how to handle the requests of users' computers to send or obtain data based on the destinations and line congestion. Users gain access to the network via a local area network (LAN) server or an Internet service provider's computerized switch that has the capability to route traffic to and from end users directly connected to it. Many different types of specialized software are required to make the Internet function and infuse it with attractive e-commerce capabilities.

Strategy-shaping characteristics of the E-Commerce environment

We need to understand how growing use of the Internet by businesses and consumers reshapes the economic landscape and alters traditional industry boundaries. The following features stand out:

- ◆ **The Internet makes it feasible for companies everywhere to compete in global markets:** This is true especially for companies whose products are of good quality and can be shipped economically. In retailing, the Internet opens up a much bigger geographic market than a traditional brick-and-mortar retailer could otherwise reach. e-commerce escalates rivalry among sellers in different geographic areas to a whole new level.
- ◆ **Competition in an industry is greatly intensified by the new e-commerce strategic initiatives of existing rivals and by the entry of new, enterprising e-commerce rivals:** Not only is the Internet an important new distribution channel that allows sellers to reach vast numbers of buyers relatively inexpensively but the use of online systems afforded by the Internet also holds considerable potential for improving business efficiency and lowering operating costs. Hence, innovative use of the Internet adds a valuable weapon to the competitive arsenal of rival sellers, giving them yet another way to jockey for market position and manoeuvre for competitive advantage.
- ◆ **Entry barriers into the e-commerce world are relatively low:** Many of the activities comprising the value chains of e-commerce businesses can be outsourced. The software necessary for establishing a Web site is readily available (if entrepreneurs do not wish to



develop their own), and the costs of using a Web hosting company to manage the servers and maintain the site are relatively modest. Relatively low entry barriers explain why there are already hundreds of thousands of newly formed e-commerce firms, with perhaps millions more to spring up around the world in years to come. In many markets and industries, entry barriers are low enough to make additional entry both credible and likely.

- ◆ **Online buyers gain bargaining power because they confront far fewer obstacles to comparing the products, prices, and shipping times of rival vendors:** Vendor Web sites are only a few clicks apart and are open for business 24 hours a day, every day of the year, giving buyers unprecedented ability to compare offerings and find the best value. Using online networks, a multinational manufacturer's geographically scattered purchasing groups can easily pool their orders with parts and components suppliers and bargain for volume discounts. Likewise, it is feasible for wholesalers to use online systems to research the products, prices, and features of competing manufacturers and for retailers to shop around and bargain for the best deals from manufacturers and distributors who supply them. Individual consumers can readily get reviews of products, compare the features and prices of rival brands, and put up bids for how much they are willing to pay for items. The Internet eliminates the geographic protection of distance that has traditionally given small-town businesses the advantage of being the only source within reasonable driving distance. Using the Internet, buyers can readily negotiate car purchases with dealers hundreds of miles away.
- ◆ **The Internet makes it feasible for companies to reach beyond their borders to find the best suppliers and, further, to collaborate closely with them to achieve efficiency gains and cost savings:** In an e-commerce environment companies can use the Internet to integrate foreign suppliers into their supply chain networks more tightly, boosting savings and speeding new products to market. All companies can extend their geographic search for suppliers and can collaborate electronically with chosen suppliers to streamline ordering and shipping of parts and components, improve just-in-time deliveries, work in parallel on the designs for new products, and communicate speedily and efficiently. But the chief point here is that new competitive pressures can spring from the e-commerce relationships between companies and their suppliers-companies not only gain added bargaining power over their suppliers but efficient online collaboration with chosen suppliers can also be a basis for gaining an edge over rivals.
- ◆ **Internet and PC technologies are advancing rapidly, often in uncertain and unexpected directions:** For example, a few years ago, both Intel and Microsoft were focusing all their energies on expanding the role of the personal computer as a multifunctional appliance in both business significance of the internet and bad to initiate crash programs to redirect their efforts.
- ◆ **The internet results in much faster diffusion of new technology and new idea across the world:** Companies in emerging countries and elsewhere can use the internet to monitor the latest technological developments and to stay abreast of what is transpiring in the markets of



Europe, Japan, and North America and what the leading companies in these areas are doing.

- ◆ **The e-commerce environment demands that companies move swiftly:** In the exploding e-commerce world, speed is a condition of survival. New developments on first one front and then another occur daily. Market and competitive conditions change very quickly. Late movers are doomed.
- ◆ **E-commerce technology opens up a host of opportunities for reconfiguring industry and company value chains:** Using the internet to link the orders of customers with the suppliers of components enables just-in-time delivery to manufacturers, slicing inventory costs and allowing production to match demand. It allows more accurate demand forecasting. Tight supply chain management starting with customer orders and going all the way back to components production, coupled with the use of enterprise resource planning (ERP) software and manufacturing execution system (MES) software, can make custom manufacturing just as cheap as mass production, and sometimes cheaper. The impact of e-commerce technology on industry and company value chains is profound, paving the way for fundamental changes in the ways business is conducted both internally and with suppliers and customers.
- ◆ **The Internet can be an economical means of delivering customer service:** The Internet provides innovative opportunities for handling customer service activities. Companies are discovering ways to deliver service online, thus curtailing the need to keep company personnel at the facilities of major customers, reducing staffing levels at telephone call centers, and cutting the time required for service technicians to respond to customer faxes and e-mail messages.
- ◆ **The capital for funding potentially profitable e-commerce businesses is readily available:** In the Internet age, e-commerce businesses have found it relatively easy to raise hundreds of millions, even billions, of dollars to fund a promising new venture. Venture capitalists are quite willing to fund start-up enterprises provided they have a promising technology or idea, an attractive business model, and a well thoughtout strategic plan
- ◆ **The needed e-commerce resource in short supply is human talent-in the form of both technological expertise and managerial know-how:** While some e-commerce companies have their competitive advantage lodged in patented technology or unique physical assets or brand-name awareness, many are pursuing competitive advantage based on the expertise and intellectual capital of their personnel and on their organizational competencies and capabilities. Two of the most valuable competitive assets a company can have are dominating depth in a particular technology and a workforce with exceptional know-how and experience that gives a firm uniquely strong skills and competitive capabilities. E-commerce firms are thus competing aggressively for talent and intellectual capital; individuals with attractive qualifications and know-how can command premium compensation, including equity ownership or lucrative stock options in start-up enterprises.



It is that growing use of e-commerce technology can produce important shifts in an industry's competitive forces – intensified rivalry, greater entry threats, a blurring of traditional industry and geographic boundaries, shifts in the balance of bargaining power both between sellers and their suppliers and between sellers and their customers, and incentives for all kinds of seller-supplier and seller-customer collaboration. Internet technology and newly emerging products and services that enable e-commerce further have the effects of altering industry value chains, spawning substantial opportunities for increasing efficiency and reducing costs, and affecting a company's resource strengths and weaknesses. Moreover, the pace of technological change is rapid and its direction is often uncertain. Market developments occur swiftly, compelling companies to make decisions at Internet speed or risk getting left behind in the dust.

6.2 Strategic management in non-profit and government organization

Business organization can be classified as commercial or 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 strategic management.

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

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 centers, outpatient surgery and diagnostic centers, physical rehabilitation centers, home health services, cardiac rehabilitation centers, 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



Strategic Management

are using a strategic management approach to develop and substantiate formal requests for additional funding.

Self-Examination Questions

Multiple Choice Questions

1. BPR stands for:
 - (a) Business practices reinstatement.
 - (b) Business process removal.
 - (c) Better process reaffirmation.
 - (d) Business process reengineering.
2. 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.
3. The following statistical technique forms base of six sigma:
 - (a) Mean and Median.
 - (b) Correlation.
 - (c) Standard deviation.
 - (d) Probability and normal distribution.
4. The focus of six sigma is on:
 - (a) Customer.
 - (b) Supplier.
 - (c) Shareholders.
 - (d) Government.
5. Which of the following statements is true:
 - (a) Internet has no strategic relation with an organisation engaged in manufacturing.
 - (b) Internet has no strategic relation with an organisation in service sector.
 - (c) Internet has opened up new opportunities for organisations engaged in manufacturing



activities.

- (d) Use of Internet is restricted to sending and receiving mails in business organisations.

Short answer questions

1. Define process.
2. What is product development?
3. Explain dogs in BCG matrix?

Essay type questions

1. What is TQM? Compare it with traditional management practices.
2. Explain business process reengineering. How can it be implemented?

Case Study

High Growth Enterprises, a business owned by Ram Swaroop and his brothers posted a two fold rise in net profit at Rs. 60 crore in the third quarter of the current financial year as against Rs. 20 crore during the corresponding period last year. Sales during the period climbed 90 per cent at Rs. 663 crore. The company in the first nine months of the current year posted a net profit of Rs. 145.7 crore.

Ram Swaroop attributed the good performance and ongoing improvement in quality in manufacturing processes. His younger brother Vinod Swaroop displayed his happiness on the performance and said that we can further improve the performance by using six sigma methodology.

Ram Swaroop felt that the existing focus on quality is good enough as it was giving good results.

- (a) Do you agree with Ram Swaroop to keep focus on quality? Why.
- (b) What is six sigma? How can it be useful to the company?

Answers – Multiple Choice Questions:

1. (d) 2. (c) 3. (d) 4. (a) 5. (c)

PROFESSIONAL COMPETENCE COURSE

STUDY MATERIAL

**STRATEGIC
MANAGEMENT**

PAPER **6B**

Strategic Management



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Website : www.icai.org.

E-mail : bosnoida@icai.org

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PREFACE

The Paper 6 of Professional Competence Course is divided into two sections viz. Information Technology and Strategic Management. This book has been prepared to help in learning of section B of the Paper – Strategic Management. Information technology and strategic Management are as such two different subjects with different focus. In the examinations also students shall be using separate answer books to attempt different sections. However, at the same time there are some commonalities between the two subjects. Strategic management of information technology in business organizations is an emerging area that requires altogether different managerial skills to handle. Managing information technology is an important aspect that assists in gaining competitive advantage and entails integration of the two subjects. There are two broad issues that emerges. They are (a) strategic management of information technology and (b) using information technology in strategic management. These two issues are not sought to be covered in the study material except for a few inklings here and there. For our purpose, considering that the objective is to provide working knowledge, they shall remain entirely different subjects.

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 in chartered accountancy is included in the education and training. Chartered Accountants reaching high in the corporate ladder also need to be sound in the concepts and principles of strategic management.

As a student of Chartered Accountancy course, you must be keenly going through financial newspapers, reading, inter alia, about mergers, acquisitions, divestments and corporate successes or failures. An inquisitive mind will have several questions. How does a company become successful? How a company remains at the top? How a company identifies its potential and is able to deliver its best? How an organisation is able to cope up and gain command over the dynamic and turbulent environment? Answers to these simple questions are really difficult. The turbulence in the environment forces business organisations to find newer ways to function. Business organisations to perform and excel need a clearer sense of strategic vision and improved understanding of a rapidly changing environment. They need to strategically manage their enterprises. It is interesting to see that businesses compete by selling products that are similar in nature to the same group of customers. They differentiate their products in order to sell. Business organisations that are able to exploit some form of advantage are more profitable than their rivals. With the help of this self-study material on

Strategic Management the student are expected to get some insight in the tools and techniques of strategic management.

The world of business organisations and their strategic management is wonderful, exciting and the literature on this world is even more so. The knowledge in the field and its quality is ever-growing. Numerous books are being written on the subject and hundreds of journals are publishing research and other articles on emerging strategical issues in business organisation. 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 organisations. 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.

Bringing out study material on the subject requires efforts of many. Dr. Saroj Datta, has meticulously prepared a draft of the study material. Acknowledgements are also due to Dr. Sanjeev Shukla and Dr. Sudhir Dikshit who have also contributed in some of the chapters with their writings on selected topics. Last but not the least the efforts taken by Mr. Shaleen Suneja, Assistant Director are well appreciable, who has helped in giving the final shape to this study material.

In case you find any problem or have any observation on the subjects or study material, you are welcome to write a letter to the Institute at C-1, Sector -1, Noida, 201301. Students, staying in (or visiting) New Delhi and NCR may drop-in and take benefit of personally meeting the concerned faculty in the Board of Studies. You will get the needed help provided you are clear what do you want.

Wish you all the best in your study endeavours.

Paper – 6 : Information Technology & Strategic Management

Section B: Strategic Management (50 Marks)

Objectives:

- (a) To develop an understanding of the general and competitive business environment,
- (b) To develop an understanding of strategic management concepts and techniques,
- (c) To be able to solve simple cases.

Contents

1. Business Environment

General Environment — Demographic, Socio-cultural, Macro-economic, Legal/political, Technological, and Global; Competitive Environment.

2. Business Policy and Strategic Management

Meaning and nature; Strategic management imperative; Vision, Mission and Objectives; Strategic levels in organizations.

3. Strategic Analyses

Situational Analysis – SWOT Analysis, TOWS Matrix, Portfolio Analysis — BCG Matrix.

4. Strategic Planning

Meaning, stages, alternatives, strategy formulation.

5. Formulation of Functional Strategy

Marketing strategy, Financial strategy, Production strategy, Logistics strategy, Human resource strategy.

6. Strategy Implementation and Control

Organizational structures; Establishing strategic business units; Establishing profit centers by business, product or service, market segment or customer; Leadership and behavioural challenges.

7. Reaching Strategic Edge

Business Process Reengineering, Benchmarking, Total Quality Management, Six Sigma, Contemporary Strategic Issues.

CONTENTS

CHAPTER 1 : BUSINESS ENVIRONMENT

1.	Introduction.....	1.1
2.	Business.....	1.1
3.	Objectives of a Business	1.2
4.	Environmental Influences on Business.....	1.4
5.	Why Environmental Analysis?.....	1.6
6.	Characteristics of Business Environment	1.7
7.	Components of Business Environment.....	1.8
8.	Relationship between Organization and its Environment.....	1.9
9.	The Micro and Macro Environment	1.11
10.	Elements of Micro Environment	1.13
11.	Elements of Macro Environment	1.15
12.	Strategic Responses to the Environment	1.27
13.	Competitive Environment.....	1.28
14.	Porter's Five Forces Model - Competitive Analysis	1.30

CHAPTER 2 : BUSINESS POLICY AND STRATEGIC MANAGEMENT

1.	Introduction.....	2.1
2.	Business Policy as a Discipline.....	2.1
3.	Meaning and Nature of Management	2.2
4.	What is a Strategy	2.4
5.	Generic strategic alternatives	2.6
6.	The Dynamics of Competitive Strategy	2.8
7.	Strategic Management.....	2.9
8.	Strategic Decision Making	2.12

9.	The Task of Strategic Management	2.13
10.	Vision, Mission and Objectives	2.15
11.	Strategic Levels in Organisations.....	2.22

CHAPTER 3 : STRATEGIC ANALYSIS

1.	Introduction.....	3.1
2.	Strategic Analyses	3.1
3.	Situational Analysis	3.3
4.	The Methods of Industry and Competitive Analysis.....	3.6
5.	Swot Analysis	3.12
6.	Tows Matrix	3.17
7.	Portfolio Analyses.....	3.18

CHAPTER 4 : STRATEGIC PLANNING

1.	Introduction.....	4.1
2.	Corporate Strategy	4.2
3.	The Stages of Corporate Strategy Formulation-Implementation Process	4.4
4.	Strategic Alternatives.....	4.12

CHAPTER 5 : FORMULATION OF FUNCTIONAL STRATEGY

1.	Introduction.....	5.1
2.	Marketing Strategy Formulation	5.2
3.	Financial Strategy Formulation	5.8
4.	Production Strategy Formulation.....	5.12
5.	Logistics Strategy	5.13
6.	Research and Development.....	5.14
7.	Human Resource Strategy Formulation	5.16

CHAPTER 6: STRATEGY IMPLEMENTATION AND CONTROL

1.	Introduction.....	6.1
2.	Interrelationships between Strategy Formulation and Implementation.....	6.2
3.	Issues in Strategy Implementation	6.6
4.	Organization and Strategy Implementation	6.8
5.	Strategic Business Units & Core Competence	6.21
6.	Leadership and Strategic Implementation	6.28
7.	Building a Strategy-Supportive Corporate Culture.....	6.32

CHAPTER 7: REACHING STRATEGIC EDGE

1.	Introduction.....	7.1
2.	Business Process Reengineering	7.1
3.	Benchmarking.....	7.9
4.	Total Quality Management (TQM).....	7.12
5.	Six Sigma and Management	7.16
6.	Contemporary Strategic Issues.....	7.22

CHAPTER 1

BUSINESS ENVIRONMENT

LEARNING OBJECTIVES

- ◆ Understand the term business and its objectives.
- ◆ Know what are the factors that influence a business.
- ◆ Understand what is environmental analysis and why is it needed.
- ◆ Have a basic knowledge of various types of environment.
- ◆ Have an understanding of different micro-economic factors that are affecting business.
- ◆ Know the various macro-economic factors and how they are related to business.
- ◆ Understand the various components of the competitive environment.

Awareness of the environment is not a special project to be undertaken only when warning of change becomes deafening...

Kenneth R. Andrews

It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change.

Charles Darwin

1. INTRODUCTION

Each business organization operates in its unique environment. Environment influence businesses and also gets influenced by it. No business can function free of interacting and influencing forces that are outside its periphery. In the new economy the facets of business are rapidly changing as compared to earlier years. The development in technology and faster communication have lead to evolvment of newer kinds of businesses. The concept of businesses such as e-bay, rediff were non-existent in yesteryears. Businesses are conducted through internet and has lead to virtual shrinking of physical boundaries between nations.



2. BUSINESS

Etymologically the term business refers to the state of being busy for an individual, group, organization or society. The term is also interpreted as one's regular occupation or profession. In another sense, the term refers to a particular entity, company or corporation. It is also interpreted as a particular market sector such as the computer business. Thus the term is wide and amenable to different usages. A business for our purposes can be any activity consisting of purchase, sale, manufacture, processing, and/or marketing of products and/or services.

It is said that a business exists for profits. Profit, as a surplus of business, accrues to the owners. It is their share, just as wages are the share of workers. People invest in business for getting a return. It is a reward for risk taking, so far as the owners are concerned. As a motive, profit serves as a stimulant for business effort.

For business enterprises, profit is often regarded as the overall measure of performance. It is treated as a financial yardstick for measuring business efficiency and for evaluating managerial competence – how well the decisions and actions of managers turn out to be effective; how well they are able to combine and utilise resources and to sustain the enterprise as a going and a growing concern. Other things being equal, the higher the efficiency the greater is the level and volume of profit. Business efficiency is often expressed in terms of percentage of profit to sales volume, to capital employed, to market value of corporate shares and so on. Outside investors also equate profit with the degree of business efficiency and managerial competence and commit their funds in light of such equation and other related assessments.

Peter F Drucker has drawn two important conclusions about what is a business that are useful for an understanding of the term business.

- ◆ The first thing about a business is that it is created and managed by people. There will be a group of people who will take decisions that will determine whether an organization is going to prosper or decline, whether it will survive or will eventually perish. This is true of every business.
- ◆ The second conclusion drawn is that the business cannot be explained in terms of profit. The economic criterion of maximising profits for a firm has little relevance in the present times. Profit maximization, in simple terms is selling at a higher price than the cost. Profit maximization has been qualified with the long-term perspective and has been modified to include development of wealth, to include several non-financial factors such as goodwill, societal factors, relations and so on.

3. OBJECTIVES OF A BUSINESS

A business has some purpose. A valid purpose of business is to create customers. It is for the businesses to create a customer or market. A purpose of business is that business exists to



create customers. It is the customer who determines what a business is. The customer is the foundation of business and keeps it in existence. A still broader view of business purpose is that business exists and functions for catering to the material needs and requirements of society, within the framework of general considerations of social interest. Business is society's organ of economic expansion, growth and change.

Enterprises pursue multiple objectives rather than a single objective. In general, we may identify a set of business objectives pursued by a large cross-section of enterprises. These relate to profitability, productive efficiency, growth, technological dynamism, stability, self-reliance, survival, competitive strength, customer service, financial solvency, product quality, diversification, employee satisfaction and welfare, and so on. Enterprises seek to balance these objectives in some appropriate manner. We may now elaborate some of the more important objectives of business

- ◆ **Survival:** Survival is the will and anxiety to perpetuate into the future as long as possible. It is a basic, implicit objective of most organizations. While survival is an obvious objective, it gains more value and prominence during the initial stage of the establishment of the enterprise and during general economic adversity. The ability to survive is a function of the nature of ownership, nature of business competence of management, general and industry conditions, financial strength of the enterprise and so on. However, business and other enterprises are interested in more than mere survival.
- ◆ **Stability:** One of the most important of objectives of business enterprises is stability. It is a cautious, conservative objective. In a sense, stability is a least expensive and risky objective in terms of managerial time and talent and other resources. A stable and steady enterprise minimises managerial tensions and demands less dynamism from managers. It is a strategy of least resistance in a hostile external environment.
- ◆ **Growth:** This is a promising and popular objective which is equated with dynamism, vigour, promise and success. Enterprise growth may take one or more of the forms like increase in assets, manufacturing facilities, increase in sales volume in existing products or through new products, improvement in profits and market share, increase in manpower employment, acquisition of other enterprises and so on. Growth may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.
- ◆ **Efficiency:** Business enterprises seek efficiency in rationally choosing appropriate means to achieve their goals, doing things in the best possible manner and utilising resources in a most suitable combination to get highest productivity. In a sense, efficiency is an economic version of the technical objective of productivity – designing and achieving suitable input output ratios of funds, resources, facilities and efforts. Efficiency is a very useful operational objective.
- ◆ **Profitability:** It is generally asserted that private enterprises are primarily motivated by



the objective of profit. Some may go even further and emphasise that profit is the sole motive of business enterprises. All other objectives are facilitative objectives and are meant to be subservient to the profit motive. It is pointed out that private business enterprises are operated on behalf of and for the benefit of the owners who have assumed the business risk of investing their funds.

4. ENVIRONMENTAL INFLUENCES ON BUSINESS

All living creatures including human beings live within an environment. Apart from the natural environment, environment of humans include family, friends, peers and neighbours. It also includes man-made structures such as buildings, furniture, roads and other physical infrastructure. The individuals do not live in a vacuum. They continuously interact with their environment to live their lives.

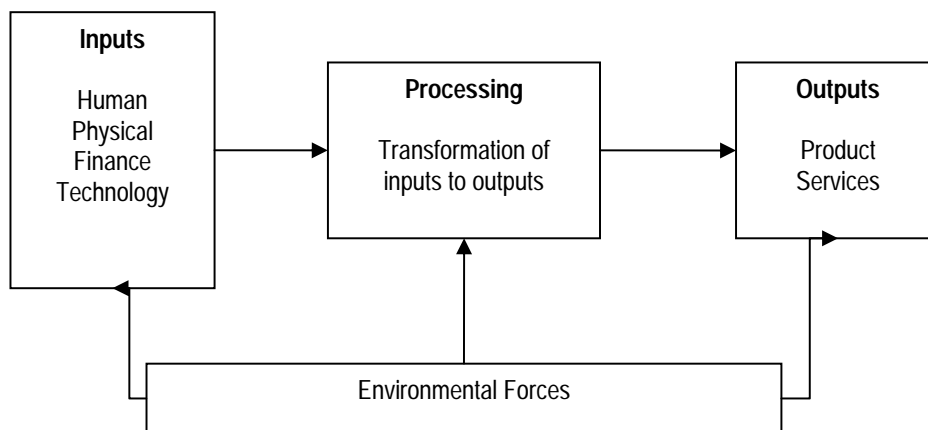
Just like human beings, business also does not function in an isolated vacuum. Businesses function within a whole gambit of relevant environment and have to negotiate their way through it. The extent to which the business thrives depends on the manner in which it interacts with its environment. A business which continually remains passive to the relevant changes in the environment is destined to gradually fade-away in oblivion. To be successful business has to not only recognise different elements of the environment but also respect, adapt to or have to manage and influence them. The business must continuously monitor and adapt to the environment if it is to survive and prosper. Disturbances in the environment may spell extreme threats or open up new opportunities for the firm. A successful business has to identify, appraise, and respond to the various opportunities and threats in its environment.

Environment is sum of several external and internal forces that affect the functioning of business. According to Barry M. Richman and Melvyn Copen "Environment factors or constraint are largely if not totally, external and beyond the control of individual industrial enterprises and their managements. These are essentially the 'givers' within which firms and their managements must operate in a specific country and they vary, often greatly, from country to country." A strategist looks on the environment as posing threats to a firm or offering immense opportunities for exploitation. Stressing this aspect, Glueck and Jauch wrote: "The environment includes factors outside the firm which can lead to opportunities for or threats to the firm. Although there are many factors, the most important of the sectors are socio-economic, technological, supplier, competitors, and government. "

Business functions as a part of broader environment. The inputs in the form of human, physical, financial and other related resources are drawn from the environment. The business converts these resources through various processes into outputs of products and/or services. The latter are partly exchanged with the external client groups, say customers. The exchange process brings in some surplus (or profits, reputation, good public image and so on) to the business, which could be stored and used for further development and growth.



Different organizations use different inputs, adopt different processes and produce different outputs. For example, an educational institution produces literate people. A hospital provides health and medical services. Organizations depend on the external environment for the inputs required by them and for disposing of their outputs in a mutually beneficial manner. The input-output exchange activity is a continuous process and calls for an active interaction with the external environment.



4.1 Problems in understanding the environmental influences

In trying to understand the environment, managers face different problems as follows:

- ◆ The environment encapsulates many different influences; the difficulty is in making sense of this diversity in a way which can contribute to strategic decision-making. Listing all conceivable environmental influences may be possible, but it may not be of much use because no overall picture emerges of really important influences on the organization.
- ◆ The second difficulty is that of uncertainty. Managers typically claim that the pace of technological change and the speed of global communications mean more and faster change now than ever before. Whether or not change is in fact faster now than hitherto, and whether or not the changes are more unpredictable, it remains the case that, while it is important to try to understand future external influences on an organization, it is very difficult to do so.
- ◆ Managers are no different from other individuals in the way they cope with complexity. They tend to simplify such complexity by focusing on aspects of the environment, which, perhaps, have been historically important, or confirm prior views. These are not perverse managerial behaviours; they are the natural behaviour of everyone faced with complexity. Arguably, one of the tasks of the strategic manager is to find ways & means to break out of oversimplification or bias in the understanding of their environment, while still achieving



a useful and usable level of analysis.

4.2 Framework to understand the environmental influences

In spite of the problems in understanding business environment, organizations can not ignore it. We will make an attempt to identify a framework for understanding the environment of organizations. This will help in identifying key issues, find ways of coping with complexity and also assist in challenging managerial thinking.

- ◆ Firstly, it is useful to take an initial view of the nature of the organizations environment in terms of how uncertain it is. Is it relatively static or does it show signs of change, and in what ways? Is it simple or complex to comprehend? This helps in deciding what focus the rest of the analysis is to take.
- ◆ The next step might be the auditing of environmental influences. Here the aim is to identify which of the many different environmental influences are likely to affect the organization's development or performance. This is done by considering the way in which political, economic, social and technological influences have a bearing on organizations. It is increasingly useful to relate such influences to growing trends towards globalization of industries. It may also be helpful to construct pictures - or scenarios - of possible futures, to consider the extent to which strategies might need to change.
- ◆ The final step is to focus more towards an explicit consideration of the immediate environment of the organization - for example, the competitive arena in which the organization operates. In competitive environment we will study five forces analysis (*discussed later in the chapter*) that aims to identify the key forces at work in the immediate or competitive environment and why they are significant. There should be an attempt to understand why the forces are of strategic significance. It is also required to analyse the organization's competitive position: that is, how it stands in relation to those other organizations competing for the same resources, or customers, as itself.

5. WHY ENVIRONMENTAL ANALYSIS?

When the company ceases to adjust the environment to its strategy or does not react to the demands of the environment by changing its strategy, the result is reduced achievement of corporate objectives. From environmental analysis strategists get time to anticipate opportunities and to plan to take optional responses to these opportunities. It also helps strategists to develop an early warning system to prevent threats or to develop strategies which can turn a threat to the firm's advantage. It is clear that because of the difficulty to assessing the future, not all future events can be anticipated. But some can and are. To the extent that some or most are anticipated by this analysis and diagnosis, managerial decisions are likely to be better. And the process reduces the time pressures on the few which are not anticipated. Thus, the managers can concentrate on these few instead of having to deal with



all the environmental influences.

In general, environmental analysis has three basic goals as follows:

- ◆ *First*, the analysis should provide an understanding of current and potential changes taking place in the environment. It is important that one must be aware of the existing environment. At the same time one must have a long term perspective about the future too.
- ◆ *Second*, environmental analysis should provide inputs for strategic decision making. Mere collection of data is not enough. The information collected must be useful for and used in strategic decision making.
- ◆ *Third*, environment analysis should facilitate and foster strategic thinking in organizations- typically a rich source of ideas and understanding of the context within which a firm operates. It should challenge the current wisdom by bringing fresh viewpoints into the organization.

"Positive trends in the environment breed complacency. That underscores a basic point: in change there is both opportunity and challenge". - Clifton Garvin

6. CHARACTERISTICS OF BUSINESS ENVIRONMENT

Business environment exhibits many characteristics. Some of the important – and obvious – characteristics are briefly described here.

- ◆ **Environment is complex:** the environment consists of a number of factors, events, conditions and influences arising from different sources. All these do not exist in isolation but interact with each other to create entirely new sets of influences. It is difficult to comprehend at once the factors constituting a given environment. All in all, environment is a complex that is somewhat easier to understand in parts but difficult to grasp in totality.
- ◆ **Environment is dynamic:** the environment is constantly changing in nature. Due to the many and varied influences operating, there is dynamism in the environment causing it to continuously change its shape and character.
- ◆ **Environment is multi-faceted:** What shape and character an environment assumes depends on the perception of the observer. A particular change in the environment, or a new development, may be viewed differently by different observers. This is frequently seen when the same development is welcomed as an opportunity by one company while another company perceives it as a threat.
- ◆ **Environment has a far reaching impact:** The environment has a far reaching impact on organizations. The growth and profitability of an organization depends critically on the environment in which it exists. Any environment change has an impact on the organization in several different ways.



7. COMPONENTS OF BUSINESS ENVIRONMENT

The environment in which an organization exists could be broadly divided into two parts *the external* and *the internal* environment. Since the environment is complex, dynamic, multi-faceted and has a far reaching impact, dividing it into external and internal components enables us to understand it better. Here we deal with the appraisal of the external environment. This is done through a description of important characteristics of the environment, dividing the environment into its external and internal parts, observing how a systematic approach can help in environmental appraisal, and classifying the external environment into two parts, the general and the relevant environment. Next, we see how the external environment can be divided into different components.

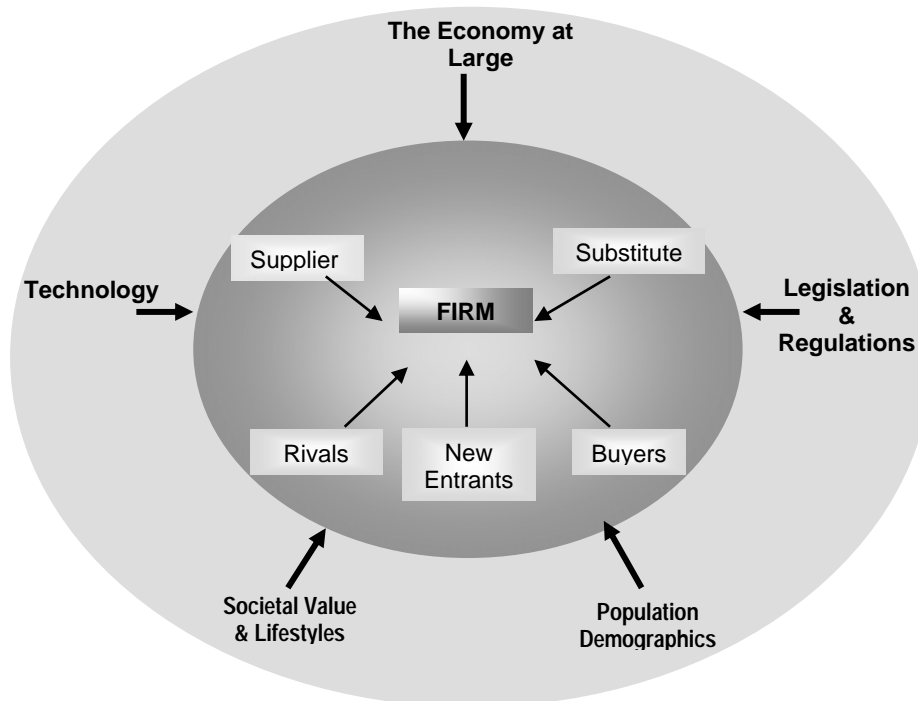


Figure: A Company's Business Environment

The *external environment* (Macro Environment) includes all the factors outside the organization which provide opportunity or pose threats to the organization. The *internal environment* (Micro Environment) refers to all the factors within an organization which impart strengths or cause weaknesses of a strategic nature.

The environment in which an organization exists can, therefore, be described in terms of the opportunities and threats operating in the external environment apart from the strengths and



weaknesses existing in the internal environment. The four environmental influences could be described as follows:

- ◆ *An opportunity* is a favourable condition in the organization's environment which enables it to consolidate and strengthen its position. An example of an opportunity is growing demand for the products or services that a company provides.
- ◆ *A threat* is an unfavourable condition in the organization's environment which creates a risk for, or causes damage to, the organization. An example of a threat is the emergence of strong new competitors who are likely to offer stiff competition to the existing companies in an industry.
- ◆ *A strength* is an inherent capacity which an organization can use to gain strategic advantage over its competitors. An example of a strength is superior research and development skills which can be used for new product development so that the company gains competitive advantage.
- ◆ *A weakness* is an inherent limitation or constraint which creates a strategic disadvantage. An example of a weakness is over dependence on a single product line, which is potentially risky for a company in times of crisis.

An understanding of the external environment, in terms of the opportunities and threats, and the internal environment, in terms of the strengths and weaknesses, is crucial for the existence, growth and profitability of any organization.

A systematic approach to understanding the environment is the SWOT analysis. Business firms undertake *SWOT analysis* to understand the external and internal environment. SWOT, which is the acronym for *strengths, weaknesses, opportunities and threats*. Through such an analysis, the strengths and *weaknesses* existing within an organization can be matched with the opportunities and threats operating in the environment so that an effective strategy can be formulated. An effective organizational strategy, therefore, is one that capitalises on the opportunities through the use of strengths and neutralises the threats by minimizing the impact of weaknesses. The process of strategy formulation starts with, and critically depends on, the appraisal of the external and internal environment of an organization. We will learn more about SWOT analysis in the third chapter.

8. RELATIONSHIP BETWEEN ORGANIZATION AND ITS ENVIRONMENT

In relation to the individual corporate enterprise, the external environment offers a range of opportunities, constraints, threats and pressures and thereby influences the structure and functioning of the enterprise. As a sub-system, the corporate enterprise draws certain inputs of resources, information and values from the larger environmental system, transforms them into outputs of products, services, goals and satisfactions and exchanges with or transmits them into the external environment. In the process, it generates energy and sustains itself.



The relationship between the organization and its environment may be discussed in terms of interactions between them in several major areas which are outlined below:

- ◆ *Exchange of information:* The organization scans the external environmental variables, their behaviour and changes, generates important information and uses it for its planning, decision-making and control purposes. Much of the organizational structure and functioning is attuned to the external environmental information. Information generation is one way to get over the problems of uncertainty and complexity of the external environment. Information is to be generated on economic activity and market conditions, technological developments, social and demographic factors political-governmental policies and postures, the activities of other organizations and so on. Both current and projected information is important for the organization.

Apart from gathering information, the organization itself transmits information to several external agencies either voluntarily, inadvertently or legally. Other organizations and individuals may be interested in the organization and its functioning and hence approach the organization for information. It is also possible to glean information from the behaviour of the organization itself, from its occasional advertisements, and from annual reports. Also, the organization may be legally or otherwise bound to supply information on its activities to governmental agencies, investors, employees, trade unions, professional bodies and the like.

- ◆ *Exchange of resources:* The organization receives inputs—finance, materials, manpower, equipment etc., from the external environment through contractual and other arrangements. It sustains itself by employing the above inputs for involving or producing output of products and services. The organization interacts with the factor markets for purposes of getting its inputs; it competes sometimes and collaborates sometimes with other organizations in the process of ensuring a consistent supply of inputs.

The organization is dependent on the external environment for disposal of its output of products and services to a wide range of clientele. This is also an interaction process—perceiving the needs of the external environment and catering to them, satisfying the expectations and demands of the clientele groups, such as customers, employees, shareholders, creditors, suppliers, local community, general public and so on. These groups tend to press on the organization for meeting their expectations, needs and demands and for upholding their values and interests.

- ◆ *Exchange of influence and power:* Another area of organizational-environmental interaction is in the exchange of power and influence. The external environment holds considerable power over the organization both by virtue of its being more inclusive as also by virtue of its command over resources, information and other inputs. It offers a range of opportunities, incentives and rewards on the one hand and a set of constraints, threats



and restrictions on the other. In both ways, the organization is conditioned and constrained. The external environment is also in a position to impose its will over the organization and can force it to fall in line. Governmental control over the organization is one such power relationship. Other organizations, competitors, markets, customers, suppliers, investors etc., also exercise considerable collective power and influence over the planning and decision making processes of the organization.

In turn, the organization itself is sometimes in a position to wield considerable power and influence over some of the elements of the external environment by virtue of its command over resources and information. The same elements which exercise power over the organization are also subject to the influence and power of the organization in some respects. To the extent that the organization is able to hold power over the environment it increases its autonomy and freedom of action. It can dictate terms to the external forces and mould them to its will.

In delineating the relationship between the organization and the environment, one has to be clear on the diversity of both these entities. On the one hand, the nature of relationship depends on the size of the organization, its age, the nature of business, the nature of ownership, degree of professionalization of management, etc. On the other hand, the relationship depends on the fact whether the external environmental elements behave in a random or structured manner (uncertainty v. predictability), whether such elements are placid or turbulent, whether they are slow-changing or fast changing, whether they are simple or complex, and so forth. The degree of interaction between the organization and the external environment is set by the above characteristics. It follows therefore that all organizations do not behave in the same way in relation to their external environment. Their structures and functions are shaped in tune with the demands of the external environment.

9. THE MICRO AND MACRO ENVIRONMENT

The environment of business can be categorised into two broad categories micro-environment and macro-environment. Micro-environment is related to small area or immediate periphery of an organization. Micro-environment influences an organization regularly and directly. Within the micro or the immediate environment in which a firm operates we need to address the following issues:

- ◆ The employees of the firm, their characteristics and how they are organised.
- ◆ The customer base on which the firm relies for business.
- ◆ The ways in which the firm can raise its finance.
- ◆ Who are the firms suppliers and how are the links between the two being developed?
- ◆ The local community within which the firm operates.
- ◆ The direct competition and how they perform.

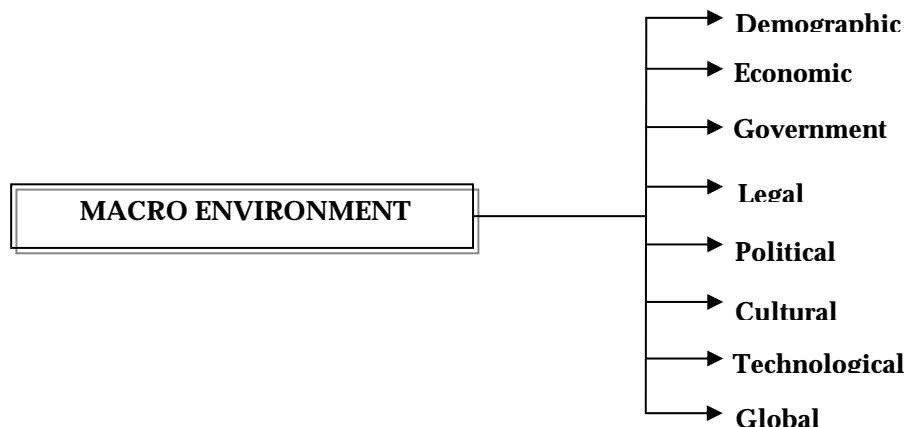


This last point might act as a convenient linking point as we move towards the macro issues influencing the way a firm reacts in the market place. Macro environment has broader dimensions. It mainly consist of economic, technological, political legal and socio-cultural. The issues concerning an organization are:

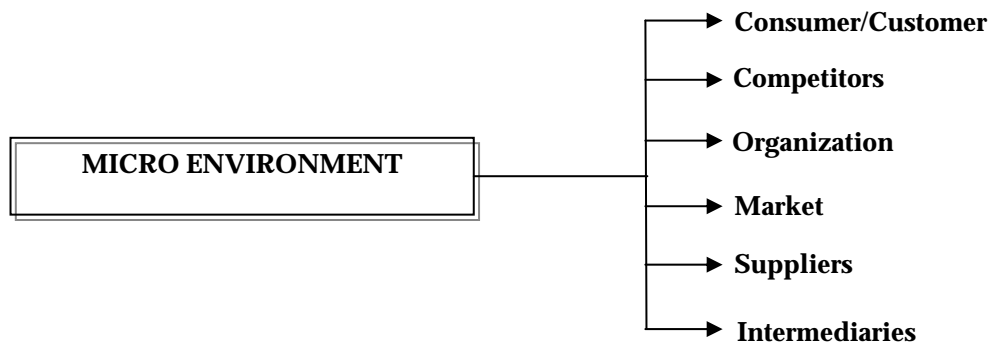
- ◆ Who are their threats in the competitive world in which they operate and why?
- ◆ Which areas of technology might pose a threat to their current product range and why?
- ◆ The bargaining power of suppliers and customers?
- ◆ The type of competition they are facing and their perceived threats and weaknesses?

The classification of the relevant environment into components or sectors helps an organization to cope with its complexity, comprehend the different influences operating, and relating the environmental changes to its strategic management process. Different bases for classification have been adopted. As already discussed earlier there are two types of environmental forces, which influences an organizations business operation. Some of these forces are external to the firm and the organization has little control over them. Whereas the other types of forces which comes from within the organization and can be controlled by it. Hence, the business environment can be divided into two major components:

Macro Environment: consists of demographics and economic conditions, socio-cultural factors, political and legal systems, technological developments, etc. These constitute the general environment, which affects the working of all the firms.



Micro environment: consist of suppliers, consumers, marketing intermediaries, etc. These are specific to the said business or firm and affects it's working on short term basis.



Environmental Scanning

Environmental scanning also known as Environmental Monitoring is the process of gathering information regarding company's environment, analysing it and forecasting the impact of all predictable environmental changes. Successful marketing depends largely on how a company can synchronise its marketing programmes with its environmental changes.

10. ELEMENTS OF MICRO ENVIRONMENT

This is also known as the task environment and affects business and marketing in the daily operating level. When the changes in the macro environment affect business in the long run, the effect micro environmental changes are noticed immediately. Organizations have to closely analyse and monitor all the elements of micro environment in order to stay competitive.

10.1 Consumers/Customers

According to Peter Drucker the aim of business is to create and retain customer. Customers are the people who pay money to acquire an organization's products. The products may be both in form of goods or services. The organizations cannot survive without customers. They will cease to exist. Customers may or may not be a consumer. Consumer is the one who ultimately consumes or uses the product or service. A father may buy a product as a customer for his daughter who will be a consumer. A consumer occupies the central position in the marketing environment. The marketer has to closely monitor and analyse changes in consumer tastes and preferences and their buying habits.

- ◆ Who are the customers/consumers?
- ◆ What benefits are they looking for?
- ◆ What are their buying patterns?

10.2 Competitors

Competitors are the other business entities that compete for resources as well as markets.



Competition shapes business. A study of the competitive scenario is essential for the marketer, particularly threats from competition. Following are a few of major questions that may be addressed for analysing competitions:

- ◆ Who are the competitors?
- ◆ What are their present strategy and business objective?
- ◆ Who are the most aggressive and powerful competitors?

Competition may be direct or indirect. Direct competition is between organizations, which are in same business activity. At the same time competition can also be indirect. For example, competition between a holiday resort and car manufacturing company for available discretionary income of affluent customers is indirect competition.

10.3 Organization

Individuals occupying different positions or working in different capacities in organizations consists of individuals who come from outside. They have different and varied interests. In micro environment analysis, nothing is important as self-analysis by the organization itself. Understanding its own strengths and capabilities in a particular business, i.e., understanding a business in depth should be the goal of firm's internal analysis. The objectives, goals and resource availabilities of a firm occupy a critical position in the micro environment.

"We have met the enemy and he is us" - Pogo.

An organization has several non-specific elements of the organization's surroundings that may affect its activities. These consists of specific organizations or groups that are likely to influence an organization. These are:

- ◆ *Owners:* They are individuals, shareholders, groups, or organizations who have a major stake in the organization. They have a vested interest in the well-being of the company.
- ◆ *Board of directors:* Board of directors are found in companies formed under the Companies Act, 1956. The board of directors is elected by the shareholders and is charged with overseeing the general management of the organization to ensure that it is being run in a way that best serves the shareholders' interests.
- ◆ *Employees:* Employees are the people who actually do the work in an organization. Employees are the major force within an organization. It is important for an organization that employees embrace the same values and goals as the organization. However, they differ in beliefs, education, attitudes, and capabilities. When managers and employees work toward different goals everyone suffers.

10.4 Market

The market is larger than customers. The market is to be studied in terms of its actual and



potential size, its growth prospect and also its attractiveness. The marketer should study the trends and development and the key success factors of the market he is operating. Important issues are :

- ◆ Cost structure of the market.
- ◆ The price sensitivity of the market.
- ◆ Technological structure of the market.
- ◆ The existing distribution system of the market.
- ◆ Is the market mature?

10.5 Suppliers

Suppliers form an important component of the micro environment. The suppliers provide raw materials, equipment, services and so on. Large companies rely on hundreds of suppliers to maintain their production. Suppliers with their own bargaining power affect the cost structure of the industry. They constitute a major force, which shapes competition in the industry. Also organizations have to take a major decision on “outsourcing” or “in-house” production depending on this supplier environment.

10.6 Intermediaries

Intermediaries exert a considerable influence on the business organizations. They can also be considered as the major determining force in the business. In many cases the consumers are not aware of the manufacturer of the products they buy. They buy product from the local retailers or big departmental stores such as Big bazaars, Subhiksha and Vishal Mega Mart that are increasingly becoming popular in some big cities.

11. ELEMENTS OF MACRO ENVIRONMENT

Macro environment is explained as one which is largely external to the enterprise and thus beyond the direct influence and control of the organization, but which exerts powerful influence over its functioning. The external environment of the enterprise consists of individuals, groups, agencies, organizations, events, conditions and forces with which the organization comes into frequent contact in the course of its functioning. It establishes interacting and interdependent relations, conducts transactions, designs and administers appropriate strategies and policies to cope with fluctuations therein and otherwise negotiates its way into the future.

11.1 Demographic environment

The term demographics denotes characteristics of population in a area, district, country or in world. It includes factors such as race, age, income, educational attainment, asset ownership,



home ownership, employment status and location. Data with respect to these factors within a demographic variable, and across households, are of interest, to businessmen in addition to economist. Marketers and other social scientists often group populations into categories based on demographic variables. Some of the demographic factors have great impact on the business. Factors such as general age profile, sex ratio, education, growth rate affect the business with different magnitude. India has relatively younger population as compared to some countries. China on the other hand is having an aging population. Many multinationals are interested in India considering its population size. With having approximately sixteen percent of the world's population, the country holds huge potential for overseas companies.

Business Organizations need to study different demographic factors. Particularly, they need to address following issues:

- ◆ What demographic trends will affect the market size of the industry?
- ◆ What demographic trends represent opportunities or threats?

The business, as such, is concerned with a population's size, age structure, geographic distribution, ethnic make-up, and distribution of income. While each of the major elements of discussed below, the challenge for strategists is to determine what the changes, that have been identified in the demographic characteristics or elements of a population, imply for the future strategic competitiveness of the company. We will briefly discuss a few factors that are of interest to a business.

(i) *Population Size*: While population size itself, large or small, may be important to companies that require a "critical mass" of potential customers, changes in the specific make-up of a population's size may have even more critical implications. Among the most important changes in a population's size are:

- ◆ Changes in a nation's birth rate and/or family size;
- ◆ Increases or declines in the total population;
- ◆ Effects of rapid population growth on natural resources or food supplies.

Changes in a nation's population growth rate and life expectancy can have important implications for companies. Are people living longer? What is the life expectancy of infants? There will be implications for the health care system (for companies serving that segment) and for the development of products and services targeted at older (or younger) population.

(ii) *Geographic Distribution*: Population shifts from one region of a nation to another or from non-metropolitan to metropolitan areas may have an impact on a company's strategic competitiveness. Issues that should be considered include:

- ◆ The attractiveness of a company's location may be influenced by governmental



support.

- ◆ Companies may have to consider relocation if population shifts have a significant impact on the availability of a qualified workforce.
- ◆ The concepts of working-at-home and commuting electronically on the information highway have also started in India in an very small level. These may imply changes in recruiting and managing the workforce.

(iii) *Ethnic Mix*: This reflects the changes in the ethnic make-up of a population and has implications both for a company's potential customers and for the workforce. Issues that should be addressed include:

- ◆ What do changes in the ethnic mix of the population imply for product and service design and delivery?
- ◆ Will new products and services be demanded or can existing ones be modified?
- ◆ Managers prepared to manage a more culturally diverse workforce?
- ◆ How can the company position itself to take advantage of increased workforce heterogeneity?

(iv) *Income Distribution*: Changes in income distribution are important because changes in the levels of individual and group purchasing power and discretionary income often result in changes in spending (consumption) and savings patterns. Tracking, forecasting, and assessing changes in income patterns may identify new opportunities for companies

11.2 Economic environment

The economic environment refers to the nature and direction of the economy in which a company competes or may compete. The economic environment includes general economic situation in the region and the nation, conditions in resource markets (money market, manpower market, raw material components, services, supply markets and so on) which influence the supply of inputs to the enterprise, their costs, quality, availability and reliability of supplies.

Economic environment determines the strength and size of the market. The purchasing power in an economy depends on current income, prices, savings, circulation of money, debt and credit availability. Income distribution pattern determines the marketing possibilities. The important point to consider is to find out the effect of economic prospect and inflation on the operations of the firms. Strategists must scan, monitor, forecast, and assess a number of key economic factors mentioned in the table below for both domestic and key international markets.



Key Economic Factors

◆ Shift to a service economy	◆ Availability of credit
◆ Level of disposable income	◆ Propensity of people to spend
◆ Interest rates	◆ Inflation rates
◆ Tax rates	◆ Money market rates
◆ Government budget deficits	◆ Gross national product trend
◆ Consumption patterns	◆ Trade Block Formations
◆ Demand shifts for different categories of goods and services	◆ Income differences by region and consumer groups
◆ Price fluctuations	◆ Worker productivity levels
◆ Global movement of labour and capital	◆ Monetary & Fiscal policies
◆ Stock market trends	◆ Foreign countries' economic conditions
◆ Import/export factors	◆ Company of Petroleum Exporting Countries (OPEC) policies
◆ Coalitions of Countries/ Regional blocks	◆ Unemployment trends

11.3 Political-Legal Environment

This is partly general to all similar enterprises and partly specific to an individual enterprise. It includes such factors as the general state of political development, the degree of politicalization of business and economic issues, the level of political morality, the law and order situation, political stability, the political ideology and practices of the ruling party, the purposefulness and efficiency of governmental agencies, the extent and nature of governmental intervention in the economy and the industry, Government policies (fiscal, monetary, industrial, labour and export-import policies), specific legal enactments and framework in which the enterprise has to function and the degree of effectiveness with which they are implemented, public attitude towards business in general and the enterprise in particular and so on. There are three important elements in political-legal environment.

- (i) **Government:** Business is highly guided and controlled by government policies. Hence the type of government running a country is a powerful influence on business: A strategist has to consider the changes in the regulatory framework and their impact on the business.

Taxes and duties are other critical area that may be levied and affect the business. For example, introduction of Fringe benefits Tax has major impact on the business.



- (ii) **Legal:** Business Organizations prefer to operate in a country where there is a sound legal system. However, in any country businesses must have a good working knowledge of the major laws protecting consumers, competitions and organizations. Businesses must understand the relevant laws relating to companies, competition, intellectual property, foreign exchange, labour and so on.
- (iii) **Political:** Political pressure groups influence and limit organizations. Apart from sporadic movements against certain products, service and organizations, politics has deeply seeped into unions. Also special interest groups and political action committees put pressure on business organizations to pay more attention to consumer's rights, minority rights, and women rights.

11.4 Socio-Cultural environment

This is too general an entity which influence almost all enterprises in a similar manner. It is a complex of factors such as social traditions, values and beliefs, level and standards of literacy and education, the ethical standards and state of society, the extent of social stratification, conflict and cohesiveness and so forth.

Socio-cultural environment consist of factors related to human relationships and the impact of social attitudes and cultural values which has bearing on the business of the organization. The beliefs, values and norms of a society determine how individuals and organizations should be interrelated. The core beliefs of a particular society tend to be persistent. It is difficult for businesses to change these core values, which becomes a determinant of its functioning.

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

- ◆ Social concerns, such as the role of business in society, environmental pollution, corruption, use of mass media, and consumerism.
- ◆ Social attitudes and values, such as expectations of society from business, social customs, beliefs, rituals and practices, changing lifestyle patterns, and materialism.
- ◆ Family structure and changes in it, attitude towards and within the family, and family values.
- ◆ Role of women in society, position of children and adolescents in family and society.
- ◆ Educational levels, awareness and consciousness of rights, and work ethics of members of society.

The social environment primarily affects the strategic management process within the organization in the areas of mission and objective setting, and decisions related to products and markets.



11.5 Technological environment

The most important factor, which is controlling and changing people's life, is technology. Technology has literally created wonder. Man could realise its dream of walking in the moon, traveling in spaceships, and go to the other side of the globe within few hours. They have already started dreaming of living of very extended life of hundreds years with the latest development of genetic sciences and technology.

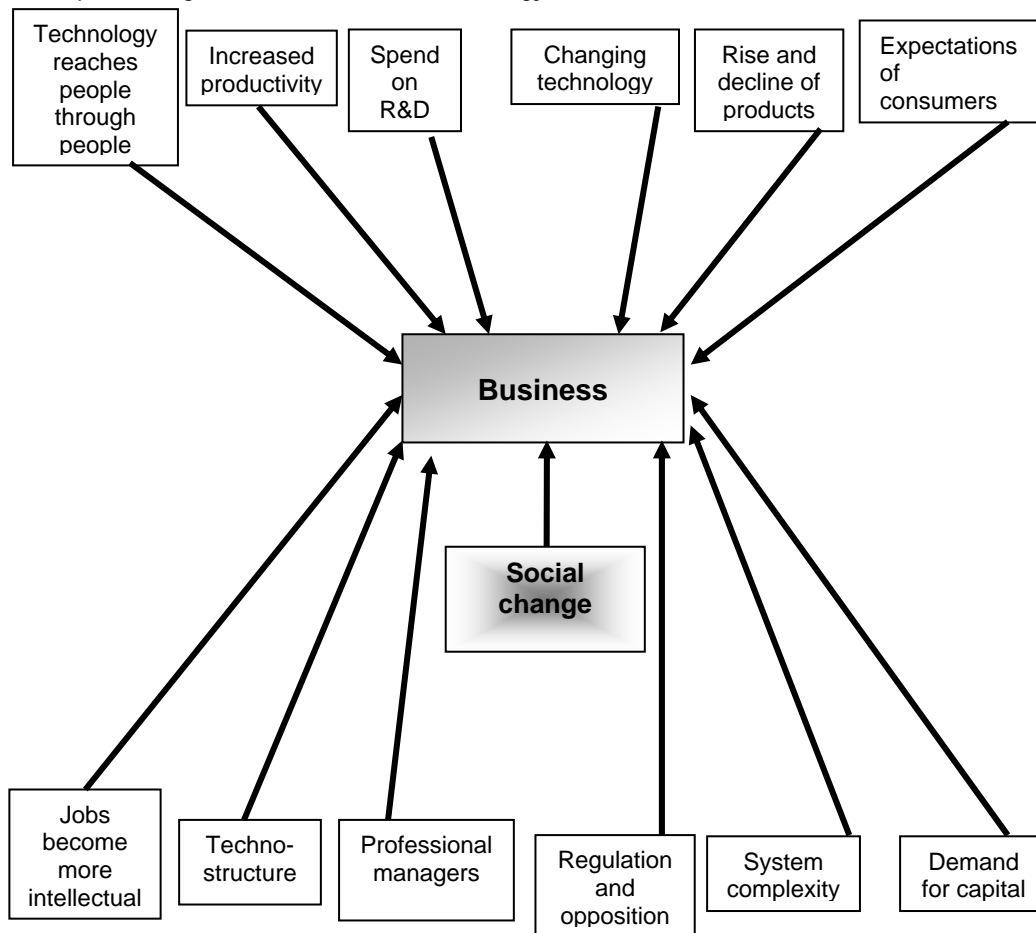


Figure: Interference between Business & Technology

Technology has changed the way people communicate with the advent of Internet and telecommunication system. Technology has changed the ways of how business operates now. This is leading to many new business opportunities as well as making obsolete many existing



systems. The following factors are to be considered for the technological environment:

- ◆ The pull of technological change.
- ◆ Opportunities arising out of technological innovation.
- ◆ Risk and uncertainty of technological development.
- ◆ Role of R&D in a country and government's R&D budget.

The technology and business are highly interrelated and interdependent also. The fruits of technological research and development are available to society through business only and this also improves the quality of life of the society. Hence, technology is patronized by business. Then again technology also drives business and makes a total change on how it is carried out. The interface between business and technology is explained in the figure: Interface between Business & Technology. Important technology-related issues that might affect a broad variety of companies include:

- ◆ Access to the "information highway" through the Internet which may enable large numbers of employees to work from home or provide strategists with access to richer sources of information,
- ◆ Business-to-business sales and exchanges,
- ◆ Providing customers with access to online shopping through the Internet.

For example, Dell Computer Corporation reduces its paperwork flow, schedules its payments more efficiently, and is able to coordinate its inventories efficiently and effectively by using the capabilities of the Internet. This helps to eliminate/reduce paperwork, flatten companies, and shrink time and distance, thus capturing a competitive premium for the company. Because the technological aspects are so important, some of the key questions that can be asked in assessing the technological environment are given below.

- ◆ What are the technologies {both manufacturing and information technologies} used by the company?
- ◆ Which technologies are utilised in the company's business, products, or their parts?
- ◆ How critical is each technology to each of these products and businesses?
- ◆ Which external technologies might become critical and why? Will they remain available outside the company?
- ◆ What has been the investment in the product and in the process side of these technologies? For the company and for its competitors? Design? Production? Implementation and service?



- ◆ What are the other applications of the company's technologies? In which applications does the company currently participate and why? In which applications does the company not participate and why?
- ◆ Which technological investments should be curtailed or eliminated?
- ◆ What additional technologies will be required in order to achieve the current corporate business objectives? .
- ◆ What are the implications of the technology and business portfolios for corporate strategy?

11.6 Global environment

Today's competitive landscape requires that companies must analyse global environment as it is also rapidly changing. The new concept of global village has changed how individuals and organizations relate to each other. Further, new migratory habits of the workforce as well as increased offshore operation are changing the dynamics of business operation. Among the global environmental factors that should be assessed are:

- ◆ Potential positive and negative impact of significant international events such as a sport meet or a terrorist attack.
- ◆ Identification of both important emerging global markets and global markets that are changing. This includes shifts in the newly industrialised countries in Asia that may imply the opening of new markets for products or increased competition from emerging globally competitive companies in countries such as South Korea and China.
- ◆ Differences between cultural and institutional attributes of individual global markets.

Due to economic reforms, Indian businessmen are also out to see beyond the physical boundaries of the country. The Indian companies are acquiring business in different countries. The need to think and act from global perspective is universal. For a long time businessmen everywhere believed that home markets were adequate and safe. They never felt the need to explore the overseas markets in a big way. "If they could pick up some extra sales through exporting, these businessmen were more than satisfied. The scenario is different now. The companies are increasingly interested in globalising.

Nature of Globalization

Globalization means several things for several people. For some it is a new paradigm - a set of fresh beliefs, working methods, and economic, political and socio-cultural realities in which the previous assumptions are no longer valid. 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) it also means 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.

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. Nestle International is an example of an enterprise that has become multinational. It sells its products in most countries and manufactures in many. 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 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:

- ◆ One reason could be the rapid shrinking of time and distance across the globe thanks to faster communication, speedier transportation, growing financial flows and rapid technological changes.



- ◆ 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. Some European companies have gone global for similar reason.
- ◆ According to Raymond Vernon companies that develop attractive new products sell them first in their home markets. Sooner or later, foreigners may learn about these products. At this stage, most companies would export the product or service rather than produce it abroad. But as foreign demand grows, the economics of foreign production change. Eventually, the foreign market becomes large enough to justify foreign investment.
- ◆ Another reason for going overseas may also vary by industry. Petroleum and mining companies often go global to secure a reliable or cheaper source of raw-materials. Some manufacturing companies, by contrast, have often ventured overseas to protect old markets or to seek new ones. For example cheap labour in India lure foreign investors.
- ◆ Companies often set up overseas plants to reduce high transportation costs. The higher the ratio of the unit cost to the selling price per unit, the more significant the transportation factor becomes.
- ◆ The motivation to go global in high-tech industries is slightly different. Companies in electronics and telecommunications must spend large sums on research and development for new products and thus may be compelled to seek ways to improve sales volume to support high overhead expenses. If domestic sales and exports do not generate sufficient cash flow, the companies naturally might look to overseas manufacturing plants and sales branches to generate higher sales and better cash flow.

The following developments are also responsible for transnational operation of companies.

- ◆ Increasing emphasis on market forces and a growing role for the private sector in nearly all developing countries;
- ◆ Rapidly changing technologies that are transforming the nature, organization, an location of international production;
- ◆ The globalization of firms and industries;
- ◆ 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 select developing countries.

Manifestation of globalization

Globalization manifests itself in many ways. important of them are:

- ◆ **Configuring anywhere in the world:** An MNC can locate its different operations in



different countries on the basis of raw material availability, consumer markets and low-cost labour.

- ◆ **Interlinked and independent economies:** In terms of economic-welfare, globalization refers to the unique economically interdependent international environment. Each country's prosperity is interlinked with the rest of the world. No nation can any longer hope to lead an existence of solitude and isolation in which only domestic industries can function.
- ◆ **Lowering of trade and tariff barriers:** The apparent and real collapse of international trade barriers proposes a new global cooperative arrangement and a redefinition of 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. World over, governments are pulling out from commercial business. The trade tariffs and custom barriers are getting lowered, resulting in cheaper and abundant supply of goods.
- ◆ **Infrastructural resources and inputs at International prices:** Infrastructural inputs must be ensured at competitive prices, if the companies were to compete globally. The advantages of cheap labour (and other inputs) evaporate in the face of continuous inflation and high infrastructural costs.
- ◆ **Increasing trend towards privatization:** Governments are everywhere withdrawing from owning and running business enterprises. Private entrepreneurs are given greater access and freedom to run business units. The role of government is reduced to the provider of infrastructure for private business to prosper.
- ◆ **Entrepreneur and his unit have a central economic role:** In the emerging world order, the entrepreneur and his unit become central figures in the process of economic growth and development of a nation. Given the right environment, businesses are able to innovate, bring in new products, and contribute to nation's wealth. For the risk he takes and efforts he puts in, the businesses are rewarded with profits. Related to this is the viability of the business unit. Only firms which are cost effective and quality oriented survive and prosper. Weak and marginal firms die their natural death.
- ◆ **Mobility of skilled resources:** Skilled labour was once considered to be the decisive factor in plant location and even in determining comparative advantage of a



nation. Not any more. Skilled labour is highly mobile. Modern factories use highly skilled labour which is freely mobile. Where labour is unskilled, managements are spending vast sums of money to train workers become skilled in their jobs. Besides labour, other factors of production (land and capital) are also mobile. A developing country which is long on land and short on capital can invite foreign investment and make good the deficiency. Similarly, a developed country which is long on capital and short on land can use a developing country as a base for its manufacturing operations.

Thus, the traditional factors of production, viz., land, labour and capital, are no more immobile or restricted for usage with. They are transferable from any part of the world to any other part of the globe. The entire world has become a global village.

- ◆ **Market-side efficiency:** Integration of global markets implies that costs, quality processing time, and terms of business become dominant competition drivers. Customers can make a genuine choice of products and services on the basis of maximum value for money. The exclusive markets which were once enjoyed are no longer available to a firm. The inexorable pressure of technology and need for its integration means that customers no longer have to be satisfied with shoddy products and services provided by the state monopolies.
- ◆ **Formation of regional blocks:** A final corollary to globalization is the formation of trade blocks. The reasons for forming such blocks are obvious. Countries, like corporations, have to form strategic alliances to ward off economic and technological threats and leverage their respective comparative and competitive advantages. The signing of NAFTA (North American Free Trade Area) among N. America, Canada, and Mexico creates new markets and manufacturing opportunities for these countries and threatens to disrupt the plans and strategies of world powers such as Japan. Similarly formation of European Union and ASEAN affects the World trade balance.

India is part of South Asian Association for Regional cooperation (SAARC). SAARC consist of seven South Asian Countries with Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka as its members in addition of India. SAARC endeavours to accelerate economic growth in the Region. It also strives for social progress and cultural development in the region, promotion of active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields and strengthening of cooperation among the member states in the International forums on matters of common interest.



12. STRATEGIC RESPONSES TO THE ENVIRONMENT

The business organization and its many environments have innumerable interrelationships that at times, it becomes difficult to determine exactly where the organization ends and where its environment begins. It is also difficult to determine exactly what business should do in response to a particular situation in the environment. Strategically, the businesses should make efforts to exploit the opportunity and thought the threats.

In this context following approaches may be noted:

- (i) **Least resistance:** Some businesses just manage to survive by way of coping with their changing external environments. They are simple goal-maintaining units. They are very passive in their behaviour and are solely guided by the signals of the external environment. They are not ambitious but are content with taking simple paths of least resistance in their goal-seeking and resource transforming behaviour.
- (ii) **Proceed with caution:** At the next level, are the businesses that take an intelligent interest to adapt with the changing external environment. They seek to monitor the changes in that environment, analyse their impact on their own goals and activities and translate their assessment in terms of specific strategies for survival, stability and strength. They regard that the pervasive complexity and turbulence of the external environmental elements as 'given' within the framework of which they have to function as adaptive-organic sub-systems. This is an admittedly sophisticated strategy than to wait for changes to occur and then take corrective-adaptive action.
- (iii) **Dynamic response:** At a still higher sophisticated level, are those businesses that regard the external environmental forces as partially manageable and controllable by their actions. Their feedback systems are highly dynamic and powerful. They not merely recognise and ward off threats; they convert threats into opportunities. They are highly conscious and confident of their own strengths and the weaknesses of their external environmental 'adversaries'. They generate a contingent set of alternative courses of action to be picked up in tune with the changing environment.

Shaping external environment

How far is it possible for organizations to actively shape their relevant environments is an critical question? Can human organizations ever become such super-powerful entities? Is total environmental control and command worth the cost? What are the self-defeating elements in such an approach? Admittedly, the very dominating behaviour of command organizations may generate powerful countervailing pressures and forces in the environment. It should be remembered that the external environment is larger and more inclusive than the individual organization; presumably the former commands more resources and its interests and values are much broader than those of the latter.



A innovative and autonomous organization generates its own constraints. It is not above the rule of law and logic of the external environment. Within certain limits, such an organization can shape part of its relevant external environment on a reciprocal basis.

13. COMPETITIVE ENVIRONMENT

The essence of strategy formulation is coping with competition. Although competition makes organizational working difficult, intense competition is neither a coincidence nor bad luck. All organizations have competition. Multinationals and large organizations clash directly on every level of product and service. Mid-sized and small business also chase same customers and find that prices and product quality are bounded by the moves of their competitors. Even large public sector monopolies are gradually getting privatised and facing competition. The monopolies enjoyed by the Bharat Sanchar Nigam Ltd and Mahanagar Telephone Nigam Ltd have faded away after entry of private players. For a single business organization the competition spells out freedom of entry and exit in the market and affects its prices and scale of operations

The benefit of competition are also enjoyed by the society and the markets in which organisations operate. The customers are able to get products at lower costs and better quality. They get better value of their money because of competition.

The nature and extent of competition that a business is facing in the market is one of the major factors affecting the rate of growth, income distribution and consumer welfare. Businesses have to consider competitors' strategies, profits levels, costs, products and services when preparing and implementing their business plans.

While formulating strategies, organizations have to separately identify and concentrate on the competitors who are significantly affecting the business. Lesser attention may be given to smaller competitors who have little or no impact the business. There can be several competitors vying to satisfy same needs of customers. Competition is not necessarily restricted to same product or services. Coke and Pepsi may be obvious competitors. At the same time they have to compete with other companies such as Hindustan Lever Ltd whose Kisan squashes will be directed towards same needs. They have to also compete with natural juices such as Real.

A better understanding of the nature and extent of competition may be reached by answering the following questions:

- (i) Who are the competitors?
- (ii) What are their product and services?
- (iii) What are their market shares?
- (iv) What are their financial positions?



- (v) What gives them cost and price advantage?
- (vi) What are they likely to do next?
- (vii) Who are the potential competitors?

Cooperation in a Competitive Environment: In economics we study oligopoly, wherein a small number of only manufactures/sellers of a product may join together to have monopolistic behaviour. An example of oligopoly can be Organization of the Oil Exporting Countries (OPEC), which is collective group of nations extracting and exporting oil. Its aim according to its Statute, is 'the coordination and unification of the petroleum policies of member countries and the determination of the best means for safeguarding their interests, individually and collectively; ways and means of ensuring the stabilization of prices in international oil markets with a view to eliminating harmful and unnecessary fluctuations. The cooperation in organizations forming *cartels* (a term used to define the groups in oligopoly) may be in form of deciding market shares, prices and profits. It is not necessary that the organizations form explicit cartels as they may have tacit arrangements not known to general public.

The cooperation may also be witnessed in highly competitive business environment. Tata and Fiat have arrangements in relations to cars. Such cooperation is not necessarily restricted to the organizations producing or dealing in same product or services. They may identify some common interest for cooperation between them. A cold drink manufacture may enter into arrangement with a chain of restaurants to offer its beverages to the clients of restaurants. Lately, various credit card companies are entering into arrangements with other businesses to launch co-branded credit cards. Such arrangements help in reaching greater number of customers.

The benefits of cooperation are also seen in Japan, where large cooperative networks of businesses are known as *kieretsus*. These are formed in order to enhance the abilities of individual member businesses to compete in their respective industries. A *kieretsu* is a loosely-coupled group of companies, usually in related industries. *Kieretsu* members are peers and may own significant amounts of each other's stock and have many board members in common. However, they are different from conglomerates (Common in western countries and also found in India) wherein all members are lineated through ownership pattern. A *kieretsu* also differs from a consortium or an association, as the primary purpose of a *kieretsu* is not to share information or agree industry standards, but to share purchasing, distribution or any other functions. In *Kieretsu* members remain independent companies in their own right: the only strategy they have in common is to prefer to do business with other *kieretsu* members, both when buying and when selling.

Cooperation on account of family ownership: Theoretically, cooperation generates automatically in businesses owned by a same family. The ownership, groups are engaged in the management of their enterprise in a direct manner. Commonly, the ownership group is



nothing but a family and its kith and kin. In India, a very large number of business enterprises, big, medium and small, are family-managed enterprises. These include large business houses such as Tata, Birla, Godrej, Reliance, Modi, Escorts and *et al.* Major decisions and sometimes even minor decisions are made by members of the family who manage the enterprise. The interests of the family largely influence the managerial decisions and activities of the enterprise. There is a total identity between the needs and goals of the family and of the enterprise.

Sometimes, quarrels and conflicts among the managing members of the family on family matters tend to distort their behaviour in managing the enterprise also and thereby damage its functioning. Succession remains a tricky and conflicting issue in businesses. Be it the Ambanis of Reliance Industries, the Bajajs of Bajaj Auto, the Nandas of Escorts, or the Modis of Modi Rubber - each family has, in the recent past, faced succession and ownership issues and found them tough to resolve. However, one can count several counter examples of family-run businesses that have resolved these issues amicably. The Murugappa Group in the South, the Burmans of Dabur India and the Thapars have settled succession issues without coming into the public eye.

14. PORTER'S FIVE FORCES MODEL - COMPETITIVE ANALYSIS

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. Thinking strategically about a company's competitive environment entails using some well defined concepts and analytical tools.

The character, mix, and subtleties 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 *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 way one uses the five-forces model to determine what competition is like in a given industry is to build the picture of competition in three 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.

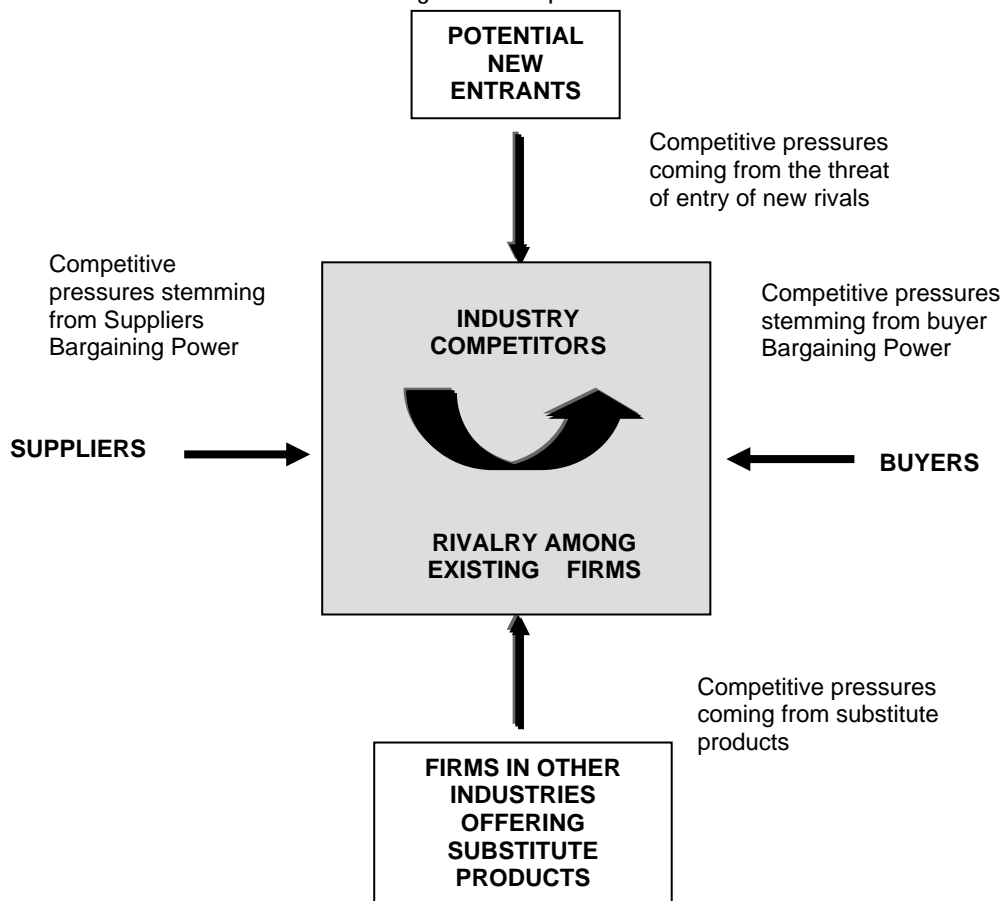


Figure: The Five Force model of Competition

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.

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 in matters such as price, quality and delivery. Two top CDMA service providers Reliance and Tata Teleservices had put a simultaneous pressure on Qualcomm to reduce the royalties on the CDMA based handsets.

Such a collusion on the part of buyers can be a major force in some industries. 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.

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.

Rivalry among current players: The rivalry among existing players is an idea that can be easily understood. This is what is normally understood as competition. And it is obvious that for any player, the competitors influence prices as well as the costs of competing in the industry, in production facilities product development, advertising, sales force, etc.

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.



So, in addition to existing rivals or competitors proper, forces such as new entrants, customers, suppliers, and substitutes have all to be viewed as forces governing competition in the industry. A firm has to give due weightage to each of these forces as a fight can emerge from any quarter.

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 as also within a given

Self-Examination Questions

Objective Type Questions

State with reasons which of the following statements are correct/incorrect:

- (a) According to Peter F Drucker businesses exist for making profits.
- (b) Society within which a company operates is part of its micro environment.
- (c) Competitors are part of macro environment of an organisation.
- (d) Environmental factors are totally within the control of a single industrial enterprise.
- (e) Organisations should study the impact of environmental changes and make appropriate modifications in strategy.
- (f) The environment is constantly changing.
- (g) Various environmental constituents exist in isolation and do not interact with each other.
- (h) Businesses function in an isolated manner.
- (i) Under porters five forces new entrants are insignificant source of competition.

Short answer Questions

- 1. What is a kieretsus?
- 2. What is demographic environment of business?
- 3. Write a short note on micro environment.

Essay type Questions

- 1. Do you advocate that organizations should concern themselves with the elements of



its outside world? Why?

2. Discuss the relations between organizations and their external environment? How organizations strategically respond to their environment?
3. What do you mean by micro and macro environment?
4. Briefly discuss various elements of macro environment.
5. What is competitive environment? Discuss the five forces driving industry competition as given by Porter.

Case Study

Information technology (IT) exports from the Software Technology Park in Sohanpur in Uttar Pradesh has increased from Rs 1005 crore to Rs 1455 crore in the last five years. To further this growth and discuss the common issues various IT professionals of different companies assembled for a meeting. Their agenda included discussion on the issues relevant for the development of the technology park and available opportunities in IT industry for companies planning to set up IT and processing businesses in Sohanpur.

It was felt by a few persons that the absence of an airport and availability of uninterrupted round the clock power supply were major hurdles towards the development of the park. The nearest airport is 600 km away in New Delhi.

One of the participant highlighted the importance of world-class telecommunication facilities in the area. He felt that the telecommunications technology in the region is primitive and is not able to meet the present needs of the region. He also spoke at length about the problems of frequent job changes by present youth. He highlighted that a major problem is lack of patience in the young generation of IT professionals. He said retention was a major problem in Sohanpur as professional also preferred bigger cities. He suggested that the IT businesses should get together to create a conducive working climate for retention as well as growth.

Read the above case and answer the following questions:

- (1) List out different environmental factors for a new entrepreneur who wants to start a new IT project in the Technology park. Segregate them as positive and negative.
- (2) What is importance of an Airport in the city? Discuss.
- (3) Suggest how manpower issues can be dealt by the businesses in the park.

CHAPTER 2

BUSINESS POLICY AND STRATEGIC MANAGEMENT

LEARNING OBJECTIVES

- ◆ Learn what business policy and strategy is all about.
- ◆ Know the framework and importance of strategic management.
- ◆ Know the strategic management process.
- ◆ Have an understanding of corporate vision and mission.
- ◆ Learn how strategy operates at different levels of the organization.

Without a strategy the organization is like a ship without a rudder.

Joel Ross and Michael Kami

Strategic management is not a box of tricks or a bundle of techniques. It is analytical thinking and commitment of resources to action.

Peter Drucker

1. INTRODUCTION

This chapter introduces the concept of business policy and strategic management. With the increased competition, the management of business has acquired strategic dimension. All professionals, including the chartered accountants, working towards growth of their businesses must possess sound knowledge of strategic management. Business policy and strategic management are highly intertwined.

2. BUSINESS POLICY AS A DISCIPLINE

The origins 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. This course was based on interactive case studies which had been in use at the



school for instructional purposes since 1908. The course was intended to enhance general managerial capability of students. 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. During the next few decades, business policy as a course spread to different management institutes across different nations and become an integral part of management curriculum. Basically, business policy is considered as a capstone, integrative course offered to students who have previously been through a set of core functional area courses. The term 'Business Policy' has been traditionally used though new titles for the course have begun to be introduced in recent years.

According to Glueck, development in business policy arose from 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 strategic decision making.

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. Such a framework enables a person to make preparations for handling general management responsibilities.

3. MEANING AND THE NATURE OF MANAGEMENT

To understand strategic management to be studied later, we need to have a basic understanding of the term management. The term 'management' can be used in two major contexts.

- (a) It is used with reference to a key up-group in an organisation. 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.

Management is a critical variable and a vital sub-system in an organisation. The survival and success of an organisation depend to a large extent on the competence and character of management. Management has to also facilitate organisational change and adaptation. It has to also work for resolution of organisational conflicts.

- (b) It is also used with reference to a set of interrelated functions and processes, to a field of study or discipline in social sciences and to a vocation or profession. The functions and processes of management are wide-ranging but closely inter-related. They range all the way from design of the organisation, determination of the goals and activities, mobilisation and acquisition of resources, allocation of tasks and resources among the personnel and activity units. They also include adoption of certain techniques, tools and methods for carrying on activities, through articulation of skills and efforts of organisational personnel in a unified manner and installation of communication and control systems to ensure that what is planned is achieved.

Management refers to an integrated set of functions and processes designed to initiate and unify group effort in a meaningful manner directed towards pursuing certain goals. It is in this context we will study strategic management later. Management involves mobilisation and utilisation of physical human and other needed resources in judicious manner through certain skills, techniques, and activities.

A wide range of definitions of management exist in the literature on management. Here we shall cite the definitions of a few theorists :

Peter Drucker: Management is a function, a discipline, a task to be done, and managers practise this discipline, carry out the functions and discharge these tasks.

Dalton McFarland: Management is the process by which managers create, direct, maintain and operate purposive organisations through systematic, co-ordinated and co-operative human effort.

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. Influence is not unilateral but multilateral. Managers formulate their goals, values and strategies, partly autonomously, to cope with, to adapt and to adjust themselves with the behaviour and changes of the environment.



4. WHAT IS A STRATEGY

A typical dictionary will define the word strategy as something that has to do with war and deception of an enemy. In business organizational context the term is not much different. Businesses have to respond to a dynamic and often hostile environment for pursuit of their mission. Strategy seeks to relate the goals of the organization to the means of achieving them. A company's strategy is the game plan management is using to stake out market position, conduct its operations, attract and please customers, compete successfully, and achieve organizational objectives.

A company's strategy consists of the combination of competitive moves and business approaches that managers employ to please customers, compete successfully and achieve organizational objectives. We may define 'strategy' as a long range blueprint of an organization's desired image, direction and destination what it wants to be, what it wants to do and where it wants to go. Following other definitions are also important 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 was 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 achieve effectiveness, to mobilise resources, to direct effort and behaviour, to handle events and problems, to perceive and utilise opportunities, and to meet challenges and threats to corporate survival and success. In corporate strategy, the set of goals has a system of priorities; the combination, the sequence and the timing of the moves, means and approaches are determined in advance, the initiative and responses have a cogent rationale behind them, are highly integrated and pragmatic; the implications of decisions and action programmes are corporate wide, flexible and contingent.

The very injection of the idea of strategy into business organizations is intended to unravel complexity and to reduce uncertainty of the environment. 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.

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 and to make major decisions in general. Top



Business Policy and Strategic Management

management operates in an environment of partial ignorance and uncertainty.

In general, a corporate strategy has the following characteristics:

- ◆ It is generally long-range in nature, though it is valid for short-range situations also and has short-range implications.
- ◆ It is action oriented and is more specific than objectives.
- ◆ It is multipronged and integrated.
- ◆ It is flexible and dynamic.
- ◆ It is formulated at the top management level, though middle and lower level managers are associated in their formulation and in designing sub-strategies.
- ◆ It is generally meant to cope with a competitive and complex setting.
- ◆ It flows out of the goals and objectives of the enterprise and is meant to translate them into realities.
- ◆ It is concerned with perceiving opportunities and threats and seizing initiatives to cope with them. It is also concerned with deployment of limited organizational resources in the best possible manner.
- ◆ It gives importance to combination, sequence, timing, direction and depth of various moves and action initiatives taken by managers to handle environmental uncertainties and complexities.
- ◆ It provides unified criteria for managers in function of decision making.

Strategies are meant to fill in the need of enterprises for a sense of direction, focus and coherent functioning. Strategies provide an integral framework for management to negotiate its way through a complex and turbulent external environment. They provide a systematic basis for the enterprise to stand its ground in the face of challenge and change as also quickly adjust to them. They obviate the occasions for impulsive and crisis decisions, false starts, misdirected moves, wasted resource uses and the like. Without a network of well designed strategies, followed up by policies, corporate objectives and goals tend to remain as mere aspirations and good intentions. Even if they get off the ground, they will be lacking drive and direction. The role of strategies thus stems from the fact that achievement of organizational objectives is best with uncertainties and pitfalls.

Strategies are formulated at the corporate, divisional and functional level. Corporate strategies are formulated by the top managers. They include the determination of the business lines, 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.

However, strategy is no substitute for sound, alert and responsible management. Strategy can never be perfect, flawless and optimal. It is in the very nature of strategy that it is flexible and pragmatic; it is art of the possible; it does not preclude second-best choices, trade-offs, sudden emergencies, pervasive pressures, failures and frustrations. However, in a sound strategy, allowances are made for possible miscalculations and unanticipated events.

5. GENERIC STRATEGIC ALTERNATIVES

According to William F Glueck and Lawrence R Jauch there are four generic ways in which strategic alternatives can be considered. These are stability, expansion, retrenchment and combinations.

5.1 Stability strategies: 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 products and services.
- ◆ The strategic decisions focus on incremental improvement of functional performance

Stability strategies are implemented by approaches wherein few functional changes are made in the products or markets. It 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 mature business organizations. Some small organizations will also frequently use stability as a strategic focus to maintain comfortable market or profit position.

5.2 Expansion Strategy: Expansion strategy is implemented by redefining the business by adding the scope of business substantially increasing the efforts of the current business. Expansion is a promising and popular strategy that tends to be equated with dynamism, vigor, promise and success. An enterprise on the move is a 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. The strategy may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.



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 of 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 through acquisitions and mergers: 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.

5.3 Retrenchment Strategy: A business organization can redefine its business by divesting a major product line or market. Retrenchment or retreat becomes necessary or expedient for coping with particularly hostile and adverse situations in the environment and when any other strategy is likely to be suicidal—'Strategic retreat' is often resorted to in military engagements. In business parlance also, retreat is not always a bad proposition to save the enterprise's vital interests, to minimise the adverse effects of advancing forces, or even to regroup and recoup the resources before a fresh assault and ascent on the growth ladder



is launched.

The nature, extent and timing of retrenchment are matters to be carefully decided by management, depending upon each contingency. The enterprise has several options open to it in designing and acting upon its strategy. In cases of temporary and partial setbacks, the enterprise can endeavour to cut back on its capital and revenue expenditures—new administrative blocks, replacement of worn-out machinery, advertising, R & D activities, employee welfare subsidies, community development projects, executives perks, and so on. In somewhat more serious cases of hard times, inventory levels, manufacturing level, manpower, plant maintenance, dividend to shareholders and interest on deposits, are some of the areas for slashing or postponement as the case may be. In the next stage, the enterprise may think of withdrawing from some marginal markets, withdrawal of some brands and sizes of products, withdrawal of even some slow moving products, winding up some branch offices, abolition of some executive positions and so on. In the fourth stage, the enterprise may resort to sale of some manufacturing facilities and individual product divisions which are a drag on the enterprise's resources. It may also seek retirement either from the production or the marketing stage. It is also possible to think of offering itself for take-over by another more viable enterprise. As a last option an enterprise may seek liquidation which means corporate death. This is the difficult solution, an answer to all problems of existence and a liberation from the fetters of frustration.

5.4 Combination Strategies: 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.

6. THE DYNAMICS OF COMPETITIVE STRATEGY

Strategic thinking involves orientation of the firm's internal environment with the changes of the external environment. The competitive strategy evolves out of consideration of several factors that are external to the firm as shown in the figure - Context in which competitive strategy is formulated

The economic and technical component of the external environment are considered as major factors leading to new opportunities for the organization and also closing threats. Similarly the broader expectation of the society in which the organization operates is again an important factor to determine the competitive strategy. The strengths and weaknesses of organizations are the internal factors, which determine the corporate strategy. It is to be analysed and find out in which functional area such as marketing, R &



D, operations, etc. the organization has superiority over the competitors. The strength is to be considered in the context of the opportunities arising in the external environment. The personal values of the key implementers also play major roles in formulating the competitive strategy.

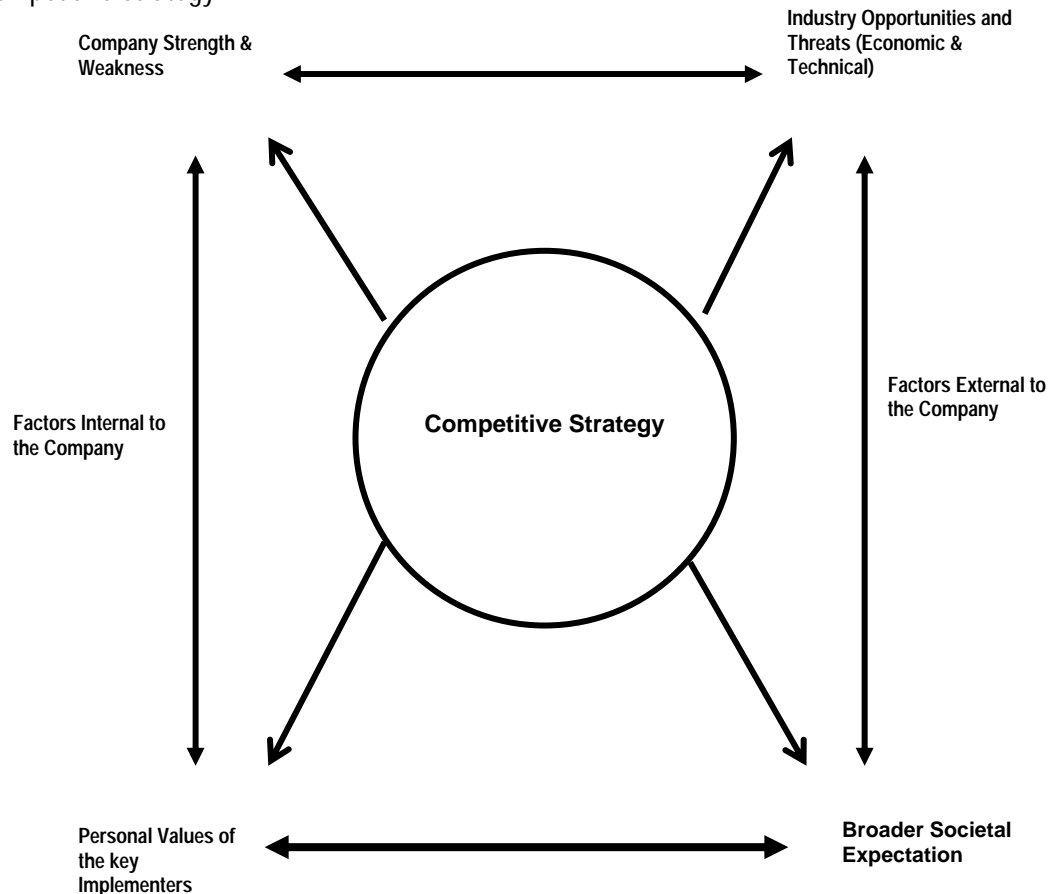


Figure: Context in which Competitive Strategy is Formulated

7. 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 adopt 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. The



Strategic Management

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 present 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 it may be change introduced to the firms 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.

Strategic management starts with developing a company mission (to give it direction), objectives and goals (to give it means and methods for accomplishing its mission), business portfolio (to allow management to utilize all facets of the organization), and functional plans (plans to carry out daily operations from the different functional disciplines).

No matter how well the strategic processes have been designed and implemented, success depends on how well each department performs its customer-value-adding activities and how well the departments work together to serve the customer. Value chains and value delivery networks have become popular with organizations that are sensitive to the wants and needs of consumers. Ultimately the aim of strategic management is to save the company's business products, services and communications so that they achieve targeted profits and growth.

The term strategic management refers to the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy, and then overtimes initiating whatever corrective adjustments in the vision, objectives, strategy, and execution are deemed appropriate.

7.1 Framework

The basic framework of strategic process can be described in a sequence of five stages as shown in the figure - *Framework of strategic management*: The five stages are as follows:

Stage one: This is the starting point of strategic planning and consists of doing a situational analysis of the firm in the environmental context. Here the firm must find out its relative market position, corporate image, its strength and weakness and also environmental threats and opportunities. This is also known as SWOT (Strength, Weakness, Opportunity, Threat) analysis. You may refer third chapter for a detailed discussion on SWOT analysis.

Stage two: This is a process of goal setting for the organization after it has finalised its vision and mission. A strategic vision is a roadmap of the 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.

An organization's Mission states what customers it serves, what need it satisfies, and what type of product it offers.

Stage three: Here the organization deals with the various strategic alternatives it has.

Stage four: Out of all the alternatives generated in the earlier stage the organization selects the best suitable alternative in line with its SWOT analysis.

Stage five: This is a implementation and control stage of a suitable strategy. Here again the organization continuously does situational analysis and repeats the stages again.

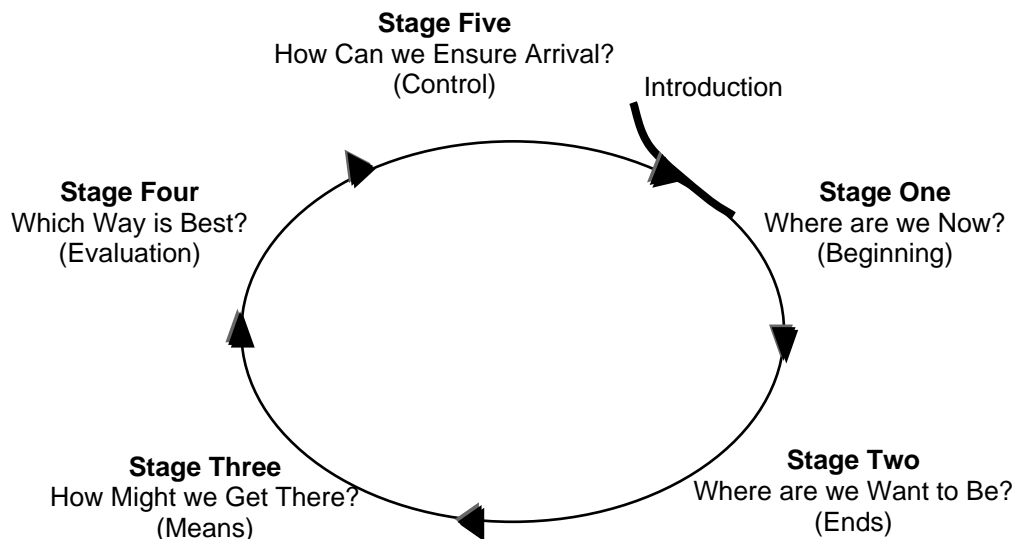


Figure - Framework of strategic management

7.2 Importance of Strategic Management

Strategic management provides the framework for all the major business decisions of an enterprise such as decisions on businesses, products and markets, manufacturing facilities, investments and organizational structure. In a successful corporation, strategic planning works as the pathfinder to various business opportunities; simultaneously, it also serves as a corporate defence mechanism, helping the firm avoid costly mistakes in product market choices or investments.

Strategic management has the ultimate burden of providing a business organization with certain core competencies and competitive advantages in its fight for survival and growth. It is not just a matter of projecting the future. It is not just a forecasting job; it is concerned



with ensuring a good future for the firm. It seeks to prepare the corporation to face the future and even shape the future in its favour. Its ultimate burden is influencing the environmental forces in its favour, working into the environs and shaping it, instead of getting carried away by its turbulence or uncertainties. It is environmental uncertainty that makes strategy and strategic conduct essential in a business. The more intense the environmental uncertainty, more critical is the need for strategic management.

Quite naturally, considerable thought, expertise and effort goes into the process of strategic management. The success of the efforts and activities of the enterprise depends heavily on the quality of strategic management, i.e. the vision, insight, experience, quality of judgment and the perfection of methods and measures.

Strategic planning and implementation have become a must 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' organization but those who can change and adapt successfully to the changes in business environment. Just like the extinction of the dinosaurs who ruled the earth one time but failed to survive in change condition of earth natural environment many organizational giants have also followed the path of extinction failing to manage drastic changes in the business environment. Also business follows the war principle of 'win or lose', and not necessarily win-win situation arises in business world. Hence the organization has to build its competitive advantage over the competitors in the business warfare in order to win. This can be done only following strategic analysis, formulation and implementation.

8. STRATEGIC DECISION MAKING

Decision making is a managerial process and function of choosing a particular course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. Decisions may relate to general day to day operations. They may be major or minor. They may also be strategic in nature. Strategic decisions are different in nature than all other decisions which are taken at various levels of the organization during day-to-day working of the organizations. The major dimensions of strategic decisions are given below:

- ◆ *Strategic issues require top-management decisions:* Strategic issues involve thinking in totality of the organizations and also there is lot of risk involved. Hence, problems calling for strategic decisions require to be considered by top management.
- ◆ *Strategic issues involve the allocation of large amounts of company resources:* It may require huge financial investment to venture into a new area of business or the organization may require huge number of manpower with new set of skills in them.
- ◆ *Strategic issues 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 issues are future oriented:* Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.
- ◆ *Strategic issues usually have major multifunctional or multi-business consequences:* As they involve organization in totality they affect different sections of the organization with varying degree.
- ◆ *Strategic issues 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.

9. THE TASK OF STRATEGIC MANAGEMENT

The strategy-making/strategy-implementing process consists of five interrelated managerial tasks. These are

- ◆ *Setting vision and mission:* Forming a strategic vision of where the organization is headed, so as to provide long-term direction, delineate what kind of enterprise the company is trying to become and infuse the organization with a sense of purpose.
- ◆ *Setting objectives:* Converting the strategic vision into specific performance outcomes for the company to achieve.
- ◆ Crafting a strategy to achieve the desired outcomes.
- ◆ Implementing and executing the chosen strategy efficiently and effectively.
- ◆ Evaluating performance and initiating corrective adjustments in vision, long-term direction, objectives, strategy, or execution in light of actual experience, changing conditions, new ideas, and new opportunities.

Strategic management model

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.

Identifying an organization's existing vision, mission, objectives, and strategies is the starting point for any strategic management process because an organization present situation and condition may preclude certain strategies and may even dictate a particular course of action. Every organization has a vision, mission, objectives, and strategy, even



Strategic Management

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.

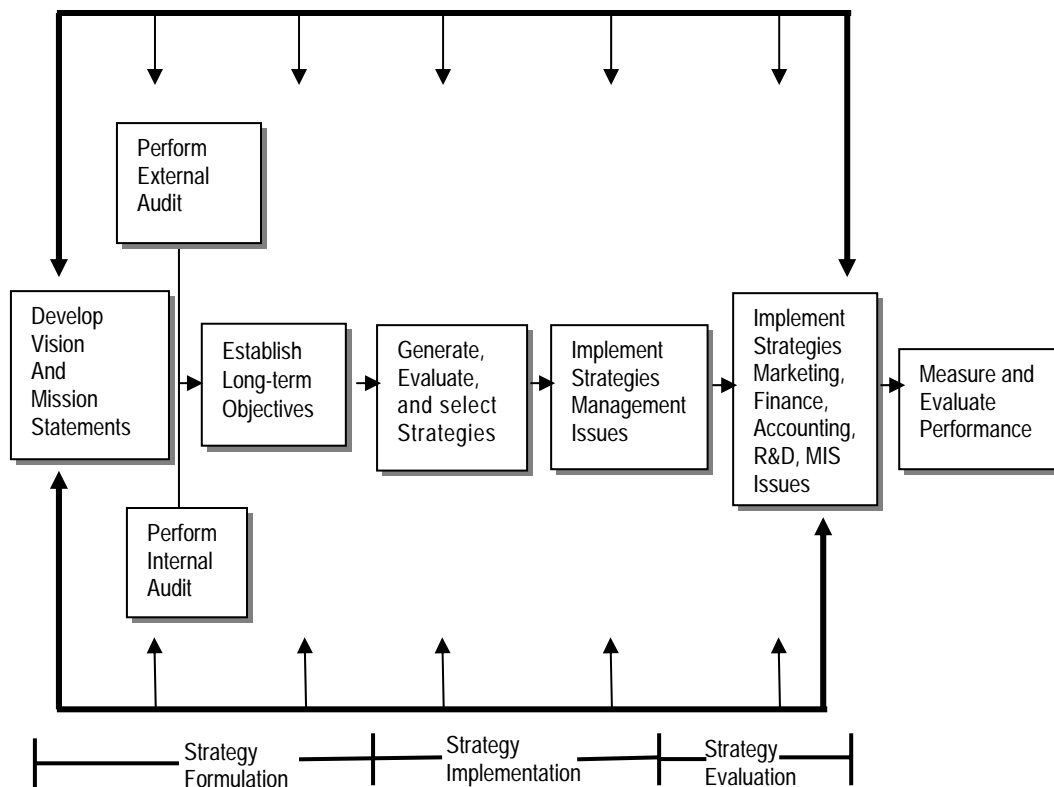


Figure Strategic Management Model

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 and candour from participants are encouraged in meeting. Good communication and feedback are needed throughout the strategic management process.

Application of the strategic management process is typically more formal in larger and well-established organizations. Formality refers to the extent that participants, responsibilities, authority, duties, and approach are specified. Smaller businesses tend to be less formal. Firms that compete in complex, rapidly changing environments, such as technology companies, tend to be more formal in strategic planning. Firms that have many divisions, products, markets, and technologies also tend to be more formal in applying strategic-management concepts. Greater formality in applying the strategic management process is usually positively associated with the cost, comprehensiveness, accuracy, and success of planning across all types and sizes of organizations.

10. VISION, MISSION AND OBJECTIVES

Amongst the various steps in the strategic management model we will restrict discussion to vision, mission and objectives in this chapter.

How can you lead if you do not know where are you going?

George Newman, The Conference Board

Management's job is not to see the company as it isbut as it can become.

- John W Teets, CEO, Greyhound Corporation

10.1 The Vision

Very early in the strategy making process, a company's senior managers must wrestle with 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 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 business, providing a panoramic view of the "where we are going" and a convincing rationale for why this makes good business sense for the company. A strategic vision thus points an organization in a particular direction, charts a strategic path for it to follow in preparing for the future, and



molds 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:

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 arouse organization wide commitment.

How to develop 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.
- ◆ Many successful organizations need to change direction not in order to survive but in order to maintain their success.
- ◆ A well-articulated strategic vision creates enthusiasm for the course management has charted and engages members of the organization.
- ◆ The best-worded vision statement clearly and crisply illuminate the direction in which organization is headed.

10.2 Mission

According to Glueck & Jauch mission is answer to the question 'what business are we in' that is faced by corporate-level strategist. Analysis shows that in actual practice many business firms fail to conceptualise and articulate the mission and business definition with the required clarity. And such firms are seen to fumble in the selection of opportunities and the choice of strategies. Firms wedded to the idea of strategic management of their enterprise cannot afford to be lax in the matter of mission and business definition, as the



two ideas are absolutely central to strategic planning.

Why organization should have mission?

- ◆ To ensure unanimity of purpose within the organization.
- ◆ To provide a basis for motivating the use of the organization's resources.
- ◆ To develop a basis, or standard, for allocating organizational resources.
- ◆ To establish a general tone or organizational climate, for example, to suggest a businesslike operation.
- ◆ To serve as a focal point for those who can identify with the organization's purpose and direction, and to deter those who cannot form participating further in the organization's activities.
- ◆ 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 should contain elements of long-term strategy as well as desired outcomes they often basic values and the philosophy of the organizations that is perceived by the senior managers at the senior level who write them. A good mission statement should be of precise, clear, feasible, distinctive and motivating. It should indicate major components of strategy. Following points are useful while writing mission of a company :

- ◆ The mission is not to make a profit.
- ◆ 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 situated companies.
- ◆ A company's business is defined by what needs it trying to satisfy, by which customer groups it is targeting and by the technologies and competencies it uses and the activities it performs.
- ◆ Technology, competencies and activities are important in defining a company's business because they indicate the boundaries on its operation.
- ◆ Good mission statements are highly personalized – unique to the organization for



which they are developed.

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?
- ◆ Do we know our customer?
- ◆ 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 import of these questions; those were 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



Business Policy and Strategic Management

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.

A mission does not represent a specific target. At the same time it is not all euphoria either. It represents the whole thrust of the firm. To quote Thomas Watson, Jr., former chairman of IBM, "The basic philosophy, spirit, and drive of an organization have far more to do with its relative achievements than technological or economic resources, organizational structure, innovation and timing. It also expresses the core values and beliefs of the firm".

Every organization functions through a network of aims. Mission is the foundation from which the network of aims 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
AT&T	We operate a long-distance telephone company.	We provide multiple forms of reliable, efficient and inexpensive telecommunication services
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
Eastman Kodak	We make cameras and film.	We help preserve beautiful memories
Revlon	In the factory, we make cosmetics.	In the drugstore, we sell hope

Understanding Mission and Purpose

The mission is a statement which defines the role that an organization plays in the society. The organisations also have some purpose that is anything that an organization 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 described 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. Both have different purposes but an identical mission:

Some examples of vision, mission and objectives

Mission and vision of the Institute of Chartered Accountants of India

<i>Mission</i>	The Indian Chartered Accountancy Profession will be the valued Trustees of World Class Financial Competencies, Good Governance and Competitiveness.
<i>Vision</i>	Recognise the changes in Economy/Business Environment such as focus on value, dynamic business and organization structures, developments in Information Technology and Telecommunication, new Government policies, globalization of business and competitive pressures. Recognise the path to success by adapting to the changes, knowledge management and acquiring skills to work with future environment influenced by technological and other changes.



Business Policy and Strategic Management

	<p>Recognise the opportunities for Chartered Accountants in the emerging areas such as new audit and assurance needs, performance measurement services, change management services, strategy management, general practice specialization and servicing global organizations.</p> <p>Recognise the Institute's role as a proactive, innovative and flexible organization, in equipping Chartered Accountants with top quality education and values.</p> <p>Recognise the need to be known as World Class Advisor.</p>
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Mission of Unilever: "The mission of our company, as William Hasketh Lever saw it, is to make cleanliness commonplace, to lessen work for women, to foster health, and to contribute to personal attractiveness that life may be more enjoyable for the people who use our products."

Mission of Mckinsey & Co: "To help business corporation and governments to be more successful".

Mission of Cadbury India: "To attain leadership position in the confectionary market and achieve a strong presence in the food drinks sector."

Mission of Reliance Industries: "To become a major player in the global chemicals business and simultaneously grow in other growth industries like infrastructure."

Mission of Ranbaxy: "To become a \$1 billion research-based global pharmaceuticals company."

10.3 Objectives and Goals

Business organization translate their vision and mission into objectives. As such the term objectives is synonymous with goals, however, we will make an attempt to distinguish the two. Objectives are open-ended attributes that denote the future states or outcomes. Goals are close-ended attributes which are precise and expressed in specific terms. Thus the goals are more specific and translate the objectives to 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 organizations performance targets – the results and outcomes it wants to achieve. They function as yardstick for tracking an organizations 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. Objective to be meaningful to serve the intended role must possess 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.
- ◆ Objectives should be understandable.
- ◆ Objectives should be concrete and specific
- ◆ Objectives should be related to a time frame
- ◆ Objectives should be measurable and controllable
- ◆ Objectives should be challenging
- ◆ Different objectives should correlate with each other
- ◆ Objectives should be set within constraints

11. STRATEGIC LEVELS IN ORGANISATIONS

In most companies, there are two main types of managers: *general managers*, who bear responsibility for the overall performance of the company or for one of its major self-contained subunits or divisions, and *functional managers*, who are responsible for supervising a particular function, that is, a task, activity, or operation. Like finance and accounting, production, marketing, R&D, information technology, or materials management.

An organization is divided into several functions and departments that work together to bring a particular product or service to the market. If a company provides several 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 general managers is for the health of the whole company or division under their direction; they are responsible for deciding how to create a competitive advantage and achieve high



Business Policy and Strategic Management

profitability with the resources and capital they have at their disposal. Figure 'levels of strategic management' shows the organization of a multidivisional company that is, a company that competes in several different businesses and has created a separate self-contained division to manage each of these. As you can see, there are three main levels of management: corporate, business, and functional. General managers are found at the first two of these levels, but their strategic roles differ depending on their sphere of responsibility.

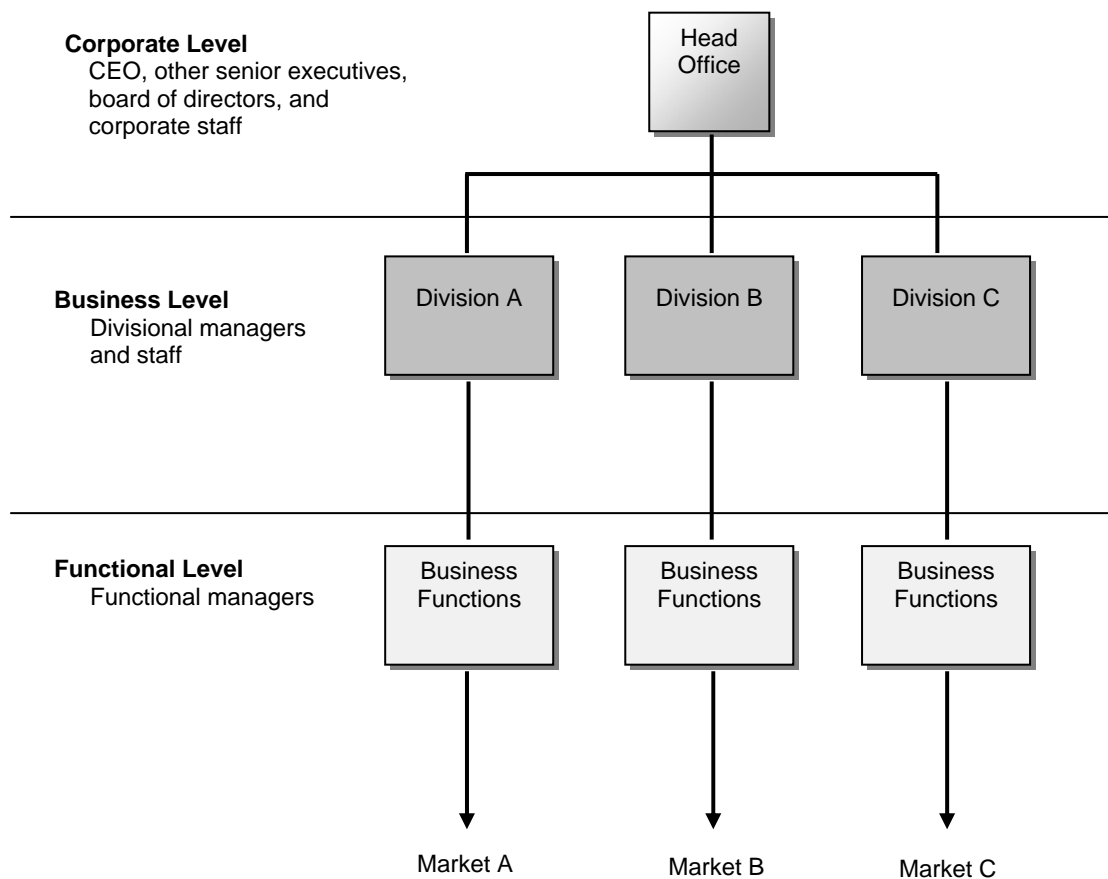


Figure : Level of Strategic Management

The corporate level of management consists of the chief executive officer (CEO), other senior executives, the board of directors, and corporate staff. These individuals occupy the apex of decision making within the organization. The CEO is the principal general manager. In consultation with other senior executives, 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.

Consider General Electric (GE) as an example. GE is active in a wide range of businesses, including lighting equipment, major appliances, motor and transportation equipment, turbine generators, construction and engineering services, industrial electronics, medical systems, aerospace, aircraft engines, and financial services. The main strategic responsibilities of its CEO, Jeffrey Immelt, 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 Immelt to develop strategies that span individual businesses; his concern is with building and managing the corporate portfolio of businesses to maximize corporate profitability.

It is *not* his 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 the general managers in these different businesses or *business level managers*. However, it is Immelt's responsibility to probe the strategic thinking of business-level managers to make sure that they are pursuing robust strategies that will contribute toward the maximization of GE's long-run profitability and to hold them into account for their performance.

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 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 general managers are concerned with strategies that span individual businesses, business-level general managers are concerned with strategies that are specific to a particular business. At GE, a major corporate goal is to be first or second in every business in which the



Business Policy and Strategic Management

corporation competes. Then the general managers in each division work out for their business the details of a strategy that is consistent with this objective.

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.

In GE's aerospace business, for instance, manufacturing managers are responsible for developing manufacturing strategies consistent with the corporate objective of being first or second in that industry. Moreover, 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.

Characteristics of strategic management decisions at different levels

Characteristic	Level of Strategy		
	Corporate	Business	Functional
Type	Conceptual	Mixed	Operational
Measurability	Value judgments dominant	Semi quantifiable	Usually Quantifiable
Frequency	Periodic or Sporadic	Periodic or Sporadic	Periodic
Relation to present activities	Innovative	Mixed	Supplementary
Risk	Wide Range	Moderate	Low
Profit Potential	Large	Medium	Small
Cost	Major	Medium	Modest
Time horizon	Long Range	Medium Range	Short Range



Flexibility	High	Medium	Low
Cooperation Required	Considerable	Moderate	Little

SELF EXAMINATION QUESTIONS

Objective Type Questions

State with reasons which of the following statements are correct/incorrect:

- Strategies have short-range implications
- Strategies are action oriented.
- Strategies are rigidly defined.
- Retrenchment strategy in the organization can be explained as divesting a major product line or market.
- Undertaking external analysis is the first step of strategy formulation in strategic management model.
- In general corporate level decisions are costly to take, involve high risk and have large profit potential.

Short answer questions

- Write a short note on business policy.
- Explain diversification as strategy.

Essay type questions

- What do you understand by Strategy? What are major strategic alternatives available to a business organisation?
- Discuss different strategic levels in organizations.
- Discuss the process of strategic management.

Case Study

Delhi-based Ace International is close to acquiring popular household brands Yummy and Tasty from Beetroot Ltd. The deal, at rupees thirty-five crores was announced at a joint press conference.

It was sometime back that Beetroot felt the need to restructure its unwieldy product portfolio and exit brands which had low business potential for the company. Beetroot had put these brands on sale late last year. Ace has emerged as the highest bidder for them.



Business Policy and Strategic Management

The company, stated in the press release that Ace is buying the brands but not their manufacturing facility at Noida (near Delhi), because the plant also makes other food products which are Beetroot's core food brands.

While Yummy and Tasty are marginal businesses for Beetroot, (around Rs 20 crore per annum) management consultants felt that they are a good fit in Ace's product portfolio. The company makes the same genre of products and can grow the brands without additional input or distribution costs. Tasty and Yummy are food brands that Ace can manufacture in its existing plants spread across seven locations in Punjab and Maharashtra. The company can also use the same set of distributors to place these brands in shops. Financial Analysts expect them to add 8-10% to Alpha's Rs 250 crore turnover in the first year.

- (a) Discuss the business strategy for Ace
- (b) Discuss the business strategy for Beetroot.

CHAPTER 3

STRATEGIC ANALYSIS

LEARNING OBJECTIVES

- ◆ 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.
- ◆ Know what is SWOT and TOWS analysis.
- ◆ Have an understanding of some of the methods used in portfolio analysis.

Analysis is the critical starting point of strategic thinking.

Kenichi Ohmae

If you're not faster than your competitor, you're in a tenuous position, and if you're only half as fast, you're terminal.

George Salk

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

Bruce Henderson

1. INTRODUCTION

The strategic management process, after deciding the vision, mission, goals and objectives of the organization, turns its focus to scanning of environment in which all organizations work as sub-systems. That is environmental scanning covers both scanning of external environment and internal environment. The scanning of external environment leads to the identification of the opportunities and threats thrown open to organizations while the internal analysis leads to the study of strengths and weaknesses which will decide as to what extent each company is going to capitalize the opportunities and threats thrown open.

2. STRATEGIC ANALYSES

Strategy formulation is not a task in which managers can get by with opinions, good instincts, and creative thinking. Judgments about what strategy to pursue need to flow directly from *solid analysis* of a company's external environment and internal situation. The two most important situational considerations are (1) industry and competitive conditions and (2) a company's own competitive capabilities, resources, internal strengths and weaknesses, and market position.



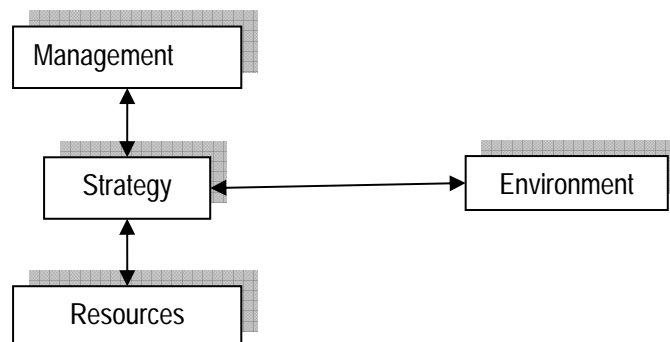
Strategic Management

What is involved in sizing up a company's overall situation and deciding on a strategy? The analytical sequence is from strategic appraisal of the company's external and internal situation, to evaluation of alternatives, to choice of strategy. Accurate diagnosis of the company's situation is necessary 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 concoct 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 analyses

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 business, 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: 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 analyses involve 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 some extent, however, there will be several others that are beyond the control of a manager.



Risk: In the 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 organization. The lives that we lead is uncertain and the business is no exception. Competitive



Strategic Analysis

markets, liberalization, globalization, booms, recessions, technological advancements, inter-country relationships all affect businesses and pose risk at varying degree. 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 analyses is given below:

		Time	
		<i>Short-term</i>	<i>Long-term</i>
Strategic Risks	<i>External</i>	Errors in interpreting the environment cause strategic failure.	Changes in the environment lead to obsolescence of strategy.
	<i>Internal</i>	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

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 an routine basis.

3. SITUATIONAL ANALYSIS

All companies operate in a "macro environment" shaped by influences emanating from the economy at large, population demographics, societal values and lifestyles, governmental legislation and regulation, technological factors. These factors have been discussed in chapter 1. Strictly speaking, a company's macro environment includes all relevant factors and influences outside the company's boundaries; by relevant, we mean important enough to have a bearing on the decisions the company ultimately makes about its direction, objectives, strategy, and business model. For the most part, influences coming from the outer ring of the macro environment have a low impact on a company's business situation and shape only the edges of the company's direction and strategy. There are notable exceptions, though. There are enough strategically relevant trends and developments in the macro environment to justify a watchful eye. As company managers scan the external environment, they must watch for potentially important environmental forces, assess their impact and influence, and adapt the company's direction and strategy as needed.



Strategic Management

However, the factors and forces in a company's macro environment having the biggest strategy-shaping impact almost always pertain to the company's immediate industry and competitive environment.

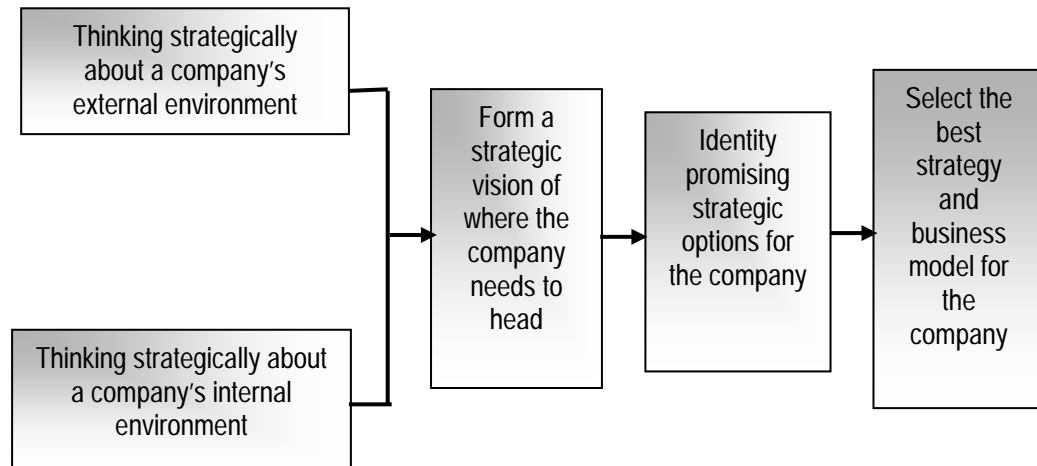


Figure: From Thinking Strategically about the Company's Situation to Choosing a Strategy

Also before developing any given marketing strategy it is important to conduct some form of analysis. This should form an essential part of any business plan and should be reviewed over time to ensure that it is kept current. Many ask what factors are important when doing this. The following is just a raw introduction to what to take into account when conducting an analysis and provides a checklist of the most important factors to take into account.

The elements worth considering include:

- ◆ *Product situation:* What is my current product? You may want to break this definition up into parts such as the core product and any secondary or supporting services or products that also make up what you sell. It is important to observe this in terms of its different parts in order to be able to relate this back to core client needs.
- ◆ *Competitive situation:* Analyze your main competitors - who are they what are they up to - how do they compare. What are their competitive advantages?
- ◆ *Distribution situation:* Review your distribution Situation - how are you getting your product to market? Do you need to go through distributors or other intermediaries?
- ◆ *Environmental factors:* What external and internal environmental factors are there that need to be taken into account. This can include economic or sociological factors that impact on your performance.
- ◆ *Opportunity and issue analysis:* Things to write down here are what current opportunities that



Strategic Analysis

are available in the market, the main threats that business is facing and may face in the future, the strengths that the business can rely on and any weaknesses that may effect the business performance.

We have seen earlier in the framework of strategic management that the first question to ask: 'where are we now'? So, strategic analysis is the starting point of strategic management as shown in the figure below:

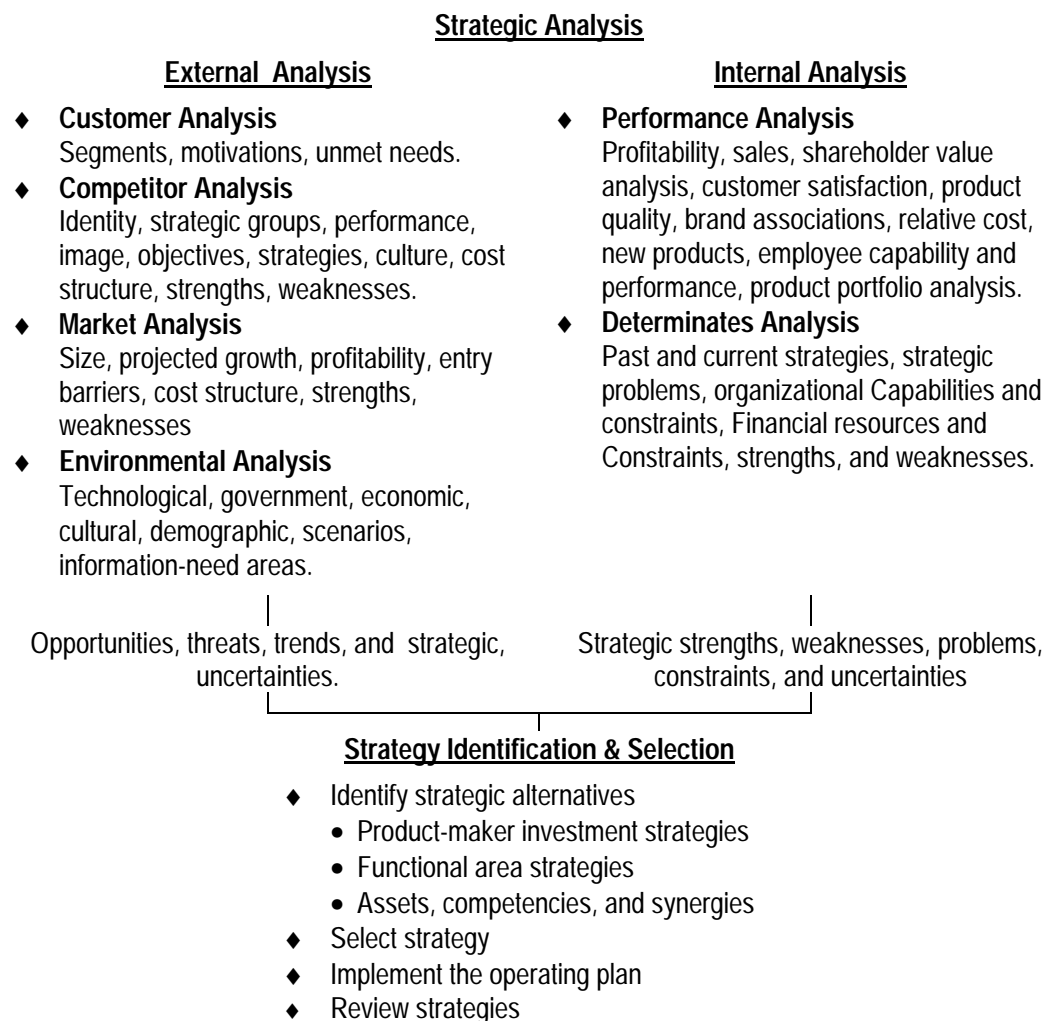


Figure: Framework of Strategic Analysis

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 business.

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. Moreover, in some industries competition focuses on who has the best price, while in others competition is centered 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 turn in good performances.

4. THE METHODS OF INDUSTRY AND COMPETITIVE ANALYSIS

Industry and competitive analysis can be done using a set of concepts and techniques to get a clear fix on key industry traits, the intensity of competition, the drivers of industry change, the market positions and strategies of rival companies, the keys to competitive success, and the industry's profit outlook. 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 company funds. The analysis entails examining a company's business in the context of a much 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 given below:

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 consider in profiling an industry's economic features are fairly standard and are given as follows:



- ◆ Market size.
- ◆ 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, maturity, saturation and stagnation, decline).
- ◆ Number of rivals and their relative sizes.
- ◆ Small companies dominant companies?
- ◆ 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 companies 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.

4.2 Nature and strength of competition

One 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 included in the first chapter is useful in understanding the competition. It is a powerful tool for systematically diagnosing the principle 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.

4.3 Triggers of change

An industry's economic features and competitive structure say 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 keyed 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.

The concept of 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 create 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.

The 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 the new 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 forms.
- ◆ Diffusion of technical know-how across more companies and more countries.
- ◆ Changes in cost and efficiency.

4.4 Identifying the companies that are in the strongest/weakest positions

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 with similar competitive approaches and positions in the market. Companies in the same strategic group can resemble one another in any of 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

4.5 Likely strategic moves of rivals

Unless a company 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. As in sports, scouting the opposition is essential. 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.

4.6 Key factors for competitive success

An industry's Key Success Factors (KSFs) are those things that most affect industry members'



Strategic Management

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?

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). In tin and aluminium cans, because the cost of shipping empty cans is substantial, one of the keys is having plants located close to end-use customers so that the plant's output can be marketed within economical shipping distances (regional market share is far more crucial than national share).

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 kinds 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, a company 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, companies 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.

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 company or whether the company's 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 company's competitive position 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 lackluster 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 company's 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 factor 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 industry participants 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



Strategic Management

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.

5. SWOT ANALYSIS

The next 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 a 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.

Its central purpose is to identify the strategies that will create a firm-specific business model that will best align, fit, or match a company's 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. Thinking strategically requires managers to identify the set of strategies that will create and sustain a competitive advantage:

- ◆ *Functional-level strategy*, directed at improving the effectiveness of operations within a company, such as manufacturing, marketing, materials management, product development, and customer service.
- ◆ *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.



Strategic Analysis

- ◆ *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.
- ◆ *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?

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 its ability to protect against the threat

The significance of SWOT analysis lies in the following points:

- ◆ It provides a Logical Framework 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. The 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.



Strategic Management

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

Figure: SWOT Analysis: What to Look for in Sizing Up a Company's 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.
- ◆ Too narrow a product line relative to 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 attracting 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.



Strategic Management

- ◆ 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.

SWOT Analyses at Moser Baer

Strengths	Weaknesses
<ul style="list-style-type: none"> ◆ Integrated manufacturing allowing cost efficiencies and enhanced speed to market. ◆ Lower capital investment, manpower and overhead costs allow cost leadership. ◆ Strong focus on R&D and engineering to constantly innovate products and reduce costs. ◆ Committed shareholders add strength, longevity and sustainability to future plans. 	<ul style="list-style-type: none"> ◆ Need to scale up operations and evolve internal controls to meet exponential growth. ◆ Need to constantly expand capacities, requiring continuing capital investment.



Strategic Analysis

Opportunities	Threats
<ul style="list-style-type: none"> ◆ Exploding DVD-R market: With world-class capacities, existing top-tier customer base and efficient in-house technology, the Company is well positioned to tap this opportunity. ◆ Domestic market: India has one of the largest movie industries in the world and customers are shifting to CDs for audio and DVDs for video requirements. ◆ Blu-ray/HD-DVD: Efforts are on worldwide to define and develop the next-gen storage format and Moser Baer is part of that effort. 	<ul style="list-style-type: none"> ◆ Emerging technologies: In a dynamic technology environment, the Company's business could be threatened from more efficient emerging technologies. However, the extent of the threat is mitigated by the explosive growth in digital content, low cost and ease of storage on optical media, the huge installed base of read/write drives and time to market for a new format. ◆ Anti-dumping and anti-subsidy levies: The Company derives a significant part of its revenues from international markets. These have seen a growing protectionist attitude and a tendency by some local governments to use anti-dumping and trade protection tools to provide protection to local businesses. However, the Company continues to keep a close watch on this front and take necessary steps to minimize any fallout. ◆ Fall in product prices: As products move into the mature phase in their life-cycle, they start to emulate commodity-type characteristics. Also, as the industry is characterized by high volumes, large capacities and investments, a sharp reduction in product pricing can impact performance. Pricing could fall due to oversupply, low demand, cost reduction due to reduction in input costs or setting up of capacities in low-cost regions

About Moser Baer: Moser Baer, incorporated in 1983, is one of India's leading technology companies and ranks among the top three media manufacturers in the world. Based in New Delhi, India, it has a broad and robust product range of floppy disks, compact discs (CDs) and digital versatile discs (DVDs). (Source: http://moserbaer.com/investor_swot.asp)

6. TOWS MATRIX

Heinz Weihrich has developed a matrix called TOWS matrix by comparing strengths and



weaknesses of organization with that of market opportunities and threats. It has been criticized that after conducting the SWOT Analysis managers frequently fail to come to terms with the strategic choices that the outcomes demand. In order to overcome this, Piercy argues for the TOWS Matrix, which, while using the same inputs (Threats, Opportunities, Weakness and Strengths) reorganizes them and integrates them more fully into the strategic planning process. The matrix is outlined below:

<i>Internal</i> <i>External Elements</i>	Organizational strengths	Organizational weaknesses
	Strategic options	
Environmental opportunities (and risks)	SO : strengths can be used to capitalize or build upon existing or emerging opportunities	WO : the strategies developed need to overcome organizational weaknesses if existing or emerging opportunities are to be exploited
Environmental threats	ST : strengths in the organization can be used to minimize existing or emerging threats	WT : the strategies pursued must minimize or overcome weaknesses and as far as possible, cope with threats existing or emerging threats

Figure : The TOWS Matrix (Source: Wehrich, H)

7. PORTFOLIO ANALYSES

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 analyses 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 in an optimal manner.

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

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

After identifying SBUs the businesses have to 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.

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.



Strategic Management

It is also used to build market share and discourage competition. In the contemporary Indian two wheeler market, the experience curve phenomenon seems to be working in favour of Bajaj Auto, which for the past decade has been selling, on an average, 5 lakh scooters a year and retains more than 60 per cent of the market. Its only serious competitor is LML Vespa Ltd., which has a far lesser share of the market. The primary strategic advantage that Bajaj Auto has is in terms of costs. Other competitors like Gujarat Narmada and Kinetic Honda find it extremely difficult to compete due to the cost differentials that currently exist. The likely strategic choice for underdog competitors could 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 (slow down in growth rate) and decline (sharp downward drift). If businesses are substituted for product, the concept of PLC could work just as well. The main advantage of PLC 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 could 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.

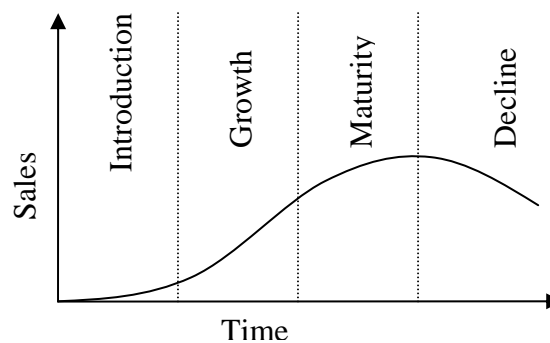


Figure: Product Life Cycle

7.2 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



Strategic Analysis

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:

- ◆ **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.

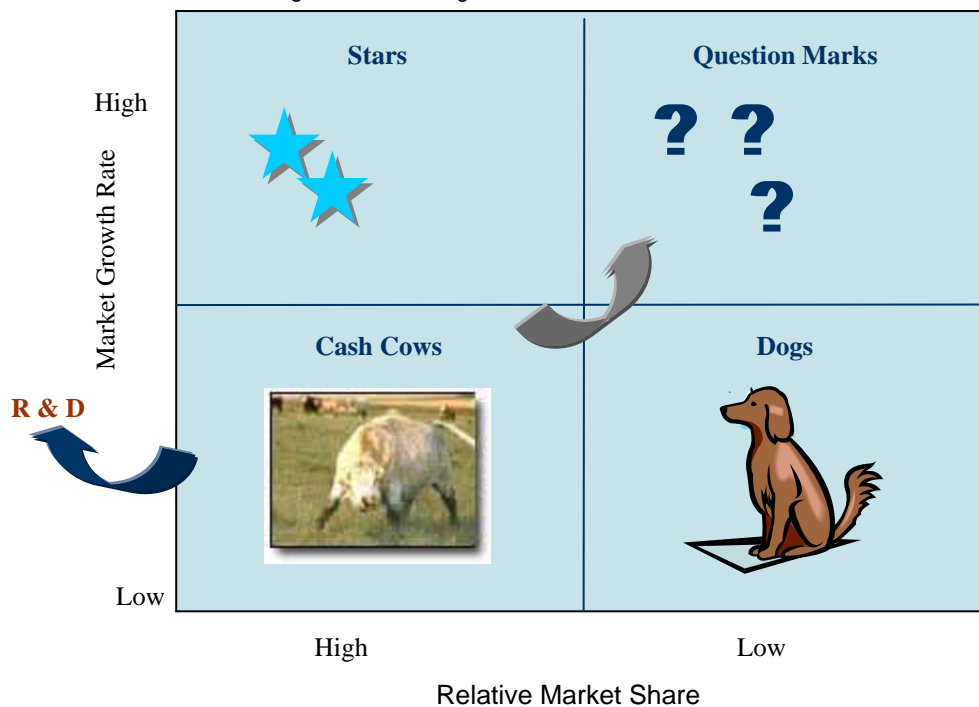


Figure: BCG Growth-Share Matrix

- ◆ **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



Strategic Management

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.

Once the organisations have 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 study; however, there are problems and limitations with the method. 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 giving up on established units too quickly.

7.3 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 company growth opportunities.

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 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. 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.

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

Figure: Ansoff's Product Market Growth Matrix

7.4 ADL matrix

The ADL matrix has derived its name from Arthur D. Little is a portfolio analysis method 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, favorable, tenable, weak. It is 4 by five matrix as follows:



	Stage of industry maturity			
Competitive position	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 stand 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 opportunity for improvement do exist.

7.5 The General Electric Model

The General Electric Model (developed by GE with the assistance of the consulting firm McKinsey & Company) 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. This also uses two factors in a matrix / grid situation as shown below:

		Business Position		
		High	Medium	Low
Market Attractiveness	High	Invest	Invest	Protect
	Medium	Invest	Protect	Harvest
	Low	Protect	Harvest	Divest

Figure : The GE Matrix

Each of the above two factors is rated according to criteria such as the following:



Strategic Management

Evaluating the ability to compete: Business position	Evaluating the Market Attractiveness
<p style="text-align: center;"> Size Growth Share by segment Customer loyalty Margins Distribution Technology skills Patents Marketing Flexibility Organization </p>	<p style="text-align: center;"> Size Growth Customer satisfaction levels Competition: quality, types, Effectiveness, commitment Price levels Profitability Technology Government regulations Sensitivity to economic trends </p>

Figure: Criteria for rating Business Position and Market Attractiveness

The criteria used to rate market attractiveness and business position assigned different ways because some criteria are more important than others. Then each SBU is rated with respect to all criteria. Finally, overall rating for both factors are calculated for each SBU. Based on these ratings, each SBU is labelled as high, medium or low with respect to (a) market attractiveness, and (b) business position.

Every organization has to make decisions about how to use its limited resources most effectively. That's where this planning models can help determining which SBU should be stimulated for growth, which one maintained in their present market position and which one eliminated.

Self-Examination Questions

Objective Type Question

State with reasons which of the following statements are correct/incorrect:

- (a) Industry is a group of firms whose products have same and similar attributes such that they compete for the same buyers.
- (b) Industry is any business organization engaged in manufacturing activities.



- (c) SWOT analysis is an evaluation of the organization's external strengths and weaknesses and its internal opportunities and threats.
- (d) The goal of SWOT analysis is to exploit the organization's opportunities and strengths while neutralizing its threats and correcting its weaknesses.
- (e) "B" in BCG Matrix stands for balance.

Short answer questions

- 1. What is a key success factor?
- 2. What is product development?
- 3. Explain dogs in BCG matrix?

Essay type questions

- 1. Why organisations undertake portfolio analyses? Discuss any one model of portfolio analysis in detail.
- 2. What is TOWS matrix? Is it same as SWOT analysis? Discuss.

Case Study

The Managing Director of Big Ltd. called an internal meeting of senior managers to discuss issues involved in acquiring Small Ltd. for about Rs. 350 crores. He started the meeting with following observations:

'After acquiring Small, we will become the second largest consumer goods company in India with sales of over Rs. 4500 crores. We will have more money for marketing initiatives, product launches and aggressive price-cuts. The key reason behind buying Small is to create shareholder value over and above that of the sum of the two companies. Recent years have been tough for both the companies with strong competition. The merged company hopes to gain a greater market share and achieve greater efficiency.'

Different issues were discussed between the managers. Pertinent points that were raised were as follows:

Head Production. 'Although, I am involved little, till now, in the discussion regarding the acquisition, I have closely studied various production facilities available to both the companies. I feel production facilities of both the companies need to be synergised. There is also need to close down production facilities of two locations out of seven locations of Small. The costs of production of these locations is very high and also they are located in eastern India, whereas our major sales is in south and west.'

Head Marketing. We need to analyse it further. The market of the products is in mature phase with low growth rate. Small Ltd. has little presence in some regions and is not a major competitor for us. Further, there is marginal gap between our existing third position and second position. We can



Strategic Management

easily achieve second position if we are able to fully utilise our capacities.

- (a) In a low growth product what are the different options available to a company.
- (b) If you are appointed as a consultant, advise the Big Ltd. how to proceed before arriving at decision to acquire any company.
- (c) Conduct SWOT analysis from the facts given in the case.

Chapter 4

STRATEGIC PLANNING

LEARNING OBJECTIVES

- ◆ Learn the meaning of strategic intent and vision.
- ◆ Understand the process of strategy formulation.
- ◆ Know the different stages of strategy-formulation-implementation process.
- ◆ Have knowledge of different generic strategies as taken up by corporates.
- ◆ To have a basic knowledge of alternative growth/directional strategies.

Chance favors the prepared mind.

Louis Pasteur

Far better an approximate answer to the right question, which is often vague, than an exact answer to the wrong question, which can be made precise.

John Tukey, Statistician

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

Bruce D. Henderson

1. INTRODUCTION

Generally, the strategic planning process 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 ironed out is the appropriate one-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



2. CORPORATE STRATEGY

At an initial level, the concept of strategy has been discussed in the second chapter. Now we will take the concept forward. Corporate strategy is basically the growth design of the firm; it spells out the growth objective of the firm - the direction, extent, pace and timing of the firm's growth. It also spells out the strategy for achieving the growth. Thus, we can also describe corporate strategy as the objective-strategy design of the firm. And, to arrive at such an objective-strategy design is the basic burden of corporate strategy formulation.

2.1 Nature, scope and concerns of corporate strategy

Corporate strategy is basically concerned with the choice of businesses, products and markets. The following points will clarify the corporate strategy.

- ◆ It can also be viewed as the objective-strategy design of the firm.
- ◆ It is the design for filling the firm's strategic planning gap.
- ◆ It is concerned with the choice of the firm's products and markets; it actually denotes the changes / additions / deletions in the firm's existing product-market postures. It spells out the businesses in which the firm will play, the markets in which it will operate and the customer needs it will serve.
- ◆ It ensures that the right fit is achieved between the firm and its environment.
- ◆ It helps build the relevant competitive advantages for the firm.
- ◆ Corporate objectives and corporate strategy together describe the firm's concept of business.

2.2 What does corporate strategy ensure?

Corporate strategy in the first place ensures the growth of the firm and ensures the correct alignment of the firm with its environment. It serves as the design for filling the strategic planning gap. It also helps build the relevant competitive advantages. Masterminding and working out the right fit between the firm and its external environment is the primary contribution of corporate strategy. Basically the purpose of corporate strategy is to harness the opportunities available in the environment, countering the threats embedded therein. How does corporate strategy actually accomplish this task? It is by matching the unique capabilities of the firm with the promises and threats of the environment that it achieves this task.

It is obvious that responding to environment is part and parcel of a firm's existence. The question is how good or how methodical is the response. This is where strategy steps in. Strategy is the opposite of adhoc responses to the changes in the environment-in competition, consumer tastes, technology and other variables. It amounts to long-term, well thought-out and prepared responses to the various forces in the business environment.



2.3 Strategy is partly proactive and partly reactive

A company's strategy is typically a blend of (1) proactive actions on the part of managers to improve the company's market position and financial performance and (2) as needed reactions to unanticipated developments and fresh market conditions. 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 patronage.

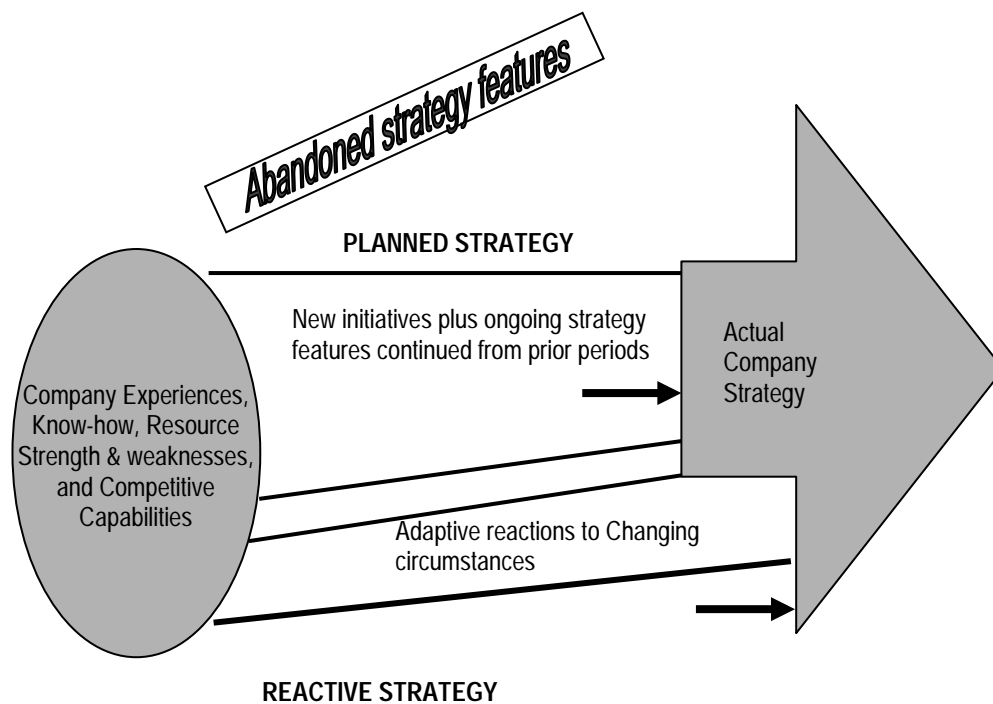


Figure: A Company's Actual Strategy Is Partly Planned & Partly Reactive

But not every strategic move is the result of proactive plotting 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 on the fly, coming as a reasoned response to unforeseen developments-fresh strategic maneuvers on the part of rival firms, shifting customer requirements and expectations, new technologies and market opportunities, a changing political or economic climate, or other



unpredictable or unanticipated happenings in the surrounding environment. 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.

2.3 Dealing with strategic uncertainty

Strategic uncertainty, uncertainty that has strategic 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 the 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 a strategic uncertainty: Each strategic uncertainty involves potential trends or events that could have an impact on present, proposed, and even potential strategic business units (SBUs). 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 proposed or growth SBUs for which present sales, profits, or costs may not reflect the true value to a firm. Finally, because an information-need area may affect several SBUs, the number of involved SBUs can also be relevant to a strategic uncertainty's impact.

3. THE STAGES OF CORPORATE STRATEGY FORMULATION- IMPLEMENTATION PROCESS

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?

Crafting and executing a company's strategy is a five-stage managerial process as given below:

1. Developing a strategic vision of where the company needs to head and what its future product-customer-market-technology focus should be.



2. Setting objectives and using them as yardsticks for measuring the company's performance and progress.
3. Crafting a strategy to achieve the desired outcomes and move the company along the strategic course that management has charted.
4. Implementing and executing the chosen strategy efficiently and effectively.
5. Monitoring developments and initiating corrective adjustments in the company's long-term direction, objectives, strategy, or execution in light of the company's actual performance, changing conditions, new ideas, and new opportunities.

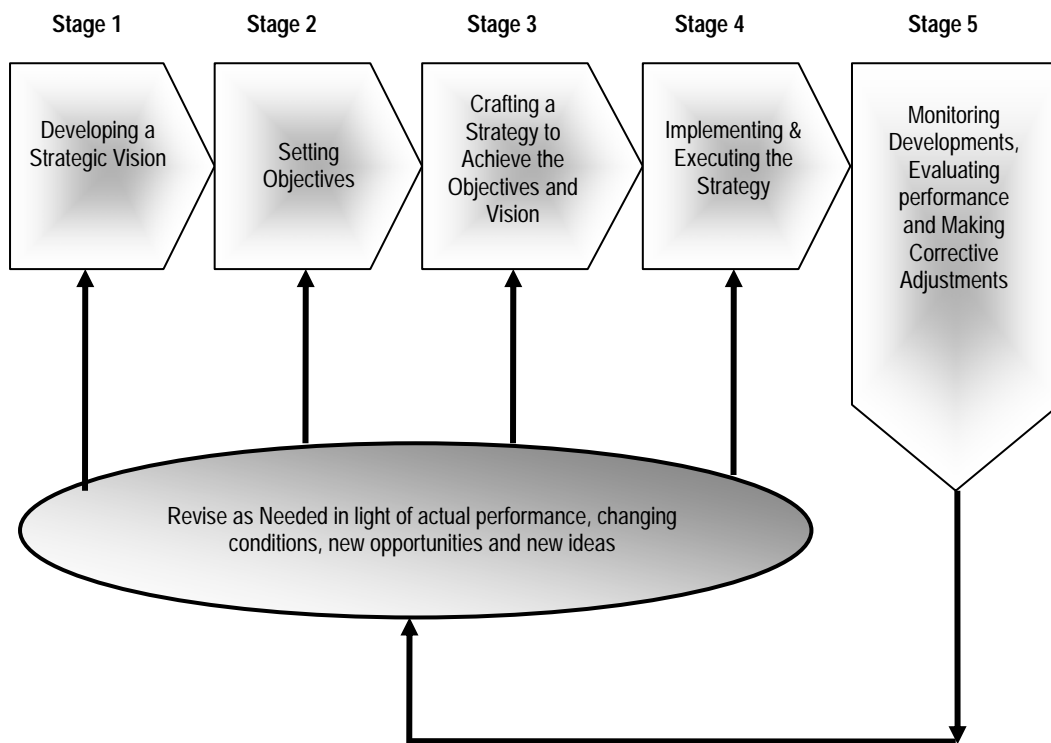


Figure: The Stages of Corporate Strategy Formulation- Implementation Process

Stage 1 : Developing a strategic vision

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 stake 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 business and points an organization in a particular direction, charts a strategic path for it to follow in preparing for the future, and molds 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.

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 or strategic intent. 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.

The managers of a subsidiary, charged with developing a strategy for that business, also need to be clear where they fit into the corporate whole. As Hamel and Prahalad have highlighted, the importance of clear strategic intent can go much further: it can help galvanise motivation and enthusiasm throughout the organization by providing what they call a sense of destiny and discovery. In the absence of this, there is a risk of the different parts of the organization, different levels of management, indeed all members of the organization, pulling in different directions.

Decisions on overall mission in a major corporation will exercise constraints elsewhere. Does the corporation aspire to short-term profits or long-term growth; to a focused set of highly related businesses or a more diversified set of businesses; to global coverage or the focus on selected countries; to investment in internal innovation and new products, or the acquisition of other businesses? These are, of course, all matters of strategic choice, but they are unlikely to change regularly. The overall stance of the corporation with regard to such matters may develop over many years, but by being made explicit it can help direct strategic choice.

Stage 2 : Setting objectives

Corporate 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.

The balanced scorecard approach: A combination of strategic and financial objectives – The balanced scorecard approach for measuring company performance requires setting both financial and strategic objectives and tracking their achievement. Unless a company is in deep financial difficulty, such that its very survival is threatened, company managers are well advised to put more emphasis on achieving strategic objectives than on achieving financial objectives whenever a trade-off has to be made. The surest path to sustained future profitability quarter after quarter and year after year is to relentlessly pursue strategic outcomes that strengthen a company's business position and, ideally, give it a growing competitive advantage over rivals. What ultimately enables a company to deliver better financial results from operations is the achievement of strategic objectives that improve its competitiveness and market strength.

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,

Qualities of Long-Term Objectives

- ◆ Acceptable.



- ◆ Flexible.
- ◆ Measurable.
- ◆ Motivating.
- ◆ Suitable.
- ◆ Understandable.
- ◆ Achievable.

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 stair-steps or milestones.

Concept of Strategic Intent: A company exhibits strategic intent when it relentlessly pursues an ambitious strategic objective and concentrates its full resources and competitive actions on achieving that objective. A company's objectives sometimes play an other role – that of signaling unmistakable strategic intent to make quantum gains in competing against key rivals and establish itself as a clear-cut winner in the marketplace, often against long odds. A company's strategic intent can entail becoming the dominant company in the industry, unseating the existing industry leader, delivering the best customer service of any company in the industry (or the world), or turning a new technology into products capable of changing the way people work and live. Ambitious companies almost invariably begin with strategic intents that are out of proportion to their immediate capabilities and market positions. But they are undeterred by a grandiose objective that may take a sustained effort of 10 years or more to achieve. So intent are they on reaching the target that they set aggressive stretch objectives and pursue them relentlessly, sometimes even obsessively.

The need for objectives 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.

The ideal situation is a team effort in which each organizational unit strives to produce results in its area of responsibility that contribute to the achievement of the company's performance targets and strategic vision. Such consistency signals that organizational units know their strategic role and are on board in helping the company move down the chosen strategic path and produce the desired results.

Stage 3: Crafting a strategy to achieve the objectives and vision

A company's strategy is at full power only when its many pieces are united. Ideally, the pieces and layers of a company's strategy should fit together like a jigsaw puzzle. To achieve this unity, the strategizing process generally has proceeded from the corporate level to the business level and then from the business level to the functional and operating levels. Midlevel and frontline managers cannot do good strategy making without understanding the company's long-term direction and higher-level strategies. All the strategy makers in a company are on the same team and the many different pieces of the overall strategy crafted at various organizational levels need to be in sync and united. Anything less than a unified collection of strategies weakens company performance.

Achieving unity in strategy making is partly a function of communicating the company's basic strategy themes effectively across the whole organization and establishing clear strategic principles and guidelines for lower-level strategy making. Cohesive strategy making down through the hierarchy becomes easier to achieve when company strategy is distilled into pithy, easy-to-grasp terminology that can be used to drive consistent strategic action throughout the company. The greater the numbers of company personnel who know, understand, and buy in to the company's basic direction and strategy, the smaller the risk that people and organization units will go off in conflicting strategic directions when decision making is pushed down to frontline levels and many people are given a strategy-making role. Good communication of strategic themes and guiding principles thus serves a valuable strategy-unifying purpose.

A company's strategic plan lays out its future direction, performance targets, and strategy. Developing a strategic vision, setting objectives, and crafting a strategy are basic direction-setting tasks. They map out the company's direction, its short-range and long-range performance targets, and the competitive moves and internal action approaches to be used in achieving the targeted business results. Together, they constitute a strategic plan for coping with industry and competitive conditions, the expected actions of the industry's key players, and the challenges and issues that stand as obstacles to the company's success.

In making strategic decisions, inputs from a variety of assessments are relevant. However, the core



of any strategic decision should be based on three types of assessments. The first concerns organizational strengths and weaknesses. The second evaluates competitor strengths, weaknesses, and strategies, because an organization's strength is of less value if it is neutralized by a competitor's strength or strategy. The third assesses the competitive context, the customers and their needs, the market, and the market environment. These assessments focus on determining how attractive the selected market will be, given the strategy selected.

The goal is to develop a strategy that exploits business strengths and competitor weaknesses and neutralizes business weaknesses and competitor strength. The ideal is to compete in a healthy, growing industry with a strategy based on strengths that are unlikely to be acquired or neutralized by competitor. Figure below summarizes how these assessments combine to influence strategy.

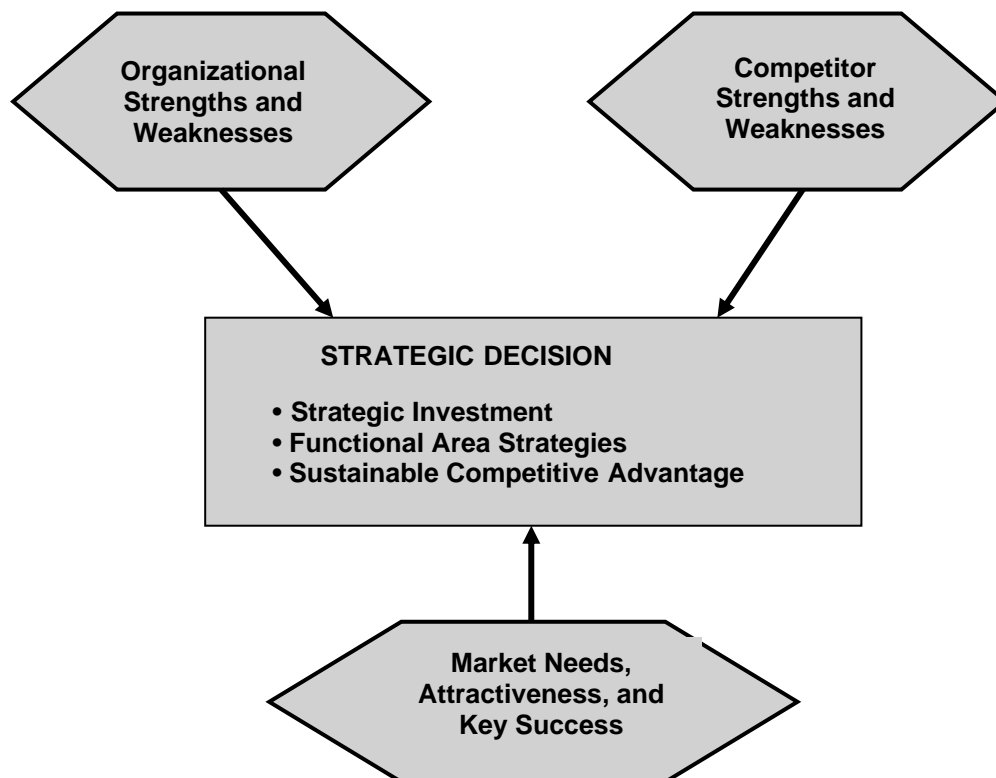


Figure: Structuring Strategic Decisions

Stage 4 : Implementing & executing the strategy

Managing 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 easily 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, managing the strategy-execution process includes the following principal aspects:

- ◆ Staffing the organization with the needed skills and expertise, consciously building and strengthening strategy-supportive competencies and competitive capabilities, and organizing the work effort.
- ◆ Developing budgets that steer ample resources into those activities critical to strategic success.
- ◆ 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
- ◆ Tying rewards and incentives directly to the achievement of performance objectives and good strategy execution.
- ◆ 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 : Monitoring developments, evaluating performance and making corrective adjustments

A company's vision, objectives, strategy, and approach to strategy execution are never final; managing strategy is an ongoing process, not an every now and then task. The fifth stage of the strategy 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.

4. STRATEGIC ALTERNATIVES

We have learnt a few generic strategies in the second chapter. In this chapter we will see a few more strategic alternatives from the perspective of planning.

4.1 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 calls these base generic strategies. 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.

Porter stresses the need for strategists to perform cost-benefit analyses to evaluate "sharing opportunities" among a 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.



STRATEGIC ADVANTAGE

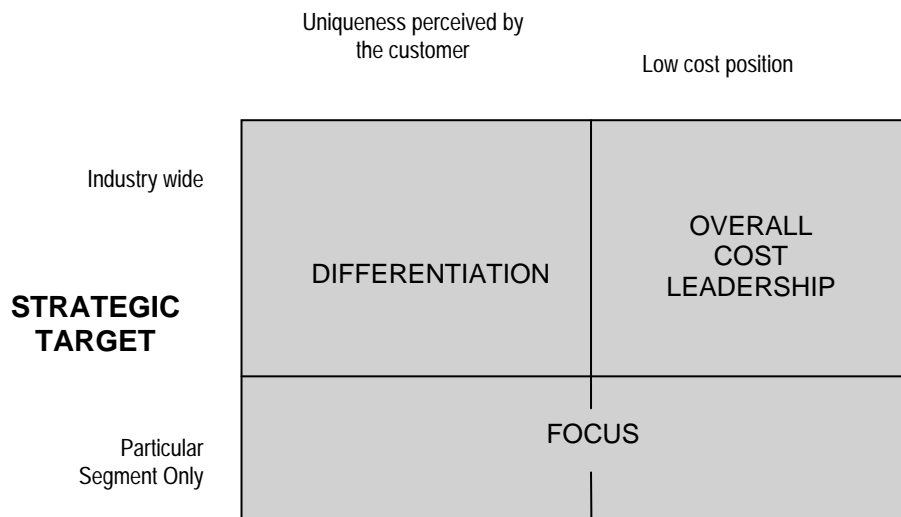


Figure: Michael Porter's Generic Strategy

Cost Leadership Strategies

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, labor 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 under price 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.

Differentiation Strategies

Different strategies offer different degrees of differentiation. 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 best. 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.

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 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 highly 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.

Common organizational requirements for a successful differentiation strategy include strong coordination among the R&D and marketing functions and substantial amenities to attract scientists and creative people.

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.

The comparative skill and resource requirement for these generic strategies is given below:

Generic Strategy	Commonly Required Skills and Resources	Common Organizational Requirements
Overall Cost Leadership	<ul style="list-style-type: none"> ◆ Sustained capital investment and access to capital ◆ Process engineering skills ◆ Intense supervision of labour ◆ Products designed for ease in manufacture ◆ Low-cost distribution system 	<ul style="list-style-type: none"> ◆ Tight cost control ◆ Frequent, detailed control reports ◆ Structured organization and responsibilities ◆ Incentive based on meeting strict quantitative targets
Differentiation	<ul style="list-style-type: none"> ◆ Strong marketing abilities ◆ Product engineering ◆ Creative flair ◆ Strong capability in basic research ◆ Corporate reputation for quality or technological leadership ◆ Long tradition in the industry or unique combinations of skills drawn from other business ◆ Strong cooperation from channels 	<ul style="list-style-type: none"> ◆ Strong coordination among function in R & D, product development, and marketing. ◆ Subjective measurement and incentives instead of quantitative measures ◆ Amenities to attract highly skilled labour, scientists, or creative people.
Focus	<ul style="list-style-type: none"> ◆ Combination of the above policies directed at the particular strategic target 	<ul style="list-style-type: none"> ◆ Combination of the above policies directed at the particular strategic target

4.2 Best-Cost Provider Strategy

The new model of best cost provider strategy is a further development of above three generic strategies.



<ul style="list-style-type: none"> ◆ Basic of competitive advantage 	<ul style="list-style-type: none"> ◆ Lower costs than competitors 	<ul style="list-style-type: none"> ◆ An ability to offer buyers something different from competitors 	<ul style="list-style-type: none"> ◆ More value for the money 	<ul style="list-style-type: none"> ◆ Lower cost in serving the niche (focused low cost) or special attributes that appeal to the tastes or requirements of niche members (focused differentiation)
<ul style="list-style-type: none"> ◆ Market emphasis 	<ul style="list-style-type: none"> ◆ Try to make a virtue out of product features that lead to low cost 	<ul style="list-style-type: none"> ◆ Build in whatever features buyers are willing to pay for ◆ Charge a premium price to cover the extra costs of differentiating features 	<ul style="list-style-type: none"> ◆ Either underprice rival brands with comparable features or match the price of rivals and provide better features-to build a reputation for delivering the best value 	<ul style="list-style-type: none"> ◆ Communicate how the focuser's product attributes and capabilities aim at catering to niche member tastes and/or specialised requirements



◆ Sustaining the strategy	<ul style="list-style-type: none"> ◆ Offer economical prices/good value ◆ Aim at contributing to a sustainable cost advantage- the key is to manage costs down, year after year, in every area of the business 	<ul style="list-style-type: none"> ◆ Communicate the points of difference in credible ways ◆ 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. 	◆ Develop unique expertise in simultaneously managing costs down and upscaling features and attributes	◆ Remain totally dedicated to serving the niche better than other competitors; don't blunt the firm's 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

4.3 Grand strategies/directional strategies Various strategy alternatives are available to a firm for achieving its growth objective. Here we shall see what these alternatives are, how they have been classified into a few broad categories, We shall also analyse the scope of each of these



alternatives, since it is in view of their scope that firms choose the particular alternative. The corporate strategies a firm can adopt have been classified into four broad categories: *stability*, *expansion*, *retrenchment* and *combination* known as grand strategies. Grand strategies, which are often called master or business strategies, are intended to provide basic direction for strategic actions. They are seen as the basic of coordinated and sustained efforts directed toward achieving long-term business objectives.

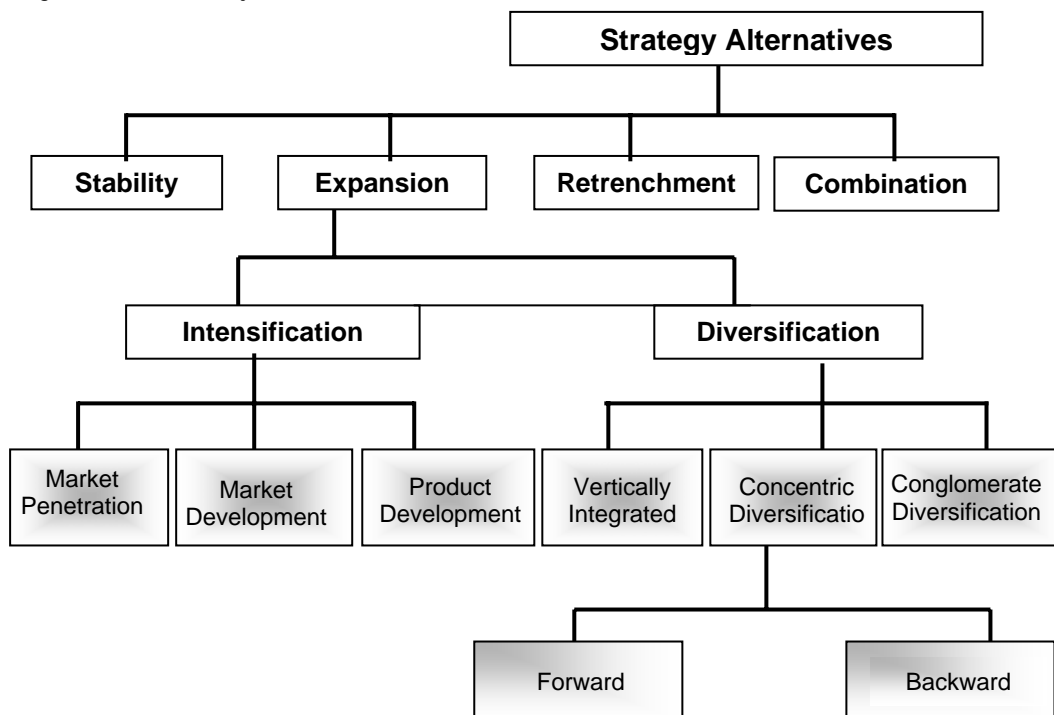


Figure: Grand Strategies

The basic features of the grand strategies is 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 a given 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 requirement of the firm.

Characteristics and Scope of Various Grand Strategies

A. 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.
- ◆ Naturally, the growth objective of firms employing this strategy will be quite modest. Conversely, only firms with modest growth objective will vote for this strategy.
- ◆ 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.
- ◆ The risk is also less.
- ◆ It is a fairly frequently employed strategy.
- ◆ With the stability strategy, the firm has the benefit of concentrating its resources and attention on the existing businesses/products and markets.
- ◆ But the strategy does not permit the renewal process of bringing in fresh investments and new products and markets for the firm.

B. Expansion strategy:

- ◆ 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 is the most frequently employed generic strategy.
- ◆ Expansion strategy is the true growth strategy. A firm with a mammoth growth ambition can meet its objective only through the expansion strategy.
- ◆ Expansion strategy involves a redefinition of the business of the corporation.



- ◆ 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.
- ◆ With intensification strategy, the firm pursues growth by working with its current businesses.
- ◆ Intensification, in turn, encompasses three alternative routes:
 - ◆ Market penetration strategy
 - ◆ Market development strategy
 - ◆ Product development strategy
- ◆ Diversification strategy involves expansion into new businesses that are outside the current businesses and markets.
- ◆ There are three broad types of diversification
 - ◆ Vertically integrated diversification
 - ◆ Concentric diversification
 - ◆ Conglomerate diversification
- ◆ Vertically integrated diversification involves going into new businesses that are related to the current ones.
- ◆ It has two components – forward integration and backward integration.
- ◆ The firm remains vertically within the given product-process sequence; the intermediaries in the chain become new businesses.
- ◆ In concentric diversification, too, the new products are connected to the firm's existing process/technology. But the new products are not vertically linked to the existing ones. They are not intermediates. They serve new functions in new markets. A new business is spinned off from the firm's existing facilities.
- ◆ In conglomerate diversification too, a new business is added to the firm's portfolio. But, it is disjointed from the existing businesses; in process/ technology/function, there is no connection between the new business and the existing ones. It is unrelated diversification.



C. Divestment strategy:

- ◆ Divestment strategy involves retrenchment 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
 - ◆ Obsolescence of product/process
 - ◆ Business becoming unprofitable
 - ◆ High competition
 - ◆ Industry overcapacity
 - ◆ Failure of strategy

Major reasons for organizations adopting different grand strategies:

A. Stability strategy is adopted because:

- ◆ It is less risky, involves less changes and people feel comfortable with things as they are.
- ◆ The environment faced is relatively stable.
- ◆ Expansion may be perceived as being threatening.
- ◆ Consolidation is sought through stabilising after a period of rapid expansion.

B. Expansion strategy is adopted because:

- ◆ It may become imperative when environment demands increase in pace of activity.
- ◆ Psychologically, 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.
- ◆ Increasing size may lead to more control over the market vis-a-vis competitors.
- ◆ Advantages from the experience curve and scale of operations may accrue.

C. 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.

D. Combination strategy is adopted because:

- ◆ 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.

Expansion Strategy

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

I. Growth in existing product markets Increase market share Increase product usage Increase the frequency used Increase the quantity used Find new application for current users	II. Product development Add product features, product refinement Develop a new-generation product Develop new product for the same market
III. Market development Expand geographically Target new segments	IV. Diversification involving new products and new markets Related Unrelated

Figure: Product-Market Expansion Greed

Market Penetration

The most common expansion strategy is market penetration/concentration on the current business. The firm directs its resources to the profitable growth of a single product, in a single market, and with a single technology.

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.

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.

Diversification Strategy

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

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 It 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. The example of Reliance Industries provided at the close of this chapter illustrates this dimension of vertically integrated diversification.

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.

<u>RELATED DIVERSIFICATION</u>	<u>UNRELATED DIVERSIFICATION</u>
<ul style="list-style-type: none">• Exchange or share assets or competencies, thereby 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">• Manage and allocate cash flow.• Obtain high ROI.• Obtain a bargain price.• Refocus a firm.• Reduce risk by operating in multiple product markets.• Tax benefits.• Obtain liquid assets.• Vertical integration.• Defend against a takeover.

Figure: Related Diversification Options For A Manufacturer

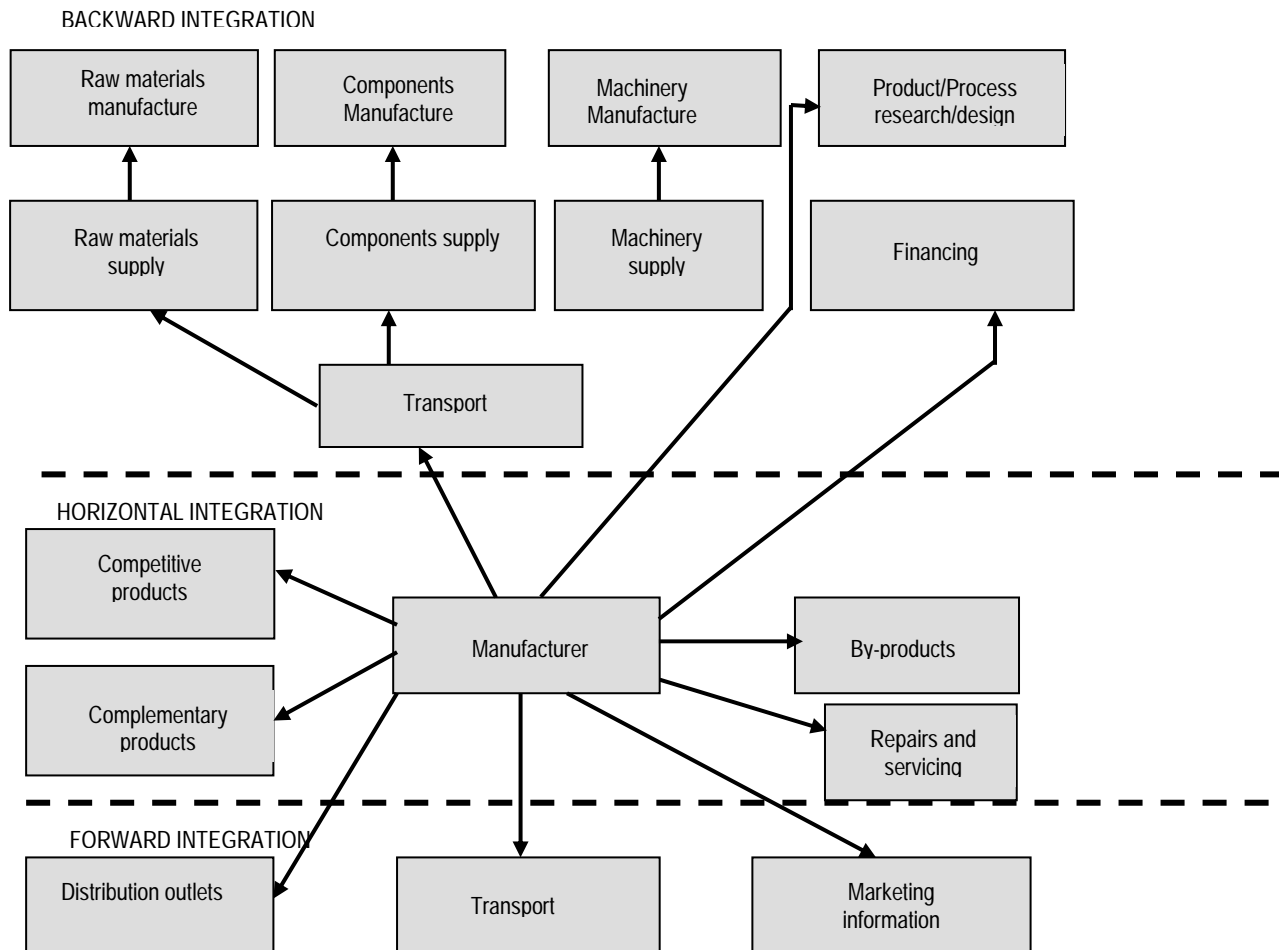


Figure : Motivations for Diversification Concentric diversification

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.



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.

Retrenchment, Divestment and Liquidation Strategies

Retrenchment grand 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. 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.

Turnaround Strategies

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 organization has to survive. These danger signs are:

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

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 should include:

Analysis of product, market, production processes, competition, and market segment positioning.

Clear thinking about the market place and production logic.

Implementation of plans by target-setting, feedback, and remedial action.

A set of ten elements that contribute to turnaround are:



- ◆ Changes in the top management
- ◆ Initial credibility-building actions
- ◆ Neutralising external pressures
- ◆ Initial control
- ◆ Identifying quick payoff activities
- ◆ Quick cost reductions
- ◆ Revenue generation
- ◆ Asset liquidation for generating cash
- ◆ Mobilization of the organizations
- ◆ Better internal coordination.

Divestment Strategies

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.

Liquidation Strategies

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. Under the Companies Act, 1956, liquidation (termed as winding up) may be either by the court, voluntary, or subject to the supervision of the court.

Self-Examination Questions

Objective Type Question

State with reasons which of the following statements are correct/incorrect:

- (a) In vertically integrated diversification, firms enter specific product/process that are forward or backward in the chain, as new businesses for the firm.
- (b) In Michael Porter's generic strategy cost leadership emphasizes producing standardized products at a very low per unit cost for consumers who are price sensitive.
- (c) Focus strategies are effective when consumers have distinctive preferences and when rival firms are not attempting to specialize in the same target segment.
- (d) Concentric diversification amounts to unrelated diversification.

Short answer questions

1. What do you understand by focus strategy?
2. What is differentiation strategy?
3. Explain conglomerate diversification.

Essay type questions

1. Strategy is partly proactive and partly reactive. Discuss.
2. Discuss various stages in strategic formulation and implementation process.
3. Discuss strategic alternatives with reference Michael Porter's strategies.



Case Study

Cool Garments is exploring options of picking up a strategic equity stake in north based Jazzy Wear, a Kanpur -based garment manufacture catering to gents segment. The takeover may boost its production of premium garments. This will also increase Cool Garments' presence in the North.

The size of the acquisition would be small — within Rs 50 crore — compared to Cool Garments recent big deals in other states. Jazzy Wear special products fit perfectly into Cool Garment's future plans. Acquiring Jazzy will give it a bigger product portfolio and also a considerable presence in the north Indian market.

With the fragmented shareholding the top managers of Jazzy Wear know that the Cool Garments will be definitely able to acquire controlling share in their company. They feel that if a deal is struck it would also be in their favour. However, they are not clear how to formulate right strategy for the Jazzy Wear.

If you are appointed as strategic consultant by the Jazzy Wear, explain to their top managers the process of strategy formulation.

Discuss the nature of strategy for both the companies.

CHAPTER 5

FORMULATION OF FUNCTIONAL STRATEGY

LEARNING OBJECTIVES

- ◆ Understand how functional strategies are formulated.
- ◆ To have a fair idea about the role of marketing strategy in implementation.
- ◆ Learn different aspects of financial strategy.
- ◆ Know how to formulate production, logistics, human resource and other important functional strategies.

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

1. INTRODUCTION

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. 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 follows a discussion of each of these sub functional areas regarding the content of functional strategies, important factors, and their importance in the process of strategy implementation.

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 organization. Functional managers need guidance from the business strategy in order to make decisions. Operational plans tell the functional managers what has to be done



Financial Management

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 organization. The reasons why functional strategies are needed 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 provide enable flow of strategic decisions to the different parts of an organization.
- ◆ 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.

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. Organizational strategies affect the choice of functional strategies. However, the actual process of choice is influenced by objective as well as subjective factors. Functional strategies affect, and are affected by, the resource allocation decisions.

2. MARKETING STRATEGY FORMULATION

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

Ordinary marketing is an activity performed by business organizations. However, it is not necessarily confined only to business enterprises. 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 for business, it is considered to be 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.



Formulation of Functional Strategy

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 assumed an astounding importance. It is an immediate cause and effect of rapid economic growth, globalization, technological upgradation, development of ever-increasing human needs and wants and increasing purchasing power.

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 kind of distribution network to be used. Whether to use exclusive dealerships or multiple channels of distribution.
2. 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.
3. Whether to limit or enhance the share of business done with a single or a few customer.
4. Whether to be a price leader or a price follower.
5. Whether to offer a complete or limited warranty.
6. Whether to reward salespeople based on straight salary, straight commission, or on a combination of salary/commission.

2.1 Delivering value to Customer: Marketing alone cannot produce superior value for the consumer. 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.

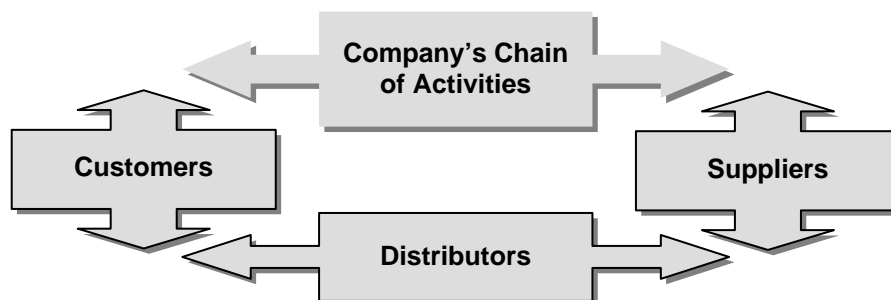


Figure 5.1 : Value Delivery Network



Connecting with consumers

To succeed in today's competitive marketplace, companies must be customer centered. They must win customers from competitors and keep them by delivering greater value. Since companies cannot satisfy all consumers in a given market, they must divide up the total market (**market segmentation**), choose the best segments (**market targeting**), and design strategies for profitably serving chosen segments better than the competition (**market positioning**).

2.2 The Marketing Process

- ◆ Once the strategic plan has defined the company's overall mission and objectives, marketing plays a role in carrying out these objectives.
- ◆ 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 center of the marketing process.

2.3 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 buyers angle 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.

- ◆ **Product** stands for the "goods-and-service" combination 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 and fleeting 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 marketers product is different from others.



Formulation of Functional Strategy

Organizations formalize product differentiation through christening '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 brand through advertising and other promotional strategies. Customers tend to develop strong brand loyalty for a particular product over a period of time.

- ◆ **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 increase in costs 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 and work towards their costs. They reduce their cost in order to maintain their profitability.

For a new product pricing strategies for entering a market needs to be designed. In pricing a really new product at least three objectives must be kept in mind.

- (a) Making the product acceptable to the customers.
- (b) Producing a reasonable margin over cost.
- (c) Achieving 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* 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. Even the incoming calls were charged. Since the initial offtake 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.

- ◆ **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



Financial Management

are moved from where they are produced from they are purchases by the final customers. Strategies applicable to the middleman such as wholesalers and retails 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.

- ◆ **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 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.
- (ii) *Advertising*: Advertising is a non-personal, highly flexible and dynamic promotional method. The media for advertisings 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 can not 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 without payment. Publicity is communication of a product, brand or business by placing information about it in the



Formulation of Functional Strategy

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, installments, 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 new Ps 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.
- ◆ **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.

2.4 Marketing Analysis: Marketing analysis 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 Analyses has three components as planning implementation and control. Through analyses organization feed information and other inputs to each of the other marketing management functions.

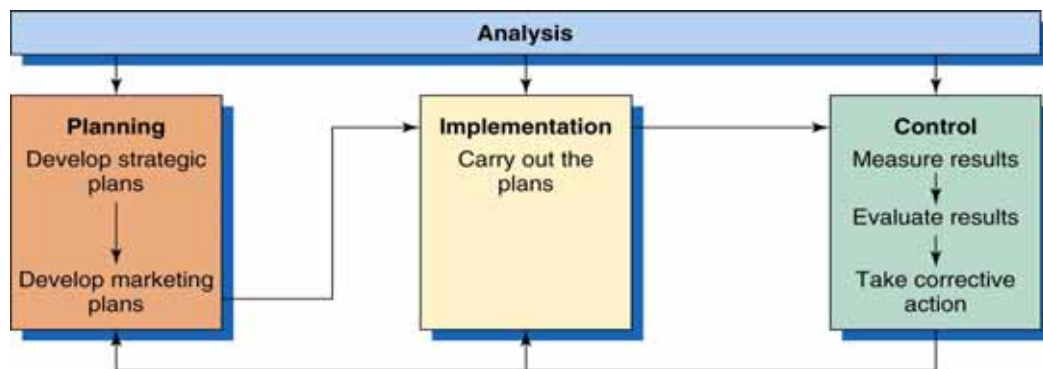


Figure: Managing the marketing effort

Marketing Planning

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 are forced to anticipate 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 created for all marketing mix components.
- ◆ The marketing budget is a section of the marketing plan that shows projected revenues, costs, and profits.



Formulation of Functional Strategy

- ◆ The last section of the marketing plan outlines the controls that will be used to monitor progress. This allows for progress checks and corrective action.

Dealing with the Marketing Environment

The 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:

- ◆ Forces close to the company such as its ability to serve customers, other company departments, channel members, suppliers, competitors, and publics.
- ◆ Broader forces such as demographic and economic forces, political and legal forces, technological and ecological forces, and social and cultural forces.

Marketing strategy techniques

- ◆ **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 in Delhi.
- ◆ **Augmented Marketing.** It is provision of additional customer services and benefits built around the care and actual products that relate to introduction of hi-tech services like movies on demand, on-line 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, 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 stakeholder. For example, British Airways offers special lounges with showers at 199 airports for frequent flyers. Thus, providing special benefits to select customers to strength 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 or behavior towards particular people. For example, politicians, sports stars, film stars, professional i.e., market themselves to get votes, or to promote their careers and income.



- ◆ **Organization Marketing:** It consists of activities undertaken to create, maintain, or change attitudes and behavior of target audiences towards an organization. Both profit and nonprofit organizations practice organization marketing.
- ◆ **Place Marketing:** Place marketing involves activities undertaken to create, maintain, or change attitudes and behavior towards particular places say, business sites marketing, tourism marketing.
- ◆ **Enlightened Marketing:** 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:** A market-coverage strategy in which a firm decides to target several market segments and designs separate offer for each. For example, Hindustan Lever Limited has Lifebuoy, Lux and Rexona in popular segment and Liril and Pears in premium segment.
- ◆ **Synchro-marketing:** When the demand for the product is irregular due to season, some parts of the day, or on hour basis, causing idle capacity or over-worked capacities, synchromarketing can be used to find ways to alter the same pattern of demand through flexible pricing, promotion, and other incentives. For example woollens or coolers; or hospitals underbooked on weekend or end of the week.
- ◆ **Concentrated Marketing:** A market-coverage strategy in which a firm goes after a large share of one or few sub-markets.
- ◆ **Demarketing:** 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 over-crowded on Saturdays, Sundays and holidays. Here demarketing can be applied to regulate demand.

3. FINANCIAL STRATEGY FORMULATION

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. Strategists need to formulate strategies in these areas so that they are implemented. Some examples of decisions that may require finance/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.



Formulation of Functional Strategy

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. 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 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.

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 statements 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 Enron collapse and accounting scandal, companies today are being much more diligent in preparing projected financial statements to "reasonably rather than too



Financial Management

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 almost as many different types of financial budgets as there are types of 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. 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.

Management / usage 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 is inefficient, leading to less than an optimum utilization of resources. An example is of Modi Cement, which followed a deliberate policy of generous capital investment in setting up its plant based on the latest technology. As compared to its competitor Jaypee Rewa's plant, which cost Rs 120 crore, Modi's plant had an investment of Rs 153 crore. The result was high interest liability and depreciation, causing a serious dent in profitability in the initial years. Other factors of usage of funds are also considered by companies to attract and retain shareholders' interest. Payout policies for dividends and bonus distribution play an important role in the usage of funds.



Formulation of Functional Strategy

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 an organization or of the firm itself. Thousands of transactions occur each year in which businesses are bought or sold in the United States. In all these cases, it is necessary to establish the financial worth or cash value of a business to successfully implement strategies.

All the various methods 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. If a firm has goodwill, it will be listed on the balance sheet, perhaps as "intangibles".
- ◆ 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. When using the approach, remember that firms normally suppress earnings in their financial statements to



minimize taxes.

- ◆ 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, even though substantial information on firms that buy or sell to other firms is available in major libraries. 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. As indicated in the Global Perspective, European firms aggressively are acquiring American firms, using these and perhaps other methods for evaluating the worth of their target companies.

4. PRODUCTION STRATEGY FORMULATION

The strategy for production are related to the production system, operational planning and control, and research and development (R&D). The strategy adopted 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.

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, adopts 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. Another example is of Lakshmi Machine Works, where operations policy related to the product range is aimed at the successive enlargement of its textile machinery range. This is done through a policy of mastering the process of production by absorption of technology, indigenisation, and adaptation to customer needs.



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. For instance, Instrumentation Ltd is a public sector company engaged in the business of process control and automation and is currently following a strategy of expansion and diversification. Operations planning and control at this company is based on the policy of ancillarisation. There are about 259 ancillary units that supply sub-assemblies and components. The company's centralized production is at Kota in Rajasthan and its operations plans are based on the plans of its ancillary units. The centralized production provides all the basic inputs to ancillaries and performs the functions of testing, standardizing, and fabricating the equipment.

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.

5. LOGISTICS STRATEGY

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 organization 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?



Financial Management

- ◆ 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 organization 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

5.1 Supply Chain Management

The way businesses were conducted in the yesteryears is entirely different as they are conducted now. Today, organisations work in highly turbulent environment. There are several changes in business environment that have contributed to the development of supply chain networks. The technology has made impact on all spheres of business activities. Organisational systems have improved. Even the available infrastructure is improving. 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. Availability of newer technologies have resulted in creation of innovative products with shorter product life cycles.

Traditionally companies have been managing themselves by taking orders, buying supplies, manufacturing products and shipping them from their warehouses. Such organisations may lose out the businesses that strongly lay their focus on key areas of marketing, branding and delivering value to the customer and outsourcing the rest. Today organisations and individual customers have become more demanding. They desire customised products that are made according to their needs. They also aspire that these should be available at lower costs.

5.2 What is 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



Formulation of Functional Strategy

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.

5.3 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, fulfillment 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.

5.4 Implementing Supply Chain Management Systems

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.

6. RESEARCH AND DEVELOPMENT

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



Formulation of Functional Strategy

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.

Many firms wrestle with the decision to acquire R&D expertise from external firms and develop R&D expertise internally. 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.

7. HUMAN RESOURCE STRATEGY FORMULATION

The job of human resource manager is changing rapidly as there companies that downsize and reorganize. 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. This plan must consider how best to manage spiraling healthcare insurance costs. Employers' health coverage expenses consume an average 26 percent of firms' net profits, even though most companies now require employees to pay part of their health insurance premiums. The plan must also include how to motivate employees and managers.

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 stock ownership plan (ESOP), instituting an effective childcare policy, and providing leadership for managers and employees in a way that allows them to balance work and family.

A well-designed strategic-management system can fail if insufficient attention is given to the human resource dimension. Human resource problems that arise when business implement 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 behavior 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



Formulation of Functional Strategy

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 involved 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 presides in people.

The firm's external opportunities and threats on the one hand and its internal strengths and weaknesses on the other. In Human Resource Strategic management, 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



Financial Management

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 is very important. The following points should be kept in mind :

1. *Recruitment and selection:* The workforce will be more competent if a firm can successfully identify, attracts, 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.

Strategy and Human Resource Management

The human resource strategy of 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 in 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



Formulation of Functional Strategy

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 Management

The prominent areas where the human resource manager can play strategic role are as follows:

1. Providing purposeful direction: The human resource management 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 professional management is to ensure that the object of an organization has been internalized by each individual working in the organization. Goals of an organization state the very purpose and justification of its existence.

The management has to ensure that the objects of an organization become the object of each person working in the organization and the objectives are set to fulfill the same. Objectives are specific aims which must be in line with the goal of the organization and the all actions of each person must be consistent with the objectives defined.

2. Creating competitive atmosphere: Present's globalized market maintaining a competitive gain is the object of any organization. There are two important ways of business can achieve a competitive advantages 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.

3. Facilitation of change: The Human resource will be more concerned with substance rather than form, accomplishments rather than activities, and practice rather than theory. The personnel function will be responsible for furthering the organization not just maintaining it. Human resource management will have to devote more time to promote changes than to maintain the status quo.

4. Diversion of workforce: In the modern organization 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 fulfillment. 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.

5. Empowerment of human resources: Empowerment means authorizing every member of a society or organization to take of 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.



6. 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 organization 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.

6. Development of works ethics and culture: Greater efforts will be needed to achieve cohesiveness because workers 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 people and to encourage creative ideas by the people. Far reaching changes with the help of technical knowledge will be required for this purpose.

Self-Examination Questions

Objective type Question

State with reasons which of the following statements are correct/incorrect

- (a) Penetration means keeping prices very low.
- (b) The process of creating, maintaining, and enhancing strong, value-laden relationships with customers and other stakeholder is social marketing.
- (c) A core competence is a unique strength of an organization which may not be shared by others.
- (d) If both technical progress and market growth are fast, R&D expertise should be obtained through acquisition of a technologically sound and well-established firm.
- (e) Functional strategies help in bringing harmony and coordination.

Short answer questions

1. Write a short note on marketing mix?
2. Write a short note on evaluating worth of a business.
3. How proper logistics management helps business.

Essay type questions



Formulation of Functional Strategy

1. What is human resource management? Discuss its role in implementation of strategy.
2. Discuss the concept of production strategy formulation
3. What is financial strategy? How worth of a business can be evaluated?

Case Study

Many companies are harping on making their products affordable to the mass consumers as part of their growth strategy. Two years back Clean Head Ltd started selling their shampoo at an affordable price of Rs 10 for 40 ml bottle. The price of 100 ml and 200 bottles were retained at Rs 45 and 85 respectively. The product was aggressively pushed in small and mofussil towns. The company expected that the existing customers would continue with the convenience of bigger bottles and purchase them. Contrary to the expectations, big cities also witnessed a shift towards smaller size bottles. There was some increase in the volumes, but squeeze in the margins tremendously reduced the profits. Moreover, the turnover did not increase as forecasted.

The chairman of the company called a meeting of all the functional heads and made following observations:

“We have to chart out long-term strategies for our company. At this moment, sustainable but profitable growth is sacrosanct for us, but may prove to be elusive. We are not in a position to offer lower-priced shampoos with declining profits. If we continue like this, gradually the company may start incurring losses. Our competitors have also followed us by reducing their prices. My dilemma is if we roll back our prices, our competitors may not do so.”

- (a) What went wrong? Give your assessment of the situation
- (b) How competitors are related to the internal decisions?
- (c) What is the strategy used by Clean Head Ltd.

CHAPTER 6

STRATEGY IMPLEMENTATION AND CONTROL

LEARNING OBJECTIVES

- ◆ Learn the concept of strategy implementation.
- ◆ Understand why strategy implementation is more difficult than strategy formulation.
- ◆ Understand the importance of organizational structure in strategy implementation.
- ◆ Understand how to establish strategic Business Units.
- ◆ Understand the role of leadership in the execution of strategy.
- ◆ Learn how to build a supportive corporate culture.

Winning companies know how to do their work better

– Michael Hammer and James Champy

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

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. Translation 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.



2. INTERRELATIONSHIPS BETWEEN STRATEGY FORMULATION AND IMPLEMENTATION

Strategy implementation concerns the managerial exercise of putting a freshly chosen strategy into place. Strategy execution 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 decision into action, with 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 system.

The basic elements of strategic management are summarized in the figure below:

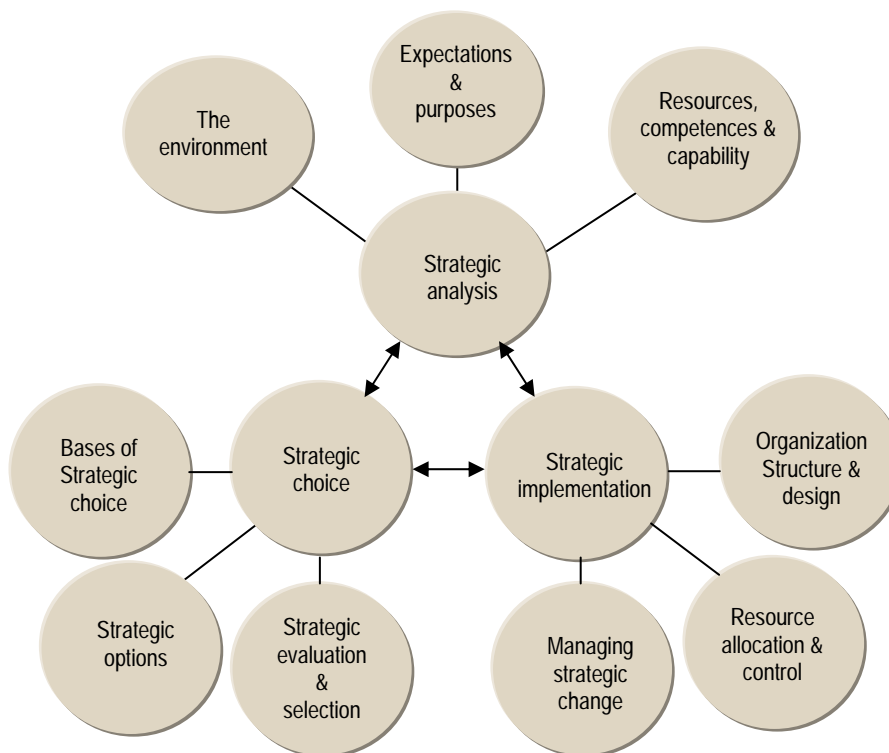


Figure: A summary model of the elements of strategic management

Source : Johnson and Scholes (1988)



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 per se. 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 represent various combination of strategy formulation and implementation:

Strategy formulation	Sound	A	B (Success)
	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 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 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 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 reserved 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 other 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 common 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 organization's attainment of 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 management	
		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



Strategy Implementation and Control

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. 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	Strategy implementation
◆ Strategy formulation is positioning forces before the action.	◆ Strategy implementation is managing forces during the action.
◆ 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 good intuitive and analytical skills.	◆ Strategy implementation requires special motivation and leadership skills
◆ Strategy formulation requires coordination among a few individuals	◆ Strategy implementation requires combination among many individuals.

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. Implementing 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 between 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 the formulation on 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.

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 to his or her task a wide range of knowledge, skills, attitudes, and abilities. The implementation tasks put to test the strategists' abilities to allocate resources, design structures, formulate functional policies, and take into account the leadership styles required, besides dealing with various other issues.

- ◆ 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 plans. For instance, if stability strategies have been formulated, they may lead to the formulation of various plans. One such plan could be a modernization plan. Plans result in 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. An example of a programme is a research and development programme for the development of a new product.
- ◆ 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 programmes 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.
- ◆ Projects create the needed infrastructure for the day-to-day operations in an organization. They may be used for setting up new or additional plants, modernising the existing facilities, installation of newer systems, and for several other activities that are needed for the implementation of strategies.

Implementation of strategies is not limited to formulation of plans, programmes, and projects. Projects would also require resources. After that is 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

But it should be noted that the sequence does not mean that each of the following 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.

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 strategy-formulation 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 strategy-formulation activities. Of equal importance, strategists should 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, matching managers with strategy, developing a strategy-supportive culture, adapting production/operations processes, developing an effective human resource function and, if necessary, downsizing. Management changes are necessarily more extensive when strategies to be implemented move a firm in major new direction.

Managers and employees throughout an organization should participate early and directly in strategy-implementation decisions. 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 communicated throughout an 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. 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.

4. ORGANIZATION AND STRATEGY IMPLEMENTATION

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 strategy often require changes in the way an organization is structured for two major



reasons. First, structure largely dictates how objectives and policies will be established. 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. 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.

Changes in strategy lead to changes in organizational structure. Structure should be designed to facilitate the strategic pursuit of a firm and, therefore, follows strategy. Without a strategy or reasons for being (mission), companies find it difficult to design an effective structure. 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 or type of organization. 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.

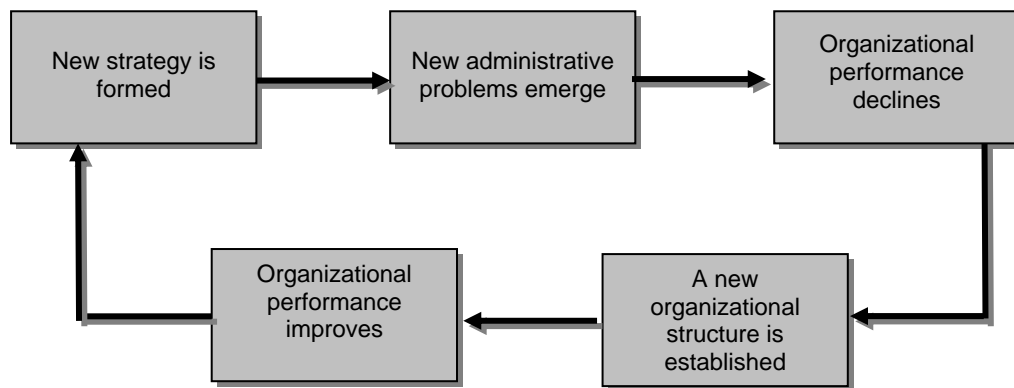


Figure: Chandler's Strategy-Structure Relationship

Numerous external and internal forces affect an organization; no firm could change its structure in response to every one 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 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 undeniably can and does influence strategy. Strategies formulated must be workable, so if a certain new strategy required massive structural changes it would not be an attractive choice. In this way, structure can shape the choice of strategies. 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 examine this issue by focusing on seven basic types of organizational structure: functional, divisional by geographic area, divisional by product, divisional by customer, divisional process, strategic business unit (SBU), and matrix.

4.1 The 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.

Some disadvantages of a functional structure are that it forces accountability to the top, minimizes career development opportunities, and is sometimes times characterized by low employee morale, line/staff conflicts, poor delegation of authority, and inadequate planning for products and markets. Most large companies abandoned the functional structure in favour of decentralization and improved accountability.

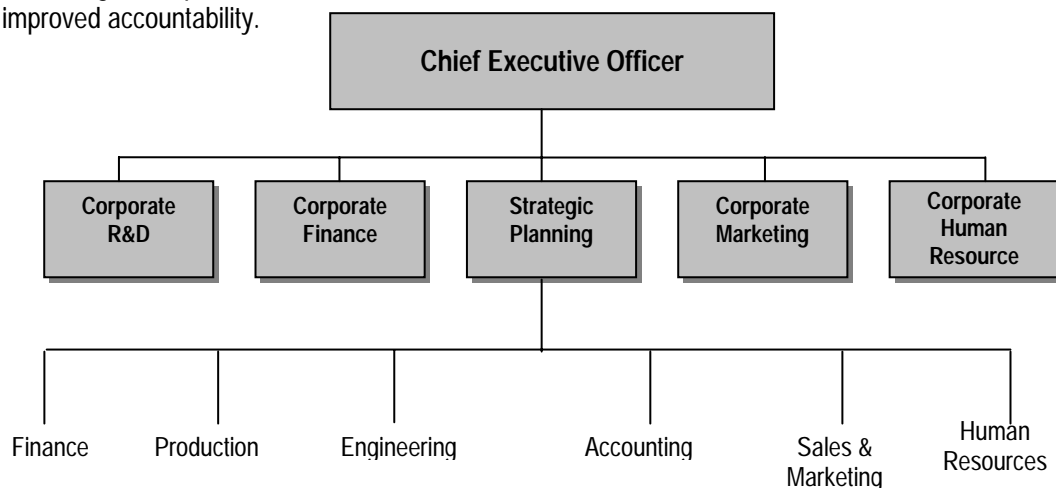


Figure: Functional Organization Structure



A competitive advantage is created when there is a proper match between strategy and structure. Ineffective strategy/structure matches may result in company rigidity and failure, 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.

Access to reliable information is imperative if executives are to reach decisions regarding the selection of a structure that is sufficiently flexible and stable. Useful information contributes to the formation and use of effective structures and controls, which yield improved decision making.

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.

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.

The functional structure consists of a chief executive officer or a managing director and limited corporate staff with functional line managers in dominant functions such as production, 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.

The 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.

The 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.

The new, innovative structure called 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 enables 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.

4.2 The Divisional Structure

As a small organization grows, it has more difficulty 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 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 separate division.

Cisco Systems discarded its divisional structure by customer and reorganized into a functional structure. CEO John Chambers replaced the three-customer structure based on big businesses, small business, and telecoms, and now the company has centralized its engineering and marketing units so that they focus on technologies such as wireless networks. Chambers says the goal was to eliminate duplication, but the change should not be viewed as a shift in strategy. Chambers' span of control in the new structure is reduced to 12 managers reporting directly to him from 15.

Kodak reduced its number of business units from seven by-customer divisions to five by-product divisions. As consumption patterns become increasingly similar worldwide, a by-product structure is becoming more effective than a by-customer or a by-geographic type divisional structure. In the restructuring, Kodak eliminated its global operations division and distributed those responsibilities



across the new by-product divisions.

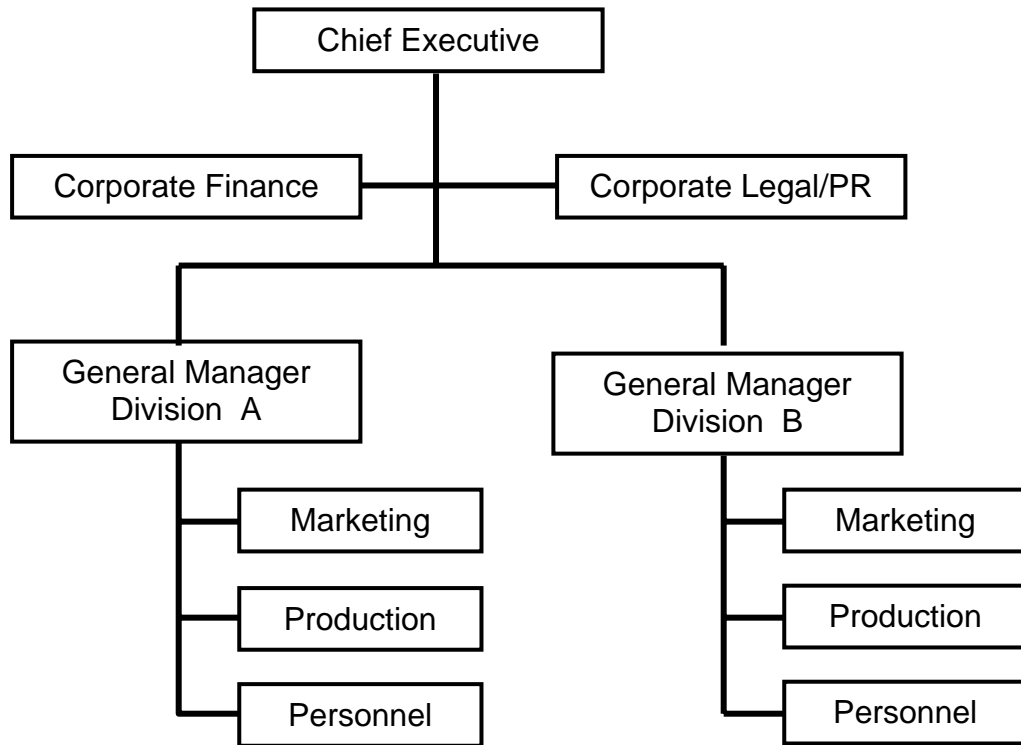


Figure : Divisional Structure

A divisional structure has some clear advantages. First and perhaps 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 to be added easily.

The divisional design is not without some limitations, however. 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 require 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 need to be tailored to fit the particular needs and characteristics of customers indifferent geographic areas. This type of structure can be most appropriate for organization 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. Merrill Lynch is organized into separate divisions that cater to different groups of customers, including wealthy individuals, institutional investors, and small corporations.

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.

4.3 The Strategic Business Unit (SBU) Structure

As the number, size, and diversity of divisions in an organization increase, controlling and evaluating divisional operations become increasingly difficult for strategists. Increases in sales often are not accompanied by similar increases in profitability. The span of control becomes too large at top levels of the firm. Because of limits to an individual chief executive officer's ability to process complex strategic information, problems related to isolation of functional area managers, and increasing diversification, the structure of the company needs to change. In these instances, the SBU structure is most appropriate. Also in multidivisional organizations, an SBU structure can greatly facilitate strategy implementation efforts.



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 divisions 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. In the ninety-division conglomerate just mentioned, the ninety divisions could perhaps be regrouped into ten SBUs according to certain common characteristics, such as competing in the same industry, being located in the same area, or having the same customers.

Two disadvantages of an SBU structure are that it requires an additional layer of management, which increases salary expenses, and the role of the group vice president is often ambiguous. However, these limitations often do not outweigh the advantages of unproved coordination and accountability.

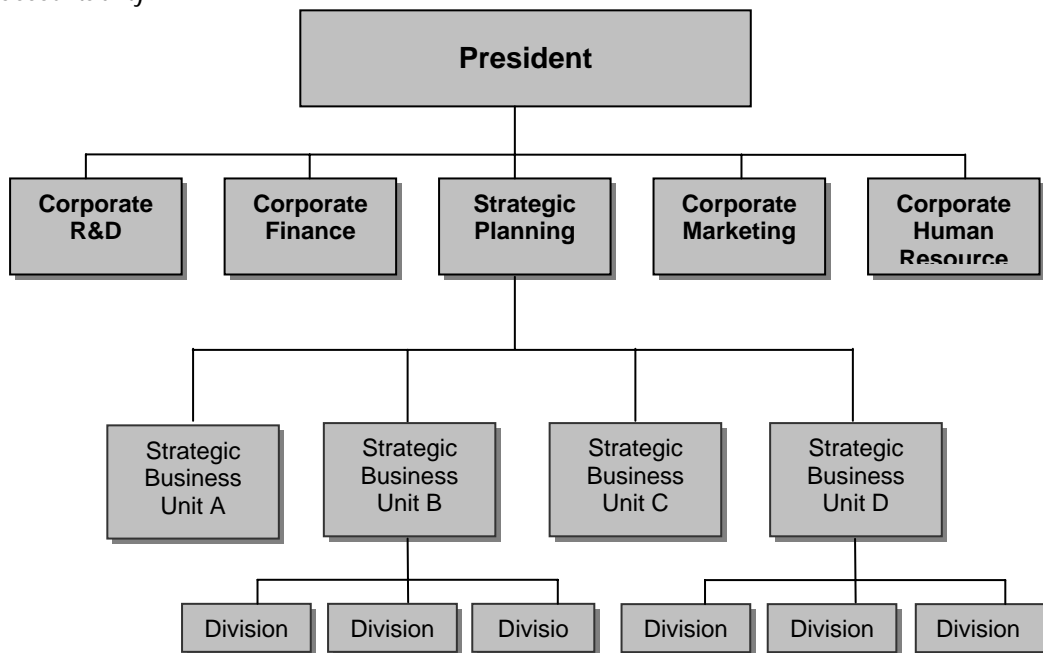


Figure: SBU Structure

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.



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 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. It will implement this strategy through the SBU structure.

For General Electric, this structure will enable the company to "walk, talk and think" like smaller companies by making decisions and introducing innovative products more rapidly. GE's SBU form is made up of 10 strategic business units which should enable it to act quickly and more effectively. Structural flexibility is perceived to be of equal importance with strategic flexibility and both of them would enable the company to respond more rapidly to emerging opportunities.

Newer Forms of Organization Structures

As companies successfully implement business-level strategies and achieve above average returns, they may diversify their operations by offering different products or following a product diversification strategy or offering the same or additional products in new markets or by following a market diversification strategy. Following such diversification, companies generally formulate and implement a corporate-level strategy and business-level strategies for individual units.

However, the structural and control characteristics of the functional structure do not adequately support the successful implementation of corporate-level strategies that call for diversification beyond the single or dominant-business level. Increased levels of diversification call for newer structures that enable fast decision making and where other structures do not seem to be working properly.

4.4 The 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 their situations. In matrix structures,



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 sales – 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 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 structures used more frequently by American businesses because firms 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, and line of bus II have roughly equal strategic priorities, a matrix organization can be an effective structural form.

The matrix structure was developed to combine the stability of the functional structure with the flexibility of the product form. The matrix structure 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 exist: 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.

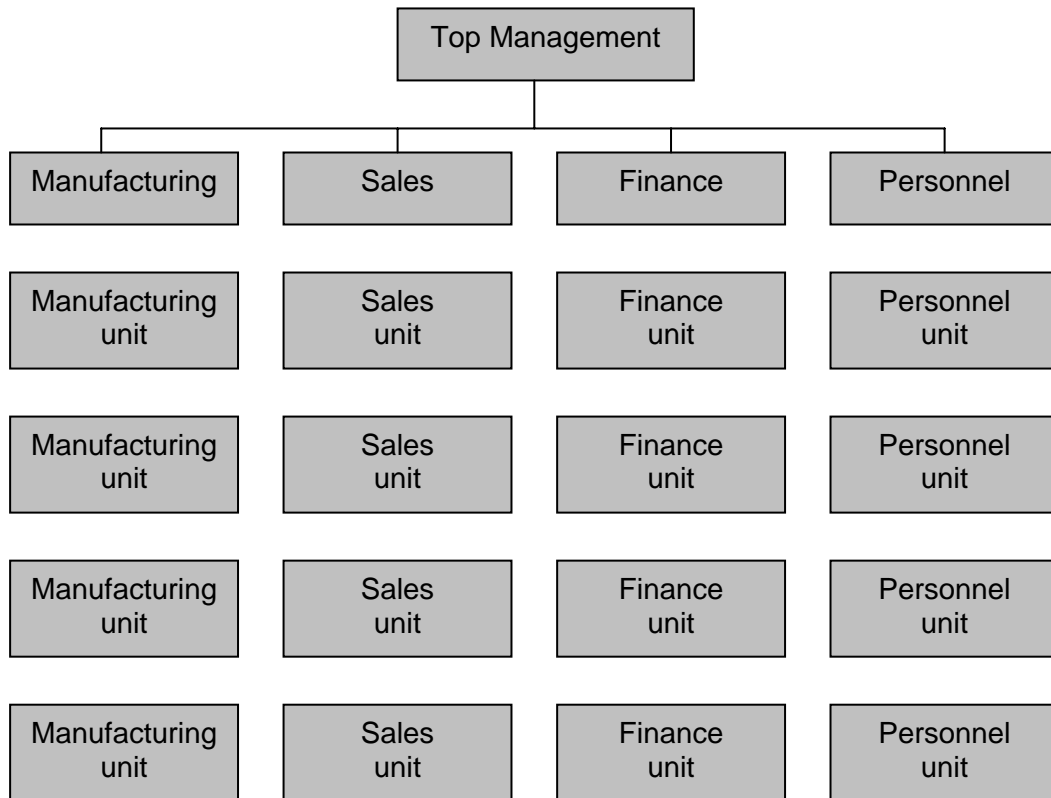


Figure: Matrix Organization Structure
Changing organizational design

Old Organizational Design	New Organizational Design
◆ One large corporation	◆ Mini-business units & 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.

4.5 Network Structure

A newer and somewhat more 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 worldwide. 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 companies. In its ultimate form, the network organization is a series of independent firms or business units linked together by computers in an information system that designs, produces, and markets a product or service.

Companies like Nike, Reebok and Benetton 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, such as those faced by DuPont, the world's largest chemical company. With new organizational forms, many workers become deskilled—that is, they cannot perform well in a new structure that often demands constant innovation and adaptation. 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.

5. STRATEGIC BUSINESS UNITS & CORE COMPETENCE

At this juncture, it is pertinent to introduce the concept of Strategic Business Unit (SBU). In modern times, most corporations organise their businesses into appropriate SBUs. And in their internal appraisal they carry out an assessment of their SBUs. The student must have a good grasp of this concept, since it is a vital idea in the strategic planning and strategic management endeavour. In fact, reference to this idea will keep recurring in our subsequent discussions in this text.

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.

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 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 idea.

- ◆ 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 three most important Characteristics of 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.
- ◆ Has its own set of competitors.
- ◆ Has a manager who has responsibility for strategic planning and profit performance, and who has control of profit-influencing factors.

The identification of SBUs is a convenient starting point for planning since once the company's strategic business units have been identified, the responsibilities for strategic planning can be more clearly assigned.

The 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 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. These 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.

One of the key aspects of value chain analysis is the recognition that organizations are much more than a random collection of machines, money and people. These resources are of no value unless deployed into activities and organised into routines and systems 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.

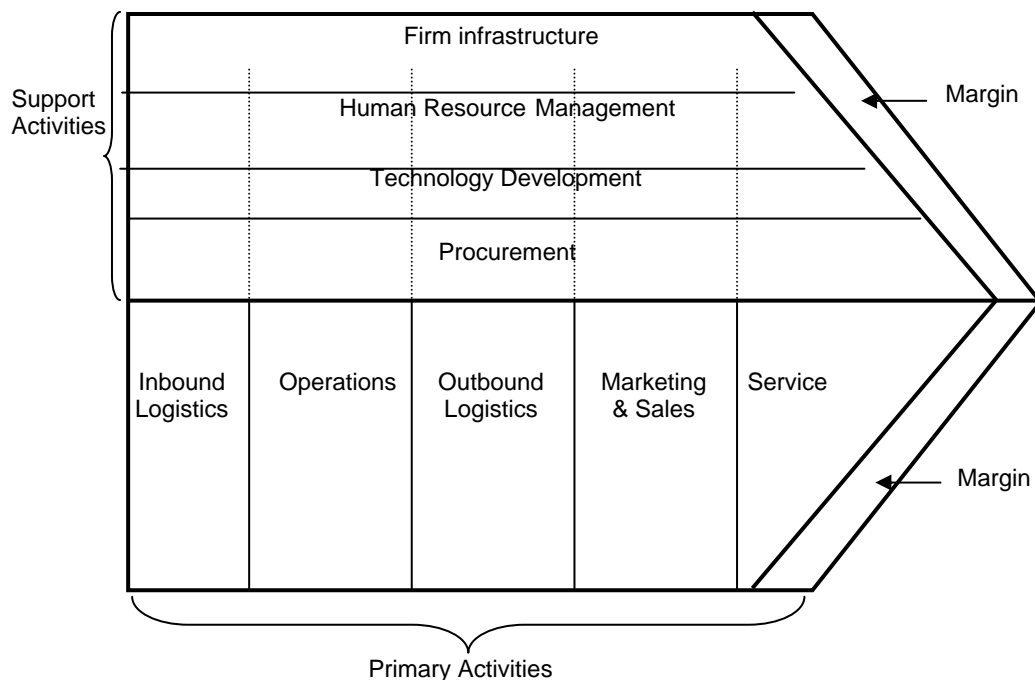


Figure: Value Chain (Michael Porter)

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 various 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.

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, consider how small shops compete with supermarkets in grocery retailing. All shops need to have a threshold competence in the basic activities of purchasing, stocking, display, etc. However, the major supermarkets are pursuing strategies which provide lower prices to consumers through their core competences in merchandising, securing lower cost supplies and managing in-store activities more efficiently. This gives a supermarket competitive



advantage over smaller shops: it is difficult for smaller shops to imitate these competences, since they are underpinned by key resources such as computerised stock/ordering systems and own brand labels. So the typical 'corner shop' grocery store gains competitive advantage over supermarkets by concentrating more on convenience and service through different core competences - the personal service to customers, extended opening hours, informal credit, home deliveries, etc. The key resources for the successful corner shop are the style of the owner and the choice of location. These aspects of service are valued by some consumers and are difficult for the supermarkets to imitate without substantially increasing their costs.

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. They are necessary resources and threshold competences to survive as a supermarket. The competitive rivalry between supermarkets is therefore achieved through other unique resources (perhaps a key site) or core competences (perhaps in the management of 'own brand' supply). In this industry, experience shows that these tend to be easily imitated. So long-term competitive advantage needs to be secured by continually shifting the ground of competition.

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. The competitive arena then switched to competences which would create some uniqueness of product in an increasingly 'commodity-like' industry. The new core competences became the ability to provide unique product designs/features at low volumes of manufacture - the so-called 'lifestyle niche' was produced by companies like Mazda. This agility in design and manufacturing techniques became a new and important core competence in the global competition.

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, as illustrated in this example. 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. The subsections which follow look at how different bases of organizational competences can be analysed and understood.

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. An assessment needs to be made of 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 production. However, at the same time, the marketing team may be selling speed, flexibility and variety to the customers. So high levels of competence in separate activities are not enough if, as here, the competences are incompatible: that is, they are not related to the same view of what value for money means to the customer.
- ◆ 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 provide 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. 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. They have allowed the organizations to create genuinely new services from these core competences or to expand rapidly into new markets.

- ◆ 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.
- ◆ The merchandising activities which manufacturers undertake with their distributors are now much improved and are an important

6. LEADERSHIP AND STRATEGIC IMPLEMENTATION

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



The litany of good strategic management is simple enough: craft a sound strategic plan, implement it, execute it to the fullest, adjust as needed, win! But it's easier said than done. 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. Sometimes it is useful to be authoritarian and hardnosed; sometimes it is best to be a perceptive listener and a compromising decision maker; sometimes a strongly participative, collegial approach works best; and sometimes being a coach and adviser is the proper role. Many occasions call for a highly visible role and extensive time commitments, while others entail a brief ceremonial performance with the details delegated to subordinates.

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, ferreting out issues, and learning what obstacles lie in the path of good execution.
2. Promoting a culture and 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 ethics 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, Infosys, is a celebrated leader because of the value he has added over his tenure at the company. One of the great legacies he will leave with Infosys is a strong management development program that builds management talent that other companies want and that will fill in managerial gaps after his retirement. Mr. Murthy whom some consider the master strategic leader, truly focuses on developing human capital.

Mr. Dhirubhai Ambani, Reliance Group, was an icon in himself because of his ability to conceptualise and communicate sweeping strategies, knowledge of operations to reach financial goals, and proficiency in implementing a new vision for the company. Mr. Ambani was an excellent strategic leader because he was able to provide clear direction for the company and his strong interpersonal skills that inspire loyalty among employees.



Leadership role in implementation

The changes confronting strategic leaders above provide obvious examples of the importance of strategic leadership, their effects on organizational outcomes, and the great challenges faced by strategic leaders. This indicates that effective 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 of appropriate strategic actions and providing guidance that results in strategic competitiveness and earning above-average returns.

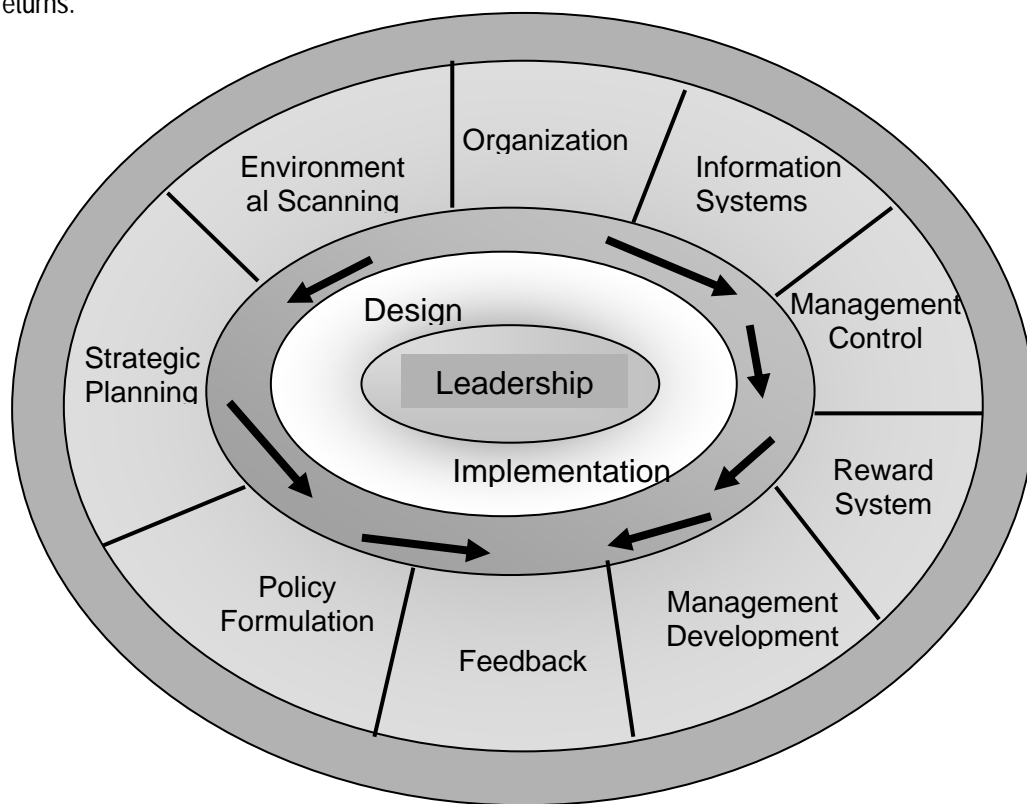


Figure : Strategy Design and Implementation: Interrelationship of Elements

Strategic leadership entails the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessary. 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.

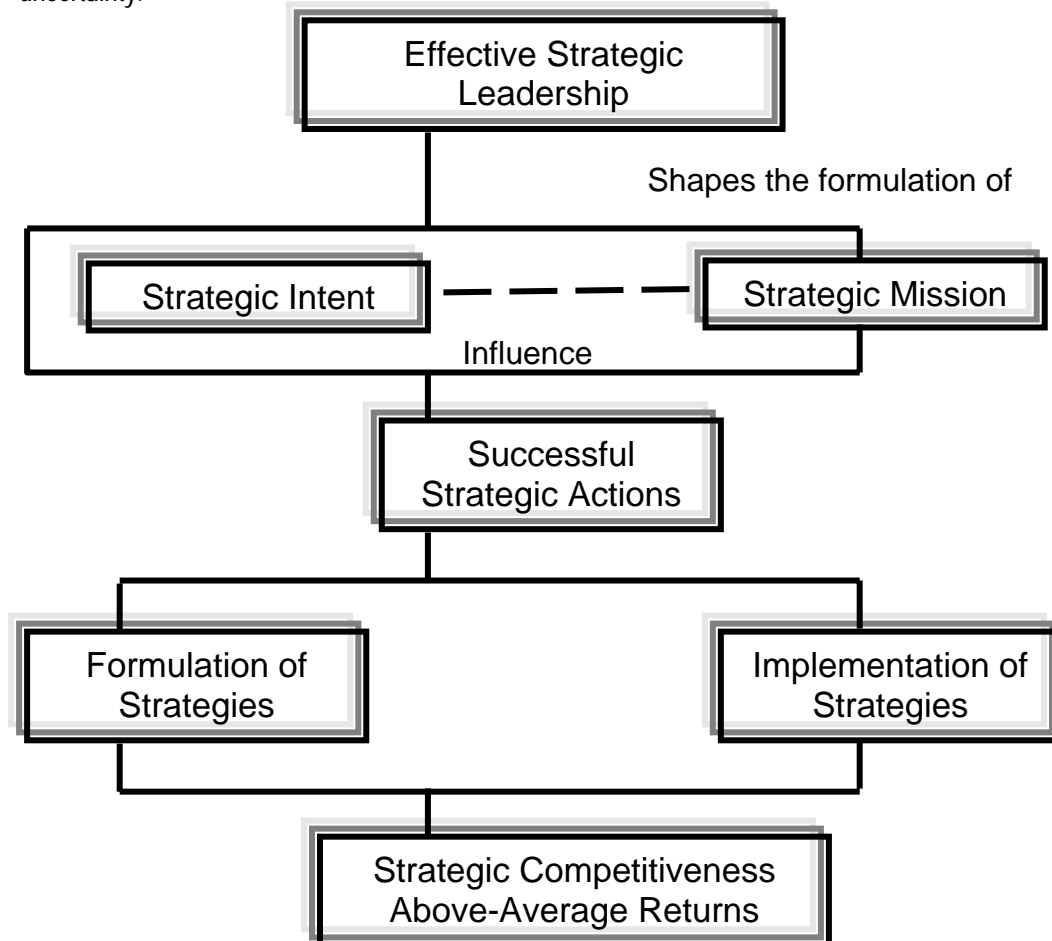


Figure: Effective Strategic Leadership

Strategic leaders are those at the top of the company (in particular, the CEO), but other commonly recognised strategic leaders include members of the board of directors, the top management team, and division general managers. The ability to manage human capital may be the most critical skill that a strategic leader possesses.

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.

The strategic leader has several responsibilities, including the following:

- ◆ Managing human capital (perhaps the most critical of the strategic leader's skills). Effectively managing the company's operations.
- ◆ Sustaining high performance over time.
- ◆ Being willing to make candid, courageous, yet pragmatic, decisions.
- ◆ Seeking feedback through face-to-face communications.
- ◆ Having decision-making responsibilities that cannot be delegated.

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.

7. BUILDING A STRATEGY-SUPPORTIVE CORPORATE CULTURE

Every company has a unique organizational culture. Each has its own business philosophy and principles, its own ways of approaching problems and making decisions, its own work climate, its own embedded patterns of "how we do things around here," *its own lore* (stories told over and over to illustrate company values and what they mean to stakeholder), its own taboos and political don'ts-in other words, its own ingrained beliefs, behaviour and thought patterns, business practices, and personality that define its **corporate culture**. Corporate culture refers to a company's values, beliefs, business principles, traditions, ways of operating, and internal work environment. The bedrock of Wal-Mart's culture is dedication to customer satisfaction, zealous pursuit of low costs, a strong work ethic. At Microsoft, there are stories of the long hours programmers put in, the emotional peaks and valleys in encountering and overcoming coding problems, the exhilaration of completing a complex program on schedule, the satisfaction of working on cutting-edge projects, the rewards of being part of a team responsible for a popular new software program, and the tradition of competing aggressively. These are reflections of Bill Gates marvellous leadership.

Where Does Corporate Culture Come From?

An organization's culture is bred from a complex combination of socio-logical forces operating within its boundaries. 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, and in the "chemistry" and the "vibrations" 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

The role of stories: 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 be compatible with its culture or they may not. When they are, 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.

How culture can promote better strategy execution a culture

Strong cultures promote good strategy execution when there's fit and hurt execution when there's little 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 responsibility is very conducive to successful execution of a strategy of delivering superior customer service.

A tight culture-strategy alignment acts in two ways to channel behaviour and influence employees to do their jobs in a strategy-supportive fashion.

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.

The 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. Once a culture is executed, it is difficult to change.

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 problem cultures 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.

Culture-changing actions

While being out front personally and symbolically leading the push for new behaviours and communicating the reasons for new approaches is crucial, strategy implementers have to convince all those concerned that the culture-changing effort is more than cosmetic. Talk and symbolism have to be complemented by substantive actions and real movement. The actions taken have to be credible, highly visible, and unmistakably indicative of the seriousness of management's commitment to new strategic initiatives and the associated cultural changes. There are several ways to accomplish this. One is to engineer some quick successes that highlight the benefits of strategy-culture changes, thus making enthusiasm for the changes contagious. However, instant results are usually not as important as having the will and patience to create a solid, competent team psychologically committed to pursuing the strategy in a superior fashion. The strongest signs that management is truly committed to creating a new culture include replacing old-culture traditionalist managers with "new-breed" managers, changing long-standing policies and operating practices that are dysfunctional or that impede new initiatives, undertaking major reorganization moves that bring structure into better alignment with strategy, tying compensation incentives directly to the new measures of strategic predominance, and making major budgetary reallocations that shift substantial resources from old-strategy projects and programs to new-strategy projects and programs.

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 word 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 officers, department heads, and middle managers have to reiterate values, "walk the talk," 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.

Self-Examination Questions

Objective type question

State with reasons which of the following statements are correct/incorrect:

- (a) A distinguishing feature between functional and divisional structure is that the former are not accountable for profits or revenues, whereas latter are evaluated on these criteria.
- (b) Strategy formulation is primarily an operational process and strategy implementation is primarily an intellectual process.
- (c) When strategic Management is ineffective and operational management is efficient, organization will die slowly.
- (d) When a set of product groups are superimposed across functional departments, this creates a Matrix type of organization design.

Short answer questions

1. What is corporate culture?
2. Compare newer form of organisational structure with the traditional structure.
3. Explain the concept of backward linkages in strategy formulation and implementation.

Essay type questions

1. What is strategic implementation? How far is it different from strategy formulation?
2. What is a Strategic Business Unit?
3. Explain the concept of Value Chain Analysis.

Case Study

Speed Technologies is an Indian company with three major divisions: (1) notebooks, (2) desktops and (3) accessories. Its total revenue for the last year approximated Rs. 1130 crores, and its net operating income was Rs. 53 crores.

The organizational structure of the company is considered to be quite formal. Each division operates as an independent unit and is responsible for its own activities, with only modest direction from the corporate office. It also has offices located in Nepal and Sri Lanka. These offices function as liaising office for local importers. The monthly requisitions from the importers are directly despatched by the corporate office. The sales of the company from these two countries is marginal and their market share in markets is also low. However, there is huge potential. Considering this,



Strategy Implementation and Control

the company intends to expand its network in both the countries with little control from the head office. It intends to increase the workforce and setup local assembling units.

- (a) Is the present structure of Speed Technologies functional or divisional? Discuss.
- (b) What kind of structure will you suggest in two countries?

Chapter 7

Reaching Strategic Edge

LEARNING OBJECTIVES

- ◆ Learn how Business Process Reengineering can be used as a strategic tool.
- ◆ Learn basic of TQM and how it leads to organizational success.
- ◆ Learn the concept of six sigma quality standards
- ◆ Have an overview of some of contemporary issues in strategic management.

Even if you're on the right track, you'll get run over if you just sit there.

– Will Rogers, Humorist

1. INTRODUCTION

Business organizations evolve different kind of strategies in response to the environmental forces. There was a time when diversification was strategic buzzword and different organizations believed in entering into newer business irrespective of any relationship with their existing business. Then the basic ideology of businesses shifted from diversification to core-competencies. There are several such changes in strategic ideology. With the changes in the environment of the business, strategic management is also evolving. In this chapter we will discuss some of the recent and evolving issues in the subject.

2. BUSINESS PROCESS REENGINEERING

Waiting in a queue in a post office or bank, a person may feel need for improvement in processes. In case of queue the process begins with your stepping into the queue, and ends with receiving the desired items or 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 material, 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 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. "A process 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.

A business process comprises a combination of number of such independent or interdependent processes as:

- ◆ Developing new product
- ◆ Customer order processing
- ◆ Bill payment system

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 operation of its constituent work processes. The redesign of processes, therefore, provides a powerful basis for improving the performance of a business enterprise.

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:

- ◆ 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.
- ◆ In the banking industry, the activities that help mobilise deposits and generate funds for advances to customers, is a core business process.
- ◆ In a fast moving consumer goods industry marketing and brand management is a core process.
- ◆ In the electronics and semi-conductor industries, new product development is a core 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 reasons 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 are largely obsolete and irrational.

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.

We must remember 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, most 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



Strategic Management

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). They may be 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 managed, not functions.
- ◆ For considering totally new ways of redesigning processes, each and every concept, assumption, purpose, and principle, needs to abandoned temporarily.
- ◆ Continuous improvement is a deficient approach when a 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.

Definition 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 is it 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 pulling aside much of the age-old practices and procedures of doing a thing developed over hundred years of management experience. It implies forgetting how work has been done so far, and deciding how it can best be done now.

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.

Another key element in the 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.”

The next key concept that lies behind reengineering is that it 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 and also from the characteristics of the definition of reengineering that its main focus 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:



Strategic Management

- ◆ 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.
- ◆ Process involving interface(s) with customers. These usually include marketing, advertising, order fulfilment, and service.
- ◆ Process 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 problem 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 decade 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 and 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 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:

Determining objectives and Framework: Objectives are the desired end results of the redesign process which the management and organization attempts to realise. This will provide the required focus, direction, and motivation for the redesign process. It helps in building a comprehensive foundation for the reengineering process.

Identify Customers and Determine their Needs: The 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 added value to the customer.

Study the Existing Process: The existing processes will provide an important base for the redesigners. 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.

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.

Implement the redesign: 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.

The 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 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 continuous improvement process. Although BPR is a multi-dimensional approach in improving the business performance it's 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.

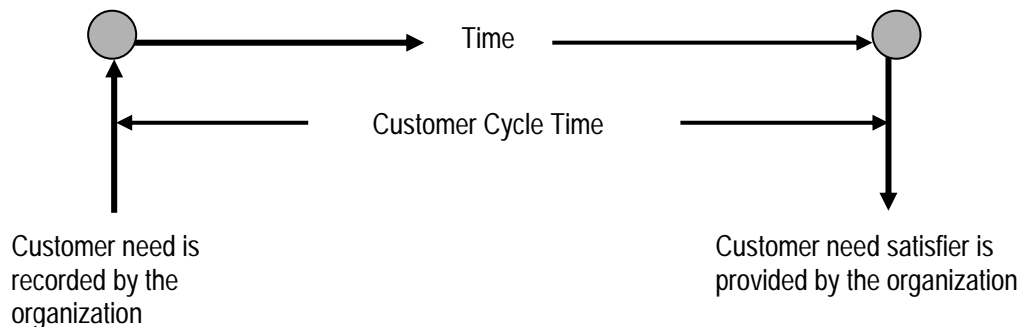


Figure : Customer Time cycle

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 briefly 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 organizational structure departmental boundaries.
- ◆ “BPR efforts involves 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 organizations top leadership to see through its successful completion.

Also faster and efficient redesigned business processes provide a firm with many more opportunities for trying, testing, modifying and learning.

Problems in BPR

Reengineering is a major and 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 takes 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 as a failure.

3. BENCHMARKING

Two men were passing through a jungle. They saw a tiger at a distance. One of them immediately started running away. ‘No use’ the other claimed ‘We cannot outrun him. We are sure to be killed’. The first person replied ‘I need to outrun you and not him’.



Similarly, in cut-throat competition it is important for organizations to gain an edge over their competitors. Benchmarking helps organization to get ahead of competition. The organizations possess a large amount of information that helps 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.

Dictionary defines a benchmark as a standard or a point of reference against which things may be compared and by which something can be measured and judged. In this sense, at a naive 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 need to have information against which performances can be measured. For example, a customer support engineer of a television manufacturer 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 circumstances. 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. Subsequently ALCOA, Eastman Kodak, IBM adopted



benchmarking. Firms can use benchmarking process to achieve improvement in diverse range of management function like:

- ◆ Maintenance operations
- ◆ Assessment of total manufacturing costs
- ◆ Product development
- ◆ Product distribution
- ◆ Customer services
- ◆ Plant utilization levels
- ◆ Human resource management

The Benchmarking Process

Benchmarking processes lack standardization. However, common elements are as follows:

- (1) *Identifying the need for benchmarking and planning:* This step will define the objectives 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 for example, 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 them.
- (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 is 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:* Business organizations evaluate the results of the benchmarking process in terms of improvements vis-à-vis objectives and other criteria set for the purpose. It also periodically evaluates and reset the benchmarks in the light of changes in the conditions that impact the performance.



4. TOTAL QUALITY MANAGEMENT (TQM)

The Total Quality Management movement (or simply TQM, as it is more commonly known) has caught on in essentially every corner of industry. The TQM philosophy is a guiding force in all industrialized nations like USA, European nations, Japan, etc.

What is TQM? A definition of total quality was endorsed in 1992 by the chairs and CEOs of nine major U.S. corporations in cooperation with deans of business and engineering departments of major universities and recognized consultants:

Total Quality Management (TQM) is a people-focused management system that aims at continual increase in customer satisfaction at continually lower real cost.

TQM is a total system approach (not a separate area or program) and an integral part of high-level strategy; it works horizontally across functions and departments, involves all employees, top to bottom, and extends backward and forward to include the supply chain and the customer chain. TQM stresses learning and adaptation to continual change as keys to organizational success.

To understand this concept fully, it makes sense first to understand some of the underlying concepts of quality management that have guided industrial development. The concept of quality control as a distinct discipline emerged in the United States in the 1920s. At the time, quality control was intended simply to control, or limit, the creation of defective items in industrial processes. There are numerous disadvantages to this sorting process, especially if the sorting is performed by different people from those manufacturing the product. Pioneering work by Shewhart, Deming, Juran, Feigenbaum, Crosby, and others indicated that perhaps better ways to approach the quality control concept existed. Perhaps simply sorting good products from bad, they reasoned, was not the most efficient way to assure a quality output. A more effective management philosophy might focus on actions to prevent a defective product from ever being created, rather than simply screening it out. Also, these and other men soon recognized that the concept of quality control need not be restricted only to manufacturing processes. The idea of assuring quality could also be applied to administrative processes service industries and all sphere of organization activity.

The TQM philosophy greatly emerged under Deming's guidance, who is regarded by many as the father of TQM. Interestingly, Deming's quality management philosophies were first developed in the years prior to World War II. Deming believed quality management should be pervasive, and should not focus on merely sorting good products from bad. He believed that the responsibility for quality should be shared by everyone in an organization. Perhaps most significantly, Deming recognized that most quality problems were system-induced and were therefore not related to workmanship. But Deming's work only saw limited application in the United States prior to World War II, Subsequently Deming was brought to Japan by General Douglas MacArthur to serve as a management consultant to the Japanese as they rebuilt their industrial base. Deming's message had essentially fallen on deaf ears in the United States, but not so in Japan.

Japan, then as now, was an island nation that had to import all its raw materials. But Japan, as a



formerly industrialized nation, had to rebuild its industrial base from essentially nothing. The Japanese had no preconceived approaches about sorting defective products from acceptable ones. They were willing to learn. What followed in Japan during the ensuing decades has been well studied and is now well known. The Japanese dominated almost every market they chose to enter: electronics, cameras, automobiles, steel, shipbuilding, motorcycles, and several others. Superior quality became a common theme of Japanese market dominance. Much of the Japanese quality superiority occurred as a result of statistical manufacturing methods and other management philosophies now recognized as Total Quality Management. The Japanese made additional contributions to the TQM philosophy, most notably in the areas of variability reduction, problem solving, teamwork, and defining and satisfying customer expectations: Taguchi and Ishikawa contributed heavily to these disciplines.

4.1 Principles guiding TQM

Implementing TQM requires organization wide support. There are several principles that guide success of TQM. Various principles that guide the total quality management philosophy are as follows:

- ◆ **A sustained management commitment to quality:** An organization's personality and culture will ultimately reflect its senior management's values. If an organization is serious about implementing TQM, the commitment to do so has to start at the top, and the organization's senior management has to be unwavering in its commitment to quality. Almost any organization's senior managers will claim they are committed to quality, but how they act at the end sets the tone for the entire organization. If management allows a defective product leave the premises of the organisation in order to make sales, then all the talk about quality won't make a difference to the people making the product. If management is willing to take a sales hit if quality levels are not up to requirements, the rest of the organization will understand the commitment to quality is real.
- ◆ **Focusing on the customer:** According to Lee Iacocca had only three rules: Satisfy the customer, satisfy the customer, and satisfy the customer. This sums up the importance of customer focus in the TQM philosophy. Ultimately it the satisfaction of the customers that determines the success of an organisation.
- ◆ **Preventing rather than detecting defects:** TQM is a management philosophy that seeks to prevent poor quality in products and services, rather than simply to detect and sort out defects. "An ounce of prevention is worth a pound of cure." A little precaution before a crisis occurs is preferable to a lot of fixing up afterward. This also saves cost and time.
- ◆ **Universal quality responsibility:** Another basic TQM precept is that the responsibility for quality is not restricted to an organization's quality assurance department, but is instead a guiding philosophy shared by everyone in an organization. TQM requires that everyone takes responsibility for quality. As quality improves, the quality assurance department gets smaller.



In fact, world over, a few companies fully committed to TQM have done away completely with their quality assurance organizations.

Quality measurement: The quality measurement aspect of TQM asks the question: Where are we and where are we going? A basic TQM concept is that quality is a measurable commodity, and in order to improve, we need to know where we are (or stated differently, what the current quality levels are), and we need to have some idea where we are going (or what quality levels we aspire to). This is an extremely important concept

- ◆ **Continuous improvement and learning:** TQM espouses a philosophy of continuous improvement in all areas of an organization. This philosophy ties in closely with the quality measurement and universal quality responsibility concepts mentioned above. Quality measurement is needed in order to focus improvement efforts appropriately.

Continuous improvement is part of the management of all systems and processes. Achieving the highest levels of performance requires a well-defined and well-executed approach to continuous improvement and learning. "Continuous improvement" refers to both incremental and "breakthrough" improvement. Improvements may be of several types:

- Enhancing value to the customer through new and improved products and services;
- Developing new business opportunities;
- Reducing errors, defects, and waste;
- Improving responsiveness and cycle time performance; and
- Improving productivity and effectiveness in the use of all resources.

"Learning" refers to adaptation to change, leading to new goals or approaches. Improvement and learning need to be embedded in the way an organization operates. This means they should be a regular part of daily work, seek to eliminate problems at their source, and be driven by opportunities to do better as well as by problems that need to be corrected.

- ◆ **Root cause corrective action:** Most of us have experienced instances in which problems we thought were corrected continued to occur. TQM seeks to prevent this by identifying the root causes of problems, and by implementing corrective actions that address problems at the root cause level.
- ◆ **Employee involvement and empowerment:** Another fundamental TQM concept is that employees must be involved and empowered. Employee involvement means every employee is involved in running the business and plays an active role in helping the organization meet its goals. Employee empowerment means employees and management recognize that many obstacles to achieving organizational goals can be overcome by employees who are provided with the necessary tools and authority to do so.
- ◆ **The synergy of teams:** In addition to the TQM concepts of empowerment and involvement of



employees, taking advantage of the synergy of teams is an effective way to address the problems and challenges of continuous improvement. Dr. Kaoru Ishikawa first formalized the teams concept as part of the TQM philosophy by developing quality circles in Japan.

- ◆ **Thinking statistically:** Statistical thinking is another basic TQM philosophy. Quality efforts often require reducing process or product-design variation, and statistical methods are ideally suited to support this objective.
- ◆ **Inventory reduction:** Largely in response to their lack of natural resources (as well as the 1970s worldwide oil shortages), the Japanese pioneered the concept of reducing inventories. This management philosophy became known as Just-in-Time (or JIT, for short) inventory management. The Japanese JIT inventory management concepts caught on in the United States and other nations. Although the concept was originally intended to address material shortages, an interesting side effect immediately emerged: As inventories grew smaller, quality improved.
- ◆ **Value improvement:** The linkage between continuous improvement and value improvement is simultaneously obvious and subtle. This linkage becomes apparent when one considers the definition of quality, which is the ability to meet or exceed customer requirements and expectations. The essence of value improvement is the ability to meet or exceed customer expectations while removing unnecessary cost. But simply cutting costs, however, will not improve value if the focus does not remain on satisfying customer requirements and expectations.
- ◆ **Supplier teaming:** Another principle of the TQM philosophy is to develop long-term relationships with a few high-quality suppliers, rather than simply selecting those suppliers with the lowest initial cost.
- ◆ **Training:** Training is basic to the TQM process. The concept is based on empowering employees by providing the tools necessary for continuous improvement. One of the most basic tools is training.

"TQM is a management philosophy, an abstract entity!"

But TQM is not an overnight cure for an organization's quality problems. The TQM implementation process is not a program. A TQM implementation effort has a beginning, but if implemented properly, it does not have an ending. The continuous improvement process continues indefinitely in organizations that successfully implement TQM. TQM requires patience when embarking on its journey.

4.2 TQM and traditional management practices

TQM is quite different from traditional management practices, requiring changes in organizational processes, beliefs and attitudes, and behaviours. "Traditional management" means the way things are usually done in most organizations in the absence of a TQM focus. Many "traditional"



Strategic Management

organizations have been applying TQM principles all along, so not all of these comments pertain to every organization. The nature of TQM differs from common management practices in many respects. Some of the key differences are as follows:

- ◆ **Strategic Planning and Management:** Quality planning and strategic business planning are indistinguishable in TQM. Quality goals are the cornerstone of the business plan. Measures such as customer satisfaction, defect rates, and process cycle times receive as much attention in the strategic plan as financial and marketing objectives.
- ◆ **Changing Relationships with Customers and Suppliers:** In TQM, quality is defined as products and services beyond present needs and expectations of customers. Innovation is required to meet and exceed customers' needs. Traditional management places customers outside of the enterprise and within the domain of marketing and sales. TQM views everyone inside the enterprise as a customer of an internal or external supplier, and a supplier of an external or internal customer. Marketing concepts and tools can be used to assess internal customer needs and to communicate internal supplier capabilities.
- ◆ **Organizational Structure:** TQM views the enterprise as a system of interdependent processes, linked laterally over time through a network of collaborating (internal and external) suppliers and customers. Each process is connected to the enterprise's mission and purpose through a hierarchy of micro- and macro-processes. Every process contains sub-processes and is also contained within a higher process. This structure of processes is repeated throughout the hierarchy.
- ◆ **Organizational Change:** In TQM the environment in which the enterprise interacts is considered to be changing constantly. Management's job, therefore, is to provide the leadership for continual improvement and innovation in processes and systems, products, and services. External change is inevitable, but a favourable future can be shaped.
- ◆ **Teamwork:** In TQM individuals cooperate in team structures such as quality circles, steering committees, and self-directed work teams. Departments work together toward system optimization through cross-functional teamwork.
- ◆ **Motivation and Job Design:** TQM managers provide leadership rather than overt intervention in the processes of their subordinates, who are viewed as process managers rather than functional specialists. People are motivated to make meaningful contributions to what they believe is an important and noble cause, of value to the enterprise and society. The system enables people to feel like winners.

5. SIX SIGMA AND MANAGEMENT

Six sigma is often related to Motorola, the company that has invented it. In the eighth decade of the 20th century, Motorola's significantly changed the discussion of quality from one where quality levels were measured in percentages (parts per hundred) to parts per million or even parts per billion. It pointed out that modern technology was so complex that old ideas about acceptable



quality levels are no longer acceptable. The success of Motorola effectively changed the focus of quality worldwide. Many giants like Xerox, Boeing, GE, Kodak followed Motorola's lead. In India also Tata's, WIPRO and Bharti's and others are effectively reaping the benefits of six-sigma.

Human quest for better quality is unending. With the help of technology and newer tools organizations enhance quality of their products that are seemingly of very good quality. Quality refers to the degree of excellence and standard. Better quality is often correlated with superior processes and products.

Strategically, a product of good quality should be able to meet the specifications of customer and should be able to satisfy him. If battery of a wristwatch lasts for eight months, but is expected to last for a year by the customer, then the product battery is not of desired quality. Good quality should not always be associated with good products.

Another dimension of quality is that it should not be restricted to satisfying the existing desires of customers. It should not put a boundary on quality by limiting it to the current information and perspective of customers. Rather it should be futuristic, i.e., in addition to meeting customer's present expectations, it should be able to improve them.

5.1 What is Six Sigma?

Primarily Six Sigma means maintenance of the desired quality in processes and end products. It means taking systemic and integrated efforts toward improving quality and reducing cost.

It is a highly disciplined process that helps in developing and delivering near-perfect products and services. It strives to meet and improve organizational goals on quality, cost, scheduling, manpower, new products and so on. It works continuously towards revising the current standards and establishing higher ones.

Six Sigma has its base in the concept of probability and normal distribution in statistics. Six Sigma strives that 99.99966% of products manufactured are defect free. Six Sigma is a smarter way to manage a business or a department. Six Sigma puts the customer first and uses facts and data to drive better solutions.

Six Sigma efforts target three main areas:

- ◆ Improving customer satisfaction
- ◆ Reducing cycle time
- ◆ Reducing defects

Improvements in these areas usually represent dramatic cost savings to businesses, as well as opportunities to retain customers, capture new markets, and build a reputation for top performing products and services.

Although it involves measuring and analyzing an organization's business processes, Six Sigma is not merely a quality initiative; it is a business initiative. Achieving the goal of Six Sigma requires



Strategic Management

more than small, incremental improvements; it requires breakthroughs in every area of an operation. In statistical terms, "reaching Six Sigma" means that your process or product will perform with almost no defects.

But the real message of Six Sigma goes beyond statistics. Six Sigma is a total management commitment and philosophy of excellence, customer focus, process improvement, and the rule of measurement rather than gut feel. Six Sigma is about making every area of the organization better able to meet the changing needs of customers, markets, and technologies - with benefits for employees, customers, and shareholders.

The background of Six Sigma stretches back eighty-plus years, from management science concepts developed in the United States to Japanese management breakthroughs to "Total Quality" efforts in the 1970s and 1980s. But its real impact can be seen in the waves of change and positive results sweeping such companies as GE, Motorola, Johnson & Johnson, and American Express.

GE's Key Concepts of Six Sigma	
At its core, Six Sigma revolves around a few key concepts.	
Critical to Quality:	Attributes most important to the customer
Defect:	Failing to deliver what the customer wants
Process Capability:	What your process can deliver
Variation:	What the customer sees and feels
Stable Operations:	Ensuring consistent, predictable processes to improve what the customer sees and feels
Design for Six Sigma:	Designing to meet customer needs and process capability

Source: <http://www.ge.com/sixsigma/sixsigstrategy.html>

5.2 Six sigma methodology

For implementing six sigma there are two separate key methodologies for existing and new processes. Conceptually there is some overlapping between the two. The two methodologies as follows:

1. **DMAIC:** DMAIC methodology is an acronym for five different steps used in six sigma directed towards improvement of existing product, process or service. The five steps are as follows:
 - ◆ *Define:* To begin with six sigma experts define the process improvement goals that are consistent with the strategy of the organization and customer demands. They discuss different issues with the senior managers so as to define what needs to done.



- ◆ *Measure*: The existing processes are measured to facilitate future comparison. Six sigma experts collect process data by mapping and measuring relevant processes.
 - ◆ *Analyze*: Verify cause-and-effect relationship between the factors in the processes. Experts need to identify the relationship between the factors. They have to make an comprehensive analyses to identify hidden or not so obvious factor.
 - ◆ *Improve*: On the basis of the analysis experts make a detailed plan to improve.
 - ◆ *Control*: Initial trial or pilots are run to establish process capability and transition to production. Afterwards continuously measure the process to ensure that variances are identified and corrected before they result in defects.
2. **DMADV**: DMADV is again acronym for the steps followed in implementing six sigma. It is a strategy for designing new products, processes and services.
- ◆ *Define*: As in case of DMAIC six sigma experts have to formally define goals of the design activity that are consistent with strategy of the organization and the demands of the customer.
 - ◆ *Measure*: Next identify the factors that are critical to quality (CTQs). Measure factors such as product capabilities and production process capability. Also assess the risks involved.
 - ◆ *Analyze*: Develop and design alternatives. Create high-level design and evaluate to select the best design.
 - ◆ *Design*: Develop details of design and optimise it. Verify designs may require using techniques such as simulations.
 - ◆ *Verify*: Verify designs through simulations or pilot runs. Verified and implemented processes are handed over to the process owners.

5.3 What's New About Six Sigma?

In the 1980s, Total Quality Management (TQM) was popular. It too was an improvement-focused program, but it ultimately died a slow and silent death in many companies. What makes Six Sigma different?

Three key characteristic separate Six Sigma from other quality programs of the past. .

1. *Six Sigma is customer focused*. It's almost an obsession to keep external customer needs in plain sight, driving the improvement effort. (External customers are mostly those who buy business's products and services.)
2. *Six Sigma projects produce major returns on investment*. GE's CEO, Jack Welch, wrote in the annual report that in just three years, Six Sigma had saved the company more than \$2 billion.
3. *Six Sigma changes how management operates*. Six Sigma is much more than improvement



projects. Senior executives and leaders throughout a business are learning the tools and concepts of Six Sigma: new approaches to thinking, planning, and executing to achieve results. In a lot of ways, Six Sigma is about putting into practice the notions of working smarter, not harder.

Six Sigma has produced some impressive numbers. But reaching them requires a great deal of organizational teamwork. It means having the systems to provide customers what they want when they want it. It means providing employees with the time and training to tackle work challenges with some basic, and some sophisticated, analytical tools.

When a business violates important customer requirements, it is generating defects, complaints, and cost. The greater the number of defects that occur, the greater the cost of correcting them, as well as the risk of losing the customers. Ideally, your company wants to avoid any defects and the resulting cost in money and customer satisfaction.

But if a company have lots of customers, some defects are bound to slip through, right? The problem is that even a seemingly low percentage of defects can mean a lot of unhappy customers. If company processed 250,000 credit card bills a month and operated at 99.38 percent accuracy (4 sigma), we would have about 1,550 unhappy customers every month.

The goal of Six Sigma is to help people and processes aim high in aspiring to deliver defect-free products and services. The notion of zero defects is not at work here; Six Sigma recognizes that there's always some potential for defects, even in the best run processes or best-built product. But at 99.9997 percent performance, Six Sigma sets a performance target where defects in many processes and products are almost nonexistent.

Also defects can lead to lost customers, and turned-off customers tell others about their experiences, making it that much more difficult to recover from defects. As customers get more and more demanding and impatient, these high levels of defects put a company in serious risk. But keeping customers happy is good and profitable for the business. A 5 percent increase in customer retention has been shown to increase profits more than 25 percent. It is estimated that companies lose 15 percent to 20 percent of revenues each year to ineffective, inefficient processes-although some might suggest that it's even higher. Six Sigma provides a goal that applies to both product and service activities and that sets attainable, short-term goals while striving for long-range business objectives.

5.4 Six Sigma as a system of management

A significant difference between Six Sigma and seemingly similar programs of past years is the degree to which management plays a key role in regularly monitoring program results and accomplishments. When Jack Welch introduced the Six Sigma program at GE, he told senior executives that 40 percent of their annual bonus would be based on their involvement and success in implementing Six Sigma.

That focused executive attention on turbo-charging Six Sigma in their individual divisions. Training



in GE was given a huge boost, and thousands of teams were trained in large sessions. At the same time, executives throughout GE participated in days and sometimes weeks of Six Sigma training.

But training alone is not a management system. A management system involves accountability for results and ongoing reviews to ensure results. With both accountability and regular reviews, managers can begin to use Six Sigma as a guide to leading their businesses.

As a management system, though, Six Sigma is not owned by senior leaders (although their role is critical) or driven by middle management (although their participation is key). The ideas, solutions, process discoveries, and improvements that arise from Six Sigma take place at the front lines of the organization. Six Sigma companies are striving to put more responsibility into the hands of the people who work directly with customers.

In short, Six Sigma is a system that combines both strong leadership and grassroots energy and involvement. In addition, the benefits of Six Sigma are not just financial. People at all levels of a Six Sigma company find that better understanding of customers, clearer processes, meaningful measures, and powerful improvement tools make their work more rewarding.

5.5 Six Themes of Six Sigma

The critical elements of Six Sigma can be put into six themes as follows:

Theme one – genuine focus on the customer: Companies launching Six Sigma have often been appalled to find how little they really understand about their customers. In Six Sigma, customer focus becomes the top priority. For example, the measures of Six Sigma performance begin with the customer. Six Sigma improvements are defined by their impact on customer satisfaction and value.

Theme two – data and fact-driven management: Six Sigma takes the concept 'of "management by fact" to a new, more powerful level. Despite the attention paid in recent years to improved information systems, knowledge management, and so on, many business decisions are still being based on opinions and assumptions. Six Sigma discipline begins by clarifying what measures are key to gauging business performance and then gathers data and analyzes key variables. Then problems can be much more effectively defined, analyzed, and resolved-permanently. At a more down-to-earth level, Six Sigma helps managers answer two essential questions to support data-driven decisions and solutions.

- ◆ What data/information do I really need?
- ◆ How do we use that data/information to maximum benefit?

Theme three – processes are where the action is: Whether focused on designing products and services, measuring performance, improving efficiency and customer satisfaction, or even running the business, Six Sigma positions the process as the key vehicle of success. One of the most remarkable breakthroughs in Six Sigma efforts to date has been convincing leaders and managers-



Strategic Management

particularly in service-based functions and industries-that mastering processes is a way to build competitive advantage in delivering value to customers.

Theme four – proactive management: Most simply, being proactive means acting in advance of events rather than reacting to them. In the real world, though, proactive management means making habits out of what are, too often, neglected business practices: defining ambitious goals and reviewing them frequently, setting clear priorities, focusing on problem prevention rather than fire-fighting, and questioning why we do things instead of blindly defending them.

Far from being boring or overly analytical, being truly proactive is a starting point for creativity and effective change. Six Sigma, encompasses tools and practices that replace reactive habits with a dynamic, responsive, proactive style of management.

Theme five – boundaryless collaboration: "Boundarylessness" is one of Jack Welch's mantras for business success. Years before launching Six Sigma, GE's chairman was working to break barriers and to improve teamwork up, down, and across organizational lines. The opportunities available through improved collaboration within companies and with vendors and customers are huge. Billions of dollars are lost every day because of disconnects and outright competition between groups that should be working for a common cause: providing value to customers.

Theme six – drive for perfection; tolerate failure: How can you be driven to achieve perfection and yet also tolerate failure? In essence, though, the two ideas are complementary. No company will get even close to Six Sigma without launching new ideas and approaches-which always involve some risk. If people who see possible ways to be closer to perfect are too afraid of the consequences of mistakes, they'll never try.

Finally we must bear in mind that Six Sigma is a gradual process. It starts with a dream or a vision: the goal of near-perfect products and services and superb customer satisfaction. If you are willing to take on this challenge and if your company is willing to support your effort, you will find that few endeavours in your career yield as much satisfaction.

6. CONTEMPORARY STRATEGIC ISSUES

If we want to stay competitive, we need to be in e-commerce

– Jessica Chu, Marketing manager, Aaeon Technology, Taiwan

Our strategy is to integrate the internet into all of our core business.

– Thomas Middelhoff, CEO, Bertelsmann AG, Germany

6.1 Strategies for Internet Economy

The impact of the Internet and the rapidly emerging e-commerce environment is profound. The advent of the Internet and online networks changes everything. There can be no doubt that the Internet is a driving force of historical and revolutionary proportions. The coming of e-commerce has changed the character of the market, created new driving forces and key success factors and



bred the formation of new strategic groups. The creativeness with which a company incorporates e-commerce practices holds enormous potential for reconfiguring its value chain and affecting its company's competitiveness. Also the Internet economy presents opportunities and threats that demand strategic response and that require managers to craft bold new strategies.

What is Internet Technology?

The Internet is an integrated network of banks of servers and high-speed computers, digital switches and routers, telecommunications equipment and lines, and individual users' computers. The backbone of the Internet consists of telecommunications lines (fibre optic lines, high-capacity telephone lines) criss-crossing countries, continents, and the world that allow computers to transfer data in digital form at very high speed. The bandwidth of the line determines the capacity or speed of the data transfer. These lines are connected to computer like digital switches that move traffic along the backbone lines; many of these switches act as routers, deciding which way to direct the traffic and how to handle the requests of users' computers to send or obtain data based on the destinations and line congestion.

Users gain access to the network via a local area network (LAN) server or an Internet service provider's computerized switch that has the capability to route traffic to and from end users directly connected to it. Many different types of specialized software are required to make the Internet function and infuse it with attractive e-commerce capabilities.

Strategy-shaping characteristics of the E-Commerce environment

We need to understand how growing use of the Internet by businesses and consumers reshapes the economic landscape and alters traditional industry boundaries. The following features stand out:

- ◆ **The Internet makes it feasible for companies everywhere to compete in global markets:** This is true especially for companies whose products are of good quality and can be shipped economically. In retailing, the Internet opens up a much bigger geographic market than a traditional brick-and-mortar retailer could otherwise reach. e-commerce escalates rivalry among sellers in different geographic areas to a whole new level.
- ◆ **Competition in an industry is greatly intensified by the new e-commerce strategic initiatives of existing rivals and by the entry of new, enterprising e-commerce rivals:** Not only is the Internet an important new distribution channel that allows sellers to reach vast numbers of buyers relatively inexpensively but the use of online systems afforded by the Internet also holds considerable potential for improving business efficiency and lowering operating costs. Hence, innovative use of the Internet adds a valuable weapon to the competitive arsenal of rival sellers, giving them yet another way to jockey for market position and manoeuvre for competitive advantage.
- ◆ **Entry barriers into the e-commerce world are relatively low:** Many of the activities comprising the value chains of e-commerce businesses can be outsourced. The software



necessary for establishing a Web site is readily available (if entrepreneurs do not wish to develop their own), and the costs of using a Web hosting company to manage the servers and maintain the site are relatively modest. Relatively low entry barriers explain why there are already hundreds of thousands of newly formed e-commerce firms, with perhaps millions more to spring up around the world in years to come. In many markets and industries, entry barriers are low enough to make additional entry both credible and likely.

- ◆ **Online buyers gain bargaining power because they confront far fewer obstacles to comparing the products, prices, and shipping times of rival vendors:** Vendor Web sites are only a few clicks apart and are open for business 24 hours a day, every day of the year, giving buyers unprecedented ability to compare offerings and find the best value. Using online networks, a multinational manufacturer's geographically scattered purchasing groups can easily pool their orders with parts and components suppliers and bargain for volume discounts. Likewise, it is feasible for wholesalers to use online systems to research the products, prices, and features of competing manufacturers and for retailers to shop around and bargain for the best deals from manufacturers and distributors who supply them. Individual consumers can readily get reviews of products, compare the features and prices of rival brands, and put up bids for how much they are willing to pay for items. The Internet eliminates the geographic protection of distance that has traditionally given small-town businesses the advantage of being the only source within reasonable driving distance. Using the Internet, buyers can readily negotiate car purchases with dealers hundreds of miles away.
- ◆ **The Internet makes it feasible for companies to reach beyond their borders to find the best suppliers and, further, to collaborate closely with them to achieve efficiency gains and cost savings:** In an e-commerce environment companies can use the Internet to integrate foreign suppliers into their supply chain networks more tightly, boosting savings and speeding new products to market. All companies can extend their geographic search for suppliers and can collaborate electronically with chosen suppliers to streamline ordering and shipping of parts and components, improve just-in-time deliveries, work in parallel on the designs for new products, and communicate speedily and efficiently. But the chief point here is that new competitive pressures can spring from the e-commerce relationships between companies and their suppliers-companies not only gain added bargaining power over their suppliers but efficient online collaboration with chosen suppliers can also be a basis for gaining an edge over rivals.
- ◆ **Internet and PC technologies are advancing rapidly, often in uncertain and unexpected directions:** For example, a few years ago, both Intel and Microsoft were focusing all their energies on expanding the role of the personal computer as a multifunctional appliance in both business significance of the internet and bad to initiate crash programs to redirect their efforts.
- ◆ **The internet results in much faster diffusion of new technology and new idea across the world:** Companies in emerging countries and elsewhere can use the internet to monitor the



latest technological developments and to stay abreast of what is transpiring in the markets of Europe, Japan, and North America and what the leading companies in these areas are doing.

- ◆ **The e-commerce environment demands that companies move swiftly:** In the exploding e-commerce world, speed is a condition of survival. New developments on first one front and then another occur daily. Market and competitive conditions change very quickly. Late movers are doomed.
- ◆ **E-commerce technology opens up a host of opportunities for reconfiguring industry and company value chains:** Using the internet to link the orders of customers with the suppliers of components enables just-in-time delivery to manufacturers, slicing inventory costs and allowing production to match demand. It allows more accurate demand forecasting. Tight supply chain management starting with customer orders and going all the way back to components production, coupled with the use of enterprise resource planning (ERP) software and manufacturing execution system (MES) software, can make custom manufacturing just as cheap as mass production, and sometimes cheaper. The impact of e-commerce technology on industry and company value chains is profound, paving the way for fundamental changes in the ways business is conducted both internally and with suppliers and customers.
- ◆ **The Internet can be an economical means of delivering customer service:** The Internet provides innovative opportunities for handling customer service activities. Companies are discovering ways to deliver service online, thus curtailing the need to keep company personnel at the facilities of major customers, reducing staffing levels at telephone call centers, and cutting the time required for service technicians to respond to customer faxes and e-mail messages.
- ◆ **The capital for funding potentially profitable e-commerce businesses is readily available:** In the Internet age, e-commerce businesses have found it relatively easy to raise hundreds of millions, even billions, of dollars to fund a promising new venture. Venture capitalists are quite willing to fund start-up enterprises provided they have a promising technology or idea, an attractive business model, and a well thoughtout strategic plan
- ◆ **The needed e-commerce resource in short supply is human talent-in the form of both technological expertise and managerial know-how:** While some e-commerce companies have their competitive advantage lodged in patented technology or unique physical assets or brand-name awareness, many are pursuing competitive advantage based on the expertise and intellectual capital of their personnel and on their organizational competencies and capabilities. Two of the most valuable competitive assets a company can have are dominating depth in a particular technology and a workforce with exceptional know-how and experience that gives a firm uniquely strong skills and competitive capabilities. E-commerce firms are thus competing aggressively for talent and intellectual capital; individuals with attractive qualifications and know-how can command premium compensation, including equity ownership or lucrative stock options in start-up enterprises.



It is that growing use of e-commerce technology can produce important shifts in an industry's competitive forces – intensified rivalry, greater entry threats, a blurring of traditional industry and geographic boundaries, shifts in the balance of bargaining power both between sellers and their suppliers and between sellers and their customers, and incentives for all kinds of seller-supplier and seller-customer collaboration.

Internet technology and newly emerging products and services that enable e-commerce further have the effects of altering industry value chains, spawning substantial opportunities for increasing efficiency and reducing costs, and affecting a company's resource strengths and weaknesses. Moreover, the pace of technological change is rapid and its direction is often uncertain. Market developments occur swiftly, compelling companies to make decisions at Internet speed or risk getting left behind in the dust.

6.2 Strategic management in non-profit and government organization

Business organization can be classified as commercial or 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 strategic management.

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

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 centers, outpatient surgery and diagnostic centers, physical rehabilitation centers, home health services, cardiac rehabilitation centers, 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.



Strategic Management

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.

Self-Examination Questions

Objective type question

State with reasons which of the following statements are correct/incorrect:

- (a) BPR stands for 'business practices reinstatement'.
- (b) The focus of benchmarking is to study existing processes and eliminate the ones that are redundant.
- (c) Benchmarking helps in setting goals and measuring productivity based on best industry practices.
- (d) The statistical technique of Correlation is forms base of six sigma:
- (e) The focus of six sigma is on customers.
- (f) Internet has opened up new opportunities for business organisations.
- (g) Use of Internet is restricted to sending and receiving mails in business organisations.

Short answer questions

1. Define process.
2. What is product development?
3. Explain dogs in BCG matrix?

Essay type questions

1. What is TQM? Compare it with traditional management practices.
2. Explain business process reengineering. How can it be implemented?

Case Study

High Growth Enterprises, a business owned by Ram Swaroop and his brothers posted a two fold rise in net profit at Rs. 60 crore in the third quarter of the current financial year as against Rs. 20 crore during the corresponding period last year. Sales during the period climbed 90 per cent at Rs. 663 crore. The company in the first nine months of the current year posted a net profit of Rs. 145.7 crore.

Ram Swaroop attributed the good performance and ongoing improvement in quality in manufacturing processes. His younger brother Vinod Swaroop displayed his happiness on the



Reaching Strategic Edge

performance and said that we can further improve the performance by using six sigma methodology.

Ram Swaroop felt that the existing focus on quality is good enough as it was giving good results.

- (a) Do you agree with Ram Swaroop to keep focus on quality? Why.
- (b) What is six sigma? How can it be useful to the company?