CONTENT STRUCTURE

Introduction to Strategy & Strategic Management

What is Strategy?

The concept of strategy has been borrowed from the military and adapted for use in business.

Strategy is a term that comes from the Greek '*strategia*', meaning "generalship."

In the military, strategy often refers to maneuvering troops into position before the enemy is actually engaged. In this sense, strategy refers to the deployment of troops.

Dictionary: Strategy is a plan, method, or a series of maneuvers or stratagems for obtaining a specific goal or result.

Strategy is about understanding what you do, looking out over the long-term future to determine what you want to become, and—most importantly—focusing on how you plan to get there.

Management: Strategy is a plan or pattern that integrates an organization's major goals, policies and action sequences into a cohesive whole.

Strategy is about creating Value: the creation of a unique and valuable position, involving a different set of activities.

Drucker: Strategy is a purposeful action. Contd …

What is Strategy (contd)

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

•Our present market is what, where and to whom we are selling what we now sell. Survival depends on keeping 100% of this market.

•Strategy is about making choices; about 'who, what, how': who is our chosen customer; what are we going to sell; and how are we going to deliver that value proposition.

According to George Steiner:

•Strategy is that which top management does that is of great importance to the organization.
•Strategy refers to basic directional decisions, that is, to purposes and missions.
•Strategy consists of the important actions necessary to realize these directions.
•Strategy answers the question: What should the organization be doing?
•Strategy answers the question: What are the ends we seek and how should we achieve them?
•Strategy is all these—it is perspective, position, plan, and pattern. Strategy is the bridge between policy or high-order goals on the one hand and tactics or concrete actions on the other. Strategy and tactics together straddle the gap between ends and means. In short, strategy is a term that refers to a complex web of thoughts, ideas, insights, experiences, goals, expertise, memories, perceptions, and expectations that provides general guidance for specific actions in pursuit of particular ends.

What is NOT Strategy

- Goals are not strategy e.g. "We want to be number one or two in the market". The route towards the goal is the strategy.
- Strategy is not what you were doing anyway. Most companies look for some formulation that fits in all the things that they were doing anyway.
- It is not wrong if it constitutes a consistent set of coherent choices.
- '*AHOLD'* (Albert Heijn Holdings, a Dutch international supermarket conglomerate, it merged with Delhaize Group in 2016) stated to be "*multi-format, multi-local, multi-channel*". It did not exclude anything.
- Strategy is Not about *Planning & Budgeting*. Planning represents a calculating style of management, not a committing style which engages people.
- Strategy is Not *Operational Effectiveness* (*Necessary* but not *sufficient*). Operational effectiveness means performing similar activities better than rivals, a quest for improving cost, quality & speed.
- Strategy is not a secret. Some companies really have formulated a wonderful strategy but their middle and lower managers are unable to tell what it is. If not known to others, it cannot influence their actions and decisions.

Pitfalls of Strategic Planning

- Ineffective Pre-Planning
- Lack of Ownership and Commitment by Management
- Not Getting Support Early from People that Matter
- The Plan Is Too Complex
- Allocating Too Few Resources to Planning and Implementation
- Developing Mission, Vision, Values Statements that Lack Substance
- Seeing the Strategic Plan Document as an End in Itself
- A Reliance On Spreadsheets Is Slowing You Down
- Starting at the "Wrong Place"
- Not Tracking Progress Effectively
- Failing to Cascade Planning to All Levels of the Organization
- Lack of Focus on Customer Value Creation
- Not Having Annual Reviews and Updates
- Having only an yearly retreat.

What Does Strategy mean?

- What is our present situation?
  - Business environment and industry conditions
  - Firm's financial and competitive capabilities
- Where do we want to go from here?
  - Creating a vision for the firm's future direction
- How are we going to get there?
  - Crafting an action plan for heading the firm in the intended direction, staking out a market position, attracting customers, achieving the targeted financial and market performance, and getting the firm where it wants to go is its strategy.

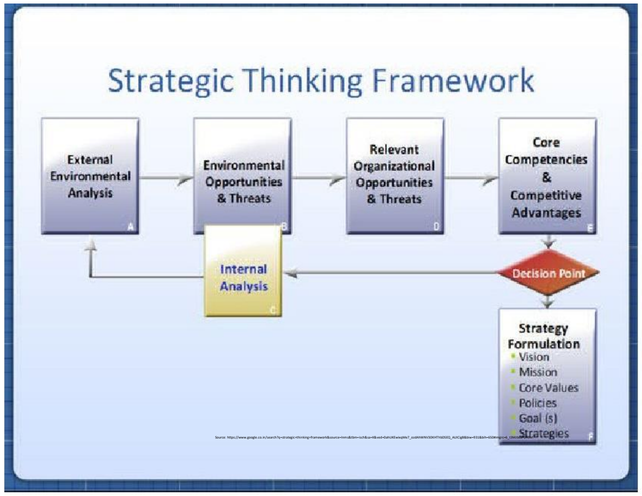
What is Strategy *About*?

Strategy is all about:

- ***How*** to attract and please customers.
- ***How*** to compete against rivals.
- ***How*** to position the firm in the marketplace.
- ***How*** best to respond to changing economic and market conditions.
- ***How*** to capitalize on attractive opportunities to grow the business.
- ***How*** to achieve the firm's performance targets.

Strategic Thinking

•Strategic Thinking is a planning process to develop business strategies that have a greater chance for success.
•Strategic thinking is an ability to see the total enterprise, to spot the trends and understand the competitive landscape, to see where the business needs to go and to lead it into the future.
•Past experience is not always the best basis for developing future strategies. Executives need to thoughtfully consider how to create value for customers.
•Strategic Thinking is the "What" and the "Why"...that is what should we be doing and why.
•Strategic Planning is the "How" and "When" ...at a very high level.
Strategic Thinking is a broader and more innovative way of thinking on a daily basis about the overall goals of your job, team, and organization.
It helps you **clarify your goals, desired outcomes, or vision** that you want the whole system to achieve, along with constant feedback vs. the desired outcomes.
It allows **the relationships and fit of the parts** and pieces to each other to be supporting not hindering, achievement of the whole
It leads to a **powerful synergy of people working together** to achieve the same common goals or a vision **in a better and superior way**



Strategic Thinking Vs. Strategic Planning

Strategic Thinking

1. Only the shape of the future can be predicted
2. Formulation and implementation are interactive rather than sequential and discrete
3. Lower-level managers have a voice in strategy-making, as well as greater latitude to respond opportunistically to developing conditions
4. Relies on self-reference & a sense of strategic intent and purpose embedded in the minds of managers throughout the organization that guides their choices on a daily basis in a process that is often difficult to measure and monitor from above.

Strategic Planning

1. Future is predictable and specifiable in detail
2. The roles of formulation and implementation can be neatly divided
3. Senior executives obtain the needed information from lower-level managers, and then use it to create a plan which is, in turn, disseminated to managers for implementation.
4. Asserts control through measurement systems, assuming that organizations can measure and monitor important variables both accurately and quickly

Contd …

Strategic Thinking Vs. Strategic Planning (Contd)

Strategic Thinking

5. All managers understand the larger system, the connection between their roles and the functioning of that system, as well as the interdependence between the various roles that comprise the system
6. Sees strategy and change as inescapably linked and assumes that finding new strategic options and implementing them successfully is harder and more important than evaluating them.
7. Sees the planning process itself as a critical value-adding element.

Strategic Planning

5. Lower-level managers need only know his or her own role well and can be expected to defend only his or her own turf.
6. The challenge of setting strategic direction is primarily analytic
7. Focus is on the creation of the plan as the ultimate objective.

A Hierarchy of Company Statements

A Hierarchy of Company Statements

Organizational direction comes in several forms. The mission statement is your loftiest guiding light—and your least specific. As you work your way down the hierarchy, the statements become more concrete, practical, and ultimately unique. No other company will have the same strategy statement, which defines your competitive advantage, or balanced scorecard, which tracks how you implement your particular strategy.

MISSION
Why we exist

VALUES
What we believe in and how we will behave

VISION
What we want to be

STRATEGY
What our competitive game plan will be

BALANCED SCORECARD
How we will monitor and implement that plan

The BASIC ELEMENTS of a Strategy Statement

OBJECTIVE = Ends
SCOPE = Domain
ADVANTAGE = Means

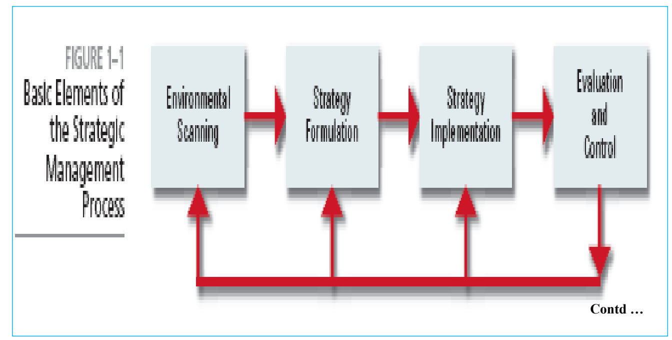
(Source: Harvard Business Review, 2008)

Illustration: McDonald's strategy

McDonald's strategy in Quick-service Restaurant Industry

- *Plan-to-Win* strategy focus-"Being better, not just bigger" (2011)
- Key initiatives of the *Plan-to-Win* strategy:
  – Improved restaurant operations (employee training program, leadership institute, close monitoring food and utility costs)
  – Affordable pricing (Scrutinizing operating costs)
  – Wide menu variety and beverage choices (McCafe, Mcbreakfast)
  – Convenience and expansion of dining opportunities (Dining outlets, drive-thru)
  – Ongoing restaurant reinvestment and international expansion (emerging markets)

Basic Model of Strategic Management



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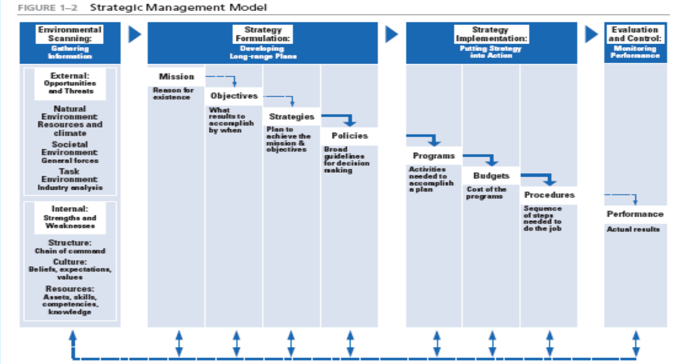
Basic Model of Strategic Management: Strategic Management Process

FIGURE 1–2 Strategic Management Model



Elements of Strategic Management Process

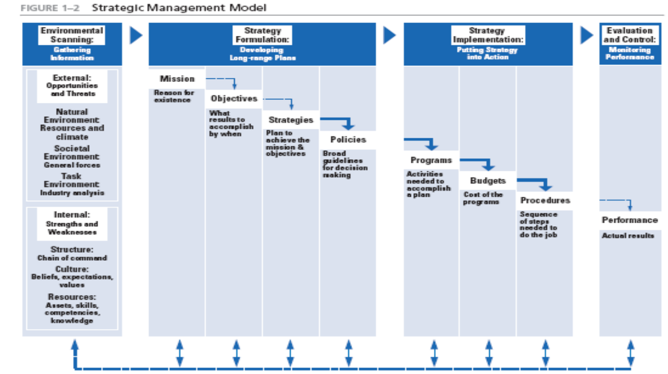
Contents:

- Strategic Management Process
- Crafting Strategy
- Mintzberg's 4P Strategy Model
- Industry Cycles
- Behavioural Strategy
- Three Levels of Strategies
- Porter's Competitive Strategy Model

Ref: T1 Ch.1, R2 Ch. 2. Pre-recorded content/videos RL 1.2.1, RL 1.2.5, RL 1.3.1, RL 1.3.2

Strategic Management Process

FIGURE 1–2 Strategic Management Model



Elements of Strategic Formulation

•Vision is what the organization aspires to become in the future. It may describe the purpose and values of the organization.
•In 1961, Kennedy articulated a highly concrete and time-bound objective " *..achieving the goal ..before this decade is out, of landing a man on the moon and returning him safely to earth*."
•IKEA: *"To create a better everyday life for the many people."* This vision goes beyond home furnishing. We want to have a positive impact on the world – from the communities where we source our raw materials to the way our products help our customers live a more sustainable life at home.
• Mission is the purpose or reason for an organization's existence. Mission statement defines the fundamental, unique purpose that sets a company apart from others.
Example: To serve the best interests of shareholders, customers and employees.
•Objectives are the end results of a planned activity. They are stated as action verbs and tell the employees what is to be achieved and when, with appropriate metrics.
•Strategies form a comprehensive master approach that states how the business will achieve its mission and objectives.
•Policies are broad guidelines for decision making that links the formulation of a strategy with its implementation.
Example: General Electic (GE) must be number one or two wherever it competes.

Crafting Strategy

Many of us brainstorm opportunities, and then plan how to exploit them.
While this approach is important, there is no point in developing a strategy that ignores competitors' reactions, or ignores the culture and capabilities of your organization. And it would be wasteful not to make full use of your company's strengths – whether these are obvious or not.
Henry Mintzberg, argued that it can be difficult to get strategy right. To help us think about it in more depth, he developed his 4 Ps of Strategy – four different approaches to developing strategy.
By understanding each P, you can develop a robust business strategy that takes full advantage of your organization's strengths and capabilities.
Mintzberg's 4P Crafting Strategy uses Plan, Pattern, Position, and Perspective to derive four distinct processes of strategy formation: Planning, Visioning, Venturing, and Learning.

- Manager-Craftsman, Strategies-Clay
- Strategies are both the plans for future and the patterns from the past
- There is no one best way to make strategy
- To manage Strategy is to craft thought and action, control and learning, stability and change.

Contd …

Crafting Strategy (contd)

- The key for Crafting Strategies is establishing an intimate connection between Thought & Action.
- 4P Strategy merges formulation and implementation into a fluid process of Learning through which creative strategies evolve.

•Emergent strategies are responses or reactions from an organisation to the unexpected problems & opportunities that arise in the firm's external environment. These occur typically at the implementation stage of the strategy.
•Intended strategy is a strategy which is framed by the top management. This is often the end result of the process of negotiation, bargaining and compromise involving different interest groups and individuals of an organisation. Only 10-30% of the intended strategy may be realized by the organisation.

Contd …

4 P Strategy by Mintzberg

4 Ps: Planning, Pattern, Position, Perspective

•Planning
➢Planning comes naturally to many managers and, as such, has become the default first step.
➢Planning is an essential part of the strategy formulation process, so take time to brainstorm new opportunities. Planning is an intended strategy.
➢The problem with Planning, however, is that it is not enough on its own. This is where the other Ps come into play.

•Pattern
➢Strategic plans are a series of deliberate decisions and actions over a period of time. They are the basis of Emergent strategies. Sometimes, however, strategy emerges from a past organizational behaviour. Rather than being an intentional choice, a consistent and successful way of doing business can develop into a strategy.

Contd …

4 P Strategy by Mintzberg (Contd)

➢For instance, imagine a manager who makes decisions that enhance an already highly responsive customer support process. Despite not deliberately choosing to build a strategic advantage, their *pattern* of actions nevertheless creates one.

➢Take note of the patterns you see in your team and organization. Then, ask yourself whether these patterns have become an implicit part of your strategy; and think about the impact these patterns should have on how you approach the strategic planning.

•Position
➢Position is another way to define strategy – that is, how you decide to position yourself in the marketplace. In this way, strategy helps you explore the fit between your organization and environment, and it helps you develop a sustainable competitive advantage.
➢For example, your strategy might include developing a niche product to avoid competition, or choosing to position yourself amongst a variety of competitors, while looking for ways to differentiate your services.

•Perspective
➢The choices an organization makes about its strategy rely heavily on its culture – just as patterns of behaviour can emerge as strategy, patterns of thinking will shape an organization's perspective, and the things that it is able to do well.

Contd …

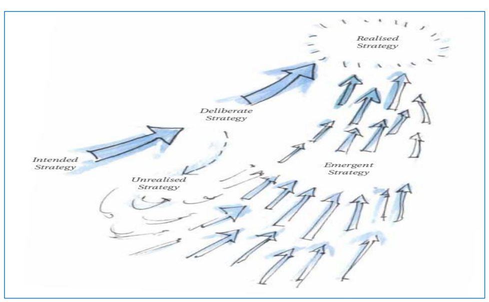
4 P Strategy by Mintzberg (Contd)

➢For instance, an organization that encourages risk-taking and innovation from employees might focus on coming up with innovative products as the main thrust behind its strategy. By contrast, an organization that emphasizes the reliable processing of data may follow a strategy of offering these services to other organizations under outsourcing arrangements.

•KEY POINTS:

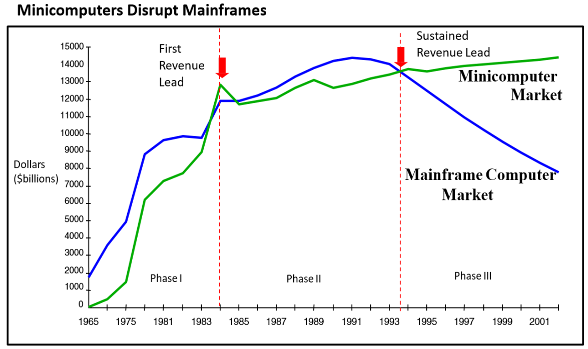
- Each of the 4 Ps stands for a different approach to strategy.
- As a Plan, strategy needs to be developed in advance and with a purpose.
- With strategy as a Pattern, we learn to appreciate that what was successful in the past can lead to success in the future.
- As for Position, strategy is about how an organization relates to its competitive environment, and what it can do to make its products unique in the marketplace.
- Perspective emphasizes the substantial influence that organizational culture and collective thinking can have on strategic decision making within a company.
- Understanding and using each element helps to develop a robust, practical and achievable business strategy.

Types of Strategies (by Mintzberg)



Mainframe to minicomputers

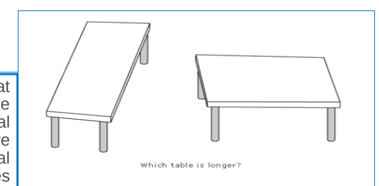
Minicomputers Disrupt Mainframes



Source: ITI, Industry Statistics Programs; U.S. Microcomputer Statistics Committee Forecast, Data Analysis Group

Behavioural Strategy

The behavioral considerations that influence strategic choice include: the impact of past strategy, managerial attitude toward risk, competitive reaction, degree of firm's external dependence, values and preferences of owners and/or managers, and internal politics.



Stability biases
create a tendency toward inertia in the presence of uncertainty.

Anchoring and insufficient adjustment. Rooting oneself to an initial value, leading to insufficient adjustments of subsequent estimates.

Sunk-cost fallacy. Paying attention to historical costs that are not recoverable when considering future courses of action.

Loss aversion. The tendency to feel losses more acutely than gains of the same amount, making us more risk-averse than a rational calculation would suggest.

Status quo bias. Preference for the status quo in the absence of pressure to change it.

Contd …

Behavioural Strategy (contd)

38

Action-oriented biases
drive us to take action less thoughtfully than we should.

Excessive optimism. The tendency for people to be overoptimistic about the outcome of planned actions, to overestimate the likelihood of positive events, and to underestimate the likelihood of negative ones.	**Overconfidence.** Overestimating our skill level relative to others', leading us to overestimate our ability to affect future outcomes, take credit for past outcomes, and neglect the role of chance.

Social biases
arise from the preference for harmony over conflict.

Groupthink. Striving for consensus at the cost of a realistic appraisal of alternative courses of action.	**Sunflower management.** Tendency for groups to align with the views of their leaders, whether expressed or assumed.

Three Levels of Strategies

•Corporate Strategy: A firm's overall direction in terms of its general attitude toward growth and the management of its various business and product lines. Three main categories-Growth, Stability, Retrenchment.

•Business Strategy: It occurs at the business unit or product level, it emphasizes improvement of the competitive position of corporation's products or services in specific industry or market segment.

•Functional Strategy is an approach taken by a functional area to achieve corporate and business unit objectives and strategies by maximizing resource productively.

Contd …

Three Levels of Strategies (contd)

•Corporate strategy asks what industry(ies) the firm should be in.

•Business strategy asks how a firm or its units should compete/ cooperate in each industry.

•Business strategy focusses on improving the competitive position of a firm or its products/ services within the specific industry or market segment.

➢Business strategy can be Competitive (battling against all competitors) and/ or Cooperative (working with one or more firms to gain advantage against other competitors).

•Competitive strategy raises the following questions:

➢Should we compete based on lower cost, or should we differentiate our products on some basis other than cost e.g., quality or service?

➢Should we compete head on with our major competitors for the biggest/ most sought after market share or should we focus on a niche wherein we can satisfy a less sought after but also profitable market segment?

Porter's Competitive strategies: Cost leadership

•Cost leadership: an ability of the business to design, produce, and market a comparable product more efficiently than its competitors.

➢ This strategy aims at the broad mass market, requires efficient-scale facilities, vigorous cost reductions, cost reductions in R&D etc.

➢ Because of the lower costs, the cost leader is able to charge a lower price (than the competition) and still makes a reasonable profit.

➢ Because of a high market share, the cost leader is able to negotiate heavy discounts against its purchases.

➢ Further, the low price acts as an entry barrier because most new entrants will be unable to match the leader's cost advantage.

➢ Cases: Wal-Mart (retail), HP (computer), Southwest Airlines, Timex (watches), Tata Steel, Reliance, Nirma etc. Contd …

Porter's Competitive strategies: Differentiation & Focus

•Differentiation: an ability of the business to provide unique and superior value to the buyer. This may include areas e.g., quality, special features, after-sales service.

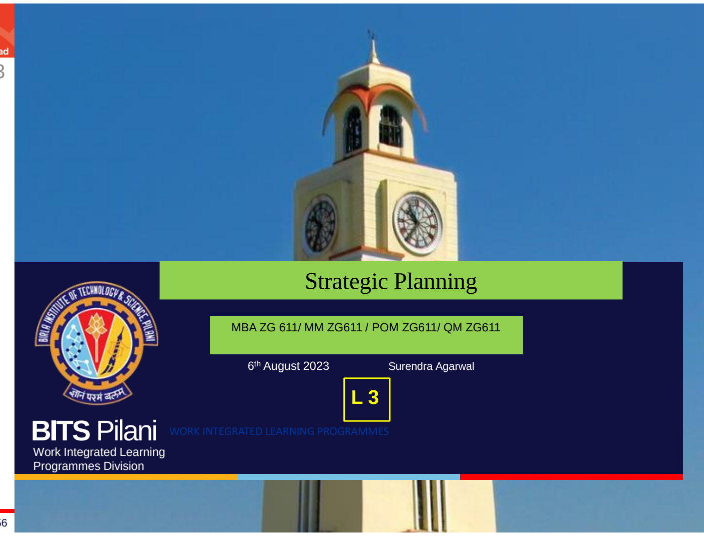
➢This strategy is aimed at the broad mass market and involves creation of a product that is perceived as having passed through the elements of VRIO (value, rarity, imitability, and organization, the criteria used to evaluate an organization's resources and capabilities).

➢The firm may choose to charge a premium pricing. The increased cost could be absorbed by the customers.

➢Cases: Walt Disney (entertainment), BMW (automobile), Apple (cell phones, computers)

•Focus: an ability to provide unique and superior value to a buyer group or a market segment/ geography- Cost focus & Differentiation focus.

➢Cost focus is a low-cost competitive strategy that focuses on a specific market segment and attempts to serve only this niche, to the exclusion of others. Case: Natco Pharma Ltd



Contents

45

- Strategic Plan
- Strategy statement
  ➢ Vision, Mission, Values, Competitive advantage
- Strategy objectives
  ➢ Positioning
- Priority actions
- Case of South West Airlines

Strategic Planning

46

While strategic plans vary, they generally contain the following components:

–Strategy statement

–Strategic objectives

–Priority actions

–Action plans

●Strategy Statement of an organization typically comprises of :

–Vision: the organization's deeply desired future

–Mission: the organization's purpose

–Values: the driving beliefs that define a company's culture and that support the organization's future competitive advantage

–Business definition: the firm's existing & envisioned products, services, geographic distribution, technology, customers, and markets

–Competitive advantages: the customer needs that the organization plans to meet better than competitors do

–Core competencies: the tangible and intangible assets the company will leverage to gain competitive advantage

•Vision is what the organization aspires to become in the future. It may describe its purpose and values
Example: To serve the best interests of shareholders, customers and employees.
•Mission is the purpose or reason for an organization's existence.

47

- **Strategic objectives**
- Strategic objectives allow a company to measure how it is performing in key result areas — areas where the company must achieve superior results to achieve its long-term strategy.
- Key result areas often come directly from a company's direction statement.
- For example, if a company's vision is global expansion, then it will want to measure success in that area. Areas for which a company might set strategic objectives are market position, customer loyalty, quality, service, innovation, & human capital.

● **Priority actions**

● Priority actions are a company's primary instruments of action. These are the key issues that surface during the strategic planning process —for example, a weakness to be addressed or an opportunity to be seized.

● Priority actions typically relate to the competitive concerns:
  – Products & services to create and add value for its customers
  – Internal process changes needed to support a company's strategy, and the skills & resources needed to accomplish value creation and process change.
  – *Common priority actions* relate to products, services, costs, new markets, geographic expansion, acquisitions, organizational structure, core competencies, processes, new technologies, training & IS.

Vision, Mission & Values

48

• Vision represents desire, *dreams*, hopes and the Big Picture. "What do we want to become?"

- Vision is not a fantasy but reality not yet brought into physical sphere.
- Developing a vision statement (preferably a one sentence) is often the first step in strategic planning, preceding even development of a mission statement.
- Examples of Vision statements:

1. General Motors' vision is to be the world leader in transportation products and related services.
2. eBay's vision is "To provide a global trading platform where practically anyone can trade practically anything."
3. Ford Motors Company's (old) vision: " To make the automobile accessible to every American"

Mission statement addresses the question " What is our business?"

49

- It is a statement of purpose that distinguishes one organization from other similar enterprises.
- A clear mission is essential for establishing objectives and formulating strategies.
- It reveals what an organization wants to be and whom it wants to serve.
- An effective mission statement should be reasonably broad: less than 150 words and may include the components e.g. Customers/ markets, products, technology, growth/ profitability, philosophy, public image, employees.

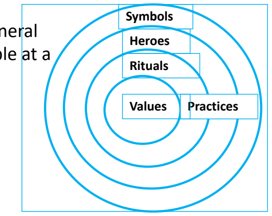
Example (of PepsiCo): "We aspire to make PepsiCo the world's premier consumer products - -, focused on convenient foods & beverages. We seek to produce healthy financial rewards for investors as we provide opportunities for - - enrichment of our employees, our business partners and the communities - - . And in everything we do, we strive to act with honesty, openness, fairness and integrity.

Values are our beliefs and rules by which we make decisions about right and wrong: should & shouldn't, good & bad. Values are the reference points and act like moral compass guiding our life journey.

Values & Culture

50

- Vision & Values connect people to both the long term Goals of an organization and the daily Routine.
- What is Culture: The way of life, especially the general customs and beliefs, of a particular group of people at a particular time. (Cambridge dictionary)



- Expression of our Values.
- Reflected in our Behaviors
- Routines, Rituals, Stories, Symbols...

Positioning

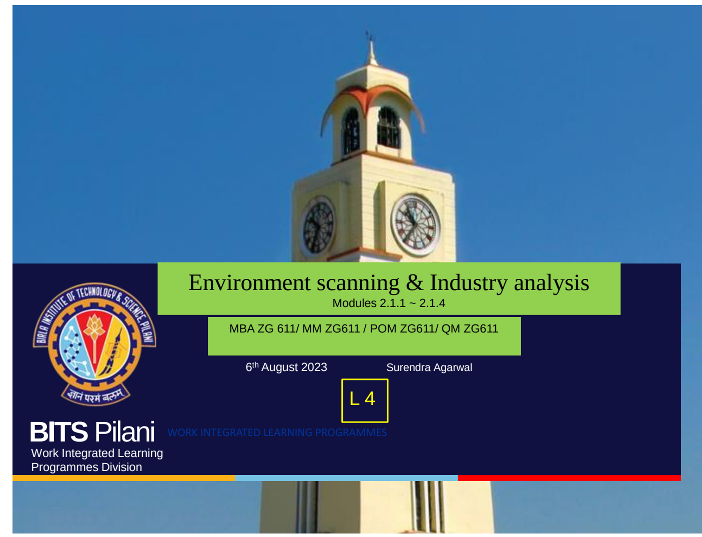
52

- The Positioning of a firm relates to the opportunities & challenges posed in the external context.
  - Brand name: A strong brand lets the firm command premium shelf space, wider customer attention, and profitable growth.
  - Customer relationship: Reputation for fair dealing and product quality have a positional advantage over competition.
  - Distribution & Geographic advantages: Well established distribution channels & locations provide dominant position.
  - Installed base & de-facto standards: Markets where product compatibility is important, firms with large installed base have a positional advantage.

Capability

53

- Capability relates to the internal context on how a firm can acquire and organize tangible and intangible assets to outperform competition.
  - Capability is an attribute of an organization, it is not possible to separate it from the firm.
  - Expertise is dispersed through many parts of the firm, and organization has routines that access and coordinate this information.
  - Major threat to a sustainable competitive advantage is the possibility that a rival can diagnose and duplicate the firm's capability.



Contents

56

- Environmental scanning: External & Internal
- External Environmental Variables
- Societal Environmental Analysis: *STEEP/ PASTEL*
- Task Environment / Industry Analysis
- Porter's Five (Six) Forces Model

Ref: T1 Ch. 4, R2 Ch. 3

Pre-recorded content/videos RL 2.1.1 ~2.1.4

Strategic Management: Environmental Scanning

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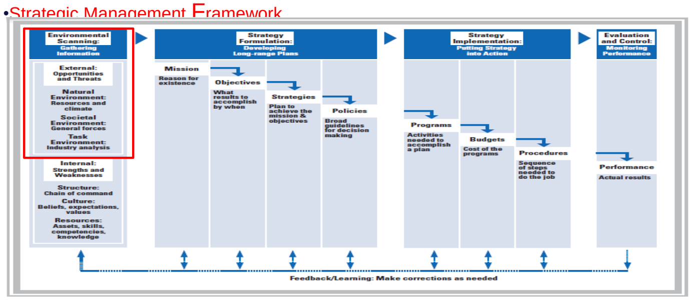
57

• Strategic Management Framework



Strategy Formulation: Environmental aspects

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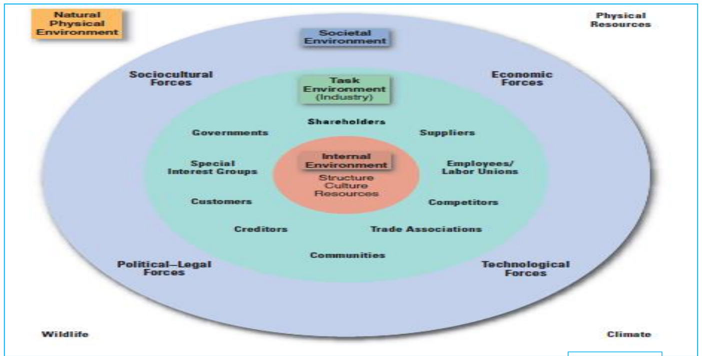
58

- Strategy formulation is the development of long-range plans.
- Before you begin formulating your strategy, you must understand the environment in which your organization operates/ competes.
- Impossible for a firm to design a strategy without a deep understanding of the environment which impacts the business.
- What is Environmental scanning:
  - The monitoring, evaluation and dissemination of information, from the external and internal environment, to the key people within a firm
  - Its purpose is to identify strategic factors — those external and internal elements that will help in the analysis of the strategic decisions of a firm

Environmental Scanning (contd)

- Internal environment of a firm consists of the factors relating to Strengths and Weaknesses within the organization itself and are within some control of the top management
  - ➢ The Internal environment forms the context in which the work is done. They include the corporation's structure, culture, and resources for the effective management of environmental opportunities and threats, in the light of corporate strengths and weaknesses (SWOT).
  - ➢ Key strengths form a set of core competencies which can be used to gain a competitive advantage
- Research findings:
  - ➢ Positive correlation between Environmental Scanning and Profits

External Environmental Variables



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External Environmental Variables (contd)

- Natural environment includes elements which are inherent part of Earth itself viz. physical resources, wildlife and climate. Earlier, it was taken as free and to be exploited. Now, considering the side-effects (pollution) and sustainability, it is a relevant variable.
- Societal environment includes the forces which, though do not affect a firm's short run activities, but can influence its long term decisions. (Examples in subsequent slides : S9)
  1. Economic forces which regulate the exchange of materials, money, energy, information
  2. Technological forces which generate problem-solving inventions
  3. Political-legal forces which allocate power & provide the

Contd …

Environmental Scanning: Internal

- Internal environment of a firm consists of the factors relating to Strengths and Weaknesses within the organization itself and are within some control of the top management
  - ➢ The Internal environment forms the context in which the work is done. They include the corporation's structure, culture, and resources for the effective management of environmental opportunities and threats, in the light of corporate strengths and weaknesses (SWOT).
  - ➢ Key strengths form a set of core competencies which can be used to gain a competitive advantage
- Research findings:
  - ➢ Positive correlation between Environmental Scanning and Profits

Scanning the Societal Environment: '*STEEP*' (or '*PESTEL*')

- Large number of strategic factors in this analysis
- *STEEP* Analysis: Scanning of Socio-cultural, Technological, Economic, Ecological, and Political-legal environmental forces.

Economic	Technological	Political–Legal	Sociocultural
GDP trends	Total government spending for R&D	Antitrust regulations	Lifestyle changes
Interest rates	Total industry spending for R&D	Environmental protection laws	Career expectations
Money supply	Focus of technological efforts	Global warming legislation	Consumer activism
Inflation rates	Patent protection	Immigration laws	Rate of family formation
Unemployment levels	New products	Tax laws	Growth rate of population
Wage/price controls	New developments in technology transfer from lab to marketplace	Special incentives	Age distribution of population
Devaluation/revaluation	Productivity improvements through automation	Foreign trade regulations	Regional shifts in population
Energy alternatives	Internet availability	Attitudes toward foreign companies	Life expectancies
Energy availability and cost	Telecommunication infrastructure	Laws on hiring and promotion	Birthrates
Disposable and discretionary income	Computer hacking activity	Stability of government	Pension plans
Currency markets		Outsourcing regulation	Health care
Global financial system		Foreign "sweat shops"	Level of education
			Living wage
			Unionization

STEEP: Socio-cultural trends

Socio-cultural trends which are transforming the world:

- Increasing environmental awareness: Recycling/ conservation
- Growing health consciousness: Medical check-ups, avoiding junk food
- Expanding seniors market: Ageing population- markets for health care, tourism
- Impact of millennials: Baby boom affects overcrowding in future- schools
- Declining mass market: Moving from mass markets to niche markets
- Changing pace and location of life: Instant communication enhances efficiency but puts pressure on people
- Changing household composition: Numbers, composition (age, gender, marital status)
- Increasing diversity of workforce and markets: Gender, age, region of origin, caste, religion, language

Contd …

STEEP

Technology: Fast microprocessors (Helping a fast office-automation, better engines by monitoring fuel injection, exhaust etc; On line availability of movies/music; Alternate energy sources (solar, wind); New field of life science (genetically modified seeds); smart phones, robotisation

Economic: Changes in interest rates, taxes, oil prices

Ecological: Natural environment/ climate changes (Regulations e.g. Kyoto protocol affecting greenhouse gases), physical risks (droughts, floods, and rising sea levels)

Political/legal: Competition (Affecting level of competition: Anti-trust/ Competition Commission, Examples: spare parts availability in automobile industry, cartel formation in insurance industry); Taxes; labor laws. Many corporates want to quit China now

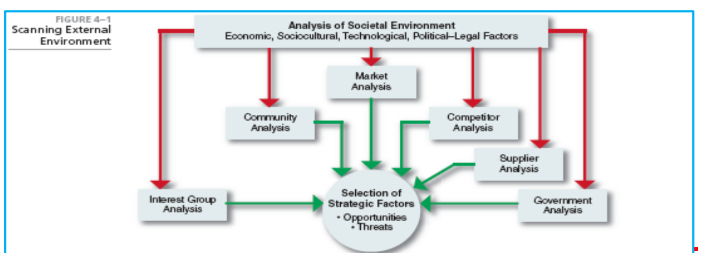
Scanning the Task Environment (or Industry Environment)

- Task environment includes the elements which directly affect a firm, or are affected by it. Task environment of a firm focuses on the industry wherein the firm operates.

An industry is a group of firms producing a similar product e.g. automobile, auto-ancillary

- Example: government, competitors, suppliers, customers, employees, trade associations.
- A firm's scanning of the environment includes an analysis of all the stakeholders (e.g. suppliers, customers) in the task environment

FIGURE 4–1
Scanning External Environment



Porter's approach to Industry Analysis

- Michael Porter, an authority on competitive strategy, contends that a corporation is most concerned with the intensity of competition within its industry.
- The level of this intensity is determined by the FIVE (SIX) basic competitive forces:
  - ➢ Openness to new competition/ entrants
  - ➢ Rivalry among the existing firms,
  - ➢ Threat of substitute products,
  - ➢ Bargaining power of buyers
  - ➢ Bargaining power of suppliers

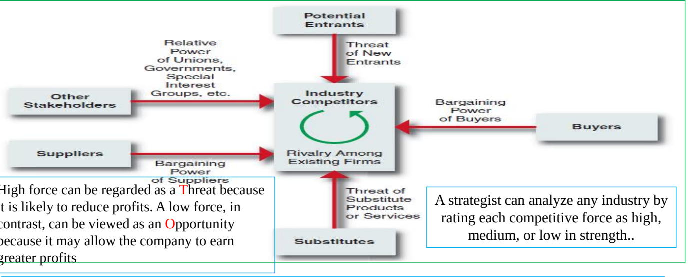
- The Six Forces model is an extension of Porter's Five Forces model.

6th force to be considered is related to the Complementary goods (later: S17)

- The collective strength of these forces determines the ultimate profit (long-run ROI) potential of a firm
- While scanning its industry, a firm must assess the importance to its success of each of these six forces

Contd …

Porter's approach to Industry Analysis (contd)



High force can be regarded as a Threat because it is likely to reduce profits. A low force, in contrast, can be viewed as an Opportunity because it may allow the company to earn greater profits

A strategist can analyze any industry by rating each competitive force as high, medium, or low in strength..

A high force could be a threat as it may reduce profits. A low force, however, may be an opportunity because it may allow a firm to earn profits. These forces act as constraints on a firm's activities. In long run, a firm may strategize to change strength of one or more forces to its competitive advantage. Example: Dell's early use of internet to market its PC's negated the bargaining power of distributors in the PC industry.

Industry analysis: Threat of New Entrants

New entrants to an industry are Threats to a firm because the new entrants bring in new capacity, substantial resources and gain market share.

Threat of an entry depends on the presence of entry barriers (and reaction from the existing players).

•Entry barrier: an obstruction that makes it difficult for a firm to enter an industry e.g. no new automobile firm in US in last 50 years (Tesla is an exception)

- Economies of scale (Ex: Microprocessors)
- Product differentiation (HUL, P&G through ads/ promos)
- Capital requirements (Boeing, Airbus: huge resources in manufacturing commercial aero planes)
- Switching costs (Training effort discourages people to switch over from Excel, PowerPoint)
- Access to distribution channels (Large retailers may charge small/new firms for space on their shelves. Existing/ large firms may be given priority, however, may be willing to pay for advertising/ promos)
- Cost disadvantages independent of size (Acceptance of MS-DOS, as a standard, gave Microsoft an advantage over competition)
- Government policy (Licensing, IPR rules, Subsidies)

Industry Analysis: Rivalry Among Existing Firms

A competitive move by a firm may have a noticeable effect on its competitors who may retaliate. Pricing/ discounts being given by one may be soon followed by others (automobile, FMCG industries). Intense rivalry is related to the presence of several factors including:

1.Number of competitors: If only a few/ equal size competitors (automobile/ FMCG industries), they watch each other and match any move with an equal countermove

2.Rate of industry growth: Any slowing in passenger traffic tends to set off price wars (airlines industry) because the only path to growth is to take sales away from a competitor

3.Product or service characteristics: A product can be unique (differentiating characteristics: automobiles) or a commodity (same characteristics irrespective of who is selling it: Petrol). Example: You choose a Petrol pump based on location/ convenience because petrol is a commodity.

4.Amount of fixed costs: Airlines must fly their planes on a schedule irrespective of the number of paying passengers for a flight. Hence, they may offer cheap tickets when having empty seats.

5.Capacity: If the only way a factory can increase capacity is in large increments by building a new plant (paper mill), it will run the existing plant at full capacity to minimize the unit costs.

6.Exit barriers: Obstacles that prevent a firm from exiting a market/ relocate. Reasons: highly specialized/ bulky assets, high exit/closure costs (VRS, long lease), regulations/ tax breaks.

7.Diversity of rivals (with different history, philosophies and cultures) makes an industry unstable where the players may compete/ cooperate often/ unknowingly

Industry Analysis: Threat of Substitute Products

Substitute Products: Products that may appear different, or un-substitutable, but can satisfy the same need as another product: (Examples: Tea/ coffee, email/ texting)

•Substitute products are limiting factors for a firm because the switching costs for a customer is quite low. Price of tea may put a price ceiling on price of coffee. If cost of coffee increases, a customer could switch over to tea

•Substitute products are a threat and affect the industry profitability.

•You need to identify possible substitute products by searching for the ones that can perform the same function

•Few or weak substitutes in an industry provides an opportunity to raise prices and become profitable

Complementary Products/ firms: An example of the complementary goods is the razor and the blades. Complementary goods are products that are typically used together. They are goods that people tend to buy at the same time because they go well together or enhance each other's use, whose product works well with a company and without which the product could lose much of its value. Example: Microsoft, a complementor, whose OS works well with Intel, a firm. Without Intel's chips, MS could lose much of its value

Another example of complementary goods would be tennis rackets and tennis balls.

Substitute goods have an inverse relationship, whereas complementary goods are positively associated with one another.

Industry Analysis: Bargaining Power of Buyers

Bargaining power of buyers: Ability of buyers to force prices down, bargain for higher quality or more services, play competitors against each other.

Bargaining power could arise in the following cases:

1.Large purchases (OE customer)

2.Backward integration (Yarn buyer getting into refinery)

3.Alternative suppliers (You can choose among many vegetable vendors)

4.Low cost to change suppliers (Office supplies)

5.Product represents a high percentage of buyer's cost (Steel cost for a forge shop)

6.Buyer earns low profits (Grocery stores having low margins)

7.Product is unimportant to a buyer for final quality/ price (Electric wire for use in lamp manufacturing)

Industry Analysis: Bargaining Power of Suppliers

Bargaining power of suppliers: Ability of suppliers to raise prices or reduce quality. A supplier may have high bargaining power in the following cases:

1.Domination by a few suppliers in an industry (Microsoft's near monopoly in Operating systems)

2.Unique product or service or high switching costs (Word processing software)

3.Substitutes are not readily available (Electricity)

4.Ability to forward integrate (If Intel, a chip manufacturer, gets in PC manufacturing) thereby competing directly with the present customers

5.Small cost (or lack of importance) of supplier's goods to a buyer (Sale of a lawn mover is less important to MRF than sale of its tyres)

Industry Analysis: Relative Power of Other Stakeholders

Other stakeholders are: government, local communities, trade associations, unions, share holders.

Complementary goods: already discussed.

•When complementors are important and their number is increasing:

- Demand and profits in the industry are boosted

•When complementors are weak:

- Industry growth can slow and profits can be limited

Industry Analysis: Preparing Strategy using Porter's Forces

RESHAPE THE FORCES IN YOUR FAVOR

Use tactics designed specifically to reduce the share of profits leaking to other players. For example:

- To neutralize **supplier power**, standardize specifications for parts so your company can switch more easily among vendors.
- To counter **customer power**, expand your services so it's harder for customers to leave you for a rival.
- To temper price wars initiated by **established rivals**, invest more heavily in products that differ significantly from competitors' offerings.
- To scare off **new entrants**, elevate the fixed costs of competing; for instance, by escalating your R&D expenditures.
- To limit the threat of **substitutes**, offer better value through wider product accessibility. Soft-drink producers did this by introducing vending machines and convenience store channels, which dramatically improved the availability of soft drinks relative to other beverages.

Source: HBR, 2008

- Analyze the forces affecting your firm.
- Understand a full picture using above analyses
- Reshape the forces in your favor thereby boosting your market presence and profitability

Case analysis of Low-cost Carriers (LCC) in India

•Pre-liberalization: 2 entities: Domestic (IA, private players restricted), Int'l (AI)

•Post-liberalization: six private airlines, most of the initial players perished (Jet, Sahara, Air Deccan)

•2003-04 to 2007-08-CAGR 19.14% air passenger traffic; entry of new players

•2011-passenger demand grew only by 5.9 %

• Factors which helped growth of LCC in India?

- Growing corporate demand for official trips, Rising income and growing propensity to spend on leisure among the vast middle class, especially from Tier-II and III cities; Comparable fares with higher class ticket categories of Railways; Corporate tie-up, bundling of travel tickets, bulk booking, Connectivity to Tier-II and III cities

•Growth of the industry was threatened by:

- Mounting losses, Rising ATF prices, High taxation and airport charges, Shortage of qualified pilots and technical manpower, Congestion at airports, Upgrading of airport security

•Industry analysis of LCC using Porter's Five Forces model:

- Threat of New Entrants- High, Rivalry amongst existing players-High, Threat of Substitutes: Moderate, Bargaining power of Buyers: Moderate, Bargaining power of Suppliers: High

Strategic Types

In analyzing the level of competitive intensity within an industry (or a strategic group), it is useful to characterize the various competitors.

A strategic type is a category of firms based on a common strategic orientation and a combination of structure, culture and processes consistent with strategy.

The competing firms within an industry can be characterized into the following basic types based on their strategic orientation.

•Defenders focus on improving efficiency of their existing operations (usually with a limited product line). Being cost oriented, they may not be innovators.

•Prospectors focus on product innovation and market opportunities. Usually, with a fairly broad product line-up, they tend to emphasize creativity over efficiency.

•Analyzers operate in at-least two different product-market areas, one stable and one variable. They emphasize efficiency in the stable areas, and innovation in the variable areas.

➢ Most multi-division firms viz. BASF, P&G tend to be analyzers.

•Reactors respond to environmental pressures, often in an ineffective and piecemeal manner. They lack a consistent strategy-structure-culture relationship.

This distinction of the competing firms helps to explain why the firms facing similar situations behave differently and why they continue to do so over a long period of time.

Synthesis of External Factors: EFAS

•Strategic planners need to scan the external environment (natural, societal, and task) and identify a number of possible external factors affecting the firm.

•Thereafter, the planners may want to refine their analysis of these factors by using an External Factors Analysis Summary (EFAS)- refer next slide for an EFAS form.

EFAS is a way to organize the external factors into the generally accepted categories of opportunities and threats, as well as to analyze how well a firm's management is responding to these factors in the light of the perceived importance of these factors to the firm.

EFAS steps:

S-1: List Opportunities and Threats (Column 1)

S-2: Give weight each factor from 1.0 (highest) to 0 (lowest) (Column 2)

S-3: Rate each factor from 5.0 (outstanding) to 1.0 (Poor) based on the company's response on that factor (Column 3).

S-4: Multiply each factor's weight with its rating to obtain its weighted score (column 4).

S-5: Use column 5 for rationale used for each factor.

S-6: Add individual weighted scores (in column 4) to obtain total weighted score for company. This tell how well the company is responding to factors in its external environment.

Contd …

EFAS table

TABLE 4–5 External Factor Analysis Summary (EFAS Table): Maytag as Example

External Factors	Weight	Rating	Weighted Score	Comments
1	2	3	4	5
Opportunities				
■ Economic integration of European Community	.20	4.1	.82	Acquisition of Hoover
■ Demographics favor quality appliances	.10	5.0	.50	Maytag quality
■ Economic development of Asia	.05	1.0	.05	Low Maytag presence
■ Opening of Eastern Europe	.05	2.0	.10	Will take time
■ Trend to "Super Stores"	.10	1.8	.18	Maytag weak in this channel
Threats				
■ Increasing government regulations	.10	4.3	.43	Well positioned
■ Strong U.S. competition	.10	4.0	.40	Well positioned
■ Whirlpool and Electrolux strong globally	.15	3.0	.45	Hoover weak globally
■ New product advances	.05	1.2	.06	Questionable
■ Japanese appliance companies	.10	1.6	.16	Only Asian presence in Australia
Total Scores	1.00		3.15	

•Total weighted score indicates how well a firm is responding to current and expected external factors. The score can be used to compare that firm to other firms in the industry. Total of the weighted score for an average firm in an industry is 3.0/5.0

Internal Environment Scanning

Module 2.2

MBA ZG 611/ MM ZG611 / POM ZG611/ QM ZG611

13th August 2023 Surendra Agarwal

L 5

BITS Pilani

WORK INTEGRATED LEARNING PROGRAMMES

Work Integrated Learning Programmes Division

Contents

Organizational analysis: various approaches

Application of Resource-based approach

Core competence, Distinctive competence, Competitive advantage

Assessing a firm's competitive advantage/ sustenance

VRIO framework

Porter's Value-chain analysis

Scanning Functional resources and capabilities

Learning curve

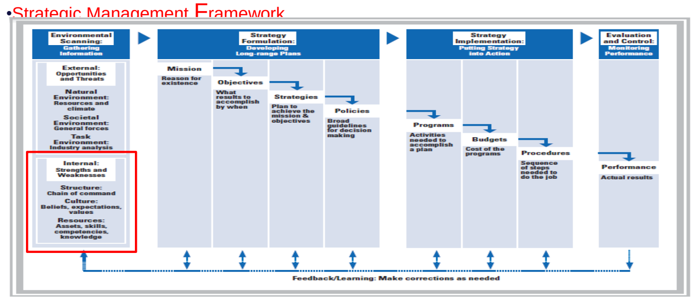
Corporate culture

Internal Factors Analysis

- T1 Ch. 5, R2 Ch. 4
- C.K. Prahalad and Gary Hamel, "The core competence of the corporation". HBR (1990)
- Case: Mobileye: The future of driverless cars, Harvard Business Publishing, 2015 (Later)

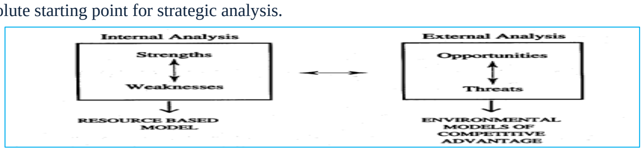
Strategic Management: Environmental Scanning

•Strategic Management Framework



Scanning environment: (External and) Internal

•Scanning & analyzing the external environment, for opportunities & threats, is necessary for a firm to understand its competitive environment and its place in that environment. It is an absolute starting point for strategic analysis.



•However, the monitoring of external environment is only one part of environmental scanning. Strategists also need to scan a firm's internal environment to identify its resources, capabilities and competences.

•In order for a firm to thrive, its leadership must look within the firm itself to identify internal strategic factors i.e. the critical strengths & weaknesses that are likely to determine whether the firm will be able to take advantage of the opportunities while avoiding the threats.

•The internal scanning, called Organizational analysis is concerned with identifying, developing and taking advantage of a firm's resources and competencies.

Organizational Analysis

- To identify internal strategic factors i.e. the critical strengths and weaknesses.
- Various approaches:
  - ➢ Resource-Based Approach
  - ➢ Value-chain analysis
  - ➢ Scanning Functional resources and capabilities

'Resource-Based' Organizational Analysis

●Resources are a firm's assets (tangible & intangible) and are thus the basic building blocks of the organization.

Tangible Assets: Plant, Equipment, Finances, Human Assets (knowledge, skill, motivation)
Intangible Assets: Technology (patents, copyrights), Culture, Reputation

●Capabilities refer to a firm's ability to exploit its resources to achieve the Goals.

➢Consist of the business processes & routines that manage interaction among resources to turn inputs into outputs. Example: a firm's marketing capability can be based on an interaction among its marketing specialists, distribution channels and sales people.

➢A capability is functionally based and is resident in that function. Example: Marketing capability, manufacturing capability, HR capability, process, technology.

•Dynamic Capabilities are capabilities that are constantly being changed and reconfigured to make them more adaptive to an uncertain environment. Apple's dynamic capabilities have enabled it to evolve with rapid change. Apple has proven masterful at marketing technologically-based products to consumers and developing features that people value.

Contd ..

Resource-Based Organizational Analysis (contd)

Competency is a cross-functional integration & coordination of capabilities. Example: a competency in new product development in one division of a firm may be consequence of integrating the marketing, manufacturing, IT capabilities within the division.
Core competency is a collection of competencies that crosses the divisional boundaries, is widespread in the firm and is something the firm does exceedingly well. Example: the new product development is a core competency if it goes beyond one division. Example: Amazon and Starbucks have established themselves as the best in their respective fields by identifying their core capabilities and introducing innovative products.
New technology can make a firm's core competency obsolete or irrelevant.
According to *C. K. Prahalad and Gary Hamel (1990)*, core competencies are the "collective learnings across a corporation". They can, therefore, not be applied to an SBU (Strategic Business Unit) and represent resource combination steered from the corporate level. Examples: Sony (in Miniaturization), Phillips (in Optical media), Honda (in Engines).
Core competencies are valuable. However, unlike a physical asset, competencies do not 'wear out' with use. More they are used, more refined and valuable they become.
Three tests can be applied to identify core competence:

1. It provides potential access to a wide variety of markets
2. It makes a significant contribution to the perceived customer benefits of the end product
3. It should be difficult for competitors to imitate

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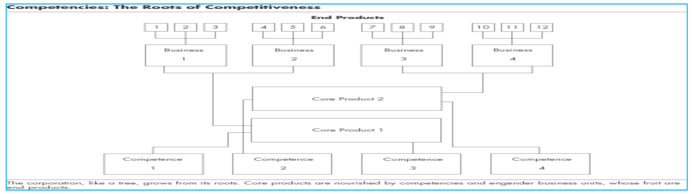
Resource-Based Organizational Analysis (contd)



The corporation, like a tree, grows from its roots. Core products are nourished by competencies and engender business units, whose fruit are end products.

When unique resources and/or the core competencies are superior to those of the competition, they are called distinctive competencies. These are a firm's resources which are critical in imparting it with a competitive advantage. General Electric is well known for its distinctive competency in management development. Its people are sought out by other firms hiring top managers.
To the extent that a firm's distinctive competency gives it competitive advantage in the marketplace, competitors will do what they can to learn and imitate that set of skills and capabilities. Competitors' efforts may range from reverse engineering (which involves taking apart a competitor's product in order to find out how it works), to hiring employees from the competitor, to outright patent infringement. Intel's skills in using basic technology developed by others to manufacture and market quality microprocessors was a crucial capability. They had taken current technology as far as possible with the Pentium chip. Without basic R&D of its own, it would slowly lose its competitive advantage to others. It thus formed a strategic alliance with HP to gain access to a needed technology.

VRIO Framework

•Resources & Capabilities (R/C) are of value only if they enable a firm to make extraordinary returns. The resource-based approach is an effective way to analyze the R/C so as to determine which might provide a firm with real competitive advantage.

➢The VRIO framework evaluates a firm's competencies by evaluating them along the four questions:

➢Value: Does it provide customer value and competitive advantage?

➢Rareness: Do no other (or maximum one) competitors possess it?

➢Imitability: Do the competitors have financial ability to imitate it?

➢Organization: Is the firm organized to exploit the resources?

➢If answer to all of these questions is *yes* for a particular competency, then it is considered to be a strength and hence a distinctive competency. This should provide the firm with a possible competitive advantage and lead to higher performance.

Sustainable core competency

•The following characteristics determine sustainability of a firm's distinctive competencies:

➢Durability is the rate at which a firm's underlying capabilities, or core competencies, depreciate or become obsolete.

➢Imitability is the rate at which a firm's underlying resources, capabilities, or core competencies can be duplicated by others. A firm's competencies, giving it a competitive advantage, can be learnt or imitated by competitors by *reverse engineering*, hiring employees, patent infringement. A core competency can be easily imitated if it is transparent, transferable and replicable.

1.Transparency is the speed at which other firms can understand the relationship of resources and capabilities supporting a successful firm's strategy. Example: Competitors can never understand how Gillette's Fusion razor is produced simply by reverse engineering.
2.Transferability is the ability of competitors to gather the resources and capabilities necessary to support a competitive challenge. Example: it is difficult for a winemaker to duplicate a French winery's key resources of land, climate etc.

Contd …

Sustainable core competency (contd)

3. Replicability is the ability of competitors to use duplicate resources and capabilities to imitate the firm's success. Example: P&G's brand management could not be replicated by their competitors despite having hired the brand managers away from P&G.

It is relatively easy to learn and imitate other firm's core competency or capability if it comes from an explicit knowledge than tacit knowledge.

- Paradox of Core competency:
  - Explicit Knowledge: It can be easily articulated & communicated. Easy to learn and imitate another company's core competency. Example: Engineering drawings
  - Tacit knowledge: Not easily communicated because it is complex, deeply rooted in the employees' experiences or in a corporation's culture.

Once a tacit knowledge is identified or written down, it is easily imitable by competitors. This is the reason why the firms are forced to establish complex security systems to safeguard their key knowledge.

Continuum of Resource Sustainability

At one extreme are R/C which are sustainable because they are shielded by patents, geography, strong brand names or tacit knowledge. These are distinctive competencies.
At other end are R/C which face imitation pressures because they are based on concept/ technology which can be easily duplicated. In such cases, the firm can compete successfully by a high speed from lab to market place.

FIGURE 5–1 Continuum of Resource Sustainability

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Using R/C to gain a competitive advantage

A firm can gain access to a distinctive competency in the following ways:

1. Asset endowment such as a key patent coming from the founding of a firm. Example: Xerox grew based on its original copying patent.
2. Acquired from someone else through acquisition of other firm. Example: Disney bought Pixar to reestablish itself in the animated movie market.
3. Shared with another business unit or strategic partner. Example: LG has taken its electronics & production expertise into the appliances.
4. Built and accumulated over time within the firm itself. Example: Honda has extended its engine manufacturing technology from motorcycles to automobiles, boat engines, generators, lawnmowers, aircraft.

Value-chain Analysis

•In order to understand how a firm's method of making money ('business model') works, we need to understand where on the value chain the firm is making money.
•Value chain is a linked set of value creating activities that begin with basic raw materials coming from suppliers, moving on to a series of value-added activities involved in producing and marketing a product, and ending with distributors getting the final goods into the hands of ultimate consumer
•Focus of the value-chain analysis is to examine a firm in the context of the overall chain of value-creating activities of which the firm may be only a small part.
•Very few companies have a product's entire value chain in-house (Exception: In 1920s and 30s, Ford Motor Company owned its own iron ore mines, ore-carrying ships, a railway line to bring ore to its (River Rouge, Detroit) plant. Ford was completely vertically integrated i.e. it controlled/ owned every stage of the value chain, from iron mines to the retailers.

FIGURE 5–2 Typical Value Chain for a Manufactured Product

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Porter's Value-chain analysis

•Revenues or Profit margins will generally be different for an industry along various points along the value chain.

•Auto industry's revenues are divided among the manufacturing, new and used car sales, gasoline retailing, insurance, after sale service, spare parts, lease financing. Auto manufacturers dominate the industry in terms of the revenues.

•Even if a firm operates along an entire value chain, it has core competence usually at a point where the firm started. After the firm establishes itself successfully, it may move forward or backward the value chain to reduce costs, guarantee access to key raw material.

•Each firm has its own internal value chain of activities. According to Porter, a manufacturing firm's primary activities begin with inbound logistics (raw material handling/warehousing), followed by the operations (manufacturing), and continue on to outbound logistics (warehousing, distribution), to marketing/ sales, and finally to service (installation, repair, sale of spares). Besides, there are several support activities (HR, procurement, R&D) which ensure that the primary activities are carried out efficiently.

•An analysis of the individual value activities can lead to better understanding of a firm's strengths & weaknesses.

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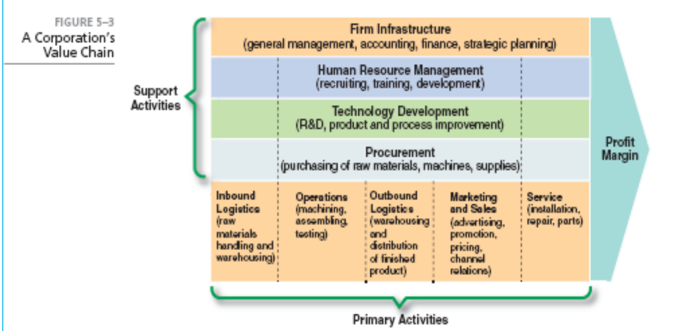
Porter's Value-chain analysis (contd)



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Porter's Value-chain analysis (contd)

A corporate value chain analysis involves the following steps:

•S-1: Examine each product line's value chain in terms of various activities involved in producing the product (or service)

Activities passing VRIO test are core competencies. Others are weaknesses.

•S-2: Examine the linkages within each product line's value chain:

Linkage between Marketing and QC: 100% inspection (hence better quality but higher cost) vs sample inspection (lower cost but poorer quality)

•S-3: Examine the potential synergies among the value chains of different product lines or business units.

Economy of scale vs Economy of scope

In an economy of scale, a firm increases its production volume to reduce per-unit costs and increase efficiency. In an economy of scope, a firm diversifies its product offerings to reduce per-unit costs and increase efficiency.

Scanning Functional R/C

Value chain analysis can begin by examining a firm's traditional functional areas for their strengths/ weaknesses. Functional R/C include (besides financial, physical and human assets) the capabilities of people in these areas to achieve their goals.

We will discuss the following as key parts of a firm's value chain:

- Basic Organizational Structures
- Corporate Culture
- Strategic functional (Marketing, Financial, R&D, HRM, Technology) issues

Scanning Functional R/C : Basic Organizational Structures

●Resources are a firm's assets and the basic building blocks.

●Achieving a Competitive advantage hinges on how the firm is designed to deploy & leverage the resources.

●Organizations have both structures & processes, they are made up of *ways of doing* things and the *rewards for doing* them. They have formal rules and informal routines.

The following are the basic organizational structures:

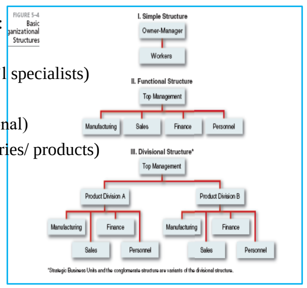
•Simple (Very small firm, owner driven)- Stage I

•Functional (Medium sized firm, many products, fnt'l specialists)

•Divisional (Large firm, many industries)-Stage III

•Strategic Business Units ('SBU') (Variant of divisional)

•Conglomerate (Holding/subsidiaries in many industries/ products)



Tata Motors is shrinking structure of its white-collar workforce to five layers from the existing 14, in what is seen as the biggest organizational restructuring in the company's history. Under the new structure, the top two levels of managers will be responsible for execution of strategies formulated by an executive committee, comprising the managing director and function and business heads. Tata Motors has already picked more than 100 high-performers for the L1and L2 positions. (Source: Economic Times)

Scanning Functional R/C: Values & Culture

•What is Culture: Culture is a collection of beliefs, expectations and values learned and shared by a firm's members and transmitted from one generation to another. A firm's culture generally reflects the values of the founder(s) and the mission of the firm. The culture includes the dominant orientation of the company. Examples: R&D at HP, high productivity at Nucor, customer service at Nordstrom, innovation at Google, or product quality at BMW…

•Functions of corporate culture

➢Conveys a sense of identity for employees (This is who we are. This is what we do. This is what we stand for)

➢Generates employee commitment

➢Adds to the stability of the organization as a social system

➢Serves as a frame of reference for employees to understand organizational activities

3M's Innovation Culture

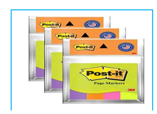
Employing the Thirty Percent Rule, 30% of each division's revenues must come from products introduced in the last four years. This is tracked rigorously, and employee bonuses are based on successful achievement of this goal.

3M has a rich set of structures and systems to encourage resourcefulness:

•Seed Capital

•New Venture Formation

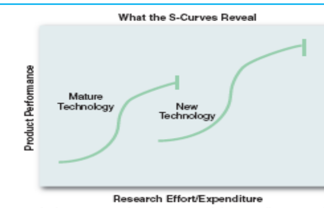
•Dual-career ladder



Strategic R&D Issues

- Impact of technological discontinuity on strategy
- Innovator's Dilemma- The established market leaders are typically reluctant to move in a timely manner to a new technology (Christensen)

FIGURE 5–6
Technological Discontinuity



In the corporate planning process, it is generally assumed that incremental progress in technology will occur. But past developments in a given technology cannot be extrapolated into the future because every technology has its limits. The key to competitiveness is to determine when to shift resources to a technology that has more potential.

SOURCE: *From "Are You Investing in the Wrong Technology?" P. Pascarella, Industry Week, July 25, 1983. Reprinted by permission of Penton Media, Inc.*

Strategic Operations issues: Experience (or Learning) Curve

•Task of an operations manager is to develop and operate a system that will produce the required number of products with a certain quality, at a given cost, within an allotted time.

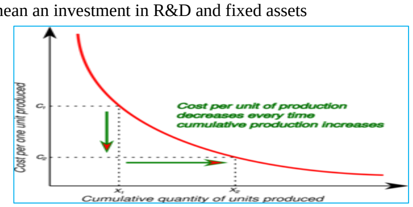
•Many large firms have used Experience curve very successfully

•Experience Curve (Learning curve)-Unit production costs decline by some fixed percentage (say 20~30%) each time the total accumulated volume of production units doubles

•(The more experience a firm has in producing a particular product, the lower its costs)

•With an 85% experience curve, a firm may reduce its costs by15% for every doubling of volume.

•Achieving these volumes may mean an investment in R&D and fixed assets



Synthesis of Internal Factors: Internal Factor Analysis Summary (IFAS)

After the strategists have scanned the internal environment of the firm and identified the relevant factors, they may want to summarize their analysis of these factors using a form (refer next slide). The IFAS form helps to organize the internal factors into the categories of strengths and weaknesses as well as to examine how well a firm is responding to these factors.

The following steps are followed to prepare the IFAS table:

1. List (8 ~ 10) most important strengths and weaknesses of the company

2. Assign a weight to each factor from 1.0 (Most important) to 0.0 (Not Important) based on that factor's probable impact on the firm's current strategic position. All weights must sum to 1.0 regardless the number of factors.

3. Assign a rating to each factor from 5 (outstanding) to 1 (poor) based on management's specific response to that factor.

4. Multiply the weight in column 2 for each factor times its rating in Column 3 to obtain that factor's weighted score.

5. Add the weighted score of all items in column 4 to determine the total weighted score for that particular company. The total weighted score indicates how well a particular company is responding to current and expected factors in its internal environment. The total weighted score for an average firm in an industry is always 3.0 Contd …

Internal Factor Analysis Summary (contd)

TABLE 5–2 Internal Factor Analysis Summary (IFAS Table): Maytag as Example

Internal Factors	Weight	Rating	Weighted Score	Comments
1	2	3	4	5
Strengths				
■ Quality Maytag culture	.15	5.0	.75	Quality key to success
■ Experienced top management	.05	4.2	.21	Know appliances
■ Vertical integration	.10	3.9	.39	Dedicated factories
■ Employer relations	.05	3.0	.15	Good, but deteriorating
■ Hoover's international orientation	.15	2.8	.42	Hoover name in cleaners
Weaknesses				
■ Process-oriented R&D	.05	2.2	.11	Slow on new products
■ Distribution channels	.05	2.0	.10	Superstores replacing small dealers
■ Financial position	.15	2.0	.30	High debt load
■ Global positioning	.20	2.1	.42	Hoover weak outside the United Kingdom and Australia
■ Manufacturing facilities	.05	4.0	.20	Investing now
Total Scores	1.00		3.05	

Business Strategy Formulation

Module 3.1

MBA ZG 611/ MM ZG611 / POM ZG611/ QM ZG611

20th August 2023 Surendra Agarwal

L 6

BITS Pilani
Work Integrated Learning Programmes Division

WORK INTEGRATED LEARNING PROGRAMMES

Contents

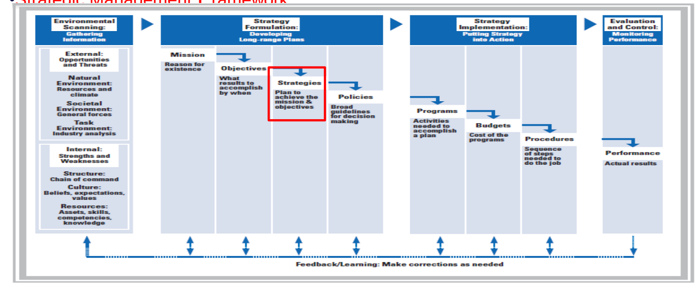
- Situation analysis tools-SWOT, SFAS, TOWS Matrix
- Business Strategies
- Porter's generic competitive strategies
  - Cost leadership
  - Differentiation
  - Focus
- Competitive strategies and risk
  - Competitive strategies and industry structure
  - Cooperative strategies
  - Cooperative arrangements

< Based on >

T1 Chapter 6

Strategic Management: Environmental Scanning

•Strategic Management Framework



Strategy Formulation > Situation Analysis > SWOT

- Strategy formulation (or Strategic planning) process develops a firm's mission, objectives, strategies and policies.
- It begins with Situation analysis: a process of finding a strategic fit between external opportunities and internal strengths while working around external threats and internal weaknesses.
- VRIO (Value, Rarity, Imitability, Organization) framework is very effective in not only analysing/ determining potential competitive advantages, but also in examining whether the firm is organized to take advantage of those strengths.
- Usually, this analysis is done using a SWOT (Strengths, Weaknesses, Opportunities, and Threats) chart wherein these four acronyms are shown in the four quadrants.

SWOT Analysis

Contd …

SWOT Analysis (contd)

•SWOT analysis is very popular globally.

•However, it only covers issues that can definitely be considered a strength, weakness, opportunity or threat. Hence, it is difficult to address uncertain or two-sided factors e.g. the factors that could either be a strength or a weakness or both, with a SWOT analysis (e.g. you might have many high precision machines, but they may not be suitable for high production volume).

•SWOT analysis may also be limited because it:

- Does not prioritise issues
- Does not provide solutions or offer alternative decisions
- Can generate too many ideas but not help you choose which one is best

Strategic Factors Analysis Summary (SFAS) Matrix

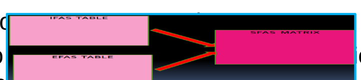
•SFAS matrix summarizes a firm's strategic factors by combining the external factors from EFAS table with internal factors from IFAS table

•The EFAS and IFAS tables discussed in previous sessions (for Maytag Corpn.) showed a total of 20 external & internal factors. However, this could be just too many for a strategist to use in formulating a strategy. The SFAS matrix will require to condense the SWOT into a maximum of 10 factors by reviewing with the management team.

•SFAS matrix can be created by taking the following steps:

S1: List the most impo[...]

S2: Assign weights to [...]c factors based on their respective importance (total weight 1.00)



Strategic Factors Analysis Summary (SFAS) Matrix

FIGURE 6–1 Strategic Factor Analysis Summary (SFAS) Matrix

Internal Strategic Factors (1)	Weight (2)	Rating (3)	Weighted Score (4)	Comments
Strengths				
S1 Quality Maytag culture	.15	5.0	.75	Quality key to succ[...]
S2 Experienced top management	.05	4.2	.21	Know appliances
S3 Vertical integration	.10	3.9	.39	Dedicated factorie[...]
S4 Employee relations	.05	3.0	.15	Good, but deterior[...]
S5 Hoover's international orientation	.15	2.8	.42	Hoover name in c[...]
Weaknesses				
W1 Process-oriented R&D	.05	2.2	.11	Slow on new prod[...]
W2 Distribution channels	.05	2.0	.10	Superstores replac[...] dealers
W3 Financial position	.15	2.0	.30	High debt load
W4 Global positioning	.20	2.1	.42	Hoover weak outsi[...] United Kingdom a[...] Australia

External Strategic Factors (1)	Weight (2)	Rating (3)	Weighted Score (4)	Comments
Opportunities				
O1 Economic integration of European Community	.20	4.1	.82	Acquisition of Hoover
O2 Demographics favor quality appliances	.10	5.0	.50	Maytag quality
O3 Economic development of Asia	.05	1.0	.05	Low Maytag presence
O4 Opening of Eastern Europe	.05	2.0	.10	Will take time
O5 Trend to "Super Stores"	.10	1.8	.18	Maytag weak in this c[...]
Threats				
T1 Increasing government regulations	.10	4.3	.43	Well positioned
T2 Strong U.S. competition	.10	4.0	.40	Well positioned
T3 Whirlpool and Electrolux strong globally	.15	3.0	.45	Hoover weak globally
T4 New product advances	.05	1.2	.06	Questionable
T5 Japanese appliance companies	.10	1.6	.16	Only Asian presence is[...]
Total Scores	1.00		3.15	

*The most important external and internal factors are identified in the EFAS and IFAS tables as shown here by shading these factors.

Strategic Factors (Select the most important opportunities/threats from EFAS, Table 4–5 and the most important strengths and weaknesses from IFAS, Table 5–2) (1)	Weight (2)	Rating (3)	Weighted Score (4)	Duration (5): SHORT	INTERMEDIATE	LONG	Comments (6)
S1 Quality Maytag culture (S)	.10	5.0	.50			X	Quality key to success
S5 Hoover's international orientation (S)	.10	2.8	.28	X	X		Name recognition
W3 Financial position (W)	.10	2.0	.20	X	X		High debt
W4 Global positioning (W)	.15	2.2	.33		X	X	Only in N.A., U.K., and Australia
O1 Economic integration of European Community (O)	.10	4.1	.41			X	Acquisition of Hoover
O2 Demographics favor quality (O)	.10	5.0	.50		X		Maytag quality
O5 Trend to super stores (O + T)	.10	1.8	.18	X			Weak in this channel
T3 Whirlpool and Electrolux (T)	.15	3.0	.45	X			Dominate industry
T5 Japanese appliance companies (T)	.10	1.6	.16			X	Asian presence
Total Scores	1.00		3.01				

Notes:
1. List each of the most important factors developed in your IFAS and EFAS Tables in Column 1.
2. Weight each factor from 1.0 (Most Important) to 0.0 (Not Important) in Column 2 based on that factor's probable impact on the company's strategic position. The total weights must sum to 1.00.
3. Rate each factor from 5.0 (Outstanding) to 1.0 (Poor) in Column 3 based on the company's response to that factor.
4. Multiply each factor's weight times its rating to obtain each factor's weighted score in Column 4.
5. For duration in Column 5, check appropriate column (short term—less than 1 year; intermediate—1 to 3 years; long term—over 3 years).
6. Use Column 6 (comments) for rationale used for each factor.

Alternative Strategies- TOWS Matrix

•TOWS matrix can be defined as a framework to create, compare, decide and access business strategies. It stands for Threats, Opportunities, Weaknesses and Strengths.

•TOWS analysis is a variant of the SWOT analysis.

•Both TOWS and SWOT have the same acronyms

•In a SWOT analysis, you identify all strengths, weaknesses, opportunities, and threats.

•It is essential to realize that strengths and weaknesses are concepts that do not make much sense if you do not place them in a context, an environment.

•TOWS analysis matches internal factors with external factors and, on this basis, identifies an appropriate strategy for action.

•The main difference between them is that a TOWS analysis focuses on external elements first. The idea is that we should start with analysing the external forces and environment and then consider this in context of our internal capabilities.

•In this way, a TOWS provides something that a SWOT does not. TOWS analysis extends a SWOT analysis.

Contd …

TOWS Matrix (contd)

•TOWS examines a firm's external opportunities and threats and compares them to its strengths and weaknesses. This analysis forms the basis to develop TOWS strategies and to create actionable tactics.

•SWOT matrix is a planning tool, whereas TOWS matrix is an action tool.

•Four TOWS strategies

•By juxtaposing the opportunities and threats coming from a firm's environment with the firm's strengths and weaknesses, we can identify four basic strategies. This allows a firm to exploit opportunities, reduce threats, overcome weaknesses and build on strengths.

➢ Strengths/Opportunities (SO):
- Consider all strengths one by one listed in the SWOT Analysis with each opportunity to determine how each internal strength can help you capitalize on each external opportunity.

➢ Strength/Threats (ST):
- Consider all strengths one by one listed in the SWOT Analysis with each threat to determine how each internal strength can help you avoid every external danger. Contd …

TOWS Matrix (contd)

FIGURE 6–3
TOWS Matrix

EXTERNAL FACTORS (EFAS) / INTERNAL FACTORS (IFAS)	Strengths (S) List 5 – 10 *internal* strengths here	Weaknesses (W) List 5 – 10 *internal* weaknesses here
Opportunities (O) List 5 – 10 *external* opportunities here	SO Strategies Generate strategies here that use strengths to take advantage of opportunities	WO Strategies Generate strategies here that take advantage of opportunities by overcoming weaknesses
Threats (T) List 5 – 10 *external* threats here	ST Strategies Generate strategies here that use strengths to avoid threats	WT Strategies Generate strategies here that minimize weaknesses and avoid threats

SOURCE: *Reprinted from* Long-Range Planning, *Vol. 15, No. 2, 1982, Weihrich "The TOWS Matrix—A Tool For Situational Analysis," p. 60. Copyright © 1982 with permission of Elsevier and H. Weihrich.*

➢ Weaknesses/Opportunities (WO):
- Considering all the weaknesses with the opportunities, we can determine how the internal disadvantages can be eliminated by using the opportunities.

➢ Weaknesses/Threats (WT):
- Considering all weaknesses with all the threats, we can determine how both can be avoided.

To summarise, before you can create a TOWS matrix, you will have to do a SWOT. Contd …

Three Levels of Strategies (Recap from L2)

•Corporate Strategy: A firm's overall direction in terms of its general attitude toward growth and the management of its various business and product lines. Three main categories-Growth, Stability, Retrenchment.

•Business Strategy: It occurs at the business unit or product level, it emphasizes improvement of the competitive position of corporation's products or services in specific industry or market segment.

•Functional Strategy is an approach taken by a functional area to achieve corporate and business unit objectives and strategies by maximizing resource productively.

FIGURE 1–4
Hierarchy of Strategy

Contd …

Three Levels of Strategies (contd) – (Recap from L2)

•Corporate strategy asks what industry(ies) the firm should be in.

•Business strategy asks how a firm or its units should compete/ cooperate in each industry.

•Business strategy focusses on improving the competitive position of a firm or its products/ services within the specific industry or market segment.

➢Business strategy can be Competitive (battling against all competitors) and/ or Cooperative (working with one or more firms to gain advantage against other competitors).

•Competitive strategy raises the following questions:

➢Should we compete based on lower cost, or should we differentiate our products on some basis other than cost e.g., quality or service?

➢Should we compete head on with our major competitors for the biggest/ most sought after market share or should we focus on a niche wherein we can satisfy a less sought after but also profitable market segment?

Business Strategy

- Business strategy usually occurs at a business unit or product level, and it emphasizes improvement of the competitive position of a firm's products in the specific industry or market segment served by the business unit
- Robert Grant proposes a five-step, resource-based approach to strategy analysis:
  1. Identify and classify a firm's resources in terms of strengths and weaknesses.
  2. Combine the firm's strengths into specific capabilities and core competencies.
  3. Appraise the profit potential of these capabilities and competencies in terms of their potential for sustainable competitive advantage.
  4. Select the strategy that best exploits the firm's capabilities and competencies relative to external opportunities.
  5. Identify resource gaps and invest in upgrading weaknesses

Porter's Generic Competitive Strategy Model

Competitive advantages

Competitive Scope

Target Scope	Advantage (Low Cost)	Advantage (Product Uniqueness)
Broad (Industry wide)	Cost Leadership Samsung	Differentiation Apple, BMW
Narrow (Market wide)	Focus Strategy (low cost) Button phones	Focus Strategy (differentiation) Rolex, Ferrari

A firm's relative position within its industry determines whether its profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is the sustainable competitive advantage. There are two basic types of competitive advantage a firm can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in the industry: cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus.

Porter's Competitive strategies: Cost leadership (Recap from L2)

•Cost leadership: an ability of the business to design, produce, and market a comparable product more efficiently than its competitors.

➢ This strategy aims at the broad mass market, requires efficient-scale facilities, vigorous cost reductions, cost reductions in R&D etc. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors.

➢ Because of the lower costs, the cost leader is able to charge a lower price (than the competition) and still makes a reasonable profit.

➢ Because of a high market share, the cost leader is able to negotiate heavy discounts against its purchases.

➢ Further, the low price acts as an entry barrier because most new entrants will be unable to match the leader's cost advantage.

➢ Cases: Wal-Mart (retail), HP (computer), Southwest Airlines, Timex (watches), Tata Steel, Reliance, Nirma Contd …

Porter's Competitive strategies: Differentiation & Focus (Recap from L2)

•Differentiation: an ability of the business to provide unique and superior value to the buyer. This may include areas e.g., quality, special features, after-sales service. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price.

➢This strategy is aimed at a broad mass market and involves creation of a product that is perceived as having passed through the elements of VRIO (value, rarity, imitability, and organization, the criteria used to evaluate an organization's resources and capabilities).

➢The firm may choose to charge a premium pricing. The increased cost could be absorbed by the customers. Cases: Walt Disney (entertainment), BMW (automobile), Apple (cell phones, computers)

•Focus: an ability to provide unique and superior value to a buyer group or a market segment/ geography- Cost focus & Differentiation focus.

➢Cost focus is a low-cost competitive strategy that focuses on a specific market segment and attempts to serve only this niche, to the exclusion of others. Case: Natco Pharma Ltd

➢Cost focus may be achieved, not at the cost of quality, but by exploiting the economy of scale and eliminating unnecessary expenses

Risks in Competitive Strategies

TABLE 6–1 Risks of Generic Competitive Strategies

Even if successfully implemented a strategy, difficult to sustain.

Risks of Cost Leadership	Risks of Differentiation	Risks of Focus
Cost leadership is not sustained: ■ Competitors imitate. ■ Technology changes. ■ Other bases for cost leadership erode.	Differentiation is not sustained: ■ Competitors imitate. ■ Bases for differentiation become less important to buyers.	The focus strategy is imitated. The target segment becomes structurally unattractive: ■ Structure erodes. ■ Demand disappears.
Proximity in differentiation is lost.	Cost proximity is lost.	Broadly targeted competitors overwhelm the segment: ■ The segment's differences from other segments narrow. ■ The advantages of a broad line increase.
Cost focusers achieve even lower cost in segments.	Differentiation focusers achieve even greater differentiation in segments.	New focusers subsegment the industry.

SOURCE: Reprinted with permission of The Free Press, a Division of Simon & Schuster, Inc. from COMPETITIVE ADVANTAGE: Creating and Sustaining Superior Performance by Michael E. Porter. Copyright © 1985, 1998 by The Free Press. All rights reserved.

Issues in Competitive Strategies

•Each of the generic strategies, discussed earlier, has risks.

•A firm following a differentiation strategy must ensure that the higher price it charges for its higher quality is not too far above the competition else the customers will not see the extra quality as worth the extra cost.

•Some firms fail to effectively pursue one of the generic strategies. A firm is said to be Stuck in the middle if it does not offer features that are unique enough to convince customers to buy its offerings, and its prices are too high to compete. Such firms perform poorly.

•Firms that are stuck in the middle generally perform poorly because they lack a clear market or competitive pricing.

•Porter: A strategy is as much about a firm deciding what it is not going to do as it is about deciding what it is going to do. In other words, a firm's business-level strategy should not involve trying to serve the varied needs of different segment of customers in an industry. No firm could possibly pull this off. Example: IBM tried to position its personal computers via a differentiation strategy i.e. by offering them at high prices, while promising to offer excellent service to customers in return. Unfortunately, rivals (e.g. Dell) were able to provide equal levels of service while selling computers at lower prices. Nothing made IBM's computers stand out from the crowd, IBM eventually exited this business

•Exception: Toyota and Honda have achieved these generic competitive strategies i.e. by offering high quality products at lower costs

Industry Structure and Competitive Strategy

Porter's generic competitive strategies may be used in any industry. However, certain strategies may be more successful depending on the type of industry.

Fragmented industry: Many small- and medium-sized companies compete for relatively small shares of the total market. Products are typically in early stages of product life cycle. There are no economies of scale and hence no large players, no entry barriers. Example: Pharma (24000 players with only 330 players in organized sector), paper, education, retail.

For a firm in a fragmented industry, niche strategy (to operate a business in a well-defined small segment of a big market), may be better suited to offer a better competitive advantage. A firm may either focus on one product category or it may focus on specific types of customers.

Consolidated industry: An industry may be fragmented to start with. However, industry consolidation (a situation in which separate companies become one by way of merger etc.) could occur resulting in domination by a few large players having high market shares.

Strategies to be followed in a consolidated industry could be: Emphasis on cost and service, economies of scale, regional and national brands, slower growth, over capacity

Cooperative Strategies

•Cooperative strategies are used to gain a competitive advantage within an industry by working with other firms. Two types as follows:

➢Collusion: An active cooperation of firms within an industry to reduce output and raise prices to get around the normal economic law of supply and demand

1.Explicit: Firms cooperate through direct communication and negotiation. It is usually illegal (Competition Commission promotes a competitive environment)

2.Tacit: Firms cooperate indirectly through an informal system of signals

➢Strategic Alliance: A long-term cooperative arrangement between two or more independent firms or business units that engage in business activities for mutual economic gain. Strategic alliance is used to:

Examples: Ashok Leyland formed strategic alliance with SUN Mobility for electric vehicles

1.Obtain or learn new capabilities: GM with Lyft (car-sharing)

2.Obtain access to specific markets: (Instead of buying a foreign firm, or a green field facility)

3.Reduce financial risk (lower risk than going alone. Airbus as a consortium)

4.Reduce political risk (by forming alliance with a local partner)

Growth of Mahindra & Mahindra

Mahindra and Mahindra and Ford

- To explore cooperation in the sphere of products, technologies and distribution including future mobility program, connected vehicle projects, electrification of cars amongst other areas.
- The scope of the agreement will allow Ford and Mahindra to look beyond mobility programs, connected vehicle projects, electrification to product development, sourcing and commercial efficiencies, distribution within India; improving Ford's reach within India and global emerging markets and thereby helping Mahindra's reach outside of India.

Read more at:
//economictimes.indiatimes.com/articleshow/60731811.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

Partnerships and acquisitions

A look at how Mahindra built an auto firm

1995 (Joint venture with Ford)
Mahindra, a maker of tractors, always wanted to diversify into making passenger vehicles. Mahindra Ford India Ltd (MFIL) was formed in October 1995 to make Ford Escort cars. The rub-off was the development of the Mahindra Scorpio, from scratch, using best practices from Ford.

2005 (Joint venture with Renault)
Mahindra announced a 51:49 joint venture with Renault SA to produce and sell the latter's Logan sedan in India. The idea was to also sell M&M sports utility vehicles abroad through the Renault channel. The two parties called off the JV in 2010. Mahindra took over the operations and continues to manufacture the Logan, renamed Verito.

2005, 2007 (Two joint ventures with Navistar)
Mahindra announced two joint ventures with US-based Navistar International Corp. to mark its entry into the heavy commercial vehicles segment. It gave Mahindra the much-needed technological know-how in its quest to become a full-fledged automobile company, manufacturing everything from tractors and commercial vehicles to SUVs, two-wheelers to cars. In 2013, Mahindra bought out its US-based joint venture partner in two companies, one for making engines and the other for making trucks.

2008 (Acquisition of Kinetic)
Mahindra bought an 80% stake in Kinetic Motorcycles Ltd for Rs110 crore to venture into the two-wheeler segment.

2010 (Acquisition of Reva)
It acquired a controlling stake in Reva Electric Car Co., putting it in a position to take advantage of the rapid pace at which the electric vehicle market was expected to grow over the next decade. Reva has been core to Mahindra's electric vehicle aspirations.

2010 (Acquisition of Ssangyong)
Mahindra signed a definitive agreement to buy a 70% stake in ailing South Korean automaker SsangYong Motor Co. for Rs2,100 crore. A revitalized Ssangyong now plays a crucial role in Mahindra's product development.

2013 (Mahindra-CIE alliance)
Under a multi-layered deal that involved a share swap, Mahindra handed control of its domestic components business to the Spanish company CIE Automotive SA; in return, the business was to gain global scale. Ceding control of a unit to another entity is rare for Mahindra, which has made over 35 acquisitions in the past decade.

2015 (Acquisition of Pininfarina)
Mahindra bought Italian car designer Pininfarina SpA in a transaction that was to help the Indian firm boost its design and styling capabilities. The iconic Pininfarina brand was also to be used to introduce an electric sports car.

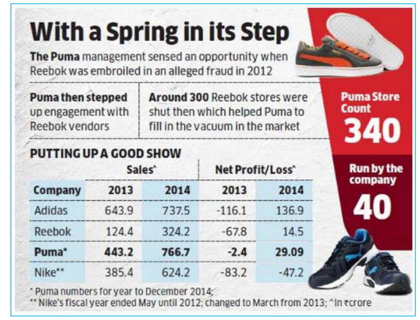
Types of Cooperative Arrangements

- Mutual service consortia: Similar firms in similar industries pool their resources (else too costly/ risky). Example: IBM with Sony to build computer chips.
- Joint venture: Formed by many firms, creating an independent firm needing resources/ technology/ mktg. Most popular mode
- Licensing arrangements: Licensor grants rights (to use technology/ brand) to a licensee
- Value-chain partnerships: Long term arrangement with key supplier/ distributor(s) for mutual advantages. Example: automobile industry works with one/ few supplier(s) for a component.

Puma: Good Run In India

Puma-2006
2014- sales of Rs. 766.75 Cr inching closer to Adidas and Nike
This allowed Puma to fill the gap in the market created by Reebok's absence. It also won the trust of Reebok's vendors by utilising their capacity.

*"In terms of franchisee management, we focused on long-term sustenance of our stores and never opened multiple stores in the same location. We have always believed in quality distribution and not in over distribution. In some ways, we had the **late-mover's advantage** and we learnt what not to do. So while others focused on just opening stores, we put our energies in improving our customers' experience in our stores."*



	Sales^		Net Profit/Loss^	
Company	2013	2014	2013	2014
Adidas	643.9	737.5	-116.1	136.9
Reebok	124.4	324.2	-67.8	14.5
Puma*	**443.2**	**766.7**	**-2.4**	**29.09**
Nike**	385.4	624.2	-83.2	-47.2

* Puma numbers for year to December 2014;
** Nike's fiscal year ended May until 2012; changed to March from 2013; ^In ₹crore

(Source: ET Brand Equity, 2015)

Corporate Strategy

Module 3.2

MBA ZG 611/ MM ZG611 / POM ZG611/ QM ZG611

27th August 2023 Surendra Agarwal

L 7

BITS Pilani
Work Integrated Learning Programmes Division

WORK INTEGRATED LEARNING PROGRAMMES

Contents

Corporate Strategy

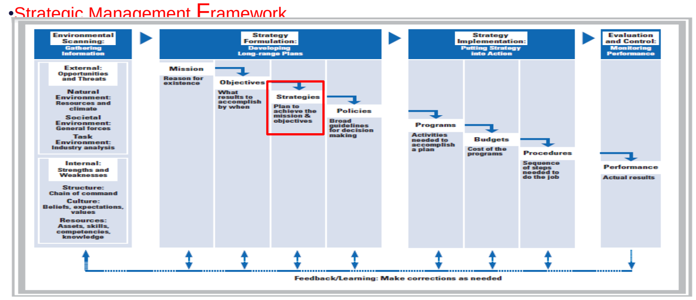
•Directional Strategy
•Growth/Concentration Strategy
•Diversification Strategy
•Stability/Retrenchment/ Turnaround Strategies
•Nokia Case Study

- Portfolio Analysis: BCG (and GE)
- Parenting strategy

< Based on >
T1 Chapter 7

Strategic Management: Environmental Scanning

•Strategic Management Framework



Corporate Strategy

Corporate strategy is about the choice of direction for a firm as a whole and the management of its business/ products to achieve its goals.

It includes decisions regarding the flow of financial and other resources to/ from a firm's product lines and business units. A firm transfers skills and capabilities developed by one unit to other unit(s) which need such resources thereby the firm attempts to obtain synergy among various product lines/ business units so that the firm as a whole is greater than the sum of its individual business unit parts.

It is developed to align the firms' business practices with the organization's mission statement. It takes into account the decisions of the shareholders who own the company as to whether to diversify, retrench some product lines or enter into specific partnerships with other firms.

Types of Corporate Strategies

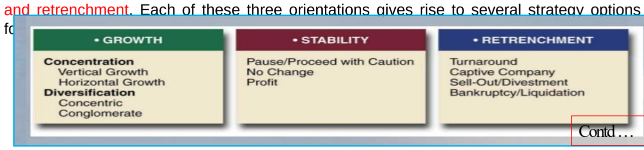
1. Directional strategy: A firm's overall orientation toward growth, stability, or retrenchment
2. Portfolio analysis: Management views its several product lines/ business units as a series of investments from which it expects a profitable return.
3. Parenting strategy: Management views the firm in terms of resources & capabilities that can be used to build business unit value as well as generate synergies across business units. In other words, a corporate parent generates strategy by focusing on the core competencies of the parent corporation and on the value created from the relationship between the parent and its businesses

Directional Strategy

•Every product/ business unit strategizes to improve its competitive position. Similarly, every firm must decide its orientation towards growth by asking the following questions:

1. Should we *expand, continue* our operations unchanged or *cut back*?
2. Should we concentrate our activities within our current industry, or should we diversify into other industries?
3. If we want to grow and expand nationally and/or globally, should we do so through internal development or through external acquisitions, mergers, or strategic alliances?

•A directional strategy of a firm is composed on its general orientations towards growth, stability and retrenchment. Each of these three orientations gives rise to several strategy options as fo



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Directional > Growth / Expansion Strategies

•These strategies are designed to achieve growth by broadening the scope of a firm in terms of the sales, assets, profits, market share, customer groups, alternative technologies etc.

•The firms operating in the growing industries must grow even to survive. Growth itself leads to a reduced per-unit cost of products (experience curve).

➢It is the most frequently employed strategy.

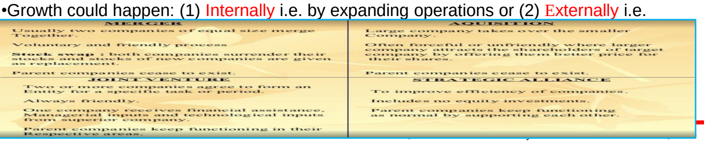
➢Involves redefinition/ renewal of the business through fresh investments.

➢Highly versatile strategy, involving several permutations and combinations

➢Two strategies: Concentration (current product/industry) or Diversification (other product/ industry)

➢Examples: Larry Ellison of Oracle said that Oracle needs to grow by buying smaller and weaker rivals if it wants to compete with SAP and Microsoft. Oracle added 31 more new companies within a period of four years.

•Growth could happen: (1) Internally i.e. by expanding operations or (2) Externally i.e.



MERGER	AQUISITION
Usually two companies of equal size merge Together. Voluntary and friendly process **Stock swap :** both companies surrender their stocks and stocks of new companies are given as replacement. Parent companies cease to exist.	Large company takes over the smaller Company. Often forceful or unfriendly where larger company attracts the shareholders of target company by offering them better price for their shares. Parent companies cease to exist.
JOINT VENTURE	**STRATEGIC ALLIANCE**
Two or more companies agree to form an Entity for a specific task or period. Always friendly. One company receives financial assistance, Managerial inputs and technological inputs from superior company. Parent companies keep functioning in their Respective areas.	To improve efficiency of companies. Includes no equity investments. Parent companies keep functioning as normal by supporting each other.

Growth > Concentration Strategies

•Concentration strategy focuses on a single niche (specific group of customers, products or geographic markets) and competes in the same category.

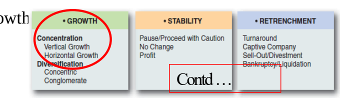
•Primary purpose is to allow the business to concentrate (rather than diversify) their efforts. The idea is that this concentrated effort (investment of resources in production/ marketing) in the chosen area is more likely to yield expertise, innovation, and efficiencies within the area of concentration.

•Concentration strategy is a wise strategy if the said niche area has a growth potential.

•However, it carries the risk of significant losses in the event of a drop in demand or increase in the level of competition.

➢The world's leading fast-food brands e.g. Subway, McDonald's, and Starbucks follow the concentration strategy by targeting a specific target audience in one sort of product/service. It is one of the main reasons behind their success.

•Two types: Vertical Growth & Horizontal Growth



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Concentration Strategies > Vertical Growth

•Vertical growth strategy involves a firm taking over a function previously performed by a supplier and/ or distributor. The firm grows by making its own supplies and/ or distributing its own products.

•It is an act of expanding into new operations for the purpose of decreasing a firm's costs, gaining control over a scarce resource (Elon Musk/ TESLA explored owning the Lithium mines), improving quality/ reliability in the process of production and/or distribution.

➢Example: A supermarket firm that, instead of contracting with the freighting firms, purchases its own trucks and distribution facilities that it uses to get food items and household products out to its various locations. Henry Ford's production process was entirely integrated in that the iron ore entered one end of the big (River Rouge, Detroit) plant, and the finished automobiles rolled out at the other end of the plant.

•Vertical growth can be achieved either internally (by expanding current operations) or externally (through acquisitions).

•Vertical growth results in Vertical integration. Contd …

Vertical Growth > Vertical Integration

•Previously provided by a supplier is called backward integration (going backward on the industry value chain).

➢Backward integration is logical strategy for a firm with a strong competitive position in a growing industry. The firm is able to reduce its acquisition costs.

➢Examples: Reliance: from polyester to fibre intermediates (and plastic) to petrochemicals/ refinery to oil & gas exploration. Shobha Developers: both backward and forward integrations. Carnegie Steel company (of Pittsburgh, PA) controlled not only the mills where the steel was made, but also the iron ore mines, the coal mines, coke ovens, the ships (to transport the iron ore), the railroads (for freighting the coal to the factory).

•Previously provided by a distributor is called forward integration (going forward on the industry value chain). This enables a firm to control its distribution centres and retailers where its products are sold.

➢Examples: A farmer sells his crops at a local grocery store rather than to a distribution center that controls grocery store placement. Bata, Liberty, Airtel, Apple (very few) have their own retail outlets.

•Degree of vertical integration: Full (British Petroleum, Royal Dutch Shell); Taper (Forward: Apple); Quasi (Backward: Bristol-Myers Squibb); Long term contracts

Horizontal Growth

- Horizontal growth strategy means expanding a firm's activities into other geographic regions and/ or increasing the range of products offered to the current markets.
- Examples:

1. ITC Ltd. (a cigarette major) into hotel, paper and packaging industries; L&T (Engineering major) into cement, IT, shipping, financing etc.
2. Uber launched in San Francisco, but later rolled out to thousands of locations across the globe. Additionally, the company launched UberEATS.

- Horizontal growth results in horizontal integration i.e. the degree to which a firm operates in multiple geographic locations at the same point on an industry's value chain.
- Horizontal growth can be achieved through:

➢ Internal development (Wal-Mart, Tesco supermarket chains expanding globally)

➢ Externally (M&A, JV & Strategic alliances in same industry). Example: Walt Disney (entertainment & information) across the globe; Tech Mahindra acquired UK based BIO agency (offering digital services globally).

Horizontal Growth (contd)

- This strategy can be used for the following reasons:

❖ To exploit economies of scope i.e. to utilize the underutilized resources and capabilities.

❖ Managerial skills can be successfully transferred to other markets/ products

❖ To spread the financial risk over different markets and products

- Possible dangers:

➢ Companies might risk neglecting its core capabilities and become too diversified. Product quality / uniqueness might suffer due to a shift in focus on different products and markets.

Growth > Diversification

• GROWTH	• STABILITY	• RETRENCHMENT
Concentration Vertical Growth Horizontal Growth Diversification Concentric Conglomerate	Pause/Proceed with Caution No Change Profit	Turnaround Captive Company Sell-Out/Divestment Bankruptcy/Liquidation

A firm's growth in its original business may hit a plateau when the industry consolidates and when most of its players have reached their respective limits to growth using vertical/ horizontal growth strategies

In such cases, the industry players need to diversify into different industries to grow.

Growth into a related industry creates synergy. It builds mutually reinforcing business.

Synergy is a concept that two businesses will generate more profits together than they could separately. The point of commonality may be similar technology, customer usage, distribution, managerial skills, or product similarity. Example: the addition of tomato ketchup to the existing Maggi products/ brands e.g. noodles.

Types of diversifications: Concentric and Conglomerate

Contd ..

Growth > Diversification > Concentric (or Related) Diversification

•Concentric (or 'Related') diversification involves adding similar products to the existing business. For example, when a computer company that primarily produces desktop computers starts manufacturing laptops, it is pursuing a concentric diversification strategy.

➢Growth through concentric diversification into a related industry may be an appropriate corporate strategy when a firm has a strong competitive position

➢ A firm uses its strengths as its means of … firm uses its product knowledge, manufa… marketing skills to secure a strategic fit in the new industry

• GROWTH: Concentration, Vertical Growth, Horizontal Growth, Diversification, Concentric, Conglomerate • STABILITY: Pause/Proceed with Caution, No Change, Profit • RETRENCHMENT: Turnaround, Captive Company, Sell-Out/Divestment, Bankruptcy/Liquidation

➢Concentric diversification may done either externally (i.e. through acquisitions) or internally. Example: Electrolux has diversified globally through acquisitions.

➢Various types of concentric diversifications:

• GROWTH: Concentration, Vertical Growth, Horizontal Growth, Diversification, Concentric, Conglomerate • STABILITY: Pause/Proceed with Caution, No Change, Profit • RETRENCHMENT: Turnaround, Captive Company, Sell-Out/Divestment, Bankruptcy/Liquidation

Growth > Diversification > Conglomerate (or 'Unrelated') Diversification

•Conglomerate diversification involves adding new products that are significantly unrelated and with no technological or commercial similarities with the current products e.g. if a computer company decides to produce notebooks, the company is pursuing a conglomerate diversification strategy.

•This strategy may be adopted when a firm believes that the current industry is unattractive and/or the firm lacks capabilities which could be transferred to the related products in other industries. It may also be adopted when the firm's core competency is its own excellent management systems

•Emphasis in conglomerate diversification is on sound investment and value-oriented management rather than on the product-market synergy common to concentric diversification.

•It is adopted primarily from the financial considerations and/ or risk mitigations

Examples:

1.ITC (a cigarette firm) diversified into hotels, agri-business, IT services, packaged foods etc.

2.CSX Corpn. (a railroad transport firm having a lean period in winter) considered to purchase Texas Gas Resources (business of natural gas transmission having brisk

Stability strategies

•A firm may choose stability over growth by continuing its current activities without any significant change in direction.

•Stability strategies can be appropriate for a successful firm operating in a reasonably predictable environment.

•Stability strategies can be very useful in the short run, but they can be dangerous if followed for too long.

•It can be of the following types:

• GROWTH: Concentration, Vertical Growth, Horizontal Growth, Diversification, Concentric, Conglomerate • STABILITY: Pause/Proceed with Caution, No Change, Profit • RETRENCHMENT: Turnaround, Captive Company, Sell-Out/Divestment, Bankruptcy/Liquidation

1. A Pause/proceed-with-caution strategy is, i… a timeout — an opportunity to rest be… retrenchment strategy.

➢It is a temporary strategy to be used until the environment becomes more hospitable or to enable the firm to consolidate its resources after a prolonged period of rapid growth. Michel Dell "*We grew 285% in two years, and . . . having growing pains*". Dell put its growth strategy in limbo until it hired new managers, improved the structure and built new facilities. Contd …

Stability strategies (contd)

• GROWTH: Concentration, Vertical Growth, Horizontal Growth, Diversification, Concentric, Conglomerate • STABILITY: Pause/Proceed with Caution, No Change, Profit • RETRENCHMENT: Turnaround, Captive Company, Sell-Out/Divestment, Bankruptcy/Liquidation

2. A No-change strategy is a decision to do nothing new — a choice to continue current operations and policies for the foreseeable future.

•Stability because of a modest competition, with no opportunities and threats, may encourage a firm to maintain status quo and make only small adjustments. Success of this strategy depends on a lack of significant change in the firm's situation. Many small town firms followed this strategy before Wal-Mart moved into their areas and forced them to rethink their strategy or drove them out of business.

3. A Profit strategy: Sometimes things change in such a way that a firm has to adopt a change in its working. There may be unfavourable external factors such as an increase in competition, recession in the industry, government attitude, industry down turn etc. Under these situations it becomes difficult to sustain profitability.

•A profit strategy is a decision to do nothing new in a worsening situation but instead to act as though the firm's problems are only temporary. The firm will try to artificially sustain profitability by reducing its expenses, reducing investments, raise prices, cut costs, increase productivity etc.

•These measures will help the firm in sustaining current profitability in the short run. However, in long run, it can seriously impair the firm's competitive position.

Retrenchment Strategies > Turnaround strategy

• GROWTH: Concentration, Vertical Growth, Horizontal Growth, Diversification, Concentric, Conglomerate • STABILITY: Pause/Proceed with Caution, No Change, Profit • RETRENCHMENT: Turnaround, Captive Company, Sell-Out/Divestment, Bankruptcy/Liquidation

Retrenchment strategy aims to decrease the scale of operations of a firm. It can also involve cutting down the expenditure of a firm so that it becomes financially viable. It can involve reducing the number of product lines or businesses, withdrawing from certain geographical markets so that the firm becomes financially sustainable. For example, HUL has reduced the number of brands in its portfolio in the past so that the resulting "power brands" contribute more meaningfully to HUL's profitability.

•This strategy is used when a firm has a weak competitive position in some or all of its product lines. The firm will try to eliminate the weaknesses which are dragging the firm down.

•Retrenchment strategies can be of the following types:

1. Turnaround strategy means backing out, withdrawing or retrenching from a decision wrongly taken earlier, in order to reverse the process of decline. It can be adopted in case of the persistent negative cash flows, continuous losses, declining market share, deterioration of physical facilities, high turnover of employees and low morale, uncompetitive products and services, mismanagement etc. This strategy may involve cutting costs, selling of assets.

Contd …

Retrenchment Strategies > Captive company strategy

•In 2006, Dell announced some cost-cutting measures and, to do so, it started selling its products directly. However, these measures backfired and Dell suffered huge losses. Then, in 2007, Dell withdrew its direct selling strategy and started selling its computers through the retail outlets and, today, it is the second largest computer retailer in the world.

2. Captive company strategy: A captive unit is a business unit of a firm functioning offshore as an entity of its own while retaining the work and close operational tie ups within the parent firm.

•In this strategy, a small firm sacrifices its independence in exchange for security (a continued existence, assured supplies/ markets, protected jobs) of being part of a larger conglomerate.

•Example: Minnesota Mining and Manufacturing (The 3M) company, a US conglomerate, uses this strategy extensively & l… …rtunity for large R&D budgets.

• GROWTH: Concentration, Vertical Growth, Horizontal Growth, Diversification, Concentric, Conglomerate • STABILITY: Pause/Proceed with Caution, No Change, Profit • RETRENCHMENT: Turnaround, Captive Company, Sell-Out/Divestment, Bankruptcy/Liquidation

Contd …

Retrenchment Strategies > Sell out / Divestment strategy

• GROWTH: Concentration, Vertical Growth, Horizontal Growth, Diversification, Concentric, Conglomerate • STABILITY: Pause/Proceed with Caution, No Change, Profit • RETRENCHMENT: Turnaround, Captive Company, Sell-Out/Divestment, Bankruptcy/Liquidation

3. Sell-out/ Divestment strategy:

•Sell-out refers to a situation in which individuals or firms are forced to sell some/ all of their assets in order to satisfy certain short-term obligations that cannot be met otherwise. In this, the management can still obtain a good price for its shareholders, and the employees can keep their jobs, by selling the firm to another larger firm. Example: Marginal performance in the troubled industry was one reason why American Airlines was willing to be sold to US Airways.

•Divestment Strategy is a strategy deployed by organizations to scale down the range of their business activities. Divestment involves sale of a firm's business assets, divisions or subsidiaries in an effort to streamline operations and improve financial health. Sometimes, it also includes separating a struggling division from the parent organization and establishing it as an independent entity — also known as a spin-off.

•Example: Ford sold its Jaguar and Land Rover ('JLR') units to Tata Motors in 2008 for $2 billion.

Contd …

Retrenchment Strategies > Bankruptcy/ Liquidation strategy

4. When a firm is in a poor situation with a poor competitive position in an industry with few prospects, its management has very few options – all of them being distasteful. No one wants to buy a weak firm in an unattractive industry and hence the firm may pursue a bankruptcy or liquidation strategy.

•Bankruptcy Strategy: A company gives up management of the firm to the courts in return for some settlement of the company's obligations (getting rid of many debts, protecting some property from being sold). Example: Lehman Brothers, the fourth biggest investment bank of USA, filed for bankruptcy in September 2008.

•Liquidation Strategy: In this strategy, an entire firm closes down and sells its assets to convert it into cash to distribute to the shareholders. It could be because the business turned unprofitable, obsolescence of products/processes, high competition etc. Example: Satyam Computer Services liquidated the company in 2009. It was acquired by Mahindra group.

• GROWTH: Concentration, Vertical Growth, Horizontal Growth, Diversification, Concentric, Conglomerate • STABILITY: Pause/Proceed with Caution, No Change, Profit • RETRENCHMENT: Turnaround, Captive Company, Sell-Out/Divestment, Bankruptcy/Liquidation

Combination Strategy

Nokia case study#

- Combination Strategy
- Corporate planning may aim at achieving two or more goals (such as consolidation, growth, stability) simultaneously. A firm may adopt a mixture of stability, expansion and retrenchment, either at the same time in different businesses or at different times in the same business with the aim of improving its performance.
- Example: a furniture company supplements its offerings of stylish furnitures to provide a wide variety to its customers (stability) & expands its product range to include industrial and wedding furniture (expansion). Simultaneously, it decides to close down a division which undertakes large scale furniture contract jobs (retrenchment).

- The Rise & Fall of Nokia -HBR Case Study
  (https://thestrategystory.com/2020/11/04/the-nokia-saga-rise-fall-and- return)

These two topics are not related.

Portfolio Analysis

- Portfolio analysis aids in developing corporate strategy in a multi-business corporation. It puts a corporate headquarter into the role of an internal banker.
- In portfolio analysis, top management views its product lines and business units as a series of investments from which it expects a profitable return. The top management must constantly juggle its portfolio of several business units to ensure the best return on the firm's invested money.
- Popular portfolio analysis techniques include:

1. BCG Growth-Share Matrix
2. GE Business Matrix (not being discussed in the course)

Contd …

BCG growth–share matrix

The BCG growth-share matrix (aka the product portfolio matrix, BCG-matrix) is a chart that was created by Bruce D. Henderson for the Boston Consulting Group in 1970 to help corporations to analyze their business units.

The BCG growth-share matrix is a planning tool that uses graphical representations of a firm's products in an effort to help the firm decide what it should keep, sell, or invest more in.

This matrix plots a firm's offerings in a four-square matrix, with the *y*-axis representing the growth rate of the industry (in which the firm competes) and the x-axis representing market share.

The matrix breaks down products into four categories, known heuristically as "dogs," "cash cows," "stars," and "question marks." Each category quadrant has its own set of unique characteristics.

According to Henderson, to be successful, a firm should have a portfolio of products with different growth rates and different market share. This helps the firm to allocate resources and is used as an analytical tool in brand marketing, product management, strategic management, and portfolio analysis.

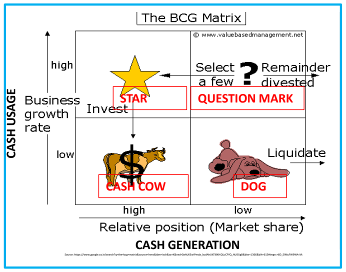
Limitations of BCG Matrix:

- High market share is not the only success factor.
- Market growth is not the only indicator for the attractiveness of a market
- Sometimes *dogs* can earn even more cash than the *cash cows*

Contd …

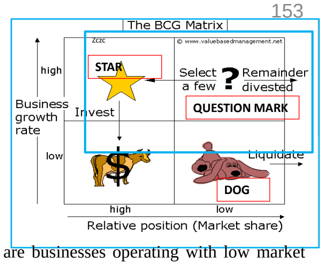
The BCG Matrix (contd)

Cash cows have high market share in a slow-growing industry. These units typically generate cash in excess of the amount of cash needed to maintain their market shares. Even though they are regarded as staid and boring, in a "mature" market, yet the firms value owning them due to their cash-generating qualities. They are to be *milked* continuously with as little investment (in R&D, advertisement) as possible, since such investment would be wasted in an industry with low growth. Apple's iPhone, once a *star*, is their flagship product, and provides vast resources which are poured into Apple's Watch etc. Contd …



The BCG Matrix (contd)

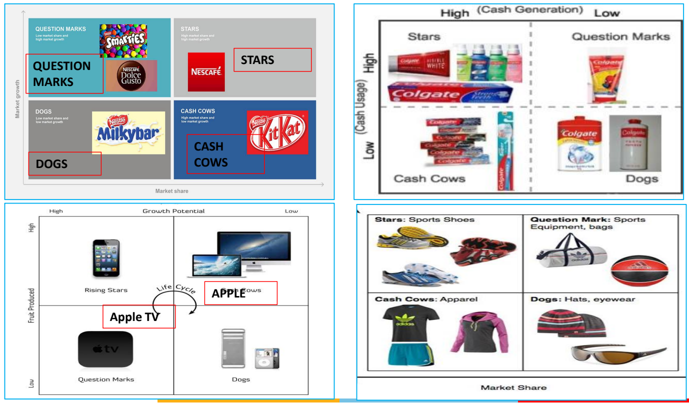
Dogs have low market share in a mature, slow-growing industry. They do not have a potential to generate enough cash. Owning a break-even unit provides the social benefit of providing jobs and possible synergies that assist other business units. However, from a business perspective, a *dog* unit is worthless, and should either be got rid of or managed carefully for the small amount of cash they generate. IBM sold its PC business to Lenovo to focus on its other businesses.



Question marks (or Problem Children, Wild Cats) are businesses operating with low market share in a high-growth market. They are a starting point for most businesses. *Question marks* have a potential to gain market share and become *stars*, and eventually *cash cows* when market growth slows. If a *question mark* does not succeed in becoming a market leader, then after perhaps years of cash consumption, it will degenerate into a *dog* when market growth declines.

Stars are units with a high market share in a fast-growing industry. They have graduated from being *question marks* with a market- or niche-leading trajectory. They generate enough cash to maintain their high market shares and contribute to the firm's profits. Contd …

The BCG Matrix: Nestle, Colgate, Apple & Adidas



BCG Matrix of FMCG Companies

STATUS	COMPANIES				
	Hindustan Unilever Limited	ITC Enduring Value	Nestlé	Dabur	P&G
Cash-Cow	AXE, Vaseline, Petroleum Jelly	Cigarettes	Cerelac	Chayawanprash, Vatika Amla, Hajmola	Ariel, Vicks, Tide
Star	Lux, Sun-Silk, Fair& Lovely, Ponds, Kissan Ketchup, Surf-Excel, Annapurna Atta	Paperbroards/ Packaging, Agri-Business	Nescafe, Maggi Noodles	Real Fruit Juice, Active Fruit Juice, Dabur Red Toothpaste	Gillette, Pantene, Head & Shoulders, Pamper, Whisper
Question	Rin, Pepsodent, Domex	Automotive, Furniture, Financial, Tobacco, Food	Milo, Kit-Kat, Munch, Maggi Soup, Nestle Butter, Nesvita, Nestle Maggi Ketchup.	Odomos, Sanifresh, Oxylife Facial	Olay
Dog	Wheel	ITC InfoTech	Nestea, Milkybar	Dabur Gulabari, Burst Fruit Juice	

Corporate Parenting Strategy

A diversified corporation or a multi – business company is often viewed as consisting of corporate headquarters with SBUs acting as satellites. The manner in which the center manages and nurtures the individual businesses is known as corporate parenting.

Parenting strategy views a firm in terms of resources and capabilities that can be used to build value in the business as well as generate synergies across business units

The parenting generates corporate strategy by focusing on the core competencies of the parent firm and the value created from the relationship between the parent and its business.

Corporate head quarter obtains synergy among the business units by providing resources to units, transferring skills and capabilities among the units.

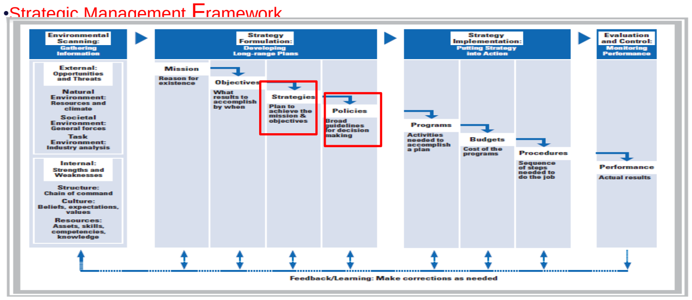
Contents

< Based on >

T1 Chapter 8

Strategic Management: Environmental Scanning

•Strategic Management Framework



Functional Strategy: Overview

●Functional strategy is the approach a functional area takes to achieve corporate and business unit objectives & strategies by maximizing resource productivity.

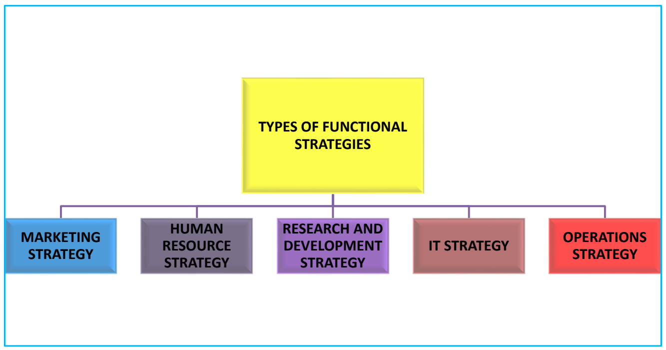
●It is concerned with developing and nurturing a distinctive competence to provide a firm or business unit with a competitive advantage.

●The orientation of a functional strategy is dictated by its parent business unit's strategy.

- It helps managers in focusing on the firm's major functional areas
- Objectives Of Functional Strategy

1.Profitability: Producing at a net profit
2.Market share: Gaining and holding a specific share of a product's market.
3.Human talent: Recruiting and maintaining a high- quality workforce.
4.Financial health: Acquiring financial capital and earning positive returns.
5.Cost efficiency: Using resources well to operate at low cost.
6.Product quality: Producing high-quality goods or services.
7.Innovation: Developing new products and /or processes.
8.Social responsibility: Making a positive contribution to the society.

Types of Functional Strategies [#]



[#] Other strategies e.g. Financial, Logistics are not included in this course

Marketing Strategy

According to American Marketing Association (AMA) " Marketing is the activity, set of institutions, and processes for creating, communicating, delivering and exchanging offerings that have value for customers, clients, partners, and society at large."

Marketing Functional Strategy

- Survey of the Market
- Selection of target market
- Study of Customers' expectations
- Grouping of the customers as per need
- Linking manufacturing activities with customer
- Fulfilling the requirement of customers
- Feedback
- Controlling of functional marketing strategy

Contd …

Marketing Strategy: some Terminologies

●Market segmentation: Subdividing of a market into distinct subsets of customers according to needs and buying habits.

●Product positioning: Communicating the products' attributes to target customers based on customer needs, competitive pressures, available communication channels and carefully crafted key messages.

●Marketing mix refers to the particular combination of key variables product, place, promotion and price that can be used to affect demand and to gain competitive advantage.

Marketing strategy deals with Product, Price, Place and Promotion (called 4P's of Marketing).

1.Product: Quality, Features and options, Styling, Brand name, Product line and related products, Warranties and guarantees, Service and after-sale items

2.Price: What is included in the initial price - Price level, Discounts, Terms

3.Place: Distribution channels, Distribution coverage, Inventory levels and locations, Transportation methods

4.Promotion: Advertising, Personal selling, Promotion, Publicity

Contd …

Marketing Strategy (contd)

Various types of Marketing strategies, as follows:

A. **Market/ Product development strategies**

1. In Market Development, a firm captures:

a) A larger market share of an existing market through market saturation and market penetration.

b) Develop new markets for current products.

•FMCG giants e.g. Unilever, Colgate-Palmolive, and Procter & Gamble are experts at using advertising and promotion to implement market saturation/ penetration strategy to gain a dominant market share

•Secondly, they extend Product Life almost indefinitely by introducing " New and Improved" variations of their products. Nestle developed an alternate use (as a dessert ingredient) for their Milkmaid (after failing to develop it as a milk substitute).

2. In Product Development, a firm develops:

a) New products for existing markets

b) New products for new markets.

After succeeding to develop Milkmaid as a dessert ingredient, Nestle has generated new uses for Milkmaid brand by reformulating it as a Fruit Yoghurt and Fun Shakes.

Contd …

Marketing Strategy (contd)

- Using a successful brand name to market other products is called brand extension which is a good way to appeal to an existing customer base.
- ➢ Gujarat Cooperative Milk Marketing Federation introduced their ice-creams, desserts, health drinks to the existing customers using AMUL brand name.
- ➢ Likewise, ITC into hotels, staples, stationery, IT
- ➢ Dettol, starting as an antiseptic firm, now sells, shaving creams, soaps

B. **Advertising & Promotion strategies: Push vs Pull**

1. **Push strategy**

- ➢ Large food & consumer product firms spend big money on trade promotions to gain shelf space in retail outlets
- ➢ Trade Promotions: discounts, in-store special offers, and advertising allowances to push the product through the distribution system.

2. **Pull strategy**

- ➢ Firms advertise so as to get its products pulled through the distribution channel
- ➢ Advertising builds brand awareness the ⇒ shoppers will ask for the advertised products
- ➢ Kellogg changed its strategy from push to pull

Contd …

Marketing Strategy (contd)

C. **Distribution strategies**

- Should a firm sell directly to mass merchandisers (e.g. Amazon, Wal-Mart, Reliance Jio)?
- Or should it sell through the distributors and dealers?
- Or, should it sell directly to the consumers (via internet)?
- Or, should it use multiple channels?

Example: John Deere (sells tractors and lawn movers), in order to increase the sales, decided to use multiple channels viz. the dealers plus mass merchandisers like *THE HOME DEPOT*.

- Multiple channels may help in attracting new customers, generate additional revenue. However, there are drawbacks associated with them, as follows:
- ➢ Cannibalization across the distribution channels, increase in competition and insufficient sales to stay in the business and hence a discontent among the channel members.
- ➢ Many distributors across the countries resent the firms selling their products through big department stores e.g. Reliance, Big Bazar etc. which have deep pockets and hence an ability to underprice the products. Consequently, the distributors would eventually become a mere repair facility.

Human Resource Management (HRM) Strategy

·Human resources are the most important resources in any organization.

·It is the responsibility of the human resources department to ensure that the organization recruits the correct staff, and that staff receive appropriate training to ensure that the business meets its goals. Therefore, this function is central to the success of the business.

•HRM strategies are an organization's plans for managing people, culture, structure, training and development for determining how people fit into an organization's future growth

•HRM strategy involves the following:

1. Hiring: It addresses whether a firm should hire:

➢A large no of low-skilled (low pay) employees who can perform repetitive jobs and (may) quit after a short time (McDonald's restaurant strategy), or

➢Hire Skilled (high pay) employees who are trained to participate in *self-managing work teams*

○Research indicates that the use of *work teams* leads to an increased quality & productivity as well as higher employee satisfaction & commitment.

➢Using *part-time* employees: Firm does not need to pay fringe benefits e.g. health benefits, pension. Many North American and European countries are using part time employees

Contd …

Human Resource Management (HRM) Strategy (contd)

2.Diversity: (Research reveals that) the firms with diversity (in terms of race, age, nationality) gives a competitive advantage. DuPont's use of multinational teams helped them develop/ market their products internationally. McDonald's found that older workers performed as well, if not better than, the younger employees. AVON company was able to turn around its unprofitable inner-city markets by putting African-American and Hispanic managers in charge of marketing to these markets

3.Virtual teams are groups of geographically and/or organizationally dispersed co-workers assembled virtually to accomplish an organizational task.

4.Quality of work life

Functional HR Strategy

1. Identify Need of the Organization
2. Ensure required Manpower available or not
3. Selection procedures
4. Training
5. Placing an right employee at right job
6. Evolution performance
7. Control of HR strategy

R & D Strategy

- R&D strategy deals with *product and process innovation* and *improvement*.

➢Involves decisions regarding the modification on the basics of the existing products.

➢It is also focused on the licensing & conduct of the patent policy for the prevention of the use of the developed models or the generated revenue for their sale

- It also deals with the question of how new technology should be accessed i.e. through internal development, external acquisition, or strategic alliances.

✓A firm has the following choices:

✓Either be a technological leader: Here one pioneers an *innovation*.

✓Or be a technological follower- Here one imitates the products of competitors

Functional R & D Strategy

1. Survey of Market
2. Analysis of Existing Business
3. Technology development
4. Evolving the stockholders' expectations
1. Feedback
2. Control

	Technological Leadership	Technological Followership
Cost Advantage	Pioneer the lowest-cost production design. Be the first down the learning curve. Create low cost ways of performing value activities.	Lower the cost of the product or value activities by learning from the leader's experience. Avoid R & D costs through imitation.
Differentiation	Pioneer a unique product that increases buyer value. Innovate in other activities to increase buyer value.	Adapt the product or delivery system more closely to buyer needs by learning from the leader's experience.

Contd …

R & D Strategy (contd)

According to Porter, depending on the choice a firm makes, it can achieve:

a. Either a Differentiation

b. Or an Overall low cost.

a) Nike has utilized a *leader strategy* to achieve a differentiation competitive advantage

Nike spends more than most (in industry) on R&D to differentiate its athletic shoes from the competition. Consequently, its products are favorites of serious athletes

b) Dean Foods company (low cost)

Their products of the same quality & service, as of the competition, but at a lower price thereby achieving a low cost competitive advantage

Strategic Technology Alliances are one way to combine the R&D capabilities of two firms:

•Clarita's Inc. and MapInfo Corporation announced the formation of a strategic technology alliance to develop a new mapping and reporting solution to support market and site analysis

•The alliance combines Clarita's' geo-demographic data and applications expertise with MapInfo's spatial technology expertise.

•According to Carita's CEO Bob Nascenzi, "This relationship is a natural fit for both companies. By combining our strengths, we will be able to offer tailor made, state-of-the-art solutions for reporting, mapping, analysis and data integration".

Contd …

R & D Strategy (contd)

Strategy of Dr. Reddy' Laboratories

•Major focus on discovery of new chemical entities

•R&D expenditure: 8% of sales in 2003

•Focus areas: diabetes, anti-cancer, non-steroidal anti-infectives, anti- inflammatories

•Progress: licensed two anti-diabetes molecules to Novo Nordisk, five molecules in pipeline

R&D Findings of 2008

•Top ten R&D spenders in the world are 1) TOYOTA, 2) Pfizer, 3) FORD, 4) JOHNSON AND JOHNSON, 5) DAIMLER AND CRYSLER, 6) GM, 7) MICROSOFT, 8) GLAXO SMITHKLINE, 9) SIEMENS, 10) IBM

•Companies are now investing less in R&D

•The NYSE CEO report shows how a huge 57.7% of global CEO'S have refused any increase in R&D spending.

•Of all CEO's, only 10% thought that "New Product Development" was the most important internal factor influencing productivity.

•One of the startling facts is that Wal-Mart (among world's largest corporations) does not even appear in the top ten.

Information Technology ('IT') Strategy

●The firms are increasingly using their IT strategy to provide business units with *competitive advantage*. It focuses on the alignment of information management within an organization with its business and corporate strategies#.

●Design and manage the flow of information in an organization so as to improve *productivity* and *decision* making.

●Information must be collected, stored, and synthesized in such a manner that it will answer important Operating and Strategic questions.

●Automate *back-office* processes e.g. payroll, HR records, accounts payable and receivable, to establish databases and analytics.

●Develop competitive advantage using Internet for marketing, e-tailing & CRM, intranets for internal communication, & extranets for logistics and distribution (Supply chain management).

#When FedEx first provided its customers with PowerShip computer software to store addresses, print shipping labels, and track package location, its sales jumped significantly.

Operations Strategy

●Operations strategy determines how and where a product or service is to be manufactured, the level of *vertical integration* in the production process, the deployment of physical resources, and relationships with suppliers.

●It also deals with an optimum level of technology to be used in a firm's operations processes.

•It is a plan for the design and management of the Operations functions.

•Operation Strategy is developed after the business strategy.

●Manufacturing strategy is affected by a product's sales volume. As sales increase, the production volume needs to rise, with a lot size of very low (in a *Job shop* i.e. one-of-a-kind production using skilled labor) to a *Connected line batch flow* (components are standardized, each machine functions like a job shop but is positioned in the same order as the parts are processed), to the *Dedicated transfer lines* (highly automated assembly lines making *one* mass-produced product using little human labor).

●Increasing competitive intensity in many industries has forced the firms to switch from the *traditional mass production*# (employees worked on narrowly defined repetitious tasks under close supervision in a bureaucratic and hierarchical structure) to a *continuous improvement production strategy.*

●Under the *continuous improvement* system, the empowered cross-functional teams strive constantly to improve production processes.

●Automobile industry uses a *modular manufacturing strategy* wherein the preassembled subassemblies are delivered on JIT basis. These assemblies are assembled into a finished product.

#A mass-production system was an excellent method to produce a large number of low-cost, standard goods and services. The key to continuous improvement is the acknowledgment that workers' experience and knowledge can help managers solve production problems and contribute to tightening variances and reducing errors. Because continuous improvement enables firms to use the same low-cost competitive strategy as do mass-production firms but at a significantly higher level of quality, it is rapidly replacing mass production as an operations strategy.

Operational Strategy (contd)

Designing Opn'l functions

Peter Brabeck's other strategic goal is transforming Nestle from a set of far-flung operations into a single global machine. He inked a $200 million deal with SAP (German Software MNC) to link its five e-mail systems and permit Nestle's headquarters in Vevey, Switzerland, to know for the first time how many raw materials its subsidiaries buy, in total, from around the world. The company then will be able to negotiate better contracts with suppliers and centralize production. Last year alone, Brabeck closed 38 different factories. All told, he has slashed $1.6 billion in costs, without labor strife (disagreement on fundamental issues).

Sourcing decisions

Purchasing strategy: Obtaining RM etc to run the operations

Choices: Multiple, sole and parallel sources

Multiple: Several vendors for a component. Competition among suppliers and hence lower costs, reliability in supplies

Sole: Partnership, high quality, JIT, low txn cost but poor reliability in supplies

Parallel: Two suppliers are sole suppliers for two different components, but are back up suppliers for each other's components

The Process of Strategic Choice

Strategic choice is the evaluation of various alternative strategies and selection of the best alternative.

The alternative strategies, however, are formed based on their abilities to meet the following criteria:

1. Mutual exclusivity: Doing any one alternative would preclude doing any other
2. Success: It must be feasible and have a good probability of success
3. Completeness: It must take into account all the key strategic issues
4. Internal consistency: It must make sense on its own as a strategic decision for the entire firm and not contradict key goals, policies, and strategies currently being pursued by the firm or its units.

Using Policies to guide Strategic Choice

- Selection of the best strategic alternative is not the end of strategy formulation.
- A firm must engage in developing policies.
- Policies define the broad guidelines for implementation.
- Flowing from the selected strategy, policies provide guidance for decision making and actions throughout the firm.
- Policies are the principles under which a firm operates on day-to-day basis.
- At General Electric, Chairman Jack Welch initiated the policy that GE business unit must be number one or two in whatever it competes.
- Business policy is a study of the functions and responsibilities of senior management. Policies help addressing the crucial problems that affect the success of the whole organization and the decisions that determine the direction of the organization and shape its future.
- A policy is typically described as a principle or rule to guide decisions and achieve rational outcome(s). Policies are generally adopted by the Board/ senior governance body within an organization whereas the procedures or protocols would be developed and adopted by senior executive officers.

Contd …

Using Policies to guide Strategic Choice (contd)

An effective policy accomplishes the following:

1. It forces a trade-off between the competing resource demands.
2. It tests the strategic soundness of a particular action.
3. It sets clear boundaries within which the employees must operate, while granting them the freedom to experiment within those constraints.

Policies may be rather long lived and can even outlast the strategy that created them.

Some examples of business policies:

- A company will not consider any cost reduction options which compromise with quality.
- A company decides to grow only through its retained earnings.
- A company will not consider adding new products with less than 10 percent ROI.
- A company will sell exclusively on cash terms.
- A rental car company charges extra money for delivering the rented car in another location.
- A company hires personnel with experience only.
- A company prepares guidelines on how to collect debts from its customers.
- A company will not question customers' returns of items purchased earlier.
- A company responds to 50 percent of customer enquiries within three working days.

Types of Policies
Steps In Policy Formulation

There are three main types of policies, as follows:

1. Basic Policies: These are framed by the top management and spell out the basic approach of a company to its activities and its environment.
2. General Policies: These are framed by the middle management and are more specific. They apply to large segments of the organization.
3. Specific Policies: These are framed by the foremen and supervisors and are very specific in nature. They are applicable to routine activities.

Steps in Policy Formulation

- Environmental Analysis
- Identification of Policy Alternatives
- Evaluation of Policy Alternatives
- Choice of Policy

Importance of Business Policy

For Learning

- Integrate the knowledge and experience gained in various functional areas of management
- Deals with constraints and complexities of real life business.
- Can be applied to various fields of management understanding

Understanding Business Environment

- Internal Environment
- External Environment
- Adapting internally to external environment

For understanding the organization

- Provides the basic framework for understanding strategic decision making
- Understanding of business policy leads to improvement of job performance

For Personal Development

- It is beneficial for an executive to understand the impact of policy shifts on the status of one department and on the position one occupies
- Offers perspectives to understand the macro factors and their impact on micro level
- Offers perspectives to executives to understand the senior management's views

Strategic Decision Making

1. It is one of the most important functions of a manager.
2. It is the prominent task of senior management also.
3. The difference lies in the level at which they operate.

Issues in Decision Making

1. Strategic decision-making is a complex process.
2. Decision makers are unable to describe the exact manner in which the decision is made.

Objectives to be achieved are determined

Alternatives ways of achieving the objectives are identified

Each alternative is evaluated in terms of its objective-achieving capability

The best alternative is chosen

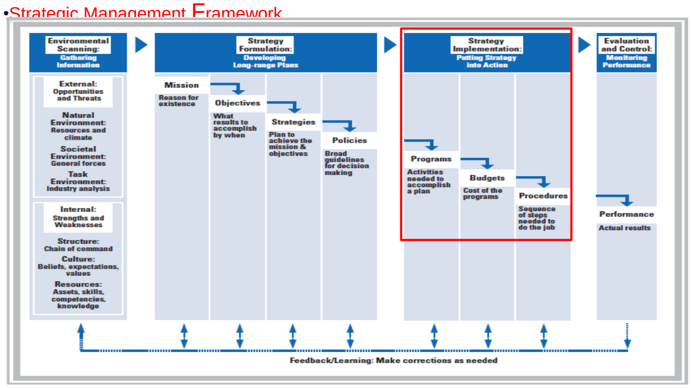
Contents

< Based on >

T1 Chapters 9 & 10 , R2 Ch. 10

Strategy Implementation

- Strategic Management Framework



Strategy Implementation: An Overview

- Strategy formulation and strategy implementation are the two sides of the same coin.
- Strategy implementation is a process by which the strategies, objectives and policies are put into action through the development of programs, budgets & procedures#.
- Although implementation is usually considered after strategy has been formulated, implementation is a key part of strategic management.
- It involves the design and management of systems to achieve the best integration of people, structure, processes and resources in achieving organizational objectives.
- Implementation of Strategy affects an organization from top to bottom, it affects all the functional and divisional areas of business.
- Execution, not strategy per se, is primarily what differentiates the winners from the losers
- Execution is the key to success.
- Execution are the ways top management motivates and mobilizes the company's managers and how management communicates with employees to achieve consensus

#Policy vs program vs procedure: Policy, scheme, plan and program may mean the same thing.

Policy is associated with a big canvass, it is made to support the strategies. Policy is a guideline that governs how an organizational situation will be addressed.

Program is a detailed document that covers a large set of activities for a business.

Procedure is a subprogram. Procedures are helpful in the implementation of programs.

Implementation Challenges

Research has revealed that more than half of the corporations experienced the following problems when they attempted to implement a strategic change:

1. Implementation took more time than originally planned.
2. Unanticipated major problems arose.
3. Uncontrollable external environmental factors created problems.
4. Competing activities and crisis took attention away from implementation.
5. The involved employees had insufficient capabilities to perform their jobs.
6. Departmental managers provided inadequate leadership and direction.
7. Key implementation tasks and activities were poorly defined.
8. Activities were ineffectively coordinated.

Implementation Questions

1. WHO will carry out the strategic plan?
2. WHAT must be done to align the company's operations in the new intended direction?
3. HOW is everyone going to do what is needed?

Procedural issues in strategy implementation

In order to implement the strategies, the management must have good knowledge of the applicable regulations which have a bearing on their business operations apart from the procedural framework within which the plans, projects and programs may require approval by the government authorities. Some of the important procedural requirements are as follows:

1.Formation of a company is governed by the provisions of Indian Companies Act 2013 (as amended). Application(s) for all activities (for formation/ registration, obtaining certificates, documentation) must be made to the Registrar of Companies (ROC) etc.

2.Licensing requirements – Certain industries attract the licensing requirements. As per the Industrial Policy 1991, the industries manufacturing products (such as Drugs & pharmaceuticals, alcohol, cigarette, chemical fertilizer, industrial explosive, defense) require licensing. A firm requiring the license must apply for the same.

3.FEMA regulations – If required, a firm must fulfill the necessary requirements of the Foreign Exchange Management Act, 2000 (FEMA). Those organizations requiring to deal in foreign exchange transactions must ensure that they abide by the FEMA regulations.

4. Import and Export Requirements – A firm dealing in Import & Export need to follow certain procedural requirements, e.g. they have to register with Directorate General of Foreign Trade (DGFT) and obtain Importer-Exporter Code (IEC). Contd …

Procedural issues in strategy implementation (contd)

5. Competition Act, 2002 aims at promoting competition by restricting anti-competitive practices. This regulation will generally affect big businesses.

6. Foreign collaboration regulations – Proposals to set up projects with foreign collaborations require prior approvals. RBI, Foreign Investment Promotion Board (FIPB) and Project Approval Board (PAB) are major regulatory bodies for foreign collaborations including joint ventures abroad.

7. SEBI Regulations – Securities and Exchange Board of India (SEBI) is empowered to regulate the activities connected with marketing of securities & investments, functioning of stock exchanges, merchant banking, portfolio management, stock brokers and others connected with securities' market.

8. Consumer Protection Act, 1986 seeks to promote & protect the interests/ rights of consumers such as:

- The right to be protected against the marketing of goods that are hazardous to life & property.
- The right to be informed about the quality, quantity, potency, purity standards and price of goods to protect the consumer against unfair trade practices.
- The right to be heard & be assured that consumers' interests will receive due consideration.
- The right to seek redressal against unfair trade practices. Contd …

Procedural issues in strategy implementation (contd)

9. Pollution Control regulations aim for the protection of environment. Some of the regulations are:

- The Water (Prevention & Control of Pollution) Act, 1974.
- The Air (Prevention & Control of Pollution) Act,1981.
- The Environment Protection Act, 1986

10. Labor Regulations are aimed to protect the interest of the workers. Among the main regulations are :

- The Factories Act 1948.
- The Workmen Compensation Act 1923.
- The Bonus Act 1965.
- The Minimum Wages Act 1948.
- The Industrial Disputes Act 1947

Implementation of strategy: Who & Staffing

Who implements a strategy

- The implementers are almost everyone in a firm
- Many people who are crucial for the implementation of a strategy may not have been involved in its formulation
- Therefore, all the relevant aspects of a strategy, including the mission, objectives and strategies (as well as any changes made subsequently) should be clearly communicated to all concerned

Staffing follows Strategy

- Implementation of a new strategies often requires a new HR perspective/ priority.
- Hiring new people with new skills.
- Training people as per requirements of the new strategies
- Matching a manager to the strategy: the appropriate type of management/ managers are needed to effectively implement a new corporate/ business strategy/ strategic direction of the firm

Selection and management development
Organizing for action

Selection and management development

- Executive succession: insiders versus outsiders.
- Identifying abilities and potential through:

1. A sound performance appraisal system to identify good performers with promotion potential
2. Using *assessment centers* to evaluate a person's suitability for a leadership position
3. Using *job rotation* to ensure that employees are gaining the appropriate mix of skill-set to prepare them for further responsibilities.

How is a strategy to be implemented: Organizing for action

1. Structure follows Strategy
2. Stages of corporate development
3. Organizational life cycle
4. Complex organizational structures
5. Reengineering and strategy implementation
6. Six sigma
7. Designing jobs to implement strategies

1. Structure follows Strategy

- In a classic study of large U.S. corporations (e.g. DuPont, General Motors, Sears, and Standard Oil), Alfred Chandler concluded that structure follows strategy i.e., a strategy determines structure. Environmental changes result in strategic options which may, in turn, necessitate changes in organizational structure. More specifically, Chandler argued that structure tends to follow the growth strategy of an organization and propose the following sequence of occurrence:

- New strategy is created
- New administrative problems emerge.
- Economic performance declines.
- New appropriate structure is invented.
- Economic performance improves

Strategy implementation involves:

- Establishing Programs & Tactics to create a series of new organizational activities
- Budgets to allocate funds/resources to the new activities
- Procedures to handle the day-to-day details.
- Standard Operating Procedures (SOPs) provide details of various activities to be carried out to complete a firm's program

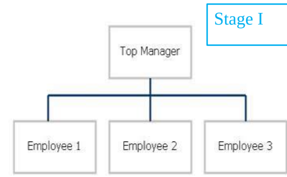
Achieving Synergy

- Strategy implementation aims to achieve a synergy among functions and business units.
- A firm gets benefit through sharing knowledge or skills among various units.
- Aligning the business strategies of two or more business units may provide a firm a significant advantage by reducing inter-unit competition and developing a coordinated response to the common competitors.

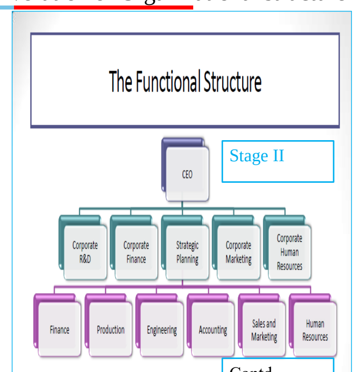
2.Stages in corporate development: Evolution of Organizational structure

- Successful corporations tend to follow a pattern of structural development as they grow and expand
- Stage I : Simple structure
- Stage II : Functional structure
- Stage III : Divisional structure
- Stage IV : Beyond SBUs

Stage I



Example: Simple Organizational Structure. The top manager controls the work of the employees not grouped into specific functions.



Stage II

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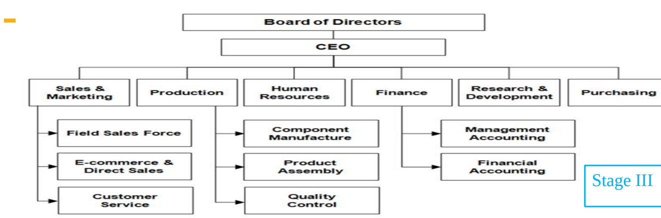
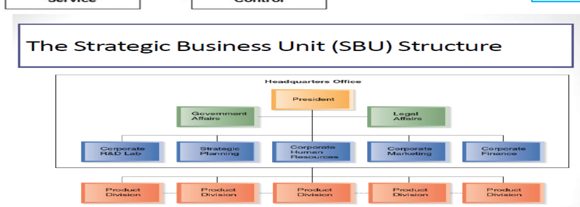
Stages in corporate development – Organizational structures (contd)



Stage III



Factors differentiating various stages in corporate development

Factors Differentiating Stage I, II, and III Companies

Function	Stage 1	Stage II	Stage III
1. Sizing up: Major problems	Survival and growth dealing with short-term operating problems.	Growth, rationalization, and expansion of resources, providing for adequate attention to product problems.	Trusteeship in management and investment and control of large, increasing, and diversified resources. Also, important to diagnose and take action on problems at division level.
2. Objectives	Personal and subjective.	Profits and meeting functionally oriented budgets and performance targets.	ROI, profits, earnings per share.
3. Strategy	Implicit and personal; exploitation of immediate opportunities seen by owner-manager.	Functionally oriented moves restricted to "one product" scope; exploitation of one basic product or service field.	Growth and product diversification; exploitation of general business opportunities.
4. Organisation: Major characteristic of structure	One unit, "one-man show."	One unit, functionally specialized group.	Multiunit general staff office and decentralized operating divisions.

Contd …

Factors differentiating various stages in corporate development (contd)

Factors Differentiating Stage I, II, and III Companies

Function	Stage 1	Stage II	Stage III
5. (a) Measurement and control	Personal, subjective control based on simple accounting system and daily communication and observation.	Control grows beyond one person; assessment of functional operations necessary; structured control systems evolve.	Complex formal system geared to comparative assessment of performance measures, indicating problems and opportunities and assessing management ability of division managers.
5. (b) Key performance indicators	Personal criteria, relationships with owner, operating efficiency, ability to solve operating problems.	Functional and internal criteria such as sales, performance compared to budget, size of empire, status in group, personal relationships, etc.	More impersonal application of comparisons such as profits, ROI, P/E ratio, sales, market share, productivity, product leadership, personnel development, employee attitudes, public responsibility.
6. Reward-punishment system	Informal, personal, subjective; used to maintain control and divide small pool of resources to provide personal incentives for key performers.	More structured; usually based to a greater extent on agreed policies as opposed to personal opinion and relationships.	Allotment by "due process" of a wide variety of different rewards and punishments on a formal and systematic basis. Companywide policies usually apply to many different classes of managers and workers with few major exceptions for individual cases.

3. Organizational life cycle

- Stages of development need not be considered only in terms of the Structure
- Organizational life cycle approach emphasizes on dominant issues faced by a firm
- It is organizational equivalent of product life cycle of Marketing
- It describes how organizations grow, develop, and may eventually decline.
- Movement from growth to maturity to decline is not inevitable (Steve Jobs revived Apple)

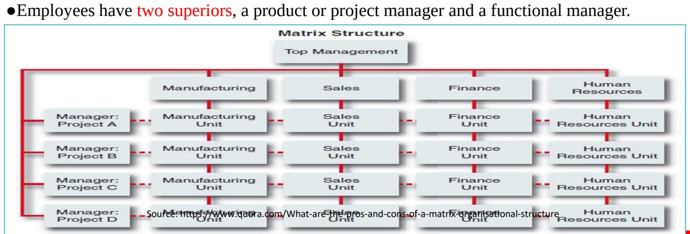
Organizational Life Cycle

	Stage I	Stage II	Stage III[1]	Stage IV	Stage V
Dominant Issue	Birth	Growth	Maturity	Decline	Death
Popular Strategies	Concentration in a niche	Horizontal and vertical growth	Concentric and conglomerate diversification	Profit strategy followed by retrenchment	Liquidation or bankruptcy
Likely Structure	Entrepreneur-dominated	Functional management emphasized	Decentralization into profit or investment centers	Structural surgery	Dismemberment of structure

Note: 1. An organization may enter a *Revival Phase* either during the Maturity or Decline Stages and thus extend the organization's life.

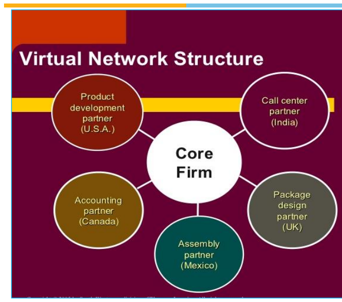
4. Complex organizational structures: Matrix types

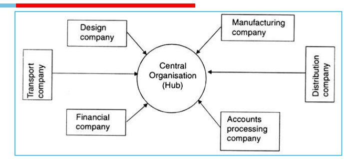
- Basic/ traditional structures, discussed earlier, under three stages of corporate development.
- A new strategy may require more flexible characteristics than the traditional functional or divisional structures.
- Today's business organizations are becoming less centralized with a greater use of cross-functional teams.
- Two forms are more common: Matrix and Network structures
- 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.



Source: https://www.quora.com/What-are-the-pros-and-cons-of-a-matrix-organisational-structure

Complex organizational structures: Network types





A more radical design, Network structure does away with in-house business functions. Several activities are outsourced. Instead of having salaried employees, a firm may contract with people for a specific project or time period.
The firm's functions are widely scattered worldwide instead of in a building.
Entrepreneurial ventures may usually start as network organizations.

5. Re-engineering and Strategy implementation

Reengineering is a radical redesign of business processes to achieve major gains in cost, service, or time.
It is an effective way to implement a turn around strategy.
Business process reengineering strives to break away from the old rules/ processes which develop in every firm over the years.

Principles of Re-engineering

1. Organize around outcomes, not tasks.
For example, if we have an application which needs approval, instead of having A->B->C->D->E, we simply have one person who performs all the steps himself/ herself. Remove the assembly line approach.

2. Have those who use the output of the process perform the process.
For example, do not create specialized departments. Do not let one deptt have one job e.g., if one department needs pencils, then there is no need to involve the purchasing department.
3. Subsume information-processing work into the real work that produces the information
For example, Customer-> phone employee-> delegate work is converted into
Customer-> online order form -> business logic

Contd …

Principles of Re-engineering (contd)

4. Treat geographically dispersed resources as though they were centralized.
For example, multiple local department converted to one shared database.

5. Link parallel activities instead of integrating their results.
E.g. A bank may have multiple units selling different types of credits. Each unit may not know if any other unit has extended credit to a customer. It can be fixed by sharing a customer database, communication network or teleconferencing.

6. Put decision point where work is performed and build control into the process. E.g.: If we have a large business chain with multiple branches. Instead of letting the board of administration of the business chain take the decision, each respectable branch will be in charge of the decision making with only a few guidelines from the chain itself.

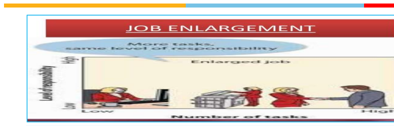
7. Capture information once and at the source
E.g.: If a firm has to do some market research. Instead of letting each department doing this research by themselves, the firm could do it once and for all and store that information somewhere in a database shared by the various departments so that each department can easily find the relevant information whenever needed.

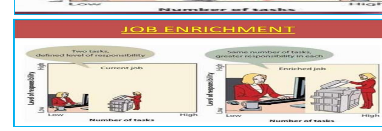
6. Six Sigma

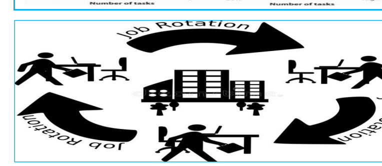
- Is an analytical method for achieving near-perfect results on a production line
- Even though the emphasis is on reducing product variance in order to boost quality and efficiency, it is also being applied to R&D, Accounts receivables, Sales
- Six sigma reduces the defects, thus saving money by preventing waste.
- Steps in Six Sigma

1. Define the process where results are poorer than average
2. Measure the process to determine exact current performance.
3. Analyze the information to pinpoint where things are going wrong
4. Improve the process and eliminate the error
5. Establish controls to prevent future defects from occurring

7. Designing jobs to implement strategy







- A successful implementation of strategy involves, apart from redesigning the overall structure, redesigning the way jobs are done.
- Important to look into the work processes to phase out unnecessary people/ processes out of the processes.
- Job design is the study of individual tasks to make them more relevant to a firm and to an employee.
- Job enlargement: combining tasks
- Job rotation: moving workers through several jobs to increase variety
- Job enrichment: altering jobs by giving the worker more autonomy/ control

Resource Allocation

- Strategic management enables resources to be allocated according to priorities established by annual objectives.
- Resource allocation is the process to assign the available resources in an economic way.
- In project management, resource allocation is the scheduling of activities and the resources required by those activities while taking into consideration both the resource availability and the project time
- Resources that can be used to achieve desired objectives: financial, physical, human resources and technological.
- Factors that prohibit effective resource allocation:

–overprotection of resources, over-emphasis on short-run financial criteria, organizational politics, vague strategy targets, reluctance to take risks, and a lack of sufficient knowledge.

- Organizations need to ensure that assets are available in right types and amounts in the right places i.e. the flow of assets is directed towards achieving its objectives and create competitive advantage.
- Coordination problem is the challenge of acquisition & allocation of the firm's assets to achieve firm's goals.
- Incentive problem is the challenge of inducing people/sub units whose individual goals diverge from the firm's goals.

Resource allocation plan

•Resource allocation plan

1.Basic Allocation Decision

2.Contingency mechanisms

1.Basic Allocation Decision

- The choice of which items to fund in the plan
- What level of funding it should receive
- Which to leave unfunded
- The resources are allocated to some items, not to others

2. Contingency Mechanism

A. There is a priority ranking of items excluded from the plan, showing which items to fund if more resources should become available.

B. There is a priority ranking of some items included in the plan, showing which items should be sacrificed if total funding must be reduced.

Leading Staff

- Another key to Strategy implementation is 'Leading' i.e., Specifying clear performance objectives and promoting a team-oriented corporate culture.

Effective leadership is required to lead and to guide the subordinates to perform organizational tasks efficiently and effectively.

In the words of "Leadership is the activity of influencing people to strive willingly for group objectives."

- - - George Terry

"Leadership is the ability to secure desired actions from a group of followers voluntarily, without the use of coercion."

- - -Alford and Beatty

Leadership Role in Implementation

- Introducing Change.
- Integrating Conflicting Interest.
- Developing Leadership ability of managers via
  - ❖ Leadership training
  - ❖ Internal exposure
  - ❖ Challenging tasks can be set by the top management to be achieved by managers within a certain time frame,
  - ❖ Autonomy and accountability
- Developing appropriate organizational climate
- By setting of values, beliefs and norms
- Developing motivational system via presence of needs (Maslow needs)
  - ❖ Efforts
  - ❖ Performance
  - ❖ Rewards
- Clarity in goals
- Relations

Contd …

Leadership Role in Implementation- Leadership style

Cross- Cultural Competence

- Cultural competence refers to an ability to interact effectively with people of different cultures.
- Developing cultural competence results in an ability to understand, communicate with, and effectively interact with people across cultures.
- Culture represents "the values, norms, and traditions that affect how individuals of a particular group perceive, think, interact, behave, and make judgments about their world. It affects every single aspect of life, if leveraged can be a great force, if not can be a minefield.
- The following are examples of culture influence:
  - Meeting styles, work styles, and customer service
  - Time management, performance, and entertaining
  - Leadership, conflict resolution, and negotiation
  - Communication, marketing, and employee engagement

Overcoming cultural biases at an individual level

1. Watch own bias, stereotypes, and prejudices:
   - Bias: Mental discrimination
   - Prejudice: Opinion not based on facts
   - Stereotypes: rigid mental picture
2. Do NOT assume and judge especially based on your perceptions
3. Do NOT reject others just because they are different
4. Need to have a mindset of acceptance not only because of compliance but because it is the right thing to do
5. Embrace experiences with others that are different; share stories, food, ask questions
6. Do NOT stay in your comfort zone and have fear of differences / unknown/others
7. Watch communication conflicts that arise because of miscommunication, and body language misinterpretations
8. If you are a manager or supervisor it is *your* duty to make sure that all employees are treated fairly, equally and are given an opportunity to become the best they can by creating a positive working environment.

Overcoming cultural biases at an organization level

1. Create an inclusive culture throughout the whole organization for both internal and external customers.
2. Train the leadership teams of directors, managers, and supervisors.
3. Make sure that all the policies, systems, processes and organizational climate have *zero* tolerance for prejudice, harassment or discrimination.
4. Involve employee representatives to gain credibility.
5. Assign responsibilities of diversity and inclusion to leadership roles.
6. Hold all employees accountable for their behaviors.

Enhancing Cultural Diversity

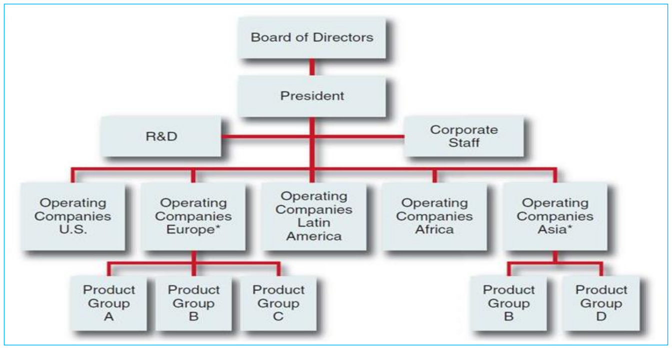
1. Start with a **Cultural audit** to grasp your internal demographics
2. **Challenge stereotypes, prejudice and bias**
3. **Tolerating Ambiguity/Uncertainty**: Being able to respond to unpredictable situations without getting stressed and cranky.
4. **Being Flexible**: Being able to readjust quickly and effectively to the changing situations.
5. **Showing Respect**: Being able to behave in respectful manner towards others.
6. **Having Patience**: Being able to stay calm, stable and persistent in the difficult situations.
7. **Being Resourceful**: Being able to respond skillfully and promptly in new, uncertain situations. Seek information about the cultures of those with whom you interact.
8. **Listening Carefully**: Being able to pay close attention to what is being said.

- International strategic alliances
- Stages of international development or Globalization
- Centralization (Control) versus decentralization (Autonomy)

- Partners must have a shared vision
- Alliances strategy must be derived from corporate, business and functional strategies
- It must be important for both partners.
- Partners must be mutually dependent
- Joint activities must have an 'added value'
- Must be accepted by all stakeholders
- Partners contribute key strengths but protect core competencies

Stages of Globalization

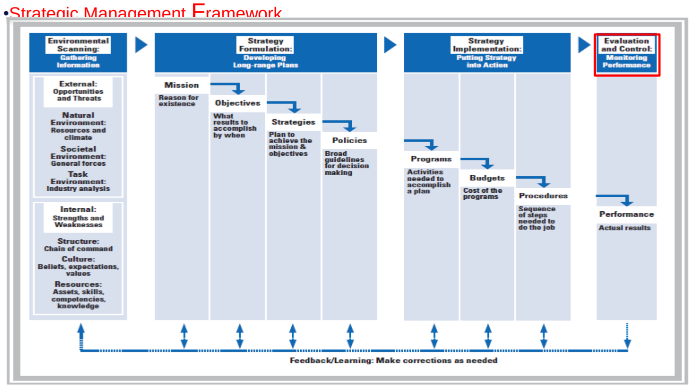
Stages	1. Domestic	2. International	3. Multinational	4. Global
Strategic Orientation	Domestically Oriented	Export Oriented, Multi-domestic	Multinational	Global
Stage of development	Initial foreign investment	Competitive positioning	Explosion of international operations	Global
Cultural Sensitivity	Of little importance	Very Important	Somewhat important	Critically Important
Manager Assumptions	One best way	Many good ways	The least cost way	Many good ways



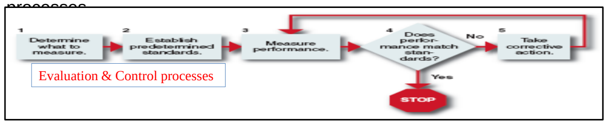
Measurement of performance
Types of controls
Activity-based costing (*ABC*)
Traditional financial measures
Shareholders' value measures
Balanced score card (*BSC*)
Strategy audit
Benchmarking
Problems in measuring performance

< Based on >
T1 Chapter 11

- Strategic Management Framework



- Measurement of performance is a crucial part of Evaluation & Control
- Measurement requires Performance Data and Activity reports (see Step 3 in the following figure)
- If undesired performance results are obtained because of usage of inappropriate Strategic Management processes, the Operational Managers must know it and do appropriate employee(s) activities.
- However, if the undesired performance results are obtained because of the processes themselves, the top managers as well as the operational managers must know it so that they can develop corrective actions/ new implementation processes



Control systems allow executives to track how well the organization is performing, identify areas of concern, and then take action to address the concerns. Controls can be established to focus on:

ISO 9000 Standards Series(Quality Operations)
ISO 14000 Standards Series (Environmental assurance)

Steering Controls allow for the detection of unsatisfactory performance during, rather than at the end of, a planning period so that prompt corrective action can be taken

1. Actual Performance Results (Output Controls)
2. Activities that generate performance (Behavior Controls)
3. Resources that are used in performance (Input Controls)

A. Output controls specify what is to be achieved by *focusing on the end measurable result* of the behavior through the use of objectives, targets, milestones etc. Examples: Specific Cost Reduction, Customer Satisfaction, number of hits a website receives/day, number of cars a salesman sells per month

B. Behavior controls *dictate the actions of individuals by* specifying how something is to be done through policies, rules, SOPs, orders from superiors. Many firms view ISO 9000 certification as assurance that a supplier sells quality products.

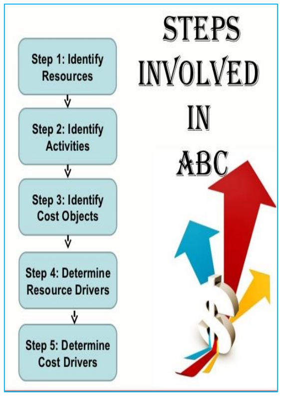
Example: No shoes, no shirt, no paycheck.

C. Input controls emphasize resources e.g., knowledge, skills, abilities, values, and motives of employees. Examples: number of years of education and experience

Activity-based Costing ('ABC')

•*Traditional Cost accounting* focuses on valuing a firm's inventory for financial reporting.
•However, *ABC* is a method for allocating the indirect costs and fixed costs to individual products or product lines on the basis of value added activities going into those products
•*ABC* allocates overheads far more precisely than the traditional methods.
•ABC is useful when a firm's overheads are far more than its direct labor costs. An appropriate allocation of overheads is crucial for Pricing/ decision making.
•*ABC* is useful in doing a value chain analysis of a firm's activities for making the outsourcing decisions.

Example: When Chrysler used *ABC*, it discovered that true costs of some parts used in making cars was 30 times what they had previously estimated



Traditional Financial Measures

1. Return on Investment (ROI) = Profit Before Tax (PBT)/ Total amount invested in a company (Generally 'Total Assets'). It is the most commonly used measure of corporate performance
2. Earnings per Share (EPS) = Profit After Tax (PAT) / Number of equity shares
3. Return on Equity (ROE) = Net income/ Total equity capital
4. Operating Cash Flow is the amount of money generated by a company (from its *operations*) before the cost of financing and taxes.

All these measures are very commonly used.

However, because these measures are based on the Accounting (& other limitations), they are not, by themselves, adequate measures of corporate performance.

5. Shareholder Value is also being used as a better measure of corporate performance and strategic management effectiveness

This method concentrates on cash flows as the key measure of performance

- Shareholder value can be defined as the present value of the anticipated future stream of cash flows from the business plus the value of the company if liquidated.
- Two popular shareholder value measures are Economic Value Added (EVA) and Market Value Added (MVA)

Contd …

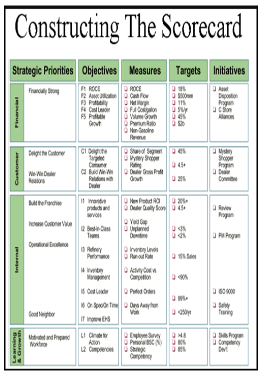
Traditional Financial Measures (contd): Shareholder Value Measures: EVA and MVA

- A basic tenet of EVA and MVA is that businesses should not invest in projects unless they can generate a profit above the cost of capital
- EVA is a financial metric which measures the value created by a company above its cost of capital (EVA measures the difference between pre-strategy and post-strategy values for business)
- ➢ EVA= Return on Invested Capital (ROIC i.e. After tax Operating income) Minus the total annual cost of capital (Investment in assets * Weighted average Cost of capital)
- MVA measures the difference between the market values of a corporation and the capital contributed by shareholders and lenders
- Coca-Cola, General Electric, AT&T, Whirlpool, Quaker Oats, Eli Lilly, George-Pacific, Polaroid, Sprint, Toyota have adopted either MVA and/ or EVA as the best yardsticks of corporate performance

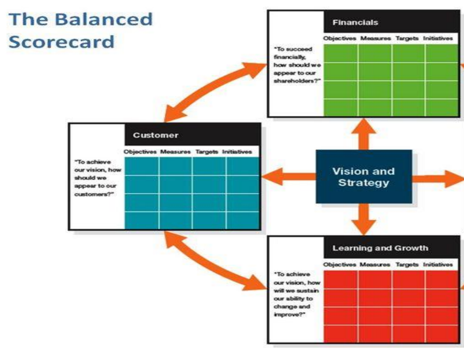
Balanced Scorecard (*BSC*) Approach

•Robert Kaplan and David Norton developed this approach.
•Non-financial assets explain 50–80% of a firm's value
•This approach combines Financial measures (that tell the results of actions already taken) with Operational measures on Customer satisfaction, Internal processes, and the corporation's Innovation and improvement activities - the drivers of future financial performance.
•Thus Steering controls are combined with Output controls.
•In this approach, Management develops goals in each of four key performance measures areas:

1.Financial: How do we appear to shareholders?
2.Customer: How do customers view us ?
3.Internal Business Perspective: What must we excel at?
4.Innovation and Learning: Can we continue to

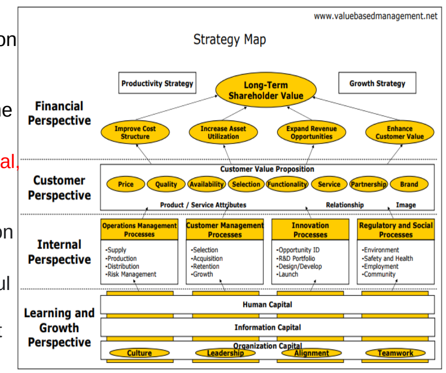


Balanced Scorecard approach (contd)



Strategy Map

•Strategy map is a diagram that shows a firm's strategy on a single page. It is good to quickly communicate big-picture objectives to everyone in the firm.
•Strategy map shows a logical, cause-and-effect connection between strategic objectives (shown as ovals on the map).
•It is one of the most powerful elements in the balanced scorecard methodology, as it is used to quickly communicate how value is created by the organization.



Benchmarking

- It is a process of comparing business processes and performance metrics to the industry bests/ leaders/ toughest competitors.
- Dimensions typically measured are quality, time, cost in respect of the products.
- Manco Inc., a producer of ('Duck' brand) duct tape regularly benchmarks itself against Wal-Mart, Rubbermaid and PepsiCo so as to better compete with giant 3M.

Problems in Measuring Performance

- Lack of quantifiable objectives or performance standards and the inability of the information system to provide timely and valid information are two obvious control problems. However, the use of timely, quantifiable standards does not guarantee good performance.
- Negative side effects of measuring performance:

➢ Short term orientation: In many situations, the top executives do not analyze the long term implications of current operations on the strategy they have adopted. Reason: they do not realize the importance of long term evaluations; they believe that short term considerations are more important than long term considerations; they are not evaluated on a long-term basis; they do not have time to do so.

➢ Goal displacement: It is the confusion of *means* with *ends* and occurs when activities originally intended to help managers attain corporate objectives become ends in themselves. Two types: Behavior substation, and Sub-optimization

Contd …

Problems in Measuring Performance (contd): Goal Displacement

Behavior substitution refers to a phenomenon that when people substitute activities that do not lead to goal accomplishment for activities that do lead to goal accomplishment because wrong activities are being rewarded

E.g. Sears thought that it could improve employee productivity by tying performance to rewards. It paid commissions to employees as a percentage of repair bill which lead to over-billed customers, charges for work never done

Sub-optimization refers to the phenomenon of a unit optimizing its goal accomplishment to the detriment of the organization as a whole

E.g. Marketing department approves an early shipment necessitating an overtime production for that one order. Production costs are raised, which reduces manufacturing department's overall efficiency.

Strategy making in times of Change

Module 6

MBA ZG 611/ MM ZG611 / POM ZG611/ QM ZG611

29th October 2023 Surendra Agarwal

L 11

BITS Pilani
Work Integrated Learning Programmes Division
WORK INTEGRATED LEARNING PROGRAMMES

Topics covered

Business Model Innovation
1. Industry Life Cycle
2. Disruptive Innovation
3. Technology Strategy

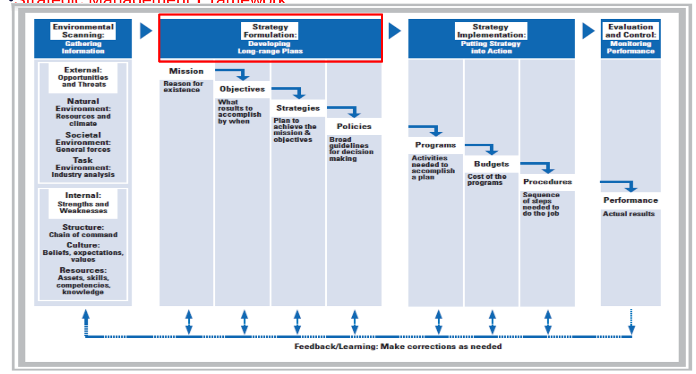
Design Thinking: Integrating formulation & implementation
1. Discovery: Empathy
2. Integrative Thinking
3. Prototyping
4. Collaboration

Value Innovation: Blue Ocean Strategy
1. Red Oceans Vs Blue Oceans
2. Formulation Principles
3. The Strategy Canvas
4. ERRC Grid

< Based on > T1 Chapter 12, R2 Chapter 7

Strategy Formulation

•Strategic Management Framework

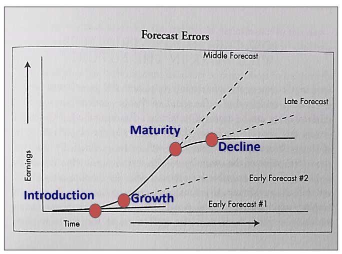


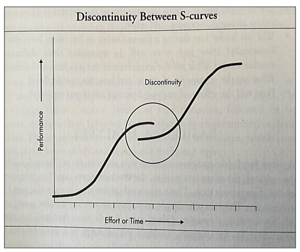
Industry & Product Cycles

Recap L2-S12

Corporations are built on an assumption of continuity.

We discussed Organizational life cycle in L9 (S16)

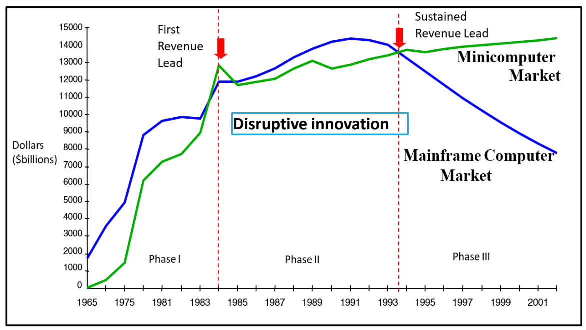




Mainframe to minicomputers

Recap L2-S13

Minicomputers Disrupt Mainframes



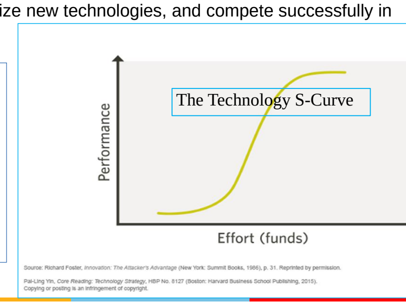
Source: ITI, Industry Statistics Programs; U.S. Microcomputer Statistics Committee Forecast, Data Analysis Group

Technology Strategy

•What is technology?
•Why technology strategy is important?
•*How to use new technology to compete successfully*
•It describes how innovators can develop strategies to manage technology risks, identify market needs, commercialize new technologies, and compete successfully in the market.

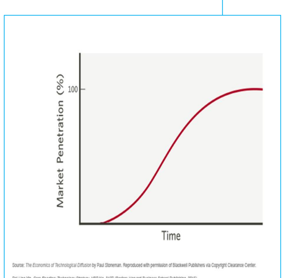
In the course of Product Design and Development, the Technology S-Curve determines the Performance vs Time and Effort.

It assists in determining the level of maturity of the industry/product.



The Market Diffusion Curve (S-shaped)

Technology Strategy Issues for Innovators



Stage of Market Development	What the Innovator Has to Sell	Innovator's Technology Strategy Issues
Introduction	Technology idea	Does it work? Who will adopt it? How should I commercialize the idea?
Growth	Product	How should I grow the market? How will I capture a share of the value?
Maturity	Business	How should I respond to new technologies?

Example: Introduction of e-retailing of books by Amazon

Reading: Technology Strategy, HBP No. 8127 (Boston: Harvard Business School Publishing, 2015).
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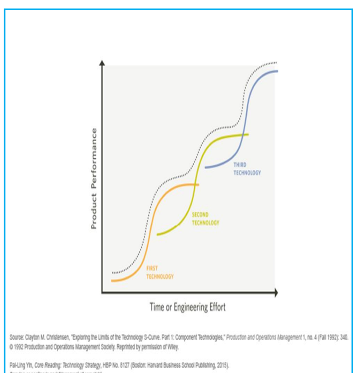
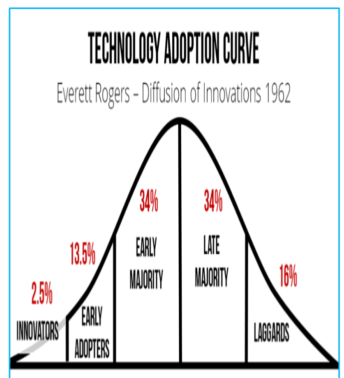
Technology S-Curve and Technology Transitions

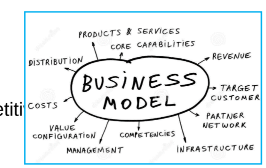


Innovation Adoption Curve



Business Models

- Business Model is a firm's method for making money in the current business environment.
- Includes the key structural and operational characteristics of a firm- How it earns revenue and makes profit.
- Composed of five elements:
  - ❖ Who it serves?
  - ❖ What it provides
  - ❖ How it makes money?
  - ❖ How it differentiates and sustains competitive advantage ?
  - ❖ How it provides its product/service?



Types of business models

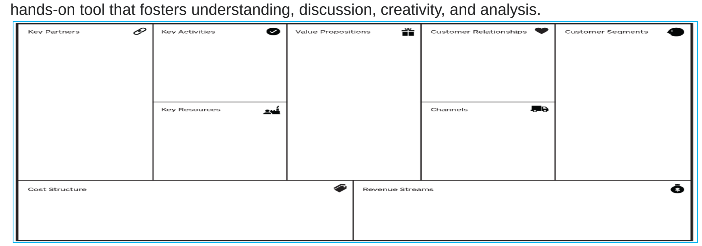
•Customer solutions model: IBM uses this model to make money i.e., not by selling its products but by selling its expertise to improve its customers' operations.
•Profit pyramid model: Under this, the firms sell lower- and middle-quality goods at cost or at a loss, whereas they sell premium goods in the same category at a significant margin, covering the losses incurred by the other brands. General Motors uses this model.
•Multi-component system/installed base model: Gillette invented this model to sell razors at break-even pricing while making money on higher-margin razor blades. HP also does the same with its printers and printer cartridges.
•Advertising model: This model offers its basic product free in order to make money on the advertising. Having originated in the newspaper industry, this model is used heavily in commercial radio and television. Internet giant, Google uses this model.
•Switchboard model: Used by eBay and Amazon.com. Here, a firm acts as an intermediary to connect multiple sellers to multiple buyers.

Types of business models (contd)

•Time model: Product R&D and speed are the keys to success in this model. Sony constantly follows new innovation thereby earning high margins in the market.
•Efficiency model: In this, a firm waits until a product becomes standardized and then enters the market with a low priced, low-margin product thereby attracting the customers e.g.: Wal-Mart.
•Blockbuster model: In industries like Pharma and motion picture studios, a few key products drive profitability. Focus is on high investment in a few products with huge potential payoffs.
•Profit multiplier model (invented by Walt Disney). Here, the idea is to develop a concept that may/ may not make money on its own. However, by synergy, it can spin off many profitable products.
•Entrepreneurial model: Under this, a firm offers specialized products to market niches that are too small (to be of any interest to big competitors) but have potential to grow quickly. Extensively used by small high-technology firms aiming to be taken over by bigger ones.
•De F...stry model: ...m offers ... very low price) in order to saturate the market and become the industry standard. e.g.: Microsoft packaging IE free with Windows.

Business Model Canvas

It is a strategic management template, used for developing new business models and documenting the existing business models.
It offers a visual chart with elements describing a firm's or product's value propositions, customers and the finances, assisting businesses to align their activities by illustrating potential trade-offs.
Business Model Canvas was initially proposed by Alexander Osterwalder
Business Model Canvas can be printed out on a large surface so that groups of people can jointly start sketching and discussing business model elements with post-it notes or board markers. It is a hands-on tool that fosters understanding, discussion, creativity, and analysis.



Alibaba's Business Model

•Alibaba has a two-sided market: The first is a customer facing retail and financial services side, the second is a business facing wholesale, logistics and cloud computing services side.
•Value is created when it creates/mediates interaction between the two.
•Initially, Alibaba focused on platform only strategy and served as an online marketplace to connect global buyers with Chinese suppliers.
•Eventually, Alibaba grew and forayed into multiple business lines: Media, Healthcare, Financial Services and even created and offered its own set of products such as media content.
• Alibaba uses Platform-Product Hybrid Approach

Contd …

Alibaba's Business Model: Opportunities and Challenges

The scenario can be categorized under the following:
•Internalization: After becoming a global force, the question is how it can internalize while differentiating from other platform companies such as eBay, Amazon or even Chinese companies e.g. Tencent and Baidu.
•Investment: Given the influx of capital from its IPO (2014) and from sales during major promotional days, the question is how can Alibaba stay focused while preserving the strength of its diversified model and also how to choose the best investment option.
•Innovation: Alibaba is constantly confronted with the challenge of continuously

Design Thinking

- What is Design Thinking
  - ➢ Human centered Design Thinking
  - ➢ 1st Step: Finding the Sweet Spot
- Mindsets
  - ➢ Empathy
  - ➢ Integrative Thinking
  - ➢ Optimism
  - ➢ Experimenting
  - ➢ Collaboration
- Design Thinking Process & Tools

What is Design Thinking

Human centered Design Thinking

- A design (noun) has a form and a function. It is an outcome of the process of designing.
- To design (verb) is to plan, to create or to devise. It is a process, a practice and a way of thinking.
- Design thinking is an approach to problem solving that allows us to combine *right-brain creative* thinking with *left-brain analytical* thinking. -Professor Jeanne Liedtka.
- Design thinking is an *iterative, exploratory process involving visualizing, experimenting, creating and prototyping* of models and gathering feedback.
- Design Thinking draws upon *logic & imagination, intuition & systematic reasoning*, to explore possibilities of what could be, and to create desired outcomes that benefit the end user (customer).
- Design Thinking is a way of finding human needs and creating new solutions using the mindsets and tools of Design practitioners.
- A design *mindset* is:

➢ Not problem-focused; it is solution focused
➢ Iterative and action oriented.
➢ It involves both analysis and imagination.

Human-Centered Design is All About the People. Designers truly place themself into the experience of others in order to solve the problems they encounter. This means speaking directly with the people using what you've designed and observing their behaviour to understand how and why they are having the problem.

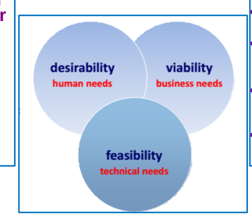
Design Thinking:1st Step: Finding the Sweet Spot

Do we deeply understand (Empathize) the Customer needs?

Is this the simplest solution that gets the job done?

Is it elegant?

Is it useful?



- **Can we afford it?**
- **Does it make me more profitable?**
- **Do we have the skills?**
- **What is my ROI?**

•See illustration:

Aravind Eye Care case (later)

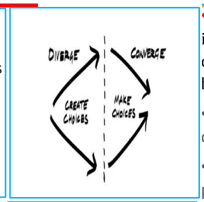
- **How quickly can I implement the solution to suit the needs?**
- **Is the solution tested/stable?**
- **Is it consistent with my current system landscape?**
- **Can the solution be easily supported?**

Character traits of Design Thinkers
Mindsets > Empathy

Convergent thinking focuses on finding one well-defined solution to a problem.

Divergent thinking is the opposite of convergent thinking and involves more creativity.

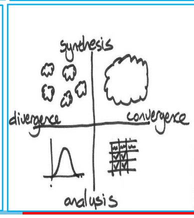
Below are five character traits that reflect design thinkers, design mindsets that each of us can develop to enhance our creative thinking aptitude: *Empathy, integrative thinking, optimism, experimentalism, collaborative attitude*



Empathy: Empathy is a capacity to step into other people's shoes, to understand their lives, and start to solve problems from their perspectives.

•Imagine the world from multiple perspectives: By taking a "people first" approach, design thinkers can imagine solutions that are inherently desirable and meet explicit or latent needs.

•Great design thinkers observe the world in minute detail. They notice things that others do not, and use their insights to inspire innovation.



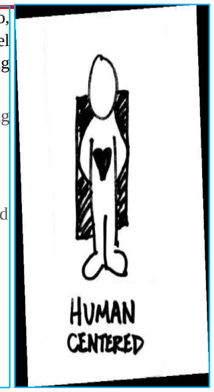
Mindsets: Integrative Thinking

•Integrative thinking is as an inclination and capacity to be able to, instead of choosing from among models, to build better models: model creation, rather than model choosing. It is inspired by design thinking because of the value of the designer's approach to problem-solving.

•Integrative thinking is a discipline and methodology for solving complex or wicked problems.

•A design thinker not only relies on analytical processes (those that produce either/or choices) but also exhibit an ability to see all of the salient and sometimes contradictory aspects of a complex problem and create novel solutions

•**Human-centered designers** always start from the place of not knowing the answer to the problem they are looking to solve. Although not particularly comfortable, it allows us to open up the space for Creativity, to pursue lots of different ideas, and to arrive at the unexpected solutions



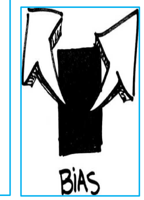
Mindsets: Optimism & Experimenting

•Optimism: No matter how challenging the constraints of a given problem, at least one potential solution is better than the existing alternatives.

- •Failure is an incredibly powerful tool for Learning. Designing experiments, prototypes, and interactions and testing them is at the heart of human-centered design.
- •As we seek to solve big problems, we are bound to fail. But if we adopt the right mindset of optimism, we will inevitably learn something from that failure.

•Experimenting: Significant innovations do not come from incremental tweaks. Design thinkers pose questions and explore constraints in creative ways that proceed in entirely new directions.

- As human-centered designers, we make because we believe in the power of tangibility, Making an idea real is a fantastic way to think it through.
- Human-centered design is an inherently iterative approach to solving problems because it makes feedback from the people we are designing for a critical part of how a solution evolves.

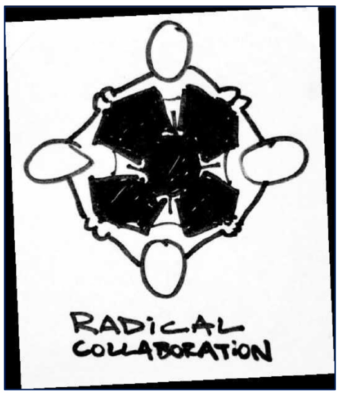


Mindsets: Collaboration

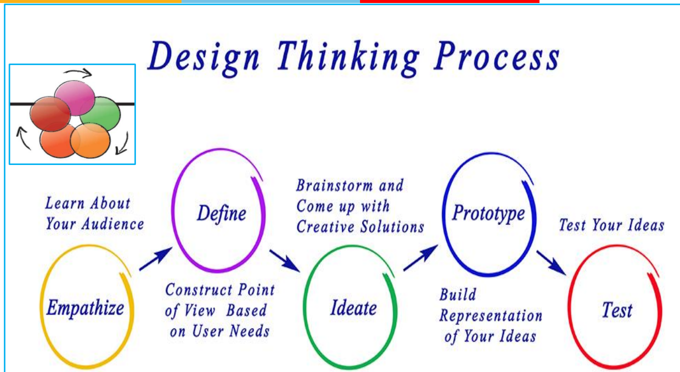
Collaboration: An increasing complexity of products, services, and experiences has replaced the myth of the lone creative genius with the reality of enthusiastic interdisciplinary collaborator.

The best design thinkers no longer bring one-dimension to the table to work alongside other disciplines; many design thinkers have significant experiences in more than one field of expertise today.

The firms employ people from various backgrounds too, bringing together an eclectic mix of beautiful minds i.e., the engineers, medical doctors, and marketers work alongside industrial designers, architects, lawyers, psychologists and even anthropologists in the modern world.



Design Thinking: Process & Tools



Contd ...

Design Thinking: Process & Tools > Empathize & Define

•Empathy is the center-piece of a human-centered design process. It is the work you do to understand people, within the context of your design challenge.

➢Observing what people do and how they interact with their environment gives you clues about what they think and feel. It also helps you learn about what they need.

➢Some of the most powerful realizations come from noticing a disconnect between what someone says and what he does.

➢Others come from a work-around someone has created which may be very surprising to you as a designer, but he/ she may not even think to mention it in conversation.

• Define the challenge you are taking on, based on what you have learned about your user and about the context.

➢The goal of the Define mode is to craft a meaningful and actionable problem statement - also called a point-of- view.

➢Articulate a point-of-view by combining the three elements - user, need and insight.

➢Insights emerge from a process of synthesizing information to discover connections and patterns.

Design Thinking: Process & Tools > Ideate

Ideate is the mode of the design process in which you concentrate on idea generation. Mentally, it represents a process of "going wide" in terms of concepts and outcomes.

● You ideate in order to transition from identifying problems to creating solutions for your users.

● Ideation is your chance to combine the understanding you have of the problem space and people you are designing for with your imagination to generate solution concepts.

● You ideate by combining your conscious and unconscious mind, and rational thoughts with imagination.

● Ideation techniques: Brain-storming, mind-mapping, and sketching. One theme throughout all of them is deferring judgment – that is, separating the generation of ideas from the evaluation of ideas.

How to brainstorm: rules

DEFER JUDGEMENT
GO FOR VOLUME
ONE CONVERSATION at a time
BE VISUAL
HEADLINE
Build on the Ideas of Others
Stay on TOPIC
Encourage WILD IDEAS

Design Thinking: Process & Tools > Prototype

The Prototype mode is the iterative generation of artifacts intended to answer questions that get you closer to your final solution.

● A prototype can be anything that a user can interact with – Post-it notes, a gadget you put together, role-playing activity, or a storyboard.

● How to prototype?

● Start building: Even if you are not sure what you are doing, the act of picking up some materials (post-it, tape, and found objects are a good way to start!)

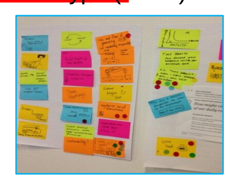
● Do not spend too long on one prototype. Let go before you find yourself getting too emotionally attached to any one prototype.

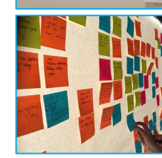
● ID a variable: Identify what is being tested with each prototype. A prototype should answer a particular question when tested.

● Build with the user in mind: What do you hope to test with the user? What sorts of behavior do you expect? Contd …

Design Thinking: Process & Tools > Prototype (contd)

Think through the details of your concept by breaking your idea into smaller moments in the experience. A great way to do this is by creating a Storyboard that shows how a potential customer might interact with your idea over time.





Using paper prototype- Post-it notes

Design Thinking: Process & Tools > Test

The Test mode is when you solicit feedback, about the prototypes you have created, from your users and have another opportunity to gain empathy for the people you are designing for.

- A rule of thumb: Always prototype *as if you know you are right*, but *test as if you know you are wrong.*
- Show don't tell: Put your prototype in the user's hands – or your user with an experience.
- Create your prototypes and test them in a way that feels like an experience that your user is reacting to, rather than an explanation that your user is evaluating.
- Bringing multiple prototypes to the field to test gives users a basis for comparison, and comparisons often reveal latent needs.
- Iteration is fundamental of a good design. Iterate both by cycling through the process multiple times.

Test: Feedback

Use a feedback capture grid to facilitate a real-time capture, or post-mortem unpacking of feedback.

Fill the four quadrants with your or a user's feedback. Things one likes or finds notable, place in the upper left; constructive criticism goes in the upper right; questions that the experience raised go in the lower left; and ideas that the experience spurred to the lower right.

IDEO[#]'s Design Thinking

- Tim Brown on Design Thinking-https://www.youtube.com/watch
- Design thinking is done to integrate the opposing ideas to create the opposing solutions.
- Change is the new word
- New choices- World is not the same now
- Start asking right questions
- Diversion approach to discover new ideas, new solutions
- Design thinking can create new ideas, new innovations

https://www.ideo.com/about

Case of Aravind Eye Care- How low-cost eye care can be world-class

•Pls refer *https://www.ted.com/talks/thulasiraj_ravilla_how_low_cost_eye_care_can_be_world_class)*

•Life savings put by Dr. G. Venaktaswamy to start this eye care system in 1976

•Primary eye care and vision centers opened up when they found out through scientific studies that they are just reaching 7 percent of population who needed eye care

•33 prime eye care centers- Hub and spoke model

•3.5 million surgeries till 2009

•Three key pillars-

➢Value System: Ethical and patient centric organization

➢Delivery System: Highly efficient system which can be replicated using franchise model e.g., McDonald's with same quality everywhere

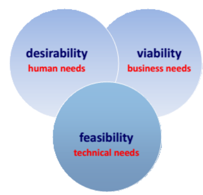
➢Innovation -creating sense of community ownership

Aravind Eye Care: Achievements

- Use of a van equipped with VSAT technology to reach remote areas
- Using technology for tele-consultation with doctor
- 40 % market penetration (in 1st year)
- 75% Market penetration (in 2nd year)
- Quadruple productivity- Use of Women Power (300+ village girls)
- Quality Assurance systems
- Over 55 percent of patients are given free care
- Income: $22 M; Expenses: $13M; EBITA: 39% (2008-09)

How is Aravind Eye care is using Design thinking?

Desirability:
Number of eye patients
Effect on life expectancy and livelihood
Requirement of cost-effective eye treatment



Viability:
Making it affordable for those who can not pay it. However, by charging the market rates for those who can afford it.
Providing integrated solutions from eye test to spectacles and surgery

Feasibility:
Using the franchise model
Using affordable technology

Blue Ocean Strategy

•Blue ocean is an entrepreneurship industry term created in 2005 to describe a new market with little competition or barriers standing in the way of innovators. The term refers to the vast "empty ocean" of market options and opportunities that occur when a new or unknown industry or innovation appears.

•Red ocean, which represents the existing market space characterized by 'bloody' competition.

•https://www.youtube.com/watch?v=7SQDGBSjty4 (Blue Ocean Strategy)

•Blue Ocean Strategy provides a systematic approach to making the competition irrelevant.

•The only way to beat the competition is to stop *trying* to beat the competition.

• Red oceans represent all the industries in existence today. This is the known market space.

• Blue oceans denote all the industries *not* in existence today. This is the unknown market space.

•It will always be critical to swim successfully in the red ocean by outperforming rivals.

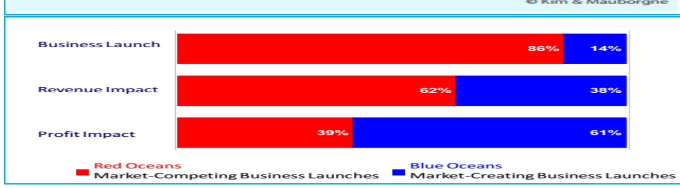
• Red oceans will always matter and will continue to be a fact of business life.

Red Ocean vs Blue Ocean

RED OCEAN STRATEGY VS. BLUE OCEAN STRATEGY

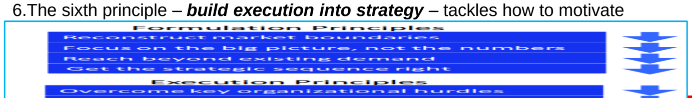
Red Ocean Strategy	Blue Ocean Strategy
Compete in existing market space	Create uncontested market space
Beat the competition	Make the competition irrelevant
Exploit existing demand	Create and capture new demand
Make the value-cost trade-off	Break the value-cost trade-off
Align the whole system of a firm's activities with its strategic choice of differentiation or low cost	Align the whole system of a firm's activities in pursuit of differentiation and low cost
Structuralist approach	Reconstructionist approach

© Kim & Mauborgne



Blue Ocean Principles

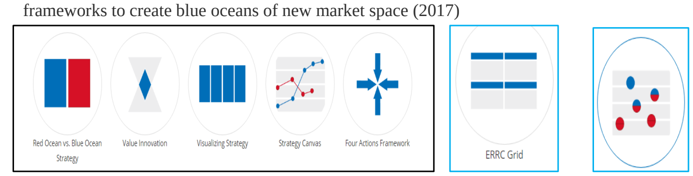
1.The first blue ocean principle – ***reconstruct market boundaries*** – addresses the search risk of how to successfully choose, out of the haystack of possibilities that exist, commercially compelling blue ocean opportunities.
2.The second principle – ***focus on the big picture; not the numbers*** – tackles how to mitigate the planning risk of investing lots of effort and lots of time but generating only red ocean type moves.
3. The third principle – ***reach beyond the existing demand*** – addresses the scope risk of aggregating the greatest demand for the new offering.
4.The fourth principle – ***get the strategic sequence right*** – addresses how to build a robust business model to ensure that you make a healthy profit on your blue ocean idea thereby mitigating business model risk.
5.The fifth principle – ***overcome key organizational hurdles*** – addresses how to knock over organizational hurdles in executing a blue ocean strategy addressing organizational risk.
6.The sixth principle – ***build execution into strategy*** – tackles how to motivate



Blue Ocean Tools
Red Ocean Traps

Blue Ocean Tools

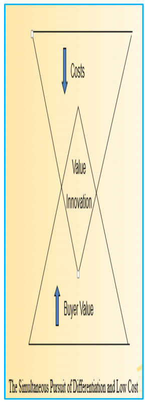
W. Chan Kim and Renée Mauborgne created a comprehensive set of analytic tools and frameworks to create blue oceans of new market space (2017)



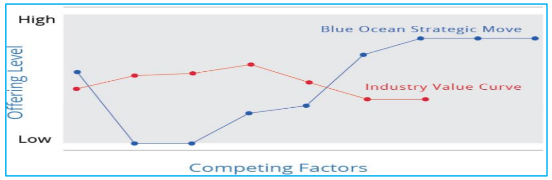
Red Ocean Traps

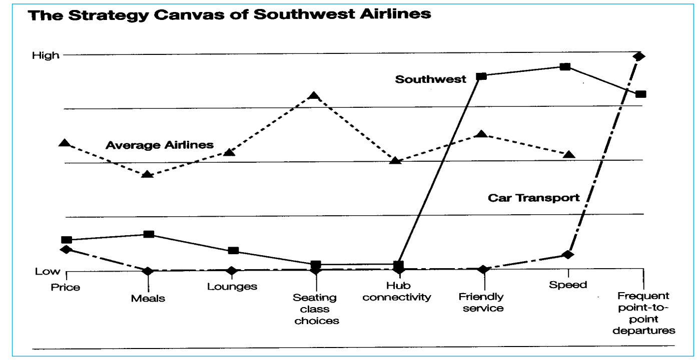
•Seeing Market-creating strategies as Customer oriented approaches
•Treating Market-creating strategies as Niche strategies
•Confusing Market-creating strategies as Technology Innovation
•Equating Market-creating strategies with Creative Destruction
•Equating Market-creating strategies with Differentiation and Low-cost strategies

•The creators of blue oceans, surprisingly, did not use the competition as their benchmark.
• Instead, they followed a different strategic logic that we will call value innovation.
• Value innovation is the cornerstone of blue ocean strategy.
• It is called value innovation because we focus on making our competition irrelevant as opposed to focusing on beating our competition. We can make the competition irrelevant by creating a leap in value for buyers and our firm thereby opening up new and uncontested market space.
•Value innovation defies one of the most commonly accepted dogmas of competition-based strategy: the value-cost trade-off.
• It is conventionally believed that firms can either create greater value to customers at a higher cost or create reasonable value at a lower cost.
• At this point, strategy is seen as making a choice between differentiation and low cost.
• In contrast, those who seek to create blue oceans pursue differentiation and low cost simultaneously.



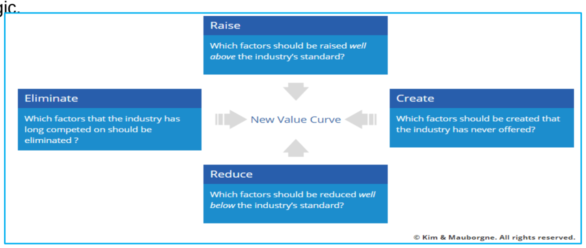
• Strategy Canvas-The strategy canvas is a central diagnostic tool and an action framework for getting clear on the current state of play and making your blue ocean move. It graphically captures, in one simple picture, the current strategic landscape and the future prospects for an organization.





Four Actions Framework

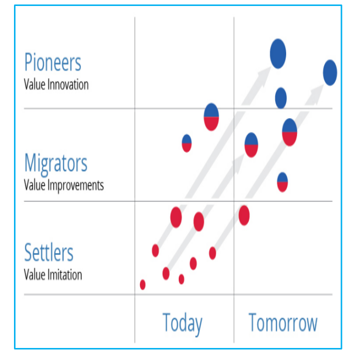
• The Four Actions Framework is used to reconstruct buyer value elements in crafting a new value curve or strategic profile. To break the trade-off between differentiation and low cost in creating a new value curve, the framework poses four key questions, shown in the diagram, to challenge an industry's strategic logic.



Eliminate	Raise
Which factors that the industry has long competed on should be eliminated ?	Which factors should be raised *well above* the industry's standard?
Reduce	**Create**
Which factors should be reduced *well below* the industry's standard?	Which factors should be created that the industry has never offered?

•The Eliminate-Reduce-Raise-Create (ERRC) grid is a simple matrix like tool that drives companies to focus simultaneously on eliminating and reducing, as well as raising and creating while unlocking a new blue ocean.

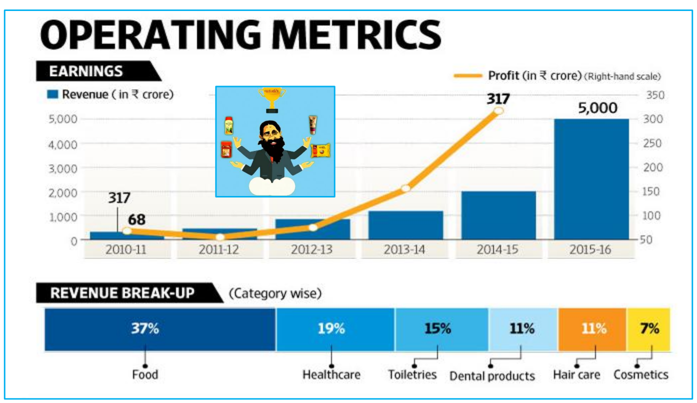
•A useful exercise for a corporate management team pursuing profitable growth is to plot the company's current and planned portfolios on the Pioneer-Migrator-Settler Map
•*Settlers* are defined as me-too businesses, *migrators* are business offerings better than most in the marketplace, and a company's *pioneers* are the businesses that offer unprecedented value. These are a company's blue ocean strategic moves, and are the most powerful sources of profitable growth. They are the only ones with a mass following of customers.

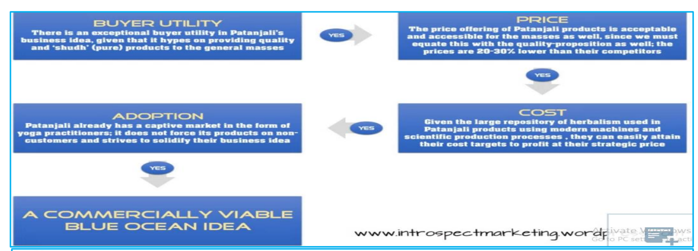


Characteristics of Blue Ocean Strategy

Three characteristics:
1. Focus
2. Divergence
3. Compelling tagline

Focus: Every great Strategy has a focus and companies' strategic profile or Value curve should clearly show it.
Divergence: When companies strategy is formed reactively as it tries to keep up with the competition, it loses its uniqueness. They all tend to share the same strategic profile.
• The Value curves of Blue Ocean strategies always stand apart and diverges from those of other players as a result of NOT benchmarking but instead looking at alternatives.
Compelling tagline: The final test of a good strategy picture is how well it lends itself to the tagline. "The speed of the plane at the price of the Car" (SWA).





Red Ocean Strategy (HUL, Dabur, Marico etc.)	Blue Ocean Strategy (Patanjali Ayurved)
Competes in existing market space, which is caught in a bind presently	Created uncontested market space in the FMCG sphere by virtue of a niche in the lines of low-cost 'pure' Ayurveda products
Strive to beat the competition mostly through low price offerings	Made the competition irrelevant as its lack of profit motives allow for further reinvestment
Exploit existing demand, by offering low room for loyalty-building	Created and captured new demand by commercializing 'backyard herbalism'
Make the value-cost trade-off systematically	Broke the value-cost trade-off by pricing its products at a significant percent below its rivals
Align the whole system of a firm's activities with its strategic choice of differentiation strategy or low cost strategy	Aligned the whole system of a firm's activities in pursuit of differentiation and low cost

Topics covered

- Role and responsibilities of Board of directors in corporate governance
- Various views on social responsibility
- Concept of sustainability
- Corporate stakeholders
- Ethical behavior
- Social responsibility in practice: ITC Ltd

< Based on : T1 Chapters 2 & 3>

Satyam scam (2009)

- Satyam, a well known IT firm, hit headlines in 2009 for all the wrong reasons when its chairman and founder Ramalinga Raju resigned and confessed having manipulated the accounts thereby causing losses to its stakeholders of Rs 14000 crores
- The Rs 7800 crore fraud got the stocks to crash by 66.5% to Rs 60 from a high of Rs 188.70

This scam exposed failure of the corporate governance practices at Satyam:

- Non- fulfilment of obligations of company towards its stakeholders.
- Lack of clear definition of roles of the Board and management.
- No clear separation of the roles of CEO and chairman.
- Irregularities in compensations of directors and executives.

Role of Board of Directors

- A corporation is a mechanism established to allow various parties to contribute capital, expertise, and labor for their mutual benefits.
- Investors/ shareholders invest & participate in the profits of the enterprise without taking responsibility for the operations.
- The involvement of shareholders in a corporation's activities include a right to elect directors who have a legal duty to represent shareholders and protect their interests.
- Directors, being representatives of shareholders, have both the authority and responsibility to establish basic corporate policies and to ensure that they are followed.
- A company is fundamentally governed by its *board of directors*, overseeing *top management,* with the concurrence of the *shareholders*.
- The term *corporate governance* refers to the relationship among the three groups to determine the company's direction & performance.
- Widespread corruption and questionable accounting practices at Enron, Arthur Anderson, Satyam, PWC, Reliance Communications have been noted in last few decades.
- Shareholders and various interest groups have questioned the role of board of directors in the companies.
- The general public has not only become more aware and critical of many boards' apparent lack of responsibility for corporate activities, it has begun to push government to demand accountability.

Responsibilities of Board of Directors

- Sets corporate strategy, overall direction, values, mission, vision.
- Hires, mentors, monitors and evaluates CEO and top management.
- Ensures availability of resources and approves their use.
- Cares for shareholders' interests.
- Assures that the firm is managed in accordance with various regulations.

<u>Role of the Board in Strategic Management</u>

The role of the board of the directors in strategic management is to carry out three basic tasks:

1. Monitor developments inside and outside the firm, bringing to management's attention developments it might have overlooked. A board should, at the minimum, carry out this task.
2. Evaluate and Influence: A board should examine management's proposals, decisions, and actions; agree or disagree with them; give advice and offer suggestions; and outline alternatives. More active boards perform this task in addition to monitoring.
3. Initiate and Determine: A board can delineate a firm's mission and specify strategic options to the management. Only the most active boards take on this task in addition to the two previous ones.

Composition of Board of Directors

The boards of most publicly owned companies are composed of both the inside and outside directors:

- Inside directors are officers or executives employed by the company.
- Outside directors may be executives of other firms but are not employees of the board's company.

<u>Inside vs Outside Directors</u>

Trend worldwide is to have more number of Outside directors who may be less biased and more likely to evaluate management's performance objectively than the Inside directors.

Two theories with regard to effectiveness of Outside vs Inside directors

- Agency theory states that problems arise because the agents (top management) are not willing to bear responsibility for their actions unless they own a substantial number of shares in the company. The theory suggests that a majority of a board needs to be from outside the firm so that top management is prevented from acting selfishly to the detriment of the shareholders.
- Stewardship theory, however, proposes that the outside directors are less effective than insiders because outsiders are less likely to have the necessary interest, availability, or competency. Insiders (senior executives), because of their long tenure with the firm, tend to identify with the firm and its success.

Various types of directors

A board may comprise of many different kinds of directors. Various types are:

1. Executive Director (also known as an inside director) is a full time employee of the company who acts as a board member. Disadvantages of Insider boards are usually more than the advantages and hence their number in a board is limited. Clause 49 of SEBI's Listing Agreement requires every listed company to reserve half the board for independent directors (if Chairman is an executive director).
2. Non-executive Director does not hold any management positions in the company and has been

Impact of the Sarbanes-Oxley ('SOX') Act on Corporate Governance

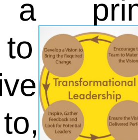
In response to the many corporate scandals uncovered since 2000, the USA passed the Sarbanes-Oxley Act in June 2002.

- SOX was designed to protect shareholders from the excesses and the failed oversight that characterized criminal activities at Enron, Tyco, WorldCom, Adelphia Communications (among other prominent firms).
- Several key elements of SOX were designed to formalize greater board independence and oversight.
- SOX has also established formal procedures for individuals (known as whistleblowers) to report incidents of questionable accounting or auditing. Firms are prohibited from retaliating against anyone reporting wrongdoing.
- SOX has banned auditors from providing both external & internal audit services to the same company.
- Both, the CEO and CFO, must certify a company's financial information.
- SOX does not apply directly in India. However, the amended clause 49 makes the company management more responsive. Stress has been laid on disclosures by companies by making periodic disclosures.

Responsibilities of Top Management

Responsibilities of Top management, especially of the CEO, involve getting things accomplished through and with others, so as to meet corporate objectives.

A CEO, with the support of the rest of the top management team, has a primary responsibility, with regard to strategic management, to provide executive leadership and a vision for the firm (and to, manage the strategic planning process).



Executive leadership and strategic vision:

Executive leadership is the directing of activities toward the accomplishment of corporate

Social responsibilities of Strategic Decision Makers

- Should the firms be responsible only to their shareholders, or do they have broader (social) responsibilities?
- Social Responsibility proposes that a private firm has responsibilities to society that extend beyond making a profit (strategic decisions often affect more than just the firm itself).
- Two contrasting views of the responsibilities of a business firm to the society:

1. (Milton Friedman's) Traditional view of business responsibility:

- Friedman, a Nobel laureate, argued against the concept of social responsibility as a function of business.
- In Friedman's view, primary goal of business is profit maximization, and no money for a general social interest. 'There al responsibility of business- to use its re ivities designed to increase its profits - -

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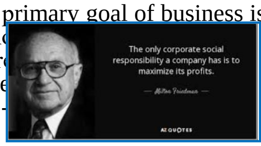


Social responsibilities of Strategic Decision Makers > Carroll's four responsibilities of Business

2. Socioeconomic view, however, argues that a management's social responsibility goes beyond making profits to include protecting and improving society's welfare.

- Archie Carroll proposed that a firm has four responsibilities: economic, legal, ethical and discretionary.

Sustainability

•In the broadest sense, sustainability refers to an ability to maintain or support a process continuously over time.
•In business and policy contexts, sustainability seeks to prevent depletion of natural or physical resources so that they will remain available for the long term.
•However, sustainability includes much more than just ecological concerns and the natural environment. Example: while a road building program may be opposed by environmentalists because of their effect on wildlife and conservation of forests, it may be beneficial to local communities because of less traffic congestion and more jobs.
•It is being argued that concept of sustainability should be broadened to include economic and social as well as environmental concerns.

1.Environmental: This includes eco-design and efficiency, environmental management systems & executive commitment to environmental issues.
2.Economic: This includes codes of conduct and compliance, anti-corruption policies, corporate governance, risk and crisis management, strategic planning, quality and knowledge management, and supply chain management.
3.Social: This includes welfare of society, philanthropy, labor practices, human capital development, talent attraction and retention, Stakeholders' welfare etc.

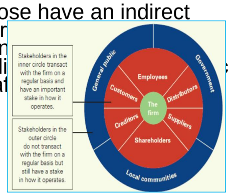
9

Corporate Stakeholders

- Business must be socially responsible to its various stakeholders because they affect or are affected by the achievement of the firms' objectives. In any strategic decision, the interests of one stakeholder group may be in conflict with those of another. Example, a firm's decision to use only the recycled material in its manufacturing process may have a positive effect on environmental groups, but a negative effect on shareholders' dividends.
- Stakeholder analysis is the identification and evaluation of corporate stakeholders.
- This analysis is a three-step process as follows:

1. To identify primary stakeholders i.e., those having a direct connection with the firm and have sufficient bargaining power to directly affect corporate activities e.g. customers, employees, suppliers, shareholders, creditors. They are important to a firm to meet its economic and legal responsibilities.
2. To identify the secondary stakeholders i.e., those have an indirect stake in the firm but are also affected by the fir NGOs, local communities, competitors, govern these stakeholders do not affect the firm's abili and legal responsibilities, their actions could af reputation and long term performance.

3. To estimate the effect on each stakeholder group from any strategic decision. Because the primary decision criterion used by a management is generally economic, the secondary stakeholders may be ignored. However, for a firm to fulfil its ethical and discretionary responsibilities, it must seriously consider the needs of its secondary stakeholders also in strategic decisions e.g. how much will each stakeholder group lose or gain? What other alternatives do they have to replace what may be lost?



Ethical Decision Making

- Ethics is defined as the consensually accepted standards of behavior for an occupation, a trade, or a profession.
- These are the principles, values, and beliefs that define right and wrong decisions and behavior.
- Reasons for Unethical Behavior

➢Lack of awareness among the involved people that they are doing something questionable.
➢No worldwide standards of conduct for business people.
➢Different cultural norms and values all across.
➢Different values between business people and stakeholders.
➢Differences in values between business people and key stakeholders e.g. profit maximization vis-à-vis hiring of minorities/ women.

Encouraging Ethical Behavior

•Archie Carroll has argued that if business people do not act ethically, government will be forced to pass laws regulating their actions which will usually increase their costs. Managers, therefore, should be more ethical in their decision making out of their self-interests. One way to do it is to develop codes of ethics.
•A Code of Ethics specifies how an organization expects its employees to behave while on job.
•Developing a code of ethics can be a useful way to promote ethical behavior. Such codes are being used in most large firms
•Indian companies like Tata Motors have made extensive efforts to support whistleblowers.
•Whistleblowers Bill, 2006 is an attempt to protect the whistleblowers from criminal or civil liability, departmental inquiry, demotion etc.
•Some companies having strong moral cultures are Canon, HP, Johnson & Johnson, Levi Strauss, Motorola, ShoreBank and Sony.

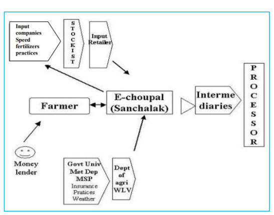
Guidelines for Ethical Behavior

A starting point for developing Code of Ethics is to consider three basic approaches to ethical behavior as follows:
•Utilitarian approach proposes that people should behave in a way that will produce greatest benefit to society and produce the least harm or lowest cost.
•Individual rights approach takes care of fundamental rights of others. A particular decision or behavior should be avoided if it interferes with the rights of others.
•Justice approach proposes that decision makers should be equitable, fair, and impartial in the distribution of costs and benefits to individuals and groups.

Social Responsibility in Practice: ITC's e-Choupal

•ITC's Agri-Business Division, one of India's largest exporters of agricultural commodities, has conceived e-Choupal as a more efficient supply chain aimed at delivering value to its customers around the world on a sustainable basis.
•The model is specifically designed to tackle the challenges posed by the unique features of Indian agriculture: fragmented farms, weak infrastructure and the involvement of numerous intermediaries, among others.
•ITC's e-choupal Value chain: This model unshackles the potential of Indian farmer who has been trapped in a vicious cycle of low risk taking ability > low investment > low productivity > weak market orientation > low value addition > low margin > low risk taking ability.

ITC
Enduring Value
ई-चौपाल
किसानों के हित मे, किसानों का अपना



ITC e-Choupal: Model in action

- 'e-Choupal' leverages Information Technology to virtually cluster all the value chain participants, delivering the same benefits as vertical integration does in mature agricultural economies like the USA.
- Project covers over 35,000 villages in MP, UP, Maharashtra, Karnataka, Andhra Pradesh, Rajasthan, Haryana and Uttaranchal providing millions of farmers with critical information on farming. The Choupal services are being delivered by over 6,000 Sanchalaks and over 17,000 Upa Sanchalaks to these remotest areas.
- Real-time information and customised knowledge provided by 'e-Choupal' enhance the ability of farmers to take decisions and align their farm output with market demand and secure quality & productivity.
- e-Choupal, today is more than a decade old and ITC is using an IT-driven marketing channel to align farm output with market demand.
- The agri-business arm, which runs the e-Choupal network, serves as the back-end source of raw materials that go into ITC's personal care products and packaged foods.
- ITC benefits from the lower net cost of procurement [despite offering better prices to the farmers] having eliminated costs in the supply chain that do not add value.
- The web-based e-Choupal network has now become a key driver for the FMCG business that comprises brands like Sunfeast, Aashirvaad, Vivel and Fiama Di Wills.