UNIVERSITY GRANTS COMMISSION

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Unit-VI

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Module-1: Strategic Management – Concept, Process, Decision & Types

1. Concept and Definition of Strategic Management

Strategic Management is a stream of decisions and actions which lead to the development of an effective strategy or strategies to help achieve corporate objectives.

The Strategic Management process is the way in which strategists determine objectives and make strategic decisions. Strategic Management can be found in various types of organizations, business, service, cooperative, government, and the like.

Strategic management is an on-going process that evaluates and controls the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment, or a new social, financial, or political environment.

Strategic management involves systematic analysis of the internal and external environments, to evaluate a company's current policies, strategy and goals to build new strategic moves and plans.

Thus, strategic management is the process of planning, directing, organising, and controlling a company's strategy-related decisions and actions to achieve competitive advantage and the long-run performance goals of a company.

Strategic management has been defined by various thinkers, philosophers and practitioners. Strategic management can be defined as the formal process for defining company vision & mission, assess internal & external environment, formulate strategies under resource constraints, implement strategies, and evaluate the strategies.

Schendel and Hofer (1979) – *Strategic management is a process that deals with the entrepreneurial work of the organisation, with organisational renewal and growth, and, more particularly, with developing and utilizing the strategy which is to guide the organisation's operations.*

Fredrickson (1990) – *Strategic management is concerned with those issues faced by managers who run entire organisations, or their multifunctional units.*

Bowman, Singh, and Thomas (2002) – *The strategic management field can be conceptualized as one centred on problems relating to the creation and sustainability of competitive advantage, or the pursuit of rents.*

2. Stages in Strategic Management

Stages in Strategic Management	
Stage One – Planning and Analysis or Environmental Scanning	This is the starting point of strategic planning. It consists of doing a situational analysis of the firm in the environmental context. At this stage, the firm finds out its relative market position, corporate image, its strength and weakness and also environmental threats and opportunities.
Stage Two –Strategy Formulation	Strategy formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives and thereby achieving the organizational mission.
Stage Three – Alternative Selection	Here the organization deals with the various strategic alternatives it has and choose the optimum strategy based on a number of external as well as internal factors
Stage Four – Implementation and Control	This is an implementation and control stage of a suitable strategy. Here again the organization continuously does situational analysis and repeats the stages as required.
Stage Five – Evaluation	\The organization evaluates the long term and short term impact of the strategies implemented in the business.

3. Concept of Strategy

The term strategy has been borrowed from military. Today the competition, a business faces, is similar to a war and every business wants to be one step up over its nearest rivals.

Strategy is a common theme of strategic decisions through which an organisation tries to relate itself with the environment which involves major resources commitment to develop certain advantages which help in achieving its vision and mission.

Characteristics of Strategy	
1. Strategy is a systematic phenomenon:	Strategy involves a series of action plans, no way contradictory to each other because a common theme runs across them. It is not merely a good idea; it is making that idea happen too. Strategy is a unified, comprehensive and integrated plan of action.
2.It is multidisciplinary:	Strategy involves marketing, finance, human resource and operations to formulate and implement strategy. Strategy takes a holistic view. It is multidisciplinary as a new strategy influences all the functional areas, i.e., marketing, financial, human resource, and operations.
3.It is multidimensional:	Strategy not only tells about vision and objectives, but also the way to achieve them. So, it implies that the organisation should possess the resources and competencies appropriate for implementation of strategy as well as strong performance culture, with clear accountability and incentives linked to performance.
4. It is hierarchical:	On the top come corporate strategies, then come business unit strategies, and finally functional strategies. Corporate strategies are decided by the top management, Business Unit level strategies by the top people of individual strategic business units, and the functional strategies are decided by the functional heads.
5. It is dynamic:	Strategy is to create a fit between the environment and the organisation's actions. As environment itself is subject to fast change, the strategy too has to be dynamic to move in accordance to the environment.
6. Strategy Creates Values	The purpose of strategy is to create competence (things firm does better than competitors), synergy (between different parts of the organisation and their activities) and value creation so as to attain vision and mission.

7. In is a collective decision making Process	The vision, mission, objectives, and corporate strategies are determined by top management. Business Unit strategies are decided by heads of business units and functional plans by functional heads. But the top management consent is a must.

Distinction between Strategy and Tactics:

Basis	Strategy	Tactics
Origin of Formulation	A prerogative of top management	Lower level management
Scope	Deals with many things	Narrow focus
Time horizon	Longer period	Shorter period
Timing of action	Prelude to action	During the action
Type of guidance	General guidance to whole organisation	Specific and situational guidance to specific section of organisation

Types of Strategies in Organizations

Types of Strategies:		
1. Corporate Strategies or Grand Strategies:	Growth	**a) Concentration:** It means bringing in resources into one or more of a firm's business keeping customer needs, customer functions, alternative technologies, singly or jointly so as to expand. **b) Integration:** Integration means joining activities related to the present activities of a firm. Integration not only widens the scope of business but also a subset of diversification strategies. Integration can be of following types:

i) Horizontal Integration:

It means when a firm takes over the other firm operating at the same level of production or marketing.

ii) Vertical Integration:

When a firm acquires control over another firm operating into the same value chain. It can be of two types, viz., Backward Integration – acquiring a firm engaged in raw materials (Tata steel buying a coal mine company in Indonesia); and Forward Integration — acquiring control over a firm/activity taking it nearer to the ultimate consumer (Reliance Industries, a petro refining company, also starting petrol pumps).

c) Diversification:

Adding a new customer function(s), customer group(s), or alternative technologies to an existing business is known as diversification. Diversification strategies can be of following types:

i) Concentric diversification:

Adding new, but related products or services is known as concentric diversification. It can be market-related concentric diversification (using common channels); Technology-related (a bank also selling mutual fund policies-similar procedure); and Marketing and technology related concentric diversification (Amul, selling butter, curd, Shrikhand, and buttermilk along with milk). A retailer selling kids wear also starts selling lady wears is a case of related concentric diversification.

ii) Conglomerate or unrelated diversification:

If a firm takes up business not related to the existing one neither in terms of customer groups, customer functions, nor alternative technologies, it is known as conglomerate diversification – Tata

	Sons is a conglomerate, as it is unrelated businesses, steel, power, chemicals, hospitality, education, publishing, beverages, etc. ***iii) Horizontal Diversification:*** It means adding new products or services for present customers. Escort Fortis Hospital may offer bank, bookstore, coffee shop, restaurant, drug store in their compound for the visitors to the hospital. **d) Internationalization:** It means marketing product/service beyond national market. **e) Cooperation:** It means cooperation among competitors. It may take the form of Mergers and Acquisitions (like Tata Motors acquired Jaguar Land Rover facilities of UK); Joint Ventures (like Indian Oil company floated an oil marketing company in Sri Lanka in collaboration with a local company), and Strategic Alliances (the two cooperating firms remain independent but cooperate for synergy). **f) Digitalization:** It includes computerization, electronisation, and digitalization (conversion of analogue electrical signals into digital signals).
Stability	When the firm wants to go for incremental improvement of its performance, it is known as stability strategy. Basic approach in the stability strategy is 'maintain present course: steady as it goes.' It can be No-change strategy (taking no decision is a decision too); Profit strategy (lying low and managing profit through cost cutting, price rise, etc. In times of crisis and recession- as the JK Papers did during recent recession); Pause or proceed-with-caution strategy (when getting into non-core business, like Hindustan Unilever selling shoes).

	Retrenchment	It means substantially reducing the scope of business activities. It includes turnaround strategy (to bring back to health through internal and external restructuring); Divestment strategy (Sell-off or hive-off – to sell off a non-core business divisions; Spin-off - demerging the business activities; and Split-off – division of business into two separate ownership; Disinvestment – dilution of control through sale of equity -very recently Government of India has sold stake through FPO in Power Finance Corporation); and Liquidation Strategy (the last resort in retrenchment, Lehman Brothers of USA was finally liquidated).
	Combination	All the strategies discussed above can be applied simultaneously, sequentially, or in a combination.
2. Business Level (SBU Level) Strategies:		SBU-level strategy, sometimes called Business Strategy or Competitive Strategy, is concerned with decisions pertaining to the product mix, market segments and manoeuvring competitive advantages for the SBU. While corporate strategy decides the business portfolio (i.e., the types of business), the competitive strategy decides the strategy/strategies to succeed in the chosen business/businesses. SBU strategy has to conform, obviously, to the corporate philosophy and strategy. In short, "the SBU-level strategic management is the management of an SBU's effort to compete effectively in a particular line of business and to contribute to overall organisational purposes." The responsibility for SBU strategy is with the top executives of the SBU who are normally second-tier executives in the corporate hierarchy. In single-SBU organisations, senior executives have both corporate and SBU-level responsibilities.

	Business-level strategies are fundamentally concerned with the competition. In this regard Michael Porter has given three generic strategies, which can be converted into four. To compete successfully the first generic strategy is Cost-leadership (Microsoft produces software for PCs at such a cost that no hardware manufacturer ever thinks of producing himself); second is Differentiation (Dell computers are sold online, whereas all other manufacturers use physical distribution); and finally it is Focus. Focus may rely on either cost leadership or differentiation, but its market size is very small, where large competitors do ignore them.
3. Functional Strategies:	These strategies may be Operations Strategy, Marketing Strategy, Finance Strategy, and Human Resource Strategy.

4. Strategy Decisions

Strategic decisions are the decisions that are concerned with whole environment in which the firm operates the entire resources and the people who form the company and the interface between the two.

Strategic decision making, or strategic planning, describes the process of creating a company's mission and objectives and choosing the course of action a company should pursue to achieve those goals. Strategic decisions are different in nature from all other decisions which are taken at various levels of the organization during their day-to-day working. The major dimensions of strategic decisions are given below:

i. Strategic issues require top-management decisions.

ii. Strategic issues involve the allocation of large amounts of company resources.

iii. Strategic issues are likely to have a significant impact on the long term prosperity of the firm.

iv. Strategic issues are future-oriented.

v. Strategic issues usually have major multi-functional or multi-business consequences.

vi. Strategic issues necessitate consideration of factors in the firm's external environment.

Characteristics/Features of Strategic Decisions

a. Strategic decisions have major resource propositions for an organization. These decisions may be concerned with possessing new resources, organizing others or reallocating others.
b. Strategic decisions deal with harmonizing organizational resource capabilities with the threats and opportunities.
c. Strategic decisions deal with the range of organizational activities. It is all about what they want the organization to be like and to be about.
d. Strategic decisions involve a change of major kind since an organization operates in ever-changing environment.
e. Strategic decisions are complex in nature.
f. Strategic decisions are at the top most level, are uncertain as they deal with the future, and involve a lot of risk.
g. Strategic decisions are different from administrative and operational decisions. Administrative decisions are routine decisions which help or rather facilitate strategic decisions or operational decisions. Operational decisions are technical decisions which help execution of strategic decisions. To reduce cost is a strategic decision which is achieved through operational decision of reducing the number of employees and how we carry out these reductions will be administrative decision.

Techniques of Strategic Forecasting

Operationally speaking techniques of forecasting which have been found useful may be considered in terms of:

1. Economic forecasts;
2. Social forecasts
3. Political forecasts, and
4. Technological forecasts.

Let us examine the implications of some of the technique and their suitability.

1. Economic Forecast:

The availability of computer software's, and sophisticate of computers have made econometric models easy to apply in economic forecasting, particularly where large changes were, anticipated and information was available on casual relationships. One inherent limitation of these models has been their dependence on the judgment of model builders.

Further, sometimes the dependability of judgments has also been found questionable. Two other approaches which are fairly widely used are; Time series models' and 'judgmental models'. The Former have been found useful for identifying patterns of historical, cyclical and seasonal trends, on the assumption that the past in a reliable indicator of the future.

Exponential smoothing and linear projection are relatively simple and in expensive time series techniques. Trade analysis is a frequently used time series model. However, its limitation is the assumption that the relevant condition will remain more or less constant. Its use also depends upon the availability of reliable historical data.

If data are not available or cannot be used due to volatility of conditions, judgmental models or qualitative forecasting prove to be useful. Typically, judgmental model may be used for estimating sales based on the opinion of sales force or customer surveys or by arranging estimates made be executives from different functional areas.

2. Social Forecast:

It must be recognized that by nature social forecasting is a very complex task. Besides time series analysis and judgmental, scenario development is one of the most popular techniques of social forecasting in such areas as demographic trends, housing health and nutrition, household income and expenditure patterns, government policy on social issues etc. use of scenario's is explained hereafter along with its implications.

3. Political Forecast:

Domestic political conditions and political developments across the borders including foreign international relations constitute important aspects of political forecasting of all approaches that of Arthur D. Little (ADL) is considered to be most ambitious and sophisticated.

It takes into account such criteria as social development, technological advancement, natural resource endowment, level of domestic tranquility and type of political system, in forecasting political conditions. The technique is based on the hypothesis that if development in respect of any of the criteria moves faster than in other criteria, there is tension and violence.

4. Technological Forecast:

Excepting economic models, techniques of technological forecasting which have been found useful are judgmental models scenario development, brain storming and Delphi method. Those of scenario are explained hereafter. Brainstorming involves generation of new ideas and forecasts by a select group.

Creative thinking is encouraged in the process as analysis and criticism of contribution of participants are not immediately focused but the idea found more promising are evaluated later. In the Delphi technique, a systematic procedure is followed to derive the common elements from the opinion of a group of experts.

Components of a Strategy Statement

The strategy statement of a firm sets the firm’s long-term strategic direction and broad policy directions. It gives the firm a clear sense of direction and a blueprint for the firm’s activities for the upcoming years. The main constituents of a strategic statement are as follows:

1. Strategic Intent

An organization’s strategic intent is the purpose that it exists and why it will continue to exist, providing it maintains a competitive advantage. Strategic intent gives a picture about what an organization must get into immediately in order to achieve the company’s vision. It motivates the people. It clarifies the vision of the vision of the company.

Strategic intent helps management to emphasize and concentrate on the priorities. Strategic intent is, nothing but, the influencing of an organization’s resource potential and core competencies to achieve what at first may seem to be unachievable goals in the competitive environment. A well-expressed strategic intent should guide/steer the development of strategic intent or the setting of goals and objectives that require that all of organization’s competencies be controlled to maximum value.

Strategic intent includes directing organization’s attention on the need of winning; inspiring people by telling them that the targets are valuable; encouraging individual and team participation as well as contribution; and utilizing intent to direct allocation of resources.

Strategic intent differs from strategic fit in a way that while strategic fit deals with harmonizing available resources and potentials to the external environment, strategic intent emphasizes on building new resources and potentials so as to create and exploit future opportunities.

2. Mission Statement

Mission statement is the statement of the role by which an organization intends to serve it's stakeholders. It describes why an organization is operating and thus provides a framework within which strategies are formulated. It describes what the organization does (i.e., present capabilities), who all it serves (i.e., stakeholders) and what makes an organization unique (i.e., reason for existence).

A mission statement differentiates an organization from others by explaining its broad scope of activities, its products, and technologies it uses to achieve its goals and objectives. It talks about an organization's present (i.e., "about where we are"). For instance, Microsoft's mission is to help people and businesses throughout the world to realize their full potential. Wal-Mart's mission is "To give ordinary folk the chance to buy the same thing as rich people." Mission statements always exist at top level of an organization, but may also be made for various organizational levels. Chief executive plays a significant role in formulation of mission statement. Once the mission statement is formulated, it serves the organization in long run, but it may become ambiguous with organizational growth and innovations.

In today's dynamic and competitive environment, mission may need to be redefined. However, care must be taken that the redefined mission statement should have original fundamentals/components. Mission statement has three main components-a statement of mission or vision of the company, a statement of the core values that shape the acts and behaviour of the employees, and a statement of the goals and objectives.

Features of a Mission

a) Mission must be feasible and attainable. It should be possible to achieve it.

b) Mission should be clear enough so that any action can be taken.

c) It should be inspiring for the management, staff and society at large.

d) It should be precise enough, i.e., it should be neither too broad nor too narrow.

e) It should be unique and distinctive to leave an impact in everyone's mind.

f) It should be analytical, i.e., it should analyze the key components of the strategy.
g) It should be credible, i.e., all stakeholders should be able to believe it.

3. Vision

A vision statement identifies where the organization wants or intends to be in future or where it should be to best meet the needs of the stakeholders. It describes dreams and aspirations for future. For instance, Microsoft's vision is "to empower people through great software, any time, any place, or any device." Wal-Mart's vision is to become worldwide leader in retailing. A vision is the potential to view things ahead of themselves. It answers the question "where we want to be". It gives us a reminder about what we attempt to develop. A vision statement is for the organization and its members, unlike the mission statement which is for the customers/clients. It contributes in effective decision making as well as effective business planning. It incorporates a shared understanding about the nature and aim of the organization and utilizes this understanding to direct and guide the organization towards a better purpose. It describes that on achieving the mission, how the organizational future would appear to be. An effective vision statement must have following features-

a) It must be unambiguous.
b) It must be clear.
c) It must harmonize with organization's culture and values.
d) The dreams and aspirations must be rational/realistic.
e) Vision statements should be shorter so that they are easier to memorize.

In order to realize the vision, it must be deeply instilled in the organization, being owned and shared by everyone involved in the organization.

4. Goals and Objectives

A goal is a desired future state or objective that an organization tries to achieve. Goals specify in particular what must be done if an organization is to attain mission or vision. Goals make mission more prominent and concrete. They co-ordinate and integrate various functional and departmental areas in an organization. Well made goals have following features-

a) These are precise and measurable.
b) These look after critical and significant issues.
c) These are realistic and challenging.
d) These must be achieved within a specific time frame.
e) These include both financial as well as non-financial components.

Objectives are defined as goals that organization wants to achieve over a period of time. These are the foundation of planning. Policies are developed in an organization so as to achieve these objectives. Formulation of objectives is the task of top level management. Effective objectives have following features-

i) These are not single for an organization, but multiple.
ii) Objectives should be both short-term as well as long-term.
iii) Objectives must respond and react to changes in environment, i.e., they must be flexible.
iv) These must be feasible, realistic and operational.

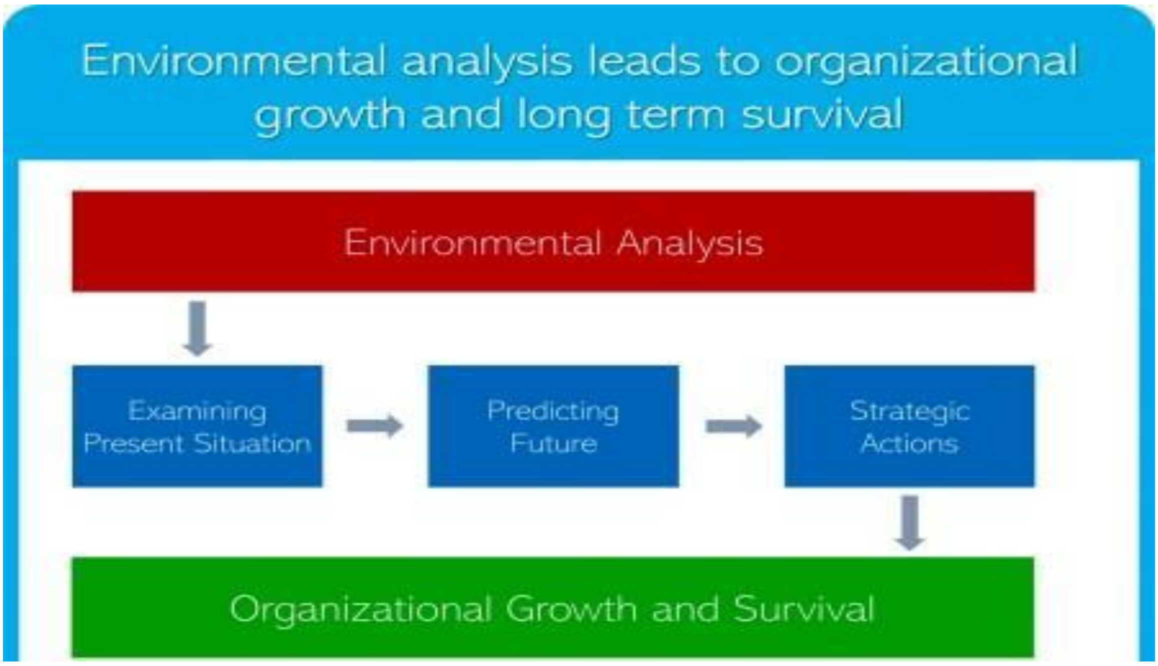
Module-2 Strategic Analysis – External Analysis, PEST, Porter's Approach to industry analysis, Internal Analysis – Resource Based Approach, Value Chain Analysis

1. Examining Environment for Business

Environmental analysis facilitates gauging the present situation of the organization and helps in predicting the future. Since environmental analysis uncovers relevant information with a future orientation, it enables the organizational leaders to undertake appropriate strategic action programs for ensuring the growth, profitability, and survival of the organization.

For gaining advantage from the environmental analysis, it is necessary to translate the information into a usable form to establish objectives and then to formulate a strategy for achieving the objectives. To analyze the environment, the first thing to do is to define and determine the environmental forces that are relevant to the organization and the concerned industry as well as to the geographical area served by the organization. For example, if a company serves only London, its geographical area would be only London city. However, if its area of operations covers the whole of Europe, the geographical area to be brought into the purview of analysis would be the whole country.

Again, all external factors or all internal factors may not be necessarily related to the targeted analysis. In that case, relevant factors forces need to be determined first so that wastages do not occur due to the collection of unnecessary information.



While examining the environment we may analyse two types of environments, i) external environment and ii) internal environment. Examination of external environment may be accomplished with two methods a) PESTLE analysis and b) Porters Industry analysis.

Environment Analysis			
i) External Analysis		ii) Internal Analysis	
a) PESTLE Analysis	b) Porter's Industry Analysis	a) Resource based approach	b) value Chain Analysis

2. Analysis of External Environment

The business environment usually offers immense opportunities for exploiting potential market and also poses threats to the firm itself. On this aspect, William F. Glueck and Lawrence R. Jauch observed, *"The environment includes factors outside the firm which can lead to opportunities for or threats to the firm. Although there are many factors, the most important of the sectors are socioeconomic, technological, supplier, competitors and government."*

This definition shows that environment includes different factors like socio-economic, technological, supplier, competitor and the government. Besides, there are two other factors, viz., physical or natural environment and global environment. While analyzing this external environment two methods are generally used

a) PESTLE Analysis

Environmental analysis is a strategic tool. It is a process to identify all the external and internal elements, which can affect the organization's performance. The analysis entails assessing the level of threat or opportunity the factors might present. These evaluations are later translated into the decision-making process. The analysis helps align strategies with the firm's environment.

Our market is facing changes every day. Many new things develop over time and the whole scenario can alter in only a few seconds. There are some factors that are beyond your control. But, you can control a lot of these things.

Businesses are greatly influenced by their environment. All the situational factors which determine day to day circumstances impact firms. So, businesses must constantly analyze the trade environment and the market.

There are many strategic analysis tools that a firm can use, but some are more common. The most used detailed analysis of the environment is the PESTLE analysis. This is a bird's eye view of the business conduct. Managers and strategy builders use this analysis to find where their market currently. It also helps foresee where the organization will be in the future.

PESTLE analysis consists of various factors that affect the business environment. Each letter in the acronym signifies a set of factors. These factors can affect every industry directly or indirectly.

The letters in PESTLE, also called PESTEL, denote the following things:

Political factors	Technological factors
Economic factors	Legal factors
Social factors	Environmental factor

Often, managers choose to learn about political, economic, social and technological factors only. In that case, they conduct the PEST analysis. PEST is also an environmental analysis. It is a shorter version of PESTLE analysis. STEP, STEEP, STEEPLE, STEEPLED, STEPJE and LEPEST: All of these are acronyms for the same set of factors. Some of them gauge additional factors like ethical and demographical factors. We may discuss the 6 most commonly assessed factors in environmental analysis.

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P for Political factors

The political factors take the country's current political situation. It also reads the global political condition's effect on the country and business. Some political factors that you can study are:

- Government policies
- Taxes laws and tariff
- Stability of government
- Entry mode regulations

E for Economic factors

Economic factors involve all the determinants of the economy and its state. These are factors that can conclude the direction in which the economy might move. So, businesses analyze this factor based on the environment. It helps to set up strategies in line with changes. Such economic factors include:

- The inflation rate
- The interest rate
- Disposable income of buyers
- Credit accessibility
- Unemployment rates
- The monetary or fiscal policies
- The foreign exchange rate

S for Social factors

Countries vary from each other. Every country has a distinctive mindset. These attitudes have an impact on the businesses. The social factors might ultimately affect the sales of products and services. Some of the social factors you should study are:

- The cultural implications
- The gender and connected demographics
- The social lifestyles

- The domestic structures
- Educational levels
- Distribution of Wealth

T for Technological factors

Technology is advancing continuously. The advancement is greatly influencing businesses. Performing environmental analysis on these factors will help you stay up to date with the changes. Technology alters every minute. This is why companies must stay connected all the time. Firms should integrate when needed. Technological factors will help you know how the consumers react to various trends. Firms can use these factors for their benefit:

- New discoveries
- Rate of technological obsolescence
- Rate of technological advances
- Innovative technological platforms

L for Legal factors

Legislative changes take place from time to time. Many of these changes affect the business environment. If a regulatory body sets up a regulation for industries, for example, that law would impact industries and business in that economy. So, businesses should also analyze the legal developments in respective environments. Some of the legal factors are:

- Product regulations
- Employment regulations
- Competitive regulations
- Patent infringements
- Health and safety regulations

E for Environmental factors

The location influences business trades. Changes in climatic changes can affect the trade. The consumer reactions to particular offering can also be an issue. This most often affects agri-businesses. Some environmental factors you can study are:

- Geographical location
- The climate and weather
- Waste disposal laws

- Energy consumption regulation
- People's attitude towards the environment

There are many external factors other than the ones mentioned above.

It is true that industry factors have an impact on the company performance. Environmental analysis is essential to determine what role certain factors play in your business. PEST or PESTLE analysis allows businesses to take a look at the external factors. Many organizations use these tools to project the growth of their company effectively.

The analyses provide a good look at factors like revenue, profitability, and corporate success. If you want to take the right decisions for your firm, employ environmental analysis. The analysis you should conduct depends on the nature of your company.

b) Porter's Industry Analysis

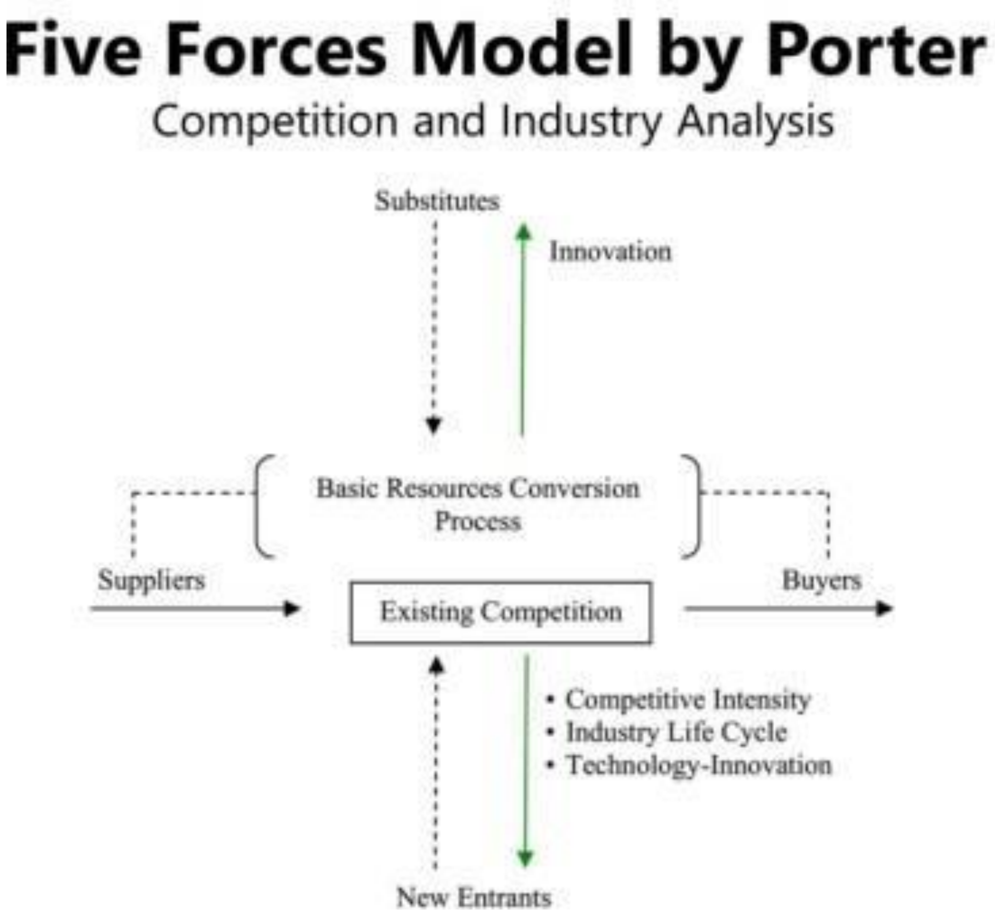
The most widely used model for an industry's competition analysis is Michael Porter's Five Forces Model Managers can use this model to analyze the competitive environment in the industry in which their company is operating its business. The Five Forces Model provides a framework to identify industry-related opportunities and threats.

Managers use Porter's Five Forces Model to analyze competitive forces in the industry's environment and identify the industry-related opportunities and threats confronting their company. According to Porter the five forces explain the structural determinants of the industry and help to explain the profitability of the industry in conjunction with immediate competitor behavior. These are;

1) the threat of new entrants;
2) bargaining power of suppliers;
3) bargaining power of buyers;
4) threat of substitute products; and
5) rivalry among existing firms.

The five forces model was developed by Professor Michael Porter of the Harvard Business School in his book The Competitive Strategy Techniques for Analysing Industries and Competitors (1980).

Since then it has been extensively quoted across the academic world as a tool for analyzing the structure of industries. Five of the constituents of the industry mentioned above are from Porter's list of industry's structural forces. The five forces determine industry profitability because they influence the prices, costs and required investment in the industry.



__i. Threat of New Entrants__

The threat of new entrants refers to the risk of new entry by potential competitors. A potential entrant is one who eyes the given industry anticipating higher returns. The entrant may bring new technology or other resources to the industry. In the marketplace, some competitors are already operating their businesses. They are called existing competitors.

Some other upcoming competitors are not now operating a business in the industry but they can enter into the industry if they have the capability and desire to enter. They are potential competitors.

The success or failure of the entrants would depend upon the reaction of the other players in the industry and the entry barriers in the industry. The existing players in the field would not like a new entrant as the new entrant can erode the profitability of the existing players.
Potential competitors create threats to existing companies (incumbent companies) because if they enter-they can make the competition tougher through taking away market share from the existing companies.

ii. Bargaining Power of Suppliers

Suppliers play an important role in determining industry profitability. The suppliers have the capacity to control the cost/quality of the inputs. Labour is also an input and the supply or short supply of highly skilled labor has the power to bargain, affecting the profitability. The more dependent an organization is on its suppliers the greater is the difficulty it faces in shifting/ switching to another supplier. High switching costs may compel an organization to stick with a supplier to whom better alternatives may be available. A company has to procure various types of 'supplies' from the suppliers such as raw materials, components, parts and other materials necessary for producing a product.
When the dependency of the customers (buyer-firms) is high, the bargaining power of suppliers is enhanced. Powerful suppliers can raise the prices of materials. As a result, powerful suppliers are a threat to the companies that have to buy at that price. If suppliers are weak, the company may be in an advantageous position and can demand high quality at a lower price from the suppliers.

iii. Bargaining Power of Buyers

The buyers either enforce a better price or better quality depending on their competitive position. Buyers of products may be ultimate consumers or even the intermediaries such as dealers, wholesalers, and retailers. The buyer's bargaining power becomes high when suppliers have to depend on them for some reason. On the other hand, their bargaining power is weak when suppliers/sellers are capable to raise prices. Whether; buyer-seller relationships represent a weak or strong competitive force depends on whether buyers have sufficient bargaining power to influence the terms and conditions of sale in their favor, and the extent of seller-buyer strategic partnerships in the industry.

iv. The Threat of Substitute Products

Substitute products can play spoilsport for industry profitability. If the substitute product offers a substantive price or performance advantage the organization has to decide whether to take up the substitute at one go or gradually. A company needs to consider the competitive pressures from substitute products. The substitute products may come from either the same industry or from other industries.

v. Rivalry among the Existing Firms

In a given industry competitors try to out-manoeuvre each other and gain a higher market share. A higher market share is presumed to lead to higher profitability

A very important force in Porter's Model is the extent of rivalry among the established firms in the industry. In an environment of weak rivalry (competition), a firm can raise prices and make higher profits.

When competition is strong/the industry may face severe price-war in which firms compete against each other on the basis of price cuts.

If there is severe competition among the firms in the industry, profitability decreases substantially. Thompson and Stricklan regard this force of rivalry as the 'strongest of the five forces.' Inter-company rivalry or competition stems from several factors, as identified by Porter in his famous book Competitive Strategy.

Implication

Managers can use this model to systematically diagnose the principal competitive pressures in a market. With this model, they can assess the strength of each of the competitive forces. They can further understand how important each of these forces is.

The major reason behind the wide use of this technique is that it is easy to understand and apply in practice when managers analyze the competition.

Mangers find it comfortable to analyze the competitive pressures associated with each force in the model. They can clearly determine whether the pressures of the five competitive forces exert any strong or weak influence in the market place.

3. Analysis of Internal Environment

Analysis of the internal environment of an organization is an essential part of situation analysis. The situation of an organization whether business or any other type of organization is expressed in terms of its internal and external environmental factors. When an analysis is made of both the types of the internal and external environment, managers can have a clear idea of the overall situation of the organization.

External environmental factors reside outside of the organization and, therefore, depict the external situation. The internal environmental factors reside inside the organization and, therefore, portray the internal situation.

Internal environmental analysis (some prefer to call it simply ‘internal analyses) helps managers identify the internal strengths and weaknesses in respect of various internal environmental factors. An analysis is made of each factor in different areas of the organization. The two most popular models are a) resource based approach and b) value chain analysis

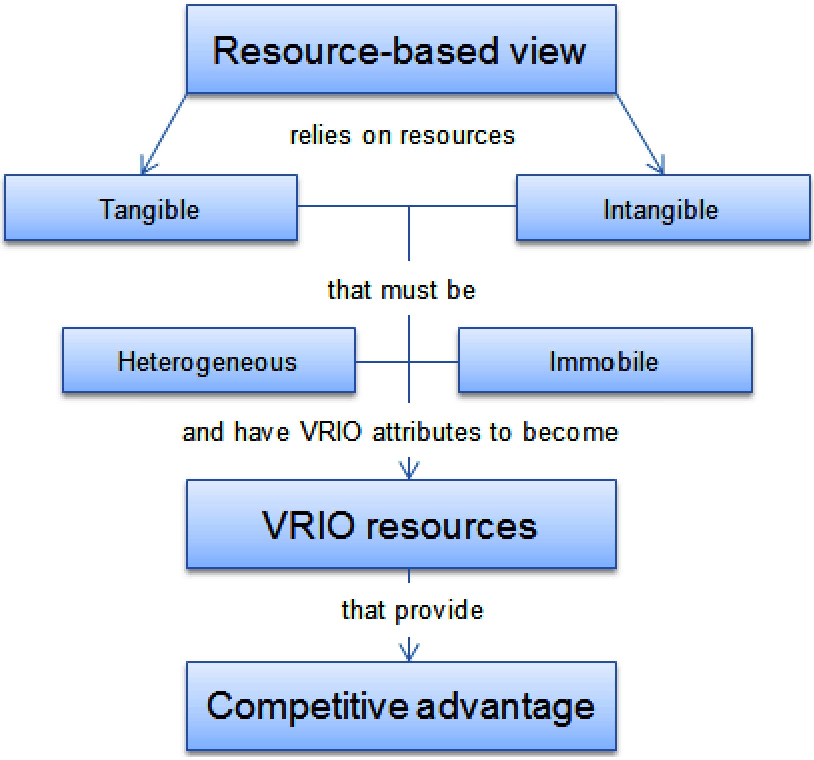
a) Resource Based Approach

The resource-based view (RBV) is a way of viewing the firm and in turn of approaching strategy. Fundamentally, this theory formulates the firm to be a bundle of resources. It is these resources and the way that they are combined, which make firms different from one another. It is considered as taking an inside-out approach while analysing the firm. This means that the starting point of the analysis is the internal environment of the organization.

Resources

Resources of the firm can include all assets, capabilities, organizational processes, firm attributes, information and knowledge. In short resources can be considered as inputs that facilitate the organization to perform its activities.

All resources that an organization has may not have strategic relevance. Only certain resources are capable of being an input to a value creating strategy which put the organization in a position of competitive advantage. An organization's resource should have four attributes to provide the potential for competitive advantage. These form the VRIN characteristics.



The VRIN characteristics

The important features for a resource to be strategically important are as below

- Valuable - When resources are able to bring value to the firm they can be a source of competitive advantage.
- Rare - Resources have to deliver a unique strategy to provide a competitive advantage to the firm as compared to the competing firms. Consider the case where a resource is valuable but it exists in the competitor firms as well. Such a resource is not rare to provide competitive advantage
- Inimitable - Resources can be sources of sustained competitive advantage if competing firms cannot obtain them. Consider the case where a resource is valuable and rare but the competing organizations can copy them easily. Such resources also cannot be sources of competitive advantage

- Non-substitutable - Resources should not be able to be replaced by any other strategically equivalent valuable resources. If two resources can be utilized separately to implement the same strategy then they are strategically equivalent. Such resources are substitutable and so are not sources of sustained competitive advantage.

The VRIN characteristics mentioned above are individually necessary for the resources to be valuable.

VRIO Framework

VRIO framework is the tool used to analyze firm's internal resources and capabilities to find out if they can be a source of sustained competitive advantage.

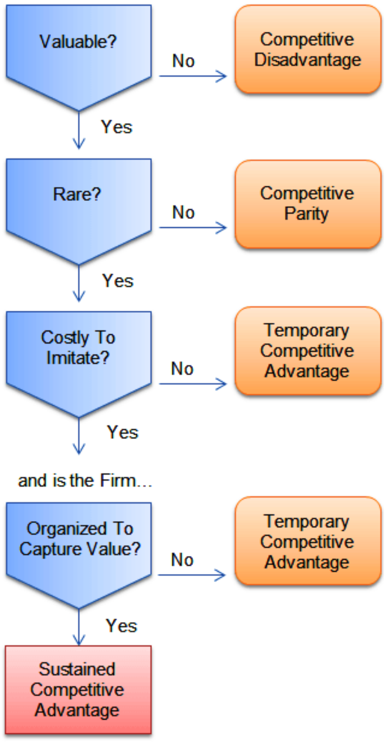
In order to understand the sources of competitive advantage firms are using many tools to analyze their external (Porter's 5 Forces, PEST analysis) and internal (Value Chain analysis, BCG Matrix) environments.

One of such tools that analyze firm's internal resources is VRIO analysis. The tool was originally developed by Barney, J. B. (1991) in his work 'Firm Resources and Sustained Competitive Advantage', where the author identified four attributes that firm's resources must possess in order to become a source of sustained competitive advantage. According to him, the resources must be valuable, rare, imperfectly imitable and non-substitutable. His original framework was called VRIN which has been discussed above.

In 1995, in his later work 'Looking Inside for Competitive Advantage' Barney has introduced VRIO framework, which was the improvement of VRIN model. VRIO analysis stands for four questions that ask if a resource is: valuable? rare? costly to imitate? And is a firm organized to capture the value of the resources? A resource or capability that meets all four requirements can bring sustained competitive advantage for the company.

Valuable

The first question of the framework asks if a resource adds value by enabling a firm to exploit opportunities or defend against threats. If the answer is yes, then a resource is considered valuable. Resources are also valuable if they help organizations to increase the perceived customer value. This is done by increasing differentiation or/and decreasing the price of the product. The resources that cannot meet this condition, lead to competitive disadvantage. It is important to continually review the value of the resources because constantly changing internal or external conditions can make them less valuable or useless at all.



Rare

Resources that can only be acquired by one or very few companies are considered rare. Rare and valuable resources grant temporary competitive advantage. On the other hand, the situation when more than few companies have the same resource or uses the capability in the similar way, leads to competitive parity. This is because firms can use identical resources to implement the same strategies and no organization can achieve superior performance.

Even though competitive parity is not the desired position, a firm should not neglect the resources that are valuable but common. Losing valuable resources and capabilities would hurt an organization because they are essential for staying in the market.

Costly to Imitate

A resource is costly to imitate if other organizations that doesn't have it can't imitate, buy or substitute it at a reasonable price. Imitation can occur in two ways: by directly imitating (duplicating) the resource or providing the comparable product/service (substituting).

A firm that has valuable, rare and costly to imitate resources can (but not necessarily will) achieve sustained competitive advantage. Barney has identified three reasons why resources can be hard to imitate:

- Historical conditions. Resources that were developed due to historical events or over a long period usually are costly to imitate.
- Causal ambiguity. Companies can't identify the particular resources that are the cause of competitive advantage.
- Social Complexity. The resources and capabilities that are based on company's culture or interpersonal relationships.

Organized to Capture Value

The resources itself do not confer any advantage for a company if it's not organized to capture the value from them. A firm must organize its management systems, processes, policies, organizational structure and culture to be able to fully realize the potential of its valuable, rare and costly to imitate resources and capabilities. Only then the companies can achieve sustained competitive advantage.

Steps in Using VIRO tool
Step 1. Identify valuable, rare and costly to imitate resources
Step 2. Find out if your company is organized to exploit these resources
Step 3. Protect the resources
Step 4. Constantly review VRIO resources and capabilities

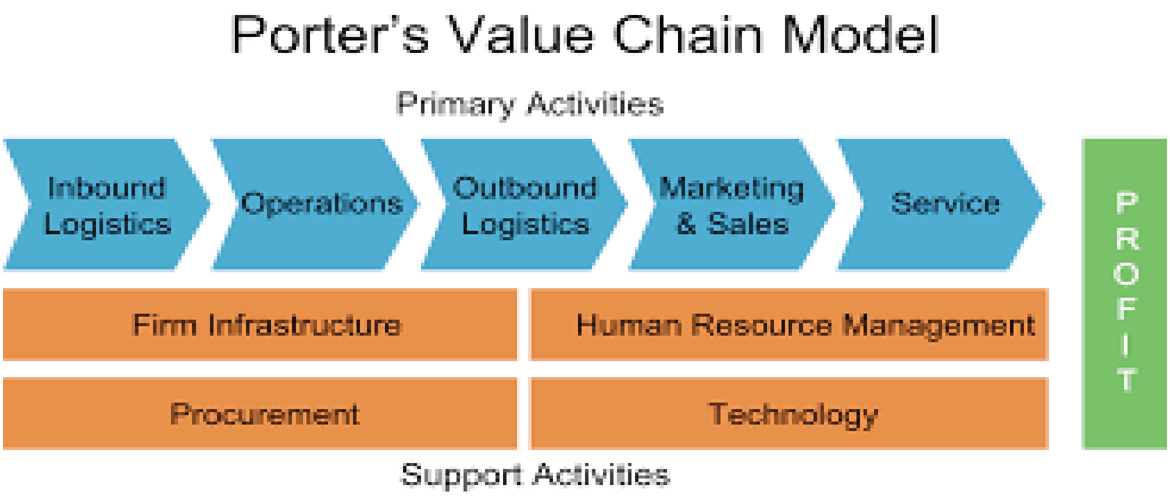
b) Value Chain Analysis

Value chain analysis (VCA) is a process where a firm identifies its primary and support activities that add value to its final product and then analyze these activities to reduce costs or increase differentiation. Value chain represents the internal activities a firm engages in when transforming inputs into outputs.

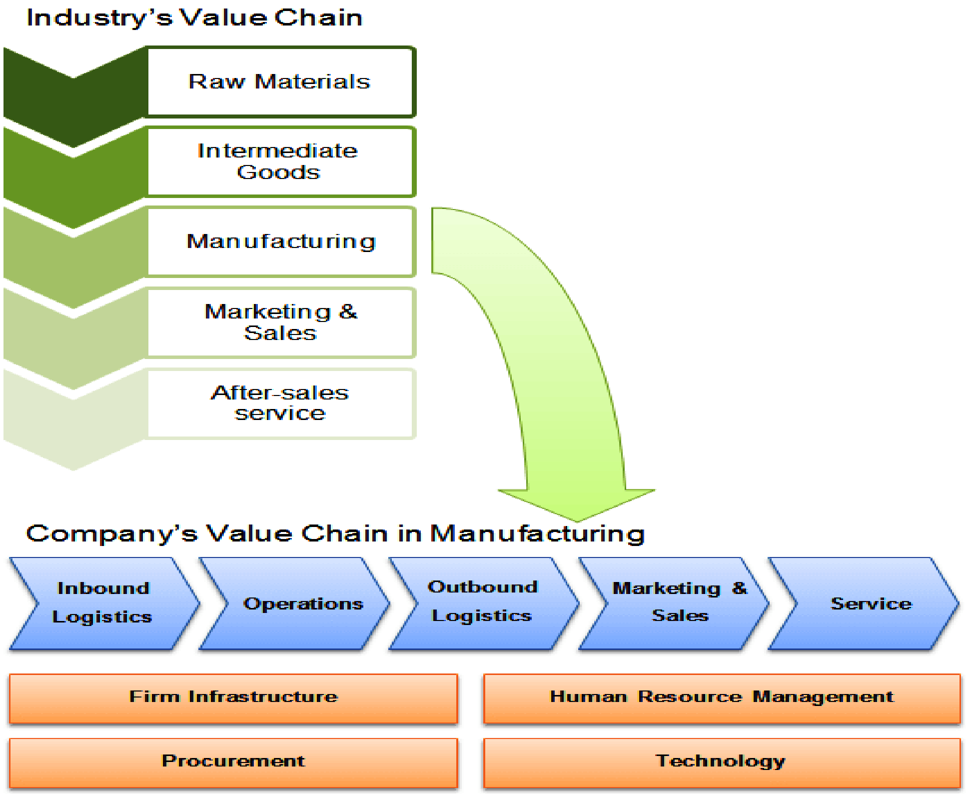
The Method

Value chain analysis is a strategy tool used to analyze internal firm activities. Its goal is to recognize, which activities are the most valuable (i.e. are the source of cost or differentiation advantage) to the firm and which ones could be improved to provide competitive advantage. In other words, by looking into internal activities, the analysis reveals where a firm's competitive advantages or disadvantages are. The firm that competes through differentiation advantage will try to perform its activities better than competitors would do. If it competes through cost advantage, it will try to perform internal activities at lower costs than competitors would do. When a company is capable of producing goods at lower costs than the market price or to provide superior products, it earns profits.

M. Porter introduced the generic value chain model in 1985. Value chain represents all the internal activities a firm engages in to produce goods and services. VC is formed of primary activities that add value to the final product directly and support activities that add value indirectly.



Although, primary activities add value directly to the production process, they are not necessarily more important than support activities. Nowadays, competitive advantage mainly derives from technological improvements or innovations in business models or processes. Therefore, such support activities as 'information systems', 'R&D' or 'general management' are usually the most important source of differentiation advantage. On the other hand, primary activities are usually the source of cost advantage, where costs can be easily identified for each activity and properly managed.



There are two different approaches on how to perform the analysis, which depend on what type of competitive advantage a company wants to create (cost or differentiation advantage). The table below lists all the steps needed to achieve cost or differentiation advantage using VCA.

Competitive advantage types	
Cost advantage	Differentiation advantage
This approach is used when organizations try to compete on costs and want to understand the sources of their cost advantage or disadvantage and what factors drive those costs.(good examples: Amazon.com, Wal-Mart, McDonald's, Ford, Toyota)	The firms that strive to create superior products or services use differentiation advantage approach. (good examples: Apple, Google, Samsung Electronics, Starbucks)
Step 1. Identify the firm's primary and support activities. Step 2. Establish the relative importance of each activity in the total cost of the product. Step 3. Identify cost drivers for each activity. Step 4. Identify links between activities. Step 5. Identify opportunities for reducing costs.	Step 1. Identify the customers' value-creating activities. Step 2. Evaluate the differentiation strategies for improving customer value. Step 3. Identify the best sustainable differentiation.

Module-3 Strategy Formulation – SWOT Analysis, Corporate Strategy – Growth, Stability, Retrenchment, Integration and Diversification, Business Portfolio Analysis - BCG, GE Business Model, Ansoff's Product Market Growth Matrix

1. Strategy Formulation

Strategy formulation is the process of offering proper direction to a firm. It seeks to set the long-term goals that help a firm exploit its strengths fully and exploit the opportunities that are present in the environment. There is a conscious and deliberate attempt to focus attention on what the firm can do better than its rivals. To achieve this, a firm seeks to find out what it can do best. Once the strengths are known, opportunities to be exploited are identified; a long-term plan is chalked out for concentrating resources and effort.

Since strategies consume time, energy and resources, they must be formulated carefully. Strategies, once formulated, must ensure a best fit between goals, resources and effort put in by people. The ultimate goal of every strategy that is being formulated should be to deliver outstanding value to customers at all times.

Henry Mintzberg, found that strategy formulation is typically not a regular, continuous process. *"It is small often an irregular, discontinuous process, proceeding in fits and starts. There are periods of stability in strategy development, but also there are periods of flux, of grouping of piecemeal changes and of global change."*

Mintzberg has pointed out that a corporation's objectives and strategies are strongly affected by top management's view of the world. This view determines the mode to be used in strategy formulation. These modes include:

1. Entrepreneurial Mode:

Strategy is formulated by one powerful individual. The focus is on opportunities rather than on problems. Strategy is guided by the founder's own visions of direction.

2. Adaptive Mode:

This strategy formulation mode is characterised by reactive solutions to existing problems rather than a proactive search for new opportunities.

3. Planning Mode:

Analysts assume main responsibility for strategy formulation. Strategic planning includes both the proactive search for new opportunities and the reactive solution of existing problems.

Strategic planning is a systemic and disciplined exercise to formulate strategies. It relates to the enterprise as a whole or to particular business units (identified as strategic business units – SBUs) of a defictionalized organisation. It consists of making risk- taking decisions - entrepreneurial decisions – for the future with the best possible knowledge of their probable outcome and effects.

2. Strategy Formulation Tools

A number of methods and tolls have been developed to formulate strategies in organization. We may identify certain important tools for the discussion:

Swot analysis
Corporate Strategy – Growth, Stability, Retrenchment, Integration and Diversification
Business Portfolio Analysis - BCG, GE Business Model, Ansoff's Product Market Growth Matrix

3. SWOT Analysis

Swot analysis involves the collection and portrayal of information about internal and external factors which have, or may have, an impact on business. SWOT is a framework that allows managers to synthesize insights obtained from an internal analysis of the company's strengths and weaknesses with those from an analysis of external opportunities and threats.

SWOT Analysis is a tool used for situation (business or personal) analysis! SWOT is an acronym which stands for:

Strengths: Factors that give an edge for the company over its competitors.

Weaknesses: Factors that can be harmful if used against the firm by its competitors.

Opportunities: Favourable situations which can bring a competitive advantage.

Threats: Unfavourable situations which can negatively affect the business.

Strengths and weaknesses are internal to the company and can be directly managed by it, while the opportunities and threats are external and the company can only anticipate and react to them. Often, SWOT is presented in a form of a matrix as in the illustration below:

Internal	Strengths	Weakness
External	Opportunities	Threats

SWOT is widely accepted tool due to its simplicity and value of focusing on the key issues which affect the firm. The aim of SWOT is to identify the strengths and weaknesses that is relevant in meeting opportunities and threats in particular situation.

Performing the Analysis

Step 1: Listing the firm's key strengths and weaknesses

Step 2: Identifying opportunities and threats

Strengths and Weaknesses

Strengths and weaknesses are the factors of the firm's internal environment. Some strengths or weaknesses can be recognized instantly without deeper studying of the organization. But usually the process is harder and managers have to look into the firm's:

- Resources: land, equipment, knowledge, brand equity, intellectual property, etc.
- Core competencies
- Capabilities
- Functional areas: management, operations, marketing, finances, human resources and R&D
- Organizational culture
- Value chain activities

Often, company's internal factors are seen as both, strengths and weaknesses, at the same time. It is also hard to tell if a characteristic is strength (weakness) or not. For example, firm's organizational structure can be strength, or a weakness or neither. In such cases, we may explore

Clear definition: Very often factors which are described too broadly may fit both strengths and weaknesses. For example, "brand image" might be a weakness if the company has poor brand image. However, it can also be a strength if the company has the most valuable brand in the market, valued at $100 billion. Therefore, it is easier to identify if a factor is a strength or a weakness when it's defined precisely.

Benchmarking: The key emphasizes in doing SWOT is to identify the factors that are the strengths or weaknesses in comparison to the competitors.

VRIO framework: A resource can be seen as a strength if it exhibits VRIO (valuable, rare and cannot be imitated) framework characteristics. Otherwise, it doesn't provide any strategic advantage for the company.

Opportunities and threats:

Opportunities and threats are the external uncontrollable factors that usually appear or arise due to the changes in the macro environment, industry or competitors' actions. Opportunities represent the external situations that bring a competitive advantage if seized upon. Threats may damage your company so you would better avoid or defend against them.

PESTEL: PEST or PESTEL analysis represents all the major external forces (political, economic, social, technological, environmental and legal) affecting the company so it's the best place to look for the existing or new opportunities and threats.

Competition: Competitor's react to your moves and external changes. They also change their existing strategies or introduce new ones. Therefore, the company must always follow the actions of its competitors as new opportunities and threats may open at any time.

Market changes: The most visible opportunities and threats appear during the market changes. Markets converge, starting to satisfy other market segment needs with the same product. New geographical markets open up allowing the firm to increase its export volumes or start operations in a new country. Often niche markets become profitable due to technological changes. As a result, changes in the market create new opportunities and threats that must be seized upon or dealt with if the company wants to gain and sustain competitive advantage.

Opportunity or threat

Most external changes can represent both opportunities and threats. For example, exchange rates may increase or reduce the profits gained from exports. This depends on the exchange rate, which may raise (opportunity) or fall (threat) against the home country currency. The organization can only guess the outcome of the change and count on analysts' forecasts. In such cases, when organization cannot identify if the external factor will affect it positively or negatively, it should gather unbiased and reliable information from the external sources and make the best possible judgement.

Benefits

Swot tool has 5 key benefits:

1. Simple to do and practical to use;
2. Clear to understand;
3. Focuses on the key internal and external factors affecting the company;
4. Helps to identify future goals;
5. Initiates further analysis.

Limitations

Although there are clear benefits of doing the analysis, many managers and academics heavily criticize or don't even recognize it as a serious tool.[2] According to many, it is a 'low-grade' analysis. Here are the main flaws identified by a research:[2][5]

1. Excessive lists of strengths, weaknesses, opportunities and threats;
2. No prioritization of factors;
3. Factors are described too broadly;
4. Factors are often opinions not facts;
5. No recognized method to distinguish between strengths and weaknesses, opportunities and threats.

4. Corporate Strategy

Corporate strategy is about strategic decisions about determining overall scope and direction of a corporation and the way in which its various business units work together to attain particular goals.

Corporate-level strategy is an action taken to gain a competitive advantage through the selection and management of combination of businesses competing in several industries or product markets.

Corporate strategies are normally expected to help the firm earn above- average profits and create value for the shareholders. Corporate strategy addresses the issues of a multi-business firm as a whole.

The corporate level generic strategies pertain to identify the businesses the company shall be engaged in. They determine the direction that firm takes in order to achieve its objectives. There could be a small single business firm or a large, complex and diversified firm with several different businesses.

In both the cases the corporate strategy concerns the basic direction of the firm as a whole. For a small firm it could identify the courses of action yielding better profit to the firm. In the case of the large firm the corporate strategy means managing the various businesses to maximize their contribution to the achievement of overall corporate objectives.

Abell has defined a business along the three dimensions of customer group, customer functions and alternative technologies. Strategic alternatives revolve around the question of whether to continue or change the business the enterprise is currently in or improve the efficiency and effectiveness with which the firm achieves its corporate objectives in its chosen business sector.

Five types of corporate strategy may be identified. These are, a) Growth, b) Stability, c) Retrenchment, d) Integration and e) Diversification

a) Growth Strategy

Growth is one of the most discussed and lauded strategic options. It is equated with managerial success and achievement. An organization may grow by expansion (when it concentrates within a broad allied product market scope). Technology plays an important underlying role in growth in today's context.

It enables companies to design, develop and manufacture better products. Communication technology also enables the organization to meet un-served needs in unreached markets. Alternatively, an organization may grow beyond its product market scope. The organization can move into new markets, offer products that are totally different from its present ones, based on new technology and manufacturing (the organization explores a totally new line of business).

It can even tap overseas markets for the same new or differentiated products (diversification). A company may adopt a growth strategy when it wants to expand its market and thereby improve profitability. Usually, this strategy is undertaken when a company has enough resources to expand the business and is capable to manage the new risks involved with expansion.

Growth or expansion may happen by concentrating resources on few things that the organisa-tion can do better than rivals. Expansion through concentration can be undertaken through three strategies, namely i) market penetration, ii) market development and iii) product development.

i) Market Penetration:

It is the strategy of a firm that directs its resources to the profitable growth of a single product, in a single market with a single dominant technology. The firm tries to thoroughly exploit its expertise in a delimited competitive arena and increase the sale of its existing products in the existing markets by:

i. Increasing sales to current customers (buy toothpaste and take tooth-brush free offers).

ii. Separating customers from competitors' products.

iii. Convert non-users into users.

ii) Market Development:

It consists of marketing existing products in new markets. The firm tries to achieve growth by finding new uses for the existing products and tap new customers on that basis (within the country or outside the country). The firm can add new channels of distribution to expand the customer reach of the product.

It can also enter new market segments by com-ing out with slightly different products for each price segment, undertaking cosmetic changes in colour, taste, packaging etc. (Hindustan lever's offerings in toilet soap, detergent powder segments). Changes in media selection, pro-motional appeals, and distribution could also serve the same purpose.

iii) Product Development:

This strategy tries to achieve growth through new products in existing markets. The new products in this case are not essentially new products, but improved versions of an existing product or substitutes serving the same need catering to the same market as at present.

b) Stability Strategy

A stability strategy involves maintaining the status quo or growing in a methodi-cal, but slow, manner. The firm follows a safety-oriented, status-quo-type strategy without effecting any major changes in its present operations.

The resources are put on existing operations to achieve moderate, incremental growth. As such, the primary focus is on current products, markets and functions, maintaining the same level of effort as at present. Organisations might follow a stability strategy for a variety of reasons.

Under the Stability strategy, a company where stops the expenditure on expansion, do not introduce new products or venture into new markets rather decides to focus of the current portfolio and market share.

It chooses not to be aggressive in its search and movement towards new markets or the development of new products. There is an incremental improvement in functional performance. While pursuing stability, organizations need to draw up a plan to get moving either by investments in research and development or by divesting non-performing areas to free capital for new promising areas. Stability seems “a not-much-action-going-on” phase but the organization in its functional areas is trying furtively to do something new. The general situations where stability strategy may be formulated are as follows:

i. Post-merger

Post-merger; when an organization has to settle the congruity issues between the different entities coming together. The organization devotes more time to ensure a smooth transition to the new entity before making substantive changes in the business.

ii. Prolonged duration of rapid growth

After a prolonged duration of rapid growth, consolidate the results and resources and take time to initiate any strategic shift. Firms expecting major environmental changes prefer to wait and consciously postpone any strategic move until a clear picture emerges.

iii. In family-dominated organizations

In family-dominated organizations under predictable market conditions, stability strategy is followed for fear of loss of financial control if external funds had to be sought for further growth and expansion of the business.

iv. Organizations serving niche markets

When organizations service niche markets (for example, patisseries or cafes in metro stations) once they attain a level of business, they maintain that level either because there is no further growth or because the owner doesn’t have the will or resources to expand.

v. Recession conditions

Investments may not get the due returns so the organization strengthens its key areas in this forced slow down.

In general companies may choose three types of stability strategies:

a. Do Nothing Strategy

This is a stage when the organization finds itself in placid waters. There is no appreciable change in its industry environment and there is no area in which the organization would venture of its own so it does what it has been doing without any significant change. The organization is reactive and this strategy serves a niche small business.

b. Profit Strategy

Organizations facing threats and reducing margins opt for this strategy by curtailing discretionary expenditure and investment. This is a short-term strategy as in the long-term curtailing investments also erodes the organization's competitiveness. It is a strategy to be followed only to give management a breather, not as a smokescreen to hide passivity or wrong decisions.

c. Pause Strategy

Organizations that grow rapidly in fast -growing markets need to assess their operations, pause and invest in developing resources commensurate with growth to grow further.

c) Retrenchment Strategy

Retrenchment strategy is a corporate level, defensive strategy followed by a firm when its performance is disappointing or when its survival is at stake for a variety of reasons. Economic recessions, production inefficiencies, and innovative break-throughs by competitors are only three causes.

Managers choose retrenchment when they think that the firm is neither competitive enough to succeed through a counter attack (on market forces affecting its sales negatively) nor nimble enough (effecting fast changes) to be a fast follower. There may be three types of retrenchment strategies:

i. Divestment Strategy (Also Called Divestiture or Spin-Off):

It involves the sale of those units or parts of a business that no longer contribute to or fit the firm's distinctive competence. The firm simply gets out of certain businesses and sells off units or divisions for various reasons. Divestment may take one of three forms:

(a) Outright sale to another company,

(b) Leveraged Buy-Out (LBO), and

(c) Spin-off. A leveraged buyout occurs when a company's share-holders are bought out (hence buy-out) by the company's management and other private investors using borrowed funds (hence leveraged). In the last case, the parent company creates a new company, and then distributes its shares to shareholders of the parent.

ii. Turnaround Strategy:

A turnaround is designed to reverse a negative trend and bring the organisation back to normal health and profitability. The basic purpose of a turnaround is to transform the corporation into a leaner and more efficient firm.

It usually involves getting rid of unprofitable products, trimming the workforce, pruning distribution outlets, and finding other useful ways of making the organisation more efficient.

If the turnaround is successful, the organisation may then focus on growth strategy. Firms often lose their grip over markets due to various internal and external factors. If they have to survive and flourish in a competitive environment, they have to identify the danger signals quite early and undertake rectification steps immediately. Such negative trends are not difficult to trace.

iii. Liquidation Strategy:

This is a strategy to be followed as 'last resort'. When neither a turnaround nor a divestment seems feasible, liquidation is used. Liquidation involves selling or disposing of all or part of an organisation's assets, Liquidation is generally followed when-

(i) The future of a unit looks bleak in terms of sales, profitability etc.

(ii) The unit has unmanageable ac-cumulated losses;

(iii) Some other firm is willing to buy the unit, to avail tax benefits;

(iv) It is not possible to revive the unit with the existing resources.

d) Integration Strategy

Integration refers to combining activities related to the present activities of a firm, on the basis of the value chain. Recall that a value chain is a set of interrelated activities an organization performs right from the procurement of basic raw materials to the marketing of finished products to the ultimate consumers. Integration as a strategy results in a widening of the scope of the business definition of a firm.

Integration for a business organisation may happen in two ways:

i. Vertical Integration

Vertical integration allows the firm to enlarge its scope of operations within the same overall industry. It takes place when one firm acquires another that is involved either in an earlier stage of the production process (backward or upstream) or a later stage of the production process (forward or downstream). It gives a firm control over successive stages of the product's processing, marketing and retailing. It strengthens a firm's market position and internal capabilities, thereby helping it show superior performance. There are two types of vertical integration:

a. Backward vertical integration occurs when the companies acquired supply the firm with products, components or raw materials. The main reason for backward integration is to gain a firm grip over supply and quality of raw materials.

b. Forward integration, on the other hand, helps a firm gain control over sales and prices of its existing products. However, increased risks are inherently present in both types of integration. It is not easy to share the additional burden and diverse responsibilities thrust upon man-agers in the changed scenario.

ii. Horizontal Integration

It refers to a situation where a firm merge or acquires another firm serving same customers, with the same or similar products and adopting the same marketing process. Horizontal integration is generally pur-sued to increase revenues and gain market share quickly in the same industry segment-for example a shoe manufacturer buying another shoe company with a view to gain market dominance and thereby reduce the level of competition. Horizontal integration takes place generally in all such instances where the product is a commodity and pricing power is very important for competitive success.

e) Diversification Strategy

Generally, diversification means expansion of business either through operating in multiple industries simultaneously (product diversification) or entering into multiple geographic markets (geographic market diversification) or starting a new business in the same industry.

At the business-unit level, diversification occurs when a business unit expands into a new segment of the present industry in which the company is -already doing business.

At the corporate-level, diversification occurs when the diversified company enters into business outside the scope of the existing business units. Diversification is sought to increase profitability through greater sales volume.

i. Levels of Diversification

Some management experts have tried to show that diversified firms vary according to their levels of diversification. According to them, three levels of diversification exist:

- Low Levels of Diversification.
- Moderate to High Levels of Diversification.
- Moderate to High Levels of Diversification.

Low Levels of Diversification

This level of diversification is seen in a company that operates its activities mainly on a single or dominant business. The company is in a single business if its revenue is greater than 95 percent of the total sales. However, the firms that generate their income from single products cannot be called diversified firms in the true sense of the term.

Moderate to High Levels of Diversification

In this level, two types of diversification are evident – 'related constrained' and 'related linked', in the case of related constrained diversification, less than 70 percent of revenue comes from the dominant business and ail SBUs/divisions share product, technology, and distribution channels.

If the firm has related linked diversification, less than 70 percent of revenues come from the dominant business but there are only limited links between and among the SBUs. Procter and Gamble is an example of a related constrained firm, while Johnson and Johnson is an example of a related linked firm.

Very High Level of Diversification

This level applies to companies that have unrelated diversification. It earns less than 70 percent of its revenues from the dominant business but there are no common links between the SBUs.

ii. Diversification pathways

Diversification is an investment-intensive option and an organization can diversify through different pathways. The different pathways have different levels of risk and resource requirements. The organization has to decide which pathway to take and whether to go it alone or seek some kind of partnership options (licensing, joint ventures, and strategic alliances).

Table below explains; higher the relatedness in domain of products, customer segments, technology, transference of management skills in diversification, lower is the risk from diversification, (this does not preclude the risk of the wrong strategic choice) and lower the relatedness, the higher is the risk from diversification (this does not take in to account the depth of the managerial skills that can steer diversification.). There are four broad routes to diversification concentric, horizontal, vertical and conglomerate. The salient features of each of these are discussed below:

Features	Examples
Horizontal diversification The organization takes over those organizations which manufacture the same/ similar product or marketing functions. Increase in size expected to infuse economies of scale and scope. An expected increase in market share.	Entertainment industry. Film production houses also distribute movies through DTH networks. Walt Disney (movies and distribution)
Vertical Diversification The organization takes overproduction of raw material, (backward) intermediary or key process (forward) to realize cost advantage. Lower costs lead to lower prices which leads to higher market share.	Cement, steel and textile companies are vertically diversified. In India, cement manufacturers have captive power generation plants. Excess power is sold to either state-run utilities or other industries.

Reduces flexibility. Extensive barriers that may limit to one industry are created.	Soap/detergent manufacturer setting up linear alkylbenzene (LAB a key ingredient for soaps) plant for supply-side advantage.
Concentric diversification Diversification into broadly related areas (product-market/ technology). The market is regarded as a domain of related but heterogeneous needs that an organization can meet with heterogeneous but allied offerings.	Pharmaceutical companies' product range includes Prescription drugs, nonprescription drugs, drug delivery systems, eye, and skincare products. There is s difference between the products and technology but a broad marketing scope enables to leverage of brand value.
Conglomerate diversification Diversification in totally unrelated areas. New areas may present better growth options, entry barriers may be low as must be the investment required. Resource/ capabilities are spread across. Organizations can diversify globally also.	Rolls Royce (cars, engines), General Electric, Samsung Electronics, Tata.

iii. Tools of Diversification

This is the second option that an organization has to decide on, whether to go it alone and set up a greenfield project or develop a diversified entity through mergers, acquisitions/alliances or joint ventures. Most of these options are similar in the sense they are based on the principle of creating collaboration for the growth of two different entities. The differences among them are more of a degree than direction. The subtle differences between joint venture alliances and between mergers and takeovers are more for conferring the legal status on the entity as well as the transfer of funds and resources.

iv. Diversification Approaches

A company needs to choose a path or approach to diversify its business. It may choose either related diversification approach or unrelated diversification approach or a combination of both, depending on circumstances.

The principal difference between the two is that related diversification emphasizes some commonality in markets, products, and technology, whereas unrelated diversification is based mainly on profit considerations. The strategists must consider the realities of the situations for selecting the right approach for diversification.

Related Diversification Approach

Related diversification involves diversifying into a business activity that is related to the core (original) business of the company. The new business is operated in the same industry. Both the new business and the core business have some commonalities in their value chain activities such as production, marketing, etc. Companies usually implement related diversification strategies to build a competitive advantage and achieve economies of scope.

The Ways for Related Diversification

An analysis of the practices of various diversified companies reveals that they seek related diversification in either of the two ways or a combination of the two.

These ways are (a) related- constrained, and (b) related-linked. When the business-units of a company share the inputs, production technologies, distribution channels, etc. among themselves, the diversification, is known as related-constrained.

Unrelated Diversification Approach

Unrelated diversification is also known as 'conglomerate diversification' or 'lateral diversification.' An unrelated diversified company is known as a conglomerate. Unrelated diversification involves entering into new businesses that are not related to the core business of the company.

An unrelated diversified company has more than one businesses which are operating their activities in different industries. As Hill and Jones remarked, "Unrelated diversification is diversification into a new business area that has no obvious connection with any of the company's existing areas." The value chains of the businesses are dissimilar.

5. Business Portfolio Analysis

The business portfolio is the collection of businesses and products that make up the company. The best business portfolio is one that fits the company's strengths and helps exploit the most attractive opportunities. The company must:

1. Analyze its current business portfolio and decide which businesses should receive more or less investment, and

2. Develop growth strategies for adding new products and businesses to the portfolio, whilst at the same time deciding when products and businesses should no longer be retained.

There exist a number of methods to formulate strategies for business portfolio of an organization. The most prominent among these are:

a) BCG matrix, b) GE Business Model, c) Ansoff's Product Market Growth Matrix. We may continue to discuss the models.

a) The Boston Consulting Group Box ("BCG Box"):

The BCG matrix is a chart that had been created by Bruce Henderson for Boston Consulting Group in 1970 to help corporations to analyze their business units or product lines. In general, for large companies, there is always a problem of allocating resources amongst its business units in some logical/rational ways. To overcome such problems, Boston Consulting Group (BCG) has developed a model, which has been termed as BCG matrix.

BCG matrix is also called as 'Growth-share matrix', is based on two variables, viz., the rate of growth of the product-market and the market share in that market held by the firm relative to its competitors. This model aims at systematically identifying the main underlying strategic characteristics of specific business segments. This model is developed to analyze the problem of resource deployment among the business units or products of multi-business firms. BCG matrix is based on empirical research, which analyzes products and business by market share and market growth.

The Boston Consulting Group (BCG) has pursued and refined the concept of the experience curve to the point where this essentially production phenomenon has strong implications for marketing strategy. BCG matrix is considered to be an effective tool for strategy formulation. GSM matrix is said to be capable of assigning broad product-market strategies to products on the basis of the market growth rate and its market share relative to competitor's product.

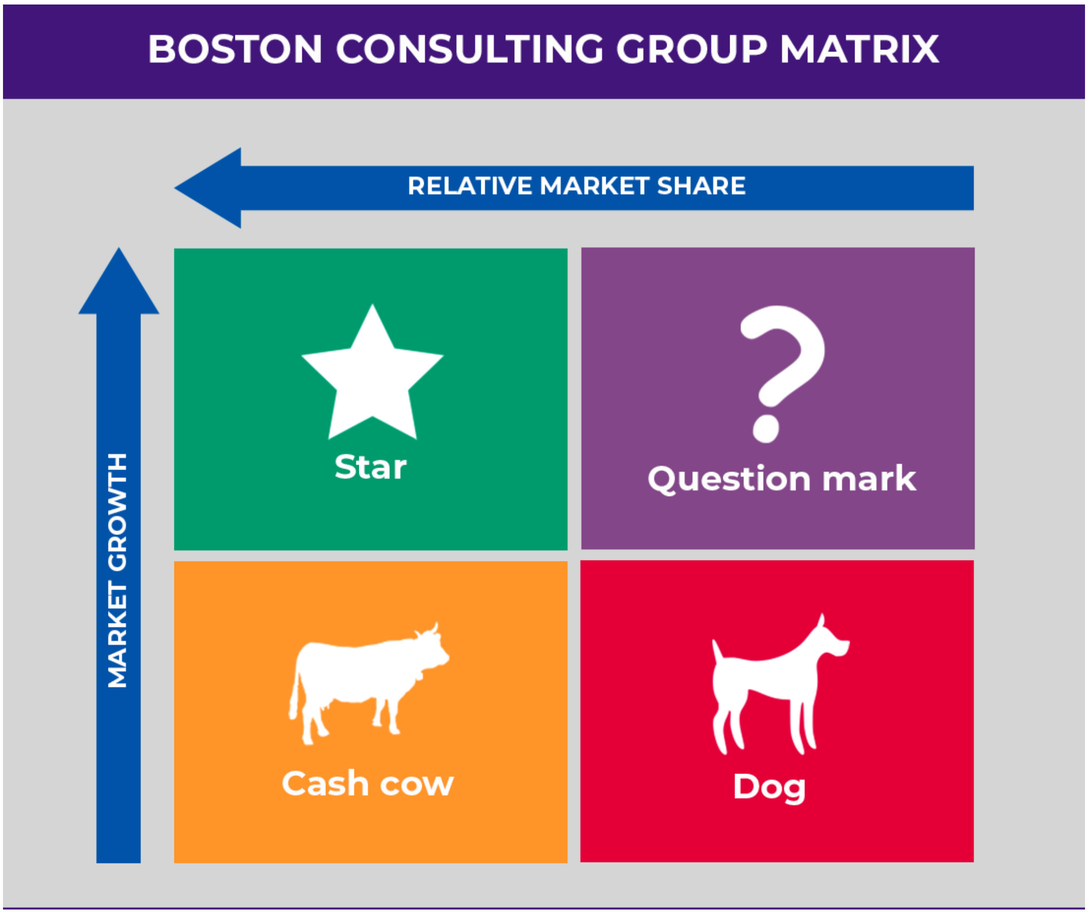
BCG matrix analysis helps the company to allocate resources and is used as an analytical tool in brand marketing, product management, strategic management and portfolio analysis. BCG matrix provides a scheme for classifying a company's business according to their strategic needs specially cash or finance requirements.

By relating cash flow to market share and market growth, it could then determine those products that represent opportunities for investment, those that should generate investment funds, and those that drain funds and which should be liquidated or divested.

The underlying principle of BCG matrix is the net free cash flow of a company must be kept positive for a company's growth to be financed through internal funds and its debt capacity. Company's sustainable growth rate is then determined by the relative cash positions of its portfolio of business. There is a need to strike a balance between cash-generating business and cash-using business if growth is to be funded by the company.

BCG matrix is developed on the basis of two factors: (a) Relative market share, and (b) Business growth rate.

These two factors are used to plot all the business (products) in which the firm is involved. The vertical axis measure the annual growth rate of the market and the horizontal axis shows the relative market share of the firm. Each of these dimensions is divided into two categories of high and low, making up a matrix of four cells; and the products are graphed as Stars, Question Marks, Cash Cows and Dogs in these four cells.



Stars: High Growth-High Market Share

Star represents those products, which have successfully passed the introduction stage and are on the path of growth. They are self-sufficient for cash requirements i.e. cash generated is almost equal to cash used. Stars are the products that are rapidly growing with large market share. They earn high profits but they require substantial investment to maintain their dominant position in a growing market.

Stars are usually profitable and would be the future cash cows. Since the stars are growing rapidly and have the advantage of already having achieved a high share of the market, they provide the firms best profit and growth opportunities. Successful resource deployment beyond cash requirements could lead to a superior market share when industry growth potential falls off.

Resources should be allocated to these units to grow faster than the competition in sales and profits. Stars are leaders in the business and generate large amounts of cash. The stars will entail huge cash outflows to maintain the market share and to ward off competition. The firm will start feeling the experience curve effect.

Cash Cows: Low Growth-High Market Share

A cash cow produces a lot of cash for the company. The company does not have to finance for capacity expansion as the market's growth rate has slowed down. Since, a cash cow is a market leader; it enjoys economies of scale and higher profit margins. When a market's annual growth rate falls, a star becomes a cash cow if it still has the largest relative market share.

The important strategic feature of cash cows is that they are generating high cash returns, which can be used to finance the stars or for use elsewhere in the business. Cash cows have a strong market position in the industry that have matured. In comparison with the position of the star performer, cash cows can expect little serious competition because of their relatively low expected industry growth rate.

Competitors will not expect to launch any offensive competitive strategy program in the absence of significant industry potential. Cash cows are units with high market share in a slow-growing industry. Cash cows are ideal for providing the funds needed to pay dividends and debts, recover overheads and supply of funds for investment in other growth areas. Cash cows are established, successful and need less investment to maintain their market share.

The cash cows are in the declining stage of their life cycle, the surplus cash generated by them will be invested in new question marks. Cash cows are more valuable in a portfolio because they can be 'milked' to provide cash for other riskier and struggling businesses. The strategy employed in respect of cash cows without having long-term prospects is to harvest i.e. to increase short-term cash flow without considering the long-term effects.

Question Marks: High Growth-Low Market Share

The question mark is also called as 'problem child' or 'wildcat'. Question marks are the products/businesses whose relative market share is low but have high growth potential. The area question mark identifies those products which are at introduction stage in the market and the cash generated is less than cash used for these products.

Their competitive position is weak but they work for long-term profit and growth. These products require additional funds to improve their market share so that the question mark becomes a star. This strategy may even necessitate foregoing short-term profits. If the firm is unsuccessful in uplifting a question mark to a position star, divestment strategy can be appropriate.

If no improvement is made in market share, question marks will absorb large amount of cash and later, as the growth stops, turn into dogs. If the question mark business becomes successful, it becomes a star. A question mark denotes a new entrant into the market and growth prospects will be tremendous but will have a very low market share and its success or failure cannot be judged easily.

Share Dogs: Low Growth-Low Market

Dogs describe company business that has weak market shares in low-growth markets. Products with low market share and limited growth potential are referred to as dogs. The prospects for such products are bleak. It is better to faze them out rather than continue with them. Dogs should be allowed to die or should be killed off. Although they will show only a modest net cash outflow or even a modest cash inflow, they are cash traps.

They provide a poor return on investment and not enough to achieve the organization's target rate of return. These units are typically 'break-even, generating barely enough cash to maintain the market share. Though owning a break-even unit provides the social benefit of providing jobs and possible synergies that assist other business units, from financial point of view such a unit is worthless, not generating cash for the company.

They depress the company's overall 'return on assets ratio', used by the investors, financial institutions and banks in judging how well the company is being managed. Since Dogs hold little promise for the future and may not even pay their own way, they are prime candidates for divestiture. The only way for dog is to increase its rate of sales growth by taking sales away from competitors.

Strategic Alternatives in BCG:

For a Strategic Business Unit (SBU), there are four strategic alternatives are suggested:

(a) Build – To increase the SBU's market share, even foregoing short-term earnings to achieve this.

(b) Hold – To preserve the SBU's market share.

(c) Harvest – To increase the SBU's short-term cash flow regardless of the long-term effect.

(d) Divest – To sell or liquidate the business because resources can be better used elsewhere.

The BCG matrix cannot be used in isolation. It is a rough model, and the originators of the matrix modified it over time to include, for example, the concept of a 'cash dog' which has a low share of a low growth market but still earns a nice profit. The BCG matrix is not a tool for increasing profits. It is an analytical model suggesting guidelines for cross subsidization. BCG matrix does not talk about profits at all; it is useful in increasing cash flow situation.

The application BCG matrix to strategic decision making is in the manner of the diagnostic rather than a prescriptive aid. BCG model evaluates a firm's products, business and/or profit centers as separate entities. Decisions are made for each entity pertaining to its market share and existing or potential growth rate of the industry.

Other Classification of SBUs:

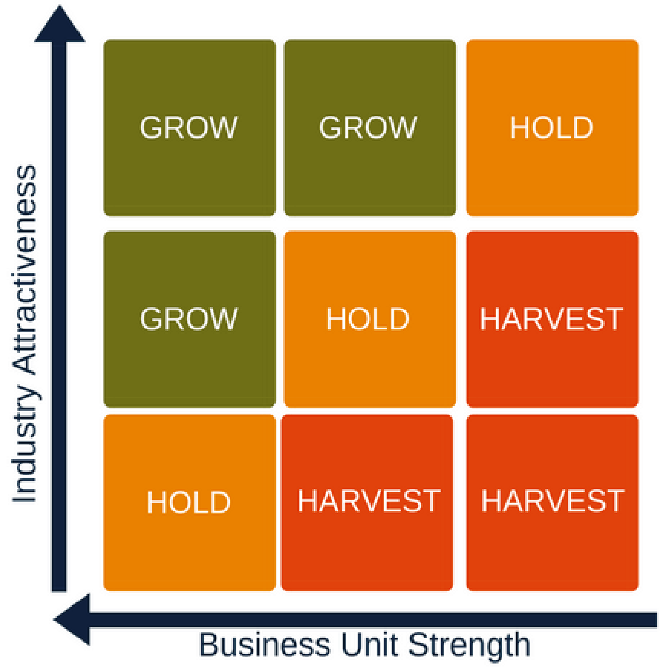
Infants – Products in an early stage of development.

Warhorse – Products that have been cash cows in the past and still making acceptable sales and profits even now.

Dodos – Products with low share, negative growth and negative cash flow.

b) GE Multifactor Portfolio Matrix:

This matrix is also called as 'GEs Stoplight Matrix' or 'GE Nine-cell Matrix' or 'Industry Attractiveness – Business Strength Matrix or-'GE Business Screen Matrix' or 'General Electric-Mckinsey Portfolio Matrix' or 'Business Planning Matrix'. This matrix was developed in 1970s by General Electric Company of US with the assistance of the Mckinsey consulting firm. This matrix helps in guiding resource allocation. This analysis is on the basis of two factors viz., business strength and industry attractiveness. This is developed in 3 x 3 grid.



The vertical axis indicates industry attractiveness and the horizontal axis shown the business strength in the industry. The factors that affect market attractiveness are called 'drivers'.

The factors affecting the industry attractiveness and the business unit strength may be listed as follows:

Industry Attractiveness	Business Unit Strength
i. Size of market	i. Market share
ii. Market growth rate	ii. Market share growth rate
iii. Industry profitability	iii. Profit margin
iv. Competitive intensity	iv. Distribution efficiency
v. Economies of scale	v. Brand image
vi. Technological requirements	vi. Ability to compete on price and quality
vii. Pricing trends	vii. Knowledge of customer
viii. Overall risk of returns in the industry	viii. Customer loyalty
ix. Opportunity for differentiation of products and services	ix. Production capacity
x. Demand variability	x. Access to financial resources
xi. Segmentation	xi. Technological capability
xii. Distribution structure	xii. Management caliber

The strategic planning approach in this model is based on analogy of traffic lights at street crossing:

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

If the product falls in the Green (Go) section i.e. if the business position is strong and industry is at least medium in attractiveness, the strategic decision should be to expand, to invest and grow.

If the business strength is low but industry attractiveness is high, the product is in the Amber/Yellow zone. It needs caution.

A product is Red (Stop) zone indicates that the business strength is low and so is industry attractiveness.

The appropriate strategy in this case should be retrenchment, divestment or liquidation.

The SBUs in the 'Green' section maybe said to belong to the category of stars' or 'cash cows' in BCG matrix.

Those are in 'Red' zones are like 'dogs' and those in the Yellow or Amber zone are like 'question marks'. Each factor is assigned as a weight which is appropriate to industry or company.

The following steps are taken to plot SBUs on the GE/Mckinsey portfolio matrix:

Step 1 – Specify the typical factors that determine the industry attractiveness. For each product line or SBU, overall industry attractiveness is assessed and rated in a 5-point scale ranging from 5 (very attractive) to 1 (very unattractive).

Step 2 – The typical factors that characterize business strength of each product line or SBU are assessed and measured on a 5-point scale ranging from 1 (very week) to 5 (very strong).

Step 3 – Determine weight of each driver. The company must assign relative importance weights to the drivers.

Step 4 – Multiply the weights with scores of each factor of industry attractiveness and ascertain the overall weighted score of industry attractiveness.

Step 5 – Multiply the weights with scores of each factor of business strength and ascertain the overall weighted score of business strength.

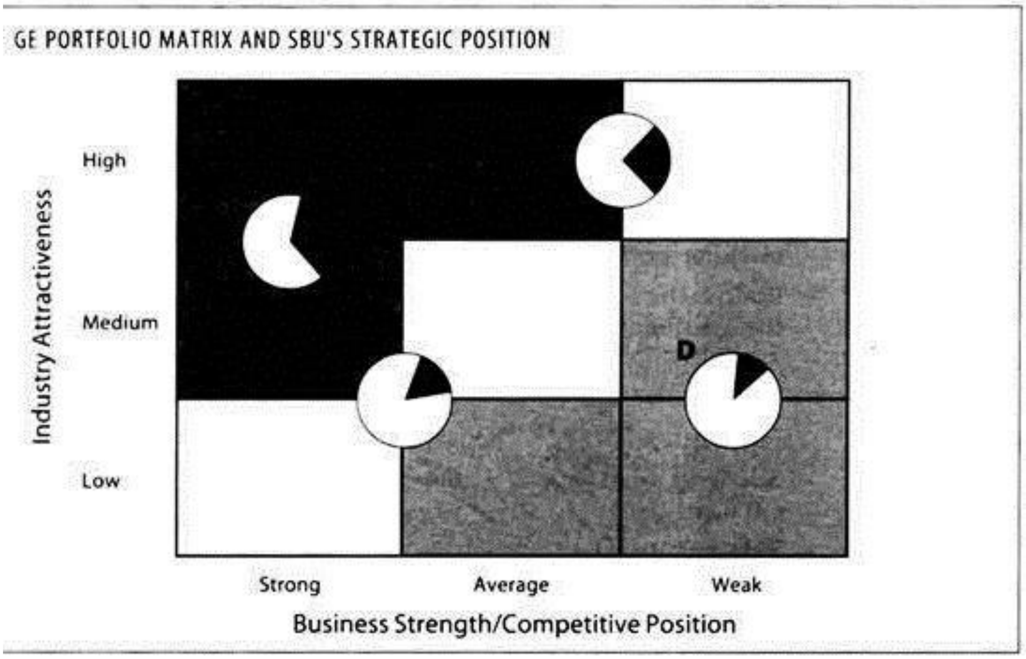
Step 6 – Plot each product line or SBU current position on the matrix.

Step 7 – View resulting graph and interpret it.

Step 8 – Perform a review analysis using adjusted weights and scores (sensitivity analysis).

Industry Attractiveness/Business Strength

= Factor value$_1$ x Factor weighting$_1$ +………….. + Factor value$_n$ x Factor weighting$_n$



Strategic business units are portrayed as a circle plotted in the GE/Mckinsey matrix, whereby:

(a) The size of the circles represents the market size.

(b) The size of the pies represents the market share of the SBUs.

The circles indicate company's SBUs; the areas of the circles are proportional to the relative size of the industries in which these SBUs compete. The pie slices within the circles represent each SBU's market share. Thus, circle A shows a company SBU with a 40% market share in a good sized, highly attractive industry in which the company has strong business strength.

Circle B indicates an SBU that has 22% market share but the industry is not very attractive. Circles C that indicates an SBU with high industry attractiveness, but its competitive position is very weak. Circle D that indicates an SBU with low industry attractiveness with weak competitive position. The strategy alternatives suggested for these four SBUs are: build A; hold B; hold/harvest C; and divest D.

SBU A requires to implement growth strategies or Green-light strategy.

SBU B requires to implement stability strategies or Yellow-light strategy.

SBU C requires to implement turnaround strategy or Yellow-light strategy.

SBU D requires to implement divestment strategy or Red-light strategy.

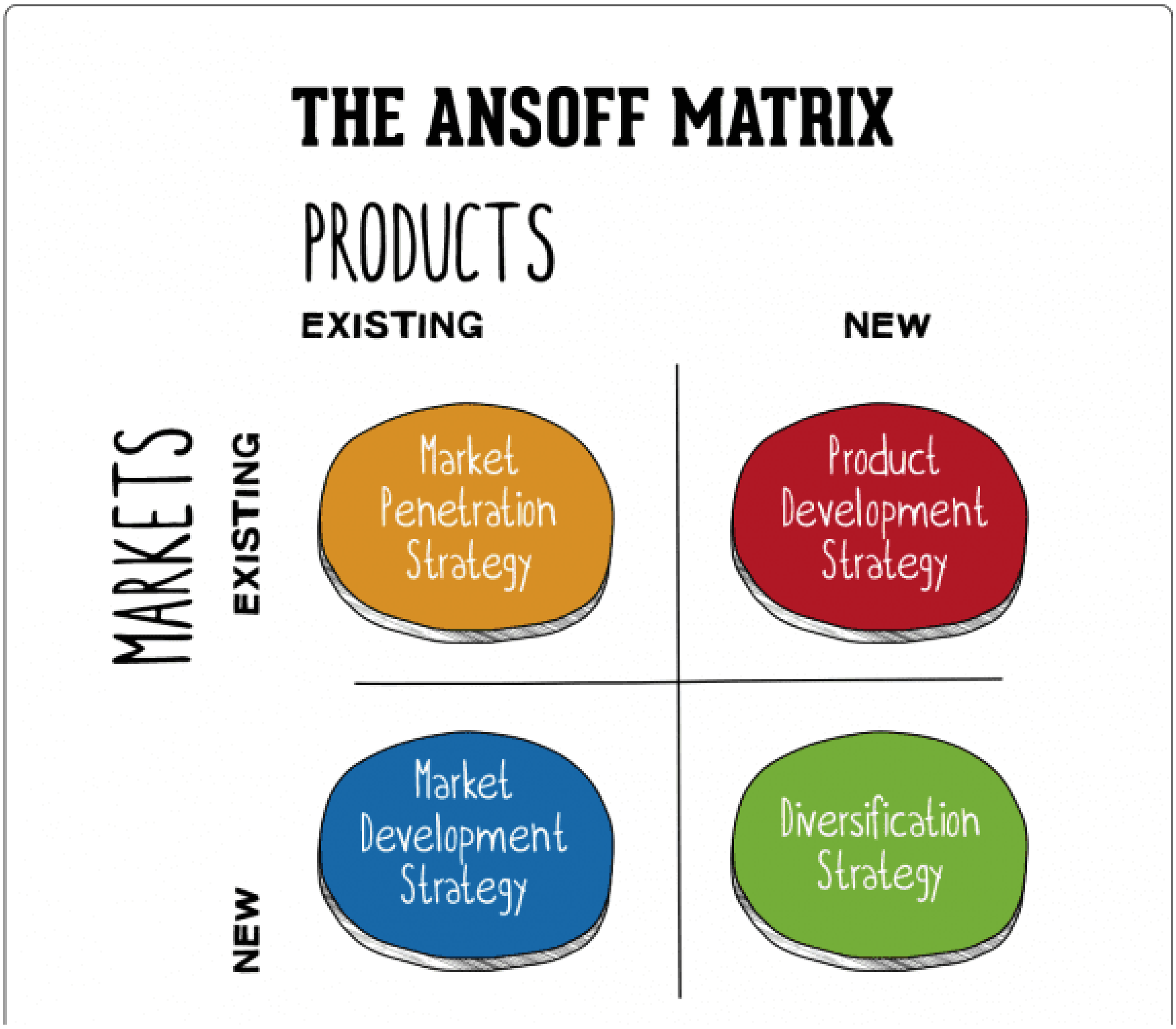
A firm with a number of products can identify each of them in one of the 9 cells based on the particular cell, where a product is located, different strategies can immediately be suggested. The table below suggests some strategies to be adopted as per the GE 9 cell matrix:

Business Strength	Industry Attractiveness		
	High	Medium	Low
High	Premium: - Invest for growth - Provide maximum investment - Diversify	Selective: - Invest for growth - Invest heavily in selected segments - Share ceiling	Protector/Refocus : - Selectively for earnings - Defend strengths
Medium	Challenge: - Invest for growth - Build selectively on strengths only - Avoid vulnerability	Prime: - Selectively invest - Segment market - Make contingency plans	Restructure: - Harvest or divest - Provide essential commitments - Shift to more attractive segment
Low	Opportunistic : - Selectively invest for earnings - Ride market product	Opportunistic: - Preserve for harvest - Boost cash flow out	Harvest or Divest: - Exit from market or prune

This model is an improvement over the BCG Matrix in the sense that while BCG Matrix bases industry attractiveness on a single variable (industry growth rate) in this model industry attractiveness is measured by a number of factors like size of the market growth rate industry profitability, competitive intensity, technological requirements, etc.

C) Ansoff's Product-Market Growth Matrix:

The Ansoff matrix describes the firm's existing and new products to be marketed in existing and new markets. The matrix emphasizes on growth, but firms in declining industries may wish to scale down their operations in existing markets or product areas. Ansoff has identified four main strategies by the name 'product-market components' that are open to a company.These four strategies are:



Strategy – 1: Market Penetration

It involves selling more products to the same market i.e. to sell existing products into existing markets. Market penetration involves trying to milk more from existing products and existing markets. If the market as a whole is growing, this might appear a fairly low risk strategy to adopt. Where the market is stagnant, market penetration might involve market share at the expense of other players in the field.

A firm can maintain or increase its current market share with existing products through:

(a) Advertising

(b) Sales promotion

(c) Competitive pricing

(d) Spending more on distribution etc.

Market penetration can be achieved by:

(a) Increasing market share

(b) Increasing product usage

(c) Increasing the frequency of usage

(d) Increasing the quantity used

(e) Finding new application for current users

A company can attain the following through market penetration:

(a) Secure dominance of growth market

(b) Help restructure a mature market by driving out competitors

(c) Increase usage of existing products by the current customers.

Strategy -2. Market Development:

It involves selling existing products into new markets. It may try to attract new users for existing products, resulting in a market development e.g. exporting, if the firm has previously served only the domestic market. This strategy might be attractive if the unit has to achieve high sales volumes to utilize capacity efficiency. This strategy is achieved through:

(a) New geographical markets

(b) New distribution channels

(c) Different packing sizes

(d) Different quality levels

(e) Different pricing to different customers

(f) Offering to different set of customers

(g) Creating new market segments etc.

The main benefits of this strategy are in increased economics of scale, putting competition off, high sales volume utilizing capacity effectively.

Strategy- 3: Product Development

It involves offering new products to existing markets i.e. new products are launched at existing markets. The company may seek growth by offering modified or new products to current markets. This strategy can be implemented by:

(a) Adding product features, product refinement

(b) Introducing a new generation product

(c) Developing a new product for the same market

Firms with an expensive distribution network may choose this strategy to make most effective use of it by marketing more products through. The main advantages of this strategy are:

(a) Product development forces competitors to innovate

(b) New comers to the market might be discouraged

(c) A firm might lose out if its existing products fall in price.

The major drawbacks of this strategy include the expenses and the risk. Product development is not automatically successful, in spite of the common customer base.

Strategy – 4: Diversification

It involves moving into new market with new products i.e. to sell new products in new markets. This strategy is often riskier since the firm decides to make unfamiliar products for the unfamiliar markets simultaneously. Ansoff suggests that 'diversification' should be a last resort strategy. The firm should have a clear idea about what it expects to gain from diversification.

The benefits of this strategy are:

(a) Offers prospects for growth

(b) Investment of surplus funds, not required for other expansions

(c) Achieving greater profitability

(d) Providing a more comprehensive service to customers.

The diversification involves starting up or acquiring businesses outside the company's current products and markets. Conglomerate diversification can be justified on the existence of synergies.

Ansoff 's matrix is only a framework for identifying product-market opportunities and does not provide any criterion for choice. There is nothing to stop a firm carrying at all four strategies simultaneously provided, it has the resources. A firm can pursue a penetration strategy in its existing markets as well as diversifying into new ones.

The major drawback of the matrix is that new technology, and new manufacturing techniques are ignored, which can alter the dynamics of the market. The matrix does not address the degree of change in each product-market area and it does not identify the role of profit. The matrix does not withdrawal option as a strategy, in case of necessity.

Module-4: Strategy Implementation – Challenges of Change, Developing Programs Mckinsey 7s Framework

Strategy implementation is the translation of chosen strategy into organizational action so as to achieve strategic goals and objectives. Strategy implementation is also defined as the manner in which an organization should develop, utilize, and amalgamate organizational structure, control systems, and culture to follow strategies that lead to competitive advantage and a better performance. Organizational structure allocates special value developing tasks and roles to the employees and states how these tasks and roles can be correlated so as maximize efficiency, quality, and customer satisfaction-the pillars of competitive advantage. But, organizational structure is not sufficient in itself to motivate the employees.

An organizational control system is also required. This control system equips managers with motivational incentives for employees as well as feedback on employees and organizational performance. Organizational culture refers to the specialized collection of values, attitudes, norms and beliefs shared by organizational members and groups. However, the implementation of strategies may face a number of challenges.

1. Challenges in implementation of Strategies

The first challenge is that the business organizations allow their activities to enter into a furrow, performing business functions following a fixed routine in order to fulfill a commitment, rather than as purposeful drivers of strategy. For example, a leading consumer electronics company remained focused on building growth in its traditional segments, without realizing that the industry around it was evolving or that it was threatened by multinational companies. Such routinised activities may become a challenge to the implementation of innovative strategies.

The second challenge to strategic management is the ability to understand and address contemporary issues. The current 'global village' paradigm of business has had a critical impact on the way companies work. For example, leading mobile phone maker Nokia has opened up a large facility near Chennai to serve the growing domestic market.

The third contemporary issue is advancement of web-based technology and e-commerce models. Companies such as Amazon (dot) com, eBay, and a host of others in the services segment have enabled transactions using e-commerce. This has changed the landscape of business, the delivery model, and customer engagement.

The fourth challenge that strategic management faces is the ability to forecast technology development and make it relevant to achieving a competitive edge. In most cases, the first mover would gain a huge advantage from new technology, at the risk of having a big investment failure. Hence companies must learn to balance the risks and rewards of technology through the strategic management process.

The fifth challenge that strategic management must address is the changing purpose of organizations. Earlier, organizations were focused on profit maximization and strategy devising was far simpler. Today, companies are increasingly run by professionals who focus on managerial utility maximization based on their drive, size, and market reach. Companies nowadays are increasingly subject to transparency protocols and public accountability. In addition, competitive moves have become easily imitable due to the easy availability of information and hence, the challenge to strategy makers is greater.

The strategic process must also be engineered in such a way that the company is learning-driven and constantly develops its knowledge base. The need to maintain a shared vision, the right kind of leadership, and the proper implementation of stated strategy are constant challenges to the strategic management process.

Successful Implementation of Strategies:

It is one thing to formulate good strategies but it is another thing to ensure their implementation. Following steps should be kept in mind while implementing strategies:

1. Proper Communication of Strategies:

The first thing in implementing strategies is their proper communication to decision-making managers. Unless otherwise the strategies are communicated and understood in the same way in which planners want, the same will not give desired results. The chief executive officer or top-level planners may be clear about the strategies and the results expected but if the same thing is not communicated properly then the objectives may not be achieved.

2. Developing and Communicating Planning Premises:

Planning premises are the anticipated environmental factors in which plans are expected to operate. Some assumptions have to be made while planning for future. Managers must develop premises critical to plans and decisions and explain them to all those who are in the chain of decision-making. In the absence of such premises, decisions will be based on personal assumptions and predictions and it may lead to uncoordinated plans.

3. Reviewing Strategies Regularly:

The strategies should be reviewed regularly. There may be a change in conditions or assumptions in which these were based. Unless strategies are changed to suit the new conditions, there will be no use of persisting with the old ones. The regular review of strategies will help in their update.

4. Developing Contingency Strategies:

There is always a possibility of change in competitive factors or other elements in the environment may occur, strategies for such contingencies should be formulated. One cannot wait for the certainty of the environment. Even if there is uncertainty and the events may make objectives and programmers absolute, a manager has to proceed on the most credible set of premises possible at that time. The contingency plans, if available, will help in such situations.

5. Organization Structures be Suitable to Planning Needs:

The organization structure should be designed to help managers accomplish goals and make decisions to put plans into effect. If possible, each person should be responsible for the accomplishment of each goal and implement the strategies to achieve this goal. The key areas and end results should be identified and assigned to single position as far down the organization structure as is feasible. This type of organization structure will help in making the strategies more effective and result oriented.

6. Emphasis on Strategy Implementation:

The managers should continuously emphasize the decision-makers to implement planning and strategies. Even though this is a tedious task to say the same thing regularly but it will certainly have desired results. Making a good strategy and then ignoring its implementation will amount to nothing.

2. Developing strategy Implementation Programmes

Even the best strategic plans must be implemented and only well executed strategies create competitive advantage for a company.

At this stage managerial skills are more important than using analysis. Communication in strategy implementation is essential as new strategies must get support all over organization for effective implementation. It consists of the following 6 steps:

- Setting annual objectives;
- Revising policies to meet the objectives;
- Allocating resources to strategically important areas;
- Changing organizational structure to meet new strategy;
- Managing resistance to change;
- Introducing new reward system for performance results if needed.

The first point in strategy implementation is setting annual objectives for the company's functional areas. These smaller objectives are specifically designed to achieve financial, marketing, operations, human resources and other functional goals. To meet these goals managers, revise existing policies and introduce new ones which act as the directions for successful objectives implementation.

The other very important part of strategy implementation is changing an organizational chart. For example, a product diversification strategy may require new SBU to be incorporated into the existing organizational chart. Or market development strategy may require an additional division to be added to the company. Every new strategy changes the organizational structure and requires reallocation of resources. It also redistributes responsibilities and powers between managers. Managers may be moved from one functional area to another or asked to manage a new team. This creates resistance to change, which has to be managed in an appropriate way or it could ruin excellent strategy implementation.

Business organizations may use a number of tools for the effective implementation of strategies. These are:

Tools used: Policies, Motivation, Resistance management, Leadership, Stakeholder Impact Analysis, Changing organizational structure, Performance management

The components of the strategy implementation in organizations are:

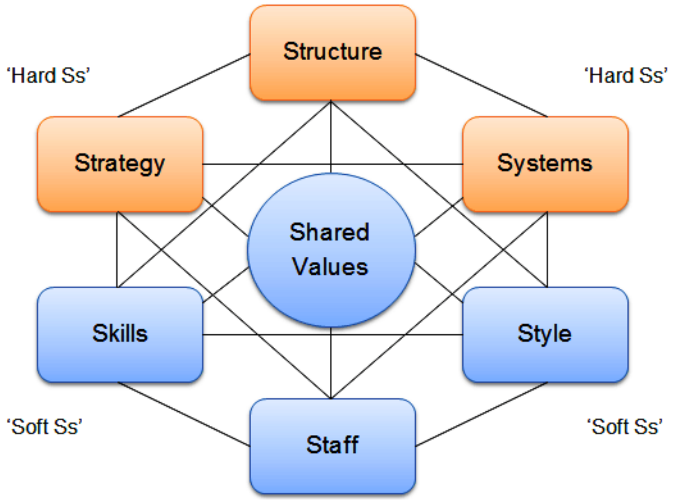
Components: Annual Objectives, Policies, Resource Allocation, Change Management, Organizational chart, Linking Performance and Reward

3. McKinsey 7s Model

McKinsey 7s model is a tool that analyzes firm's organizational design by looking at 7 key internal elements: strategy, structure, systems, shared values, style, staff and skills, in order to identify if they are effectively aligned and allow organization to achieve its objectives.

McKinsey 7s model was developed in 1980s by McKinsey consultants Tom Peters, Robert Waterman and Julien Philips with a help from Richard Pascale and Anthony G. Athos. Since the introduction, the model has been widely used by academics and practitioners and remains one of the most popular strategic planning tools. It sought to present an emphasis on human resources (Soft S), rather than the traditional mass production tangibles of capital, infrastructure and equipment, as a key to higher organizational performance. The goal of the model was to show how 7 elements of the company: Structure, Strategy, Skills, Staff, Style, Systems, and Shared values, can be aligned together to achieve effectiveness in a company. The key point of the model is that all the seven areas are interconnected and a change in one area requires change in the rest of a firm for it to function effectively.

Below you may find the McKinsey model, which represents the connections between seven areas and divides them into 'Soft Ss' and 'Hard Ss'. The shape of the model emphasizes interconnectedness of the elements.



The model can be applied to many situations and is a valuable tool when organizational design is at question. The most common uses of the framework are:

- To facilitate organizational change.
- To help implement new strategy.
- To identify how each area may change in a future.
- To facilitate the merger of organizations.

7s factors

In McKinsey model, the seven areas of organization are divided into the 'soft' and 'hard' areas. Strategy, structure and systems are hard elements that are much easier to identify and manage when compared to soft elements. On the other hand, soft areas, although harder to manage, are the foundation of the organization and are more likely to create the sustained competitive advantage.

7s factors
Hard **S**
Strategy is a plan developed by a firm to achieve sustained competitive advantage and successfully compete in the market. What does a well-aligned strategy mean in 7s McKinsey model? In general, a sound strategy is the one that's clearly articulated, is long-term, helps to achieve competitive advantage and is reinforced by strong vision, mission and values. But it's hard to tell if such strategy is well-aligned with other elements when analyzed alone. So the key in 7s model is not to look at your company to find the great strategy, structure, systems and etc. but to look if its aligned with

other elements. For example, short-term strategy is usually a poor choice for a company but if its aligned with other 6 elements, then it may provide strong results.
Structure represents the way business divisions and units are organized and it includes the information of who is accountable to whom. In other words, structure is the organizational chart of the firm. It is also one of the most visible and easy to change elements of the framework.
Systems are the processes and procedures of the company, which reveal business' daily activities and how decisions are made. Systems are the area of the firm that determines how business is done and it should be the main focus for managers during organizational change.
Soft **S**
Skills are the abilities that firm's employees perform very well. They also include capabilities and competences. During organizational change, the question often arises of what skills the company will really need to reinforce its new strategy or new structure.
Staff element is concerned with what type and how many employees an organization will need and how they will be recruited, trained, motivated and rewarded.
Style represents the way the company is managed by top-level managers, how they interact, what actions do they take and their symbolic value. In other words, it is the management style of company's leaders.
Shared Values are at the core of McKinsey 7s model. They are the norms and standards that guide employee behavior and company actions and thus, are the foundation of every organization.

Steps in implementing 7S Framework:

Step 1: Identify the areas that are not effectively aligned

During the first step, the aim is to look at the 7S elements and identify if they are effectively aligned with each other. A manager should be aware of how 7 elements are aligned in your company. Once the outlined questions are answered there one should look for the gaps, inconsistencies and weaknesses between the relationships of the elements. For example, we designed the strategy that relies on quick product introduction but the matrix structure with conflicting relationships hinders that so there's a conflict that requires the change in strategy or structure.

Step 2: Determine the optimal organization design

With the help from top management, the second step is to find out what effective organizational design the manger wants to achieve. By knowing the desired alignment we can set our goals and make the action plans much easier. This step is not as straightforward as identifying how seven areas are currently aligned in the organization for a few reasons. First, we need to find the best optimal alignment, which is not known to you at the moment, so it requires more than answering the questions or collecting data. Second, there are no templates or predetermined organizational designs that we could use and we would have to do a lot of research or benchmarking to find out how other similar organizations coped with organizational change or what organizational designs they are using.

Step 3: Decide where and what changes should be made

This is basically your action plan, which will detail the areas we want to realign and how would we like to do that. If we find that the firm’s structure and management style are not aligned with company’s values, we should decide how to reorganize the reporting relationships and which top managers should the company let go or how to influence them to change their management style so the company could work more effectively.

Step 4: Make the necessary changes

The implementation is the most important stage in any process, change or analysis and only the well-implemented changes have positive effects. Therefore, we should find the people in our company or hire consultants that are the best suited to implement the changes.

Step 5: Continuously review the 7s

The seven elements: strategy, structure, systems, skills, staff, style and values are dynamic and change constantly. A change in one element always has effects on the other elements and requires implementing new organizational design. Thus, continuous review of each area is very important.

Using the Framework

The most common way to use the McKinsey 7S Framework is to analyze where you are now, and see how that differs from where you want to be. Where you want to be could mean simply executing your current strategy, or it could help you analyze the challenges of a proposed merger. Here is a 5-step process you can use to make use of the McKinsey 7S Framework. Before we jump into the 5 steps beware that:

Using the model is going to take time and effort. You'll need to perform research as well as benchmark your current and future competitors. The model spans the entire organization so you're going to need the top people on board and bought-in to make it happen.