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Advanced Strategic Management

Self-Learning Material

II SEMESTER

CORE COURSE - **MCM2C07**

190607

Advanced Strategic Management

STUDY MATERIAL

I I SEMESTER

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UNIVERSITY OF CALICUT

SCHOOL OF DISTANCE EDUCATION

Calicut University- PO, Malappuram,

Kerala, India - 673 635

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STUDY MATERIAL SECOND SEMESTER

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Advanced Strategic Management

CORE COURSE **- MCM2C07**

Prepared by :

Praveen M V

Assistant Professor of Commerce
Post Graduate and Research
Department of Commerce
Govt. College Madappally

Scrutinized by:

Dr.M.A Joseph,

Professor & Head,
Commerce and Management Studies,
University of Calicut.

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Unit 1

An Introduction to Strategic Management

Introduction

The term "Strategic management" is criticalto staying competitive and standing out in a crowded, globalised, consumer oriented and cost-conscious business environment. A good strategy helps management prioritize activities within the company and how resources get spent. It is a systematic way to execute a company's initiatives and goals under the guidance of its leadership.TheStrategic management isn't all theoretical; it is a practical way to implement a company's decisions, vision and goals.Strategic management is the management of an organization's resources to achieve its goals and objectives. It involves setting objectives, analysing the competitive environment, analysing the internal organization, evaluating strategies and ensuring that management rolls out the strategies across the organization. Strategic management is not static in nature; the models often include a feedback loop to monitor execution and to inform the next round of planning.

Strategy

The word "strategy" is derived from the Greek word "strategos"; stratus (meaning army) and "ago" (meaning leading/ moving).

Strategy is an action that managers take to attain one or more of the organization's goals. Strategy can also be defined as "A general direction set for the company and its various components to achieve a desired state in the future. Strategy results from the detailed strategic planning process".

A strategy is all about integrating organizational activities and utilizing and allocating the scarce resources within the organizational environment so as to meet the present objectives. While planning a strategy it is essential to consider that decisions are not taken in a vacuum and that any act taken by a firm is likely to be met by a reaction from those affected, competitors, customers, employees or suppliers.

Strategy can also be defined as knowledge of the goals, the uncertainty of events and the need to take into consideration the likely or actual behaviour of others. Strategy is the blueprint of decisions in an organization that shows its objectives and goals, reduces the key policies, and plans for achieving these goals, and defines the business the company is to carry on, the type of economic and human organization it wants to be, and the contribution it plans to make to its shareholders, customers and society at large.

Features of Strategy

1. Strategy is Significant because it is not possible to foresee the future. Without a perfect foresight, the firms must be ready to deal with the uncertain events which constitute the business environment.

2. Strategy deals with long term developments rather than routine operations, i.e. it deals with probability of innovations or new products, new methods of productions, or new markets to be developed in future.

3. Strategy is created to take into account the probable behaviour of customers and competitors. Strategies dealing with employees will predict the employee behaviour.

Strategy is a well-defined roadmap of an organization. It defines the overall mission, vision and direction of an organization. The objective of a strategy is to maximize an organization's strengths and to minimize the strengths of the competitors.Strategy, in short, bridges the gap between "where we are" and "where we want to be".

Strategic Management

Strategic Management is all about identification and description of the strategies that managers can carry so as to achieve better performance and a competitive advantage for their organization. An organization is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry.

Strategic management can also be defined as a bundle of decisions and acts which a manager undertakes and which decides the result of the firm's performance. The manager must have a thorough knowledge and analysis of the general and competitive organizational environment so as to take right decisions. Strategic management is nothing but planning for both predictable as well as unfeasible contingencies. It is applicable to both small as well as large organizations as even the smallest organization face competition and, by formulating and implementing appropriate strategies, they can attain sustainable competitive advantage.

Simply, Strategic management can be defined as a process which involves setting objectives, analysing the competitive environment, analysing the internal organization, evaluating strategies, and ensuring that management rolls out the strategies across the organization.

Definitions

1. *"Strategic management is concerned with the determination of the basic long-term goals and the objectives of an enterprise, and the adoption of courses of action and allocation of resources necessary for carrying out these goals".* – Alfred Chandler
2. *"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". – Glueck and Jauch,

3. *"Strategic management is a process of formulating, implementing and evaluating cross-functional decisions that enable an organisation to achieve its objective"*. – Fed R David

4. *"Strategic management is the set of decisions and actions resulting in the formulation and implementation of plans designed to achieve a company's objectives."* – Pearce and Robinson

Major dimensions of strategic Management/Decisions (nature)

The major dimensions of strategic decisions are as follows:

1. Strategic issues require **top-management decisions:**
Strategic issues involve thinking in totality of the organization's objectives in which a considerable amount of risk is involved. Hence, problems calling for strategic decisions require to be considered by the top management.

2. Strategic issues involve the allocation of **large amounts of company resources:**
It may require either a huge financial investment to venture into a new area of business or the organization may require a huge amount of manpower with new skill sets.

3 **.** Strategic issues are likely to have a significant **impact on the long-term prosperity of the firm:**
Generally, the results of strategic implementation are seen on a long-term basis and not on immediate terms.

4. Strategic issues are **future oriented:**
Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.

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

6. Strategic issues necessitate **consideration of factors in**

the firm's external environment:

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

Strategic management is the art and science of formulating, implementing and evaluating cross-functional decisions that will enable an organization to achieve its objectives. It involves the systematic identification of specifying the firm's objectives, nurturing policies and strategies to achieve these objectives, and acquiring and making available these resources to implement the policies and strategies to achieve the firm's objectives. Strategic management, therefore, integrates the activities of the various functional sectors of a business, such as marketing, sales, production etc. , to achieve organizational goals. It is generally the highest level of managerial activity, usually initiate by the board of directors and executed by the firm's Chief Executive Officer (CEO) and executive team.

The Scope of Strategic Management

J. Constable has defined the area addressed by strategic management as "*the management processes and decisions which determine the long-term structure and activities of the organization*". This definition incorporates five key themes:

1. **Management process**. Management process as relate to how strategies are created and changed.
2. **Management decisions**. The decisions must relate clearly to a solution of perceived problems (how to avoid a threat; how to capitalize on an opportunity).
3. **Time scales**. The strategic time horizon is long. However, it for company in real trouble can be very short.
4. **Structure of the organization**. An organization is managed by people within a structure. The decisions which result from the way that managers work together within the structure can result in strategic change.
5. **Activities of the organization**. This is a potentially limitless area of study and we normally shall centre upon all activities which affect the organization.

Importance of Strategic Management

1. It guides the company to move in a specific direction. It defines organization's goals and fixes realistic objectives, which are in alignment with the company's vision.
2. It assists the firm in becoming proactive, rather than reactive, to make it analyse the actions of the competitors and take necessary steps to compete in the market, instead of becoming spectators.
3. It acts as a foundation for all key decisions of the firm.
4. It attempts to prepare the organization for future challenges and play the role of pioneer in exploring opportunities and also helps in identifying ways to reach those opportunities.
5. It ensures the long-term survival of the firm while coping with competition and surviving the dynamic environment.
6. It assists in the development of core competencies and competitive advantage, that helps in the business survival and growth.

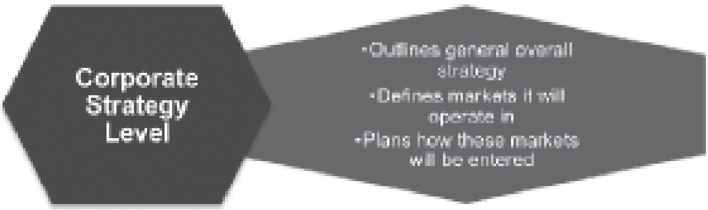
The basic purpose of strategic management is to gain sustained-strategic competitiveness of the firm. It is possible by developing and implementing such strategies that create value for the company. It focuses on assessing the opportunities and threats, keeping in mind firm's strengths and weaknesses and developing strategies for its survival, growth and expansion.

Levels of Strategies

Strategy is at the heart of business. All businesses have competition, and it is strategy that allows one business to rise above the others to become successful. Even if you have a great idea for a business, and you have a great product, you are unlikely to go anywhere without strategy.Many of the most successful business men and women throughout history have been great strategic thinkers, and that is no accident. If you wish to take your business to the top of the market as quickly as possible, it is going to be strategy that leads the way.

1. Corporate Level Strategy

Corporate level strategy occupies the highest level of strategic decision making and covers actions dealing with the objective of the firm, acquisition and allocation of resources and coordination of strategies of various SBUs for optimal performance. Top management of the organization makes such decisions. The nature of strategic decisions tends to be value-oriented, conceptual and less concrete than decisions at the business or functional level.



2. Business-Level Strategy.

Business level strategy is – applicable in those organizations, which have different businesses-and each business is treated as strategic business unit (SBU). The fundamental concept in SBU is to identify the discrete independent product / market segments served by an organization.

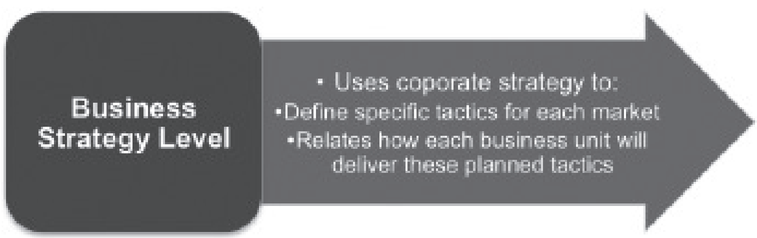
Since each product/market segment has a distinct environment, a SBU is created for each such segment. For example, Reliance Industries Limited operates in textile fabrics, yarns, fibers, and a variety of petrochemical products. For each product group, the nature of market in terms of customers, competition, and marketing channel differs.

Therefore, it requires different strategies for its different product groups. Thus, where SBU concept is applied, each SBU sets its own strategies to make the best use of its resources (its strategic advantages) given the environment it faces. At such a level, strategy is a comprehensive plan providing objective for SBUs, allocation of resources among functional areas and coordination between them for making optimal contribution to the achievement of corporate-level objectives.

Such strategies operate within the overall strategies of the organization. The corporate strategy sets the long-term objectives of the firm and the broad constraints and policies within which a SBU operates. The corporate level will help the SBU define its scope of operations and also limit or enhance the SBUs operations by the resources the corporate level assigns to it. There is a difference between corporate-level and business-level strategies.

For example, Andrews says that in an organization of any size or diversity, corporate strategy usually applies to the whole enterprise, while business strategy, less comprehensive, defines the choice of product or service and market of individual business within the firm. In other words, business strategy relates to the 'how' and corporate strategy to the 'what'. Corporate strategy defines the business in which a company will compete preferably in a way that focuses resources to convert distinctive competence into competitive advantage.'

Corporate strategy is not the sum total of business strategies of the corporation but it deals with different subject matter. While the corporation is concerned with and has impact on business strategy, the former is concerned with the shape and balancing of growth and renewal rather than in market execution.

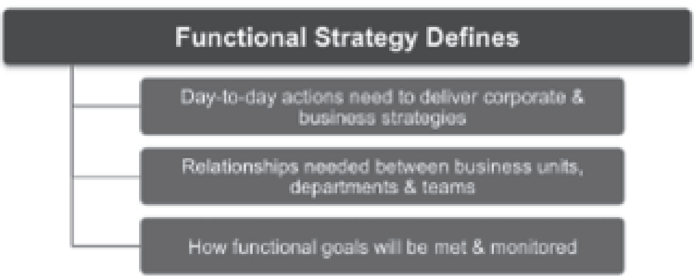


3. Functional-Level Strategy.

Functional strategy, as is suggested by the title, relates to a single functional operation and the activities involved therein. Decisions at this level within the organization are often described as tactical. Such decisions are guided and constrained by some overall strategic considerations.

Functional strategy deals with relatively restricted plan providing objectives for specific function, allocation of resources among different operations within that functional area and coordination between them for optimal contribution to the achievement of the SBU and corporate-level objectives.

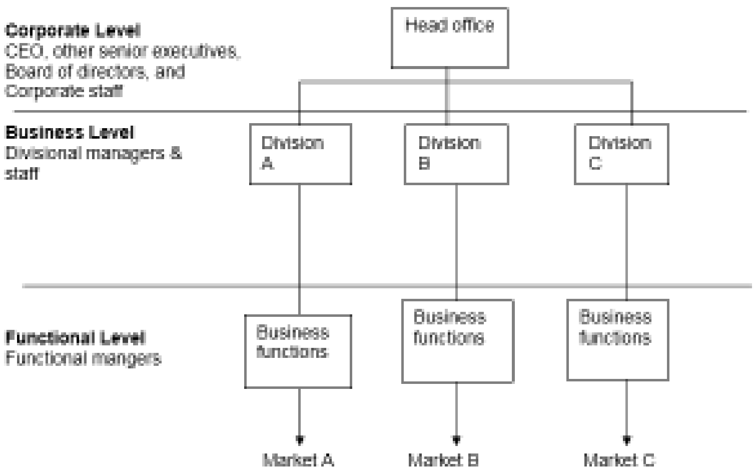
Below the functional-level strategy, there may be operations level strategies as each function may be divided into several sub functions. For example, marketing strategy, a functional strategy, can be subdivided into promotion, sales, distribution, pricing strategies with each sub function strategy contributing to functional strategy.



It is at this bottom-level of strategy where you should start to think about the various departments within your business and how they will work together to reach goals. Your marketing, finance, operations, IT and other departments will all have responsibilities to handle, and it is your job as an owner or manager to oversee them all to ensure satisfactory results in the end. Again, the success or failure of the entire organization will likely rest on the ability of your business to hit on its functional strategy goals regularly. As the saying goes, a journey of a million miles starts with a single step – take small steps in strategy on a daily basis and your overall corporate strategy will quickly become successful.

4. Operating Level Strategies

Sometimes a fourth level of strategy also exists. This level is known as the operating level. It comes below the functional level strategy and involves actions relating to various sub functions of the major function. For example, the functional level strategy of marketing function is divided into operating levels such as marketing research, sales promotion, etc



The three levels of strategies have different characteristics as shown below;

Dimensions	**Levels**	
	Corporate	
Business	**Functional**	
Impact	Significant	Major
Insignificant		
Risk Involved	High	
Medium	Low	
Profit potential	High	Medium
Low		
Time Horizon	Long	Medium
Low		

Flexibility	High	Medium	Low
Adaptability	Insignificant	Medium	Significant

Strategic Management Process

The strategic management process means defining the organization's strategy. It is also defined as the process by which managers make a choice of a set of strategies for the organization that will enable it to achieve better performance.

Strategic management is a continuous process that appraises the business and industries in which the organization is involved; appraises its competitors; and fixes goals to meet all the present and future competitor's and then reassesses each strategy.

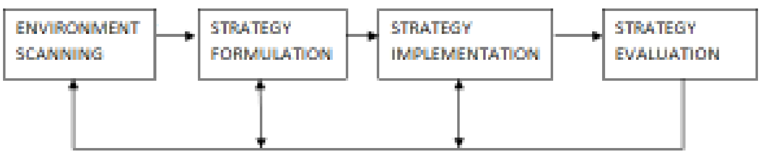
Strategic management process has following four steps:

1. **Environmental Scanning-** Environmental scanning refers to a process of collecting, scrutinizing and providing information for strategic purposes. It helps in analyzing the internal and external factors influencing an organization. After executing the environmental analysis process, management should evaluate it on a continuous basis and strive to improve it.
2. **Strategy Formulation-** Strategy formulation is the process of deciding best course of action for accomplishing organizational objectives and hence achieving organizational purpose. After conducting environment scanning, managers formulate corporate, business and functional strategies.
3. **Strategy Implementation-** Strategy implementation implies making the strategy work as intended or putting the organization's chosen strategy into action. Strategy implementation includes designing the organization's structure, distributing resources, developing decision

making process, and managing human resources.

4. **Strategy Evaluation-** Strategy evaluation is the final step of strategy management process. The key strategy evaluation activities are: appraising internal and external factors that are the root of present strategies, measuring performance, and taking remedial / corrective actions. Evaluation makes sure that the organizational strategy as well as it's implementation meets the organizational objectives.

These components are steps that are carried, in chronological order, when creating a new strategic management plan. Present businesses that have already created a strategic management plan will revert to these steps as per the situation's requirement, so as to make essential changes.



Strategic Management Process

Strategic management is an ongoing process. Therefore, it must be realized that each component interacts with the other components and that this interaction often happens in chorus.

Components of 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. Feasibility

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

b. Clarity

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

c. Inspiring

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

d. Conciseness

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

e. Uniqueness

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

f. Analytical

It should be analytical., it should analyse the key components of the strategy.

g. Credibility

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

A goal is a desired future state or juncture or phase 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**.

5. Objectives

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-

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

Benefits of Vision and Mission

Some of the benefits of having a vision and mission statement are discussed below:

Above everything else, vision and mission statements provide **unanimity of purpose** to organizations and imbue the employees with a **sense of belonging and identity**. Indeed, vision and mission statements are embodiments of organizational identity and carry the organizations creed and motto. For this purpose, they are also called as statements of creed.

Vision and mission statements spell out **the context in which the organization operates** and provides the employees with a tone that is to be followed in the organizational climate. Since they define the reason for existence of the organization, they are indicators of the direction in which the organization must move to actualize the goals in the vision and mission statements.

The vision and mission statements serve as f**ocal points for individuals** to identify themselves with the organizational processes and to give them a sense of direction while at the same time deterring those who do not wish to follow them from participating in the organization's activities.

The vision and mission statements help to **translate the objectives of the organization into work structures** and to assign tasks to the elements in the organization that are responsible for actualizing them in practice.

To specify the **core structure** on which the organizational edifice stands and to help in the translation of objectives into actionable cost, performance, and time related measures.

Finally, vision and mission statements provide a **philosophy of existence to the employees,** which is very crucial because as humans, we need meaning from the work to do and the vision and mission statements provide the necessary meaning for working in a particular organization.

As can be seen from the above, articulate, coherent, and meaningful vision and mission statements go a long way in setting the base performance and actionable parameters and embody the spirit of the organization. In other words, vision and mission statements are as important as the various identities that individuals have in their everyday lives.

It is for this reason that organizations spend a lot of time in defining their vision and mission statements and ensure that they come up with the statements that provide meaning instead of being mere sentences that are devoid of any meaning.

Strategic Planning

Strategic Planning can be understood as a systematic long-range planning activity, that an organization uses to fix priorities, strengthen operations, ascertain objectives and focus on the resources required and are to be allocated in order to pursue the strategy and attain the objectives.

It is a part of the strategic management process, which ensures that every aspect of the organization is working towards the achievement of the organization's goals, i.e. in the right and intended direction.

Strategic Planning ascertains what an organization is, to whom it serves, where is it going and what are the paths, which are to be followed to follow its vision. It includes strategic decision making, strategic intent, strategic management model and strategy formulation.

Strategic Planning Stages

1. Generation of Strategic Alternatives: In this step, the firm seeks a number of strategic alternatives in the light of the firm's business, industry and competition. These strategies may be acquisition and expansion, focusing on core competencies, increase in the market share, etc.

2. Assessment of Strategic Alternatives: At this stage, the firm observes various strategies, on the basis of the benefits. It questions:

✓Will it improve the firm's position or market share?

✓Will it increase existing strengths?

✓Will it bring new opportunities?

✓Will it maximise shareholder's wealth?

3. Selection of Strategy: The optimum strategy is selected at this stage, among various alternative strategies.

Both internal and external analysis of the firm is performed during the exercise; wherein internal analysis entails an evaluation of financial performance, operational limitations, current market position/share corporate culture, strengths and weaknesses.On the other hand, external analysis concentrates on the analysis of competition, trends, changing business environment, opportunities and threats, latest technology and so forth.

Characteristics of Strategic Planning

Strategic Planning is an **analytical process** which formulates strategic and operational plans for the organization. The implementation of strategic plans is possible through projects, whereas various units or divisions of the firm implement operational plans.

It **performs SWOT Analysis**, i.e. during the planning process, the firm's strengths, weaknesses, opportunities and threats are taken into consideration.

It is a **forward-looking activity** wherein the future opportunities and threats are ascertained while considering its profitability, market share, product and competition.

It **presupposes that a firm should always be ready to adapt** itself according to the dynamic business environment. For this purpose, alternative strategies are developed for different circumstances, i.e. from best to worst, for the future

It can be done for the entire organization or to a specific business unit.

It is **helpful in selecting the best strategy**, among the various strategies taking into account the firm's interest, personal values and corporate social responsibility.

It acts as **a guide to the executive to reduce the risk involved in the business** and also to take the best possible advantage of the opportunities. So, in this way, it contributes to the success of the enterprise.

Strategic Planning is a **logical effort**, that envisions the desired future, by producing various alternative actions and decisions, to formulate an effective strategy, that brings success to the organisation. It helps in analysing and adjusting the organisation's efforts as a whole, according to the changing business environment.

Strategic Decision Making

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.

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.

The differences between Strategic, Administrative and Operational decisions can be summarized as follows-

Strategic Decisions Administrative Decisions Operational Decisions

Strategic decisions are long-term decisions. Administrative decisions are taken daily. Operational decisions are not frequently taken.

These are considered where The future planning is concerned. These are short-term based Decisions. These are medium-period based decisions.

Strategic decisions are taken in Accordance with organizational mission and vision. These are taken according to strategic and operational Decisions. These are taken in accordance with strategic and administrative decision.

These are related to overall Counter planning of all Organization. These are related to working of employees in an Organization. These are related to production.

These deal with organizational Growth. These are in welfare of employees working in an organization. These are related to production and factory growth.

Basic approaches to Strategic Decision making.

Strategic decision-making process is complex and intriguing. Various researchers and authors have studied and described the manner in which such decision-making takes place. These different approaches have also been categorised by a few authors. Following are the most popular approaches of strategic decision making.

1. Intuitive-Anticipatory:

This approach is based on the intuition of, usually, a single person who is the promoter or chief executive of an organisation. He anticipates the future and takes strategic decisions accordingly. The process is implicit in the sense that the mental processes involved in decision-making are not readily evident.

The basis of decision-making is intuition, judgement or hunch, which are the result of long years of experience in dealing with a variety of strategic problems. A few authors, including Herbert Simon, Rechard Cyert, James March and Henry Mintzberg have contributed to an understanding of this approach. It is difficult to provide an illustration of this approach. Owing to its inherent nature, the process of decision-making adopted under this approach is not clear and inexplicable and, therefore, cannot be reported.

2. Formal-Structured:

This approach involves systematic planning and set procedures. Since it is formal and structured, strategic problems are dealt with by a designated group of planners who follow a set procedure to arrive at decisions. Different types of planning system such as strategic planning, corporate planning or long-range planning are used.

Most authors in strategic management use the formal-structured approach framework in their texts. As an illustration, we may consider the example of Larsen & Toubro (L & T), which adopts a formal strategic planning system. In essence, the company follows a three-stage process.

The first stage is the diagnostic phase involving the setting of corporate mission, objectives and goals, and SWOT (strengths, weaknesses, opportunities and threats) analysis by each of the seven business group in the company. The second stage deals with providing directions through the choice of alternatives strategies to be adopted. The last phase is the implementation phase where the action plan is put into action.

3. Adaptive:

The essence of the adaptive approach is on taking strategic decisions on the basis of how a change is perceived at a given point of time. With changing circumstances, the decisions are also reviewed. The basic for review of decisions is an estimation of the gap between the current position of the company and its objectives.

Strategic decisions are meant to reduce such a gap. Circumstances are defined in terms of the environment. For an environment that is perceived to be stable, strategic decision are based on certainty. Where stability is less, and the future is risky, contingency planning systems are adopted. In an uncertain environment, the emphasis is on building up adaptive capability to respond to changes as and when they occur. This approach has been dealt with by authors like H. Igor Ansoff and Russell L. Ackoff. Many organisations exhibit the adoption of such an approach in the Indian business environment.

Mintzberg's classification of the modes of strategy making as entrepreneurial, adaptive, and planning, offers another theoretical framework which aids the understanding of the strategic decision¬-making process.

According to Mintzberg, three pure modes of strategy making could be defined. The entrepreneurial mode envisages an active search for opportunities by a person, usually the entrepreneur or chief executive, who takes bold and risky decisions and rapidly moves the organisation towards its objectives.

In the adaptive mode, the emphasis is on solving short-term problems by adopting a reactive attitude and decisions are made in incremental steps based on negotiated settlements among different interest groups. The planning involves a systematic appraisal of the environment, assessment of internal capability and choosing courses of action in the form of meticulously formulated strategies.

These three pure modes could be combined to form mixed modes like adaptive-entrepreneurial, adaptive-planning or entrepreneurial-planning modes. The method of strategy making may also differ with respect to different functional areas. Organisations may also adopt different modes at successive stages of their development.

Thus, there could be many different approaches to strategic decision-making. But to state that an organisation follows only a single approach at a time or only one approach all the time would be unrealistic. Real-life business situations offer countless examples of organisations and decision makers who adopt a combination of approaches.

4. Incremental:

The incremental or, colloquially, the muddling through approach involves limiting the focus of strategic decision-¬making to a few alternatives at a time that differ only marginally from one another. The choice of the best alternative is based on an iterative process of continually redefining problems so as to make them manageable.

The end result is a negotiated settlement between different interest groups. Charles Lindblom has explained this approach through the concept of disjointed incrementalism. Most public sector companies in India, in their strategic decision-making, exhibit the adoption of an incremental approach. Owing to the various pulls and pressures between which public sector companies typically operate with regard to their objectives and goals, the strategic decision-making is based on negotiated settlement among different groups.

5. Entrepreneurial-Opportunistic:

This approach is characterised by a constant search for opportunities and exploiting them for the benefit of the organisation. Entrepreneurial strategic decision-making is based on the perception of opportunities, diagnosing them for the generation of alternatives, analysing the consequences and selecting the course of action that would best meet the objectives. Such an approach is generally adopted by entrepreneurs and family- business executives but may also be adopted by manager in organisations.

Many examples can be provided in the Indian context where this approach is adopted for strategic decision-making. The illustration of Dhirubhai Ambani, the founder-chairman of the Reliance group of companies, typifies the adoption of the entrepreneurial-opportunistic approach.

Starting as a humble office member of staff in Burmah Shall, Ambani moved into spices exports and then to nylon yarn trading. It is in this business that he, in the early sixties, realised the importance of synthetic fabrics. Seizing upon the opportunity, Ambani laid the foundation of Reliance Textiles Ltd., a giant multi-product and multi-location company.

Strategic Management Models

Strategic management is a broader term that includes not only the stages already identified but also the earlier steps of determining the mission and objectives of an organization within the context of its external environment. The basic steps of the strategic management can be examined through the use of strategic management model.

The strategic management model identifies concepts of strategy and the elements necessary for development of a strategy enabling the organization to satisfy its mission. Historically, a number of frameworks and models have been advanced which propose different normative approaches to strategy determination. However, a review of the major strategic management models indicates that they all include the following elements:

1. Performing an environmental analysis.
2. Establishing organizational direction.
3. Formulating organizational strategy.
4. Implementing organizational strategy.
5. Evaluating and controlling strategy.

Strategic management is a continuous and dynamic process. Therefore, it should be understood that each element interacts with the other elements and that this interaction often happens simultaneously.

Different models of Strategic Management

1. Andrews' Models

In 1965, *Kenneth Andrews* developed a simple model. This model includes the choice of a strategy, but ignores implementation and control. In 1971, *Andrews* formulated a more complete model that included implementation, but it still ignores a strategic control and evaluation.

2. Glueck's Model

William F. Glueck developed several models of strategic management based on the general decision-making process. The phases of this model are as follows:

- **Strategic managements elements**: "*...to determine mission, goals, and values of the firm and the key decision makers*."
- **Analysis and diagnosis**: " *...to search the environment and diagnose the impact of the threats and opportunities."*
- **Choice**: *...to consider various alternatives and assure that the appropriate strategy is chosen."*
- **Implementation**: *"...to match plans, policies, resources, structure, and administrative style with the strategy.*"
- **Evaluation**: "*...to ensure strategy and implementation will meet objectives."*

As major contribution to the strategic management process, Glueck considered two elements: "***enterprise objective*s**" (the mission and objectives of the enterprise," and "***enterprise strategists***" (who are involved in the process).

Moreover, Glueck broke down the planning process into analysis and diagnosis, choice, implementation, and evaluation functions. This model also treats leadership, policy, and organizational factors.

However, Glueck omitted the important medium- and short-range planning activities of strategy implementation.

3. The Schendel And Hofer Model

Dan Schendel and Charles Hofer developed a strategic management model, incorporating both planning and control functions.

Their model consists of several basic steps:

(**1**) goal formulation,

(**2**) environmental analysis,

(**3**) strategy formulation,

(**4**) strategy evaluation,

(**5**) strategy implementation, and

(**6**) strategic control.

According to Schendel and Hofer, the formulation portion of strategic management consists of at least three subprocesses:

- environmental analysis,

- resources analysis,

- and value analysis.

Resource and value analyses are not specifically shown, but are considered to be included under other items (strategy formulation).

4. The Thompson And Strickland Model

Thompson and Strickland developed several models of strategic management.

According to Thompson and Strickland strategic management is an ongoing process: "**nothing is final and all prior actions and decisions are subject to future modification**."

This process consists of five major five ever-present tasks:

1. Developing a concept of the business and forming a vision of where the organization needs to be headed.

2. Converting the mission into specific performance objectives.

3. Crafting a strategy to achieve the targeted performance.

4. Implementing and executing the chosen strategy efficiently and effectively.

5. Evaluating performance, reviewing the situation, and initiating corrective adjustments in mission, objectives, strategy, or implementation in light of actual experience, changing conditions, new ideas, and new opportunities.

Thompson and Strickland suggest that the firm's mission and objectives combine to define "**What is our business and what will it be**?" and "**what to do now**" to achieve organization's goals. How the objectives will be achieved refers to the strategy of firm.

In general, this model highlights the relationships between the organization's mission, its long- and short-range objectives, and its strategy.

5. Korey's Model

Modern theorist and writer, **Jerzy Korey-Krzeczowski, founder and President Canadian School of Management**, have proposed an integrated model of strategic management.

Korey's model consists of three discrete major phases:

(**1) preliminary analysis phase**

(2) strategic planning phase

(3) strategic management phase.

Further, Korey states that the systematic planning consists of at least four continuous subprocesses:

(1) planning studies

(2) review and control

(3) feasibility studies

(4) feasibility studies.

The planning is ongoing process, thus all these subprocesses are integrated and they are interacted each other; creating the fully dynamic model.

Korey's model incorporates both planning and control functions. Moreover, it describes not only long-range strategic planning process, but also includes elements of medium and short range planning.

Korey's model is based on existing models; but it differs in content, emphasis, and process.

This model adds several facets to the planning process that the reader has not seen in other models. Some of these are: *development of educational philosophy, analysis of the* *value systems, review of community orientation and social responsibilities, definition of planning parameters, planning studies, and feasibility studies*.**Using Kory's model for strategic planning provides both new direction and new energy to the organization.**

6. Schematic Model

This model was developed by *Peter Wright, Charles Pringle and Mark Kroll* (1994). It consists of five stages:

1. Analyse the environmental opportunities and threats
2. Analyse the organization's internal strengths and weaknesses
3. Establish the organizational direction: mission and goals
4. Strategy formulation
5. Strategy Implementation
6. Strategic Control.

The model begins with an analysis of environmental opportunities and threats. The organization is affected by environmental forces; but the organization can also have an impact upon its environment.The organization's mission and goals are linked to the environment by a dual arrow. This means that the mission and goals are set in the context of environmental opportunities and threats.The next arrow depicts the idea that strategy formulation sets strategy implementation in motion. Specifically, strategy is implemented through the organization's structure, its leadership, and its culture. Then, the final downward arrow indicates that the actual strategic performance of the organization is evaluated.

The control stage is demonstrated by the feedback line that connects strategic control to the other parts of the model.

Strategic Implication and Issues

There are many benefits of strategic management and they include identification, prioritization, and exploration of opportunities. For instance, newer products, newer markets, and newer forays into business lines are only possible if firms indulge in strategic planning. Next, strategic management allows firms to take an objective view of the activities being done by it and do a cost benefit analysis as to whether the firm is profitable.

Just to differentiate, by this, we do not mean the financial benefits alone (which would be discussed below) but also the assessment of profitability that has to do with evaluating whether the business is strategically aligned to its goals and priorities.

The key point to be noted here is that strategic management allows a firm to orient itself to its market and consumers and ensure that it is actualizing the right strategy.

Financial Benefits

It has been shown in many studies that firms that engage in strategic management are more profitable and successful than those that do not have the benefit of strategic planning and strategic management.

When firms engage in forward looking planning and careful evaluation of their priorities, they have control over the future, which is necessary in the fast changing business landscape of the 21st century.

It has been estimated that more than 100,000 businesses fail in the US every year and most of these failures are to do with a lack of strategic focus and strategic direction. Further, high performing firms tend to make more informed decisions because they have considered both the short term and long-term consequences and hence, have oriented their strategies accordingly. In contrast, firms that do not engage themselves in meaningful strategic planning are often bogged down by internal problems and lack of focus that leads to failure.

Non-Financial Benefits

The section above discussed some of the tangible benefits of strategic management. Apart from these benefits, firms that engage in strategic management are more aware of the external threats, an improved understanding of competitor strengths and weaknesses and increased employee productivity. They also have lesser resistance to change and a clear understanding of the link between performance and rewards.

The key aspect of strategic management is that the problem solving and problem preventing capabilities of the firms are enhanced through strategic management. Strategic management is essential as it helps firms to rationalize change and actualize change and communicate the need to change better to its employees. Finally, strategic management helps in bringing order and discipline to the activities of the firm in its both internal processes and external activities.

Research indicates that organisations that engage in strategic management are more profitable and successful than those that do not. Businesses that followed strategic management concepts have shown significant improvements in sales, profitability and productivity compared to firms without systematic planning activities. Apart from financial benefits, strategic management offers other intangible benefits to a firm. They are;

(a) Enhanced awareness of external threats

(b) Improved understanding of competitors' strategies

(c) Reduced resistance to change

(d) Clearer understanding of performance-reward relationship

(e) Enhanced problem-prevention capabilities of organisation

(f) Increased interaction among managers at all divisional and functional levels

(g) Increased order and discipline.

According to Gordon Greenley, strategic management offers the following benefits:

1. It allows for identification, prioritization and exploitation of opportunities.

2. It provides objective view of management problems.

3 It provides a framework for improved coordination and control of activities.

4. It minimizes the effects of adverse conditions and changes.

5. It allows decision-making to support established objectives.

6. It allows more effective allocation of time and resources

to identified opportunities.

7. It allows fewer resources and less time to be devoted to correcting erroneous and ad hoc decisions.

8. It creates a framework for internal communication among personnel.

9. It helps integrate the behaviour of individuals into a total effort.

10. It provides a basis for clarifying individual responsibilities.

11. It encourages forward thinking.

12. It provides a cooperative, integrated enthusiastic approach to tackling problems and opportunities.

13. It encourages a favourable attitude towards change.

14. It gives a degree of discipline and formality to the management of a business.

Issues of Strategic management

Strategic management focuses on how an organization uses a strategic planning process to make decisions. All managerial actions must theoretically match an organization's central goals and department-level operational goals. Ethical issues in strategically managed organizations surface when managers make decisions to advance goals that have negative consequences.

1. Self-Gain

One of the biggest problems a company could face in terms of corruption occurs when a manager or another powerful person uses a position of power to make deals that benefit himself while not benefiting the company or its stakeholders, including shareholders and workers. A company must define a code of ethics to hold all of its employees accountable for their decisions, including prohibiting them from using their business relationships, knowledge, equipment and other resources belonging to the company for personal financial gain.

2. Social Impact

A business strategy may call for finding the most cost-effective ways to produce goods for the company. For example, contracting out to factories in developing countries because labour and materials are cheaper could save tons of money for the company; however, the social impact for the company brand might not be worth it if workers are employed in sweatshops with very low wages and poor working environments. A company must consider the ethics of services it pays for inside and outside of the country to demonstrate its social responsibility.

3. Public Interest

Companies can develop and operate in such a large arena that the amount of resources they control makes them more powerful than a small or resource-poor country. In this way, the decisions of the company that seem to benefit one part of the company and be in the public interest and economic interest for one country might hurt the interests of another country. A company should study the impact of its business strategies across national borders and within regions and smaller communities to gauge whether they are in the public interest.

4. Environmental Impact

Companies also take actions that negatively affect the natural environment, such as pollution and natural resource exploitation, in one or more operational locations. A firm can make better decisions and protect the environment using standards of an environmental management system. This system might include standards shared by companies in the same industrial or commercial sector, including compliance with laws and regulations, studying health and safety effects of business practices and products, and working with the public and government agencies in an open way to comply with acceptable standards.

Review question

I. 2 weightage questions.

1. Define strategy. What are the features of strategy?
2. Define strategic management.
3. Brief major dimensions of Strategic management.
4. Write the scope of strategic management.
5. What is corporate level strategy?
6. What are the features of SBU?
7. What is operational level strategy?
8. What is strategic management process?
9. What are the levels of strategy?
10. What is functional level strategy?
11. What is strategic decision making?
12. What is strategic planning?
13. What is vision and what are its features?
14. What is mission and what are its features?
15. What are goals and objectives?
16. Compare vision and mission with an example.
17. Distinguish between strategic and administrative decision.
18. Distinguish strategic and operative decision.

II. 3or 5 weightage questions

1. Define strategic management and explain its process.
2. Describe various levels of strategy.
3. Describe the components of strategy.
4. What are the implications and issues of strategic management?

5. Describe strategic management and its scope and importance.
6. What are the models of strategic management?
7. What are the basic approaches of strategic decision making?

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UNIT 2

Environmental Analysis and Competition Strategies

Organizational environment consists of both external and internal factors. Environment must be scanned so as to determine development and forecasts of factors that will influence organizational success.To perform environmental analysis, a constant stream of relevant information is required to find out the best course of action. Strategic Planners use the information gathered from the environmental analysis for forecasting trends for future in advance. The information can also be used to assess operating environment and set up organizational goals.It ascertains whether the goals defined by the organization are achievable or not, with the present strategies. If is not possible to reach those goals with the existing strategies, then new strategies are devised or old ones are modified accordingly.

Definition: Environmental Analysis is described as the process which examines all the components, internal or external, that has an influence on the performance of the organization. The internal components indicate the strengths and weakness of the business entity whereas the external components represent the opportunities and threats outside the organization.

Advantages of Environmental Analysis

The internal insights provided by the environmental analysis are used to assess employee's performance, customer satisfaction, maintenance cost, etc. to take corrective action wherever required. Further, the external metrics help in responding to the environment in a positive manner and also aligning the strategies according to the objectives of the organization.

Environmental analysis helps in the detection of threats at an early stage, that assist the organization in developing strategies for its survival. Add to that, it identifies opportunities, such as prospective customers, new product, segment and technology, to occupy a maximum share of the market than its competitors.

The main features of business environment are:

1. All the external forces:

Business Environment includes all the forces, institutions and factors which directly or indirectly affect the Business Organizations.

2. Specific and general forces:

Business environment includes specific forces such as investors, customers, competitors and suppliers. Non-human or general forces are Social, Legal, Technological, Political, etc. which affect the Business indirectly.

3. Inter-relation:

All the forces and factors of Business Environment are inter-related to each other. For example with inclination of youth towards western culture, the demand for fast food is increasing.

4. Uncertainty:

It is very difficult to predict the changes of Business Environment. As environment is changing very fast for example in IT, fashion industry frequent and fast changes are taking place.

5. Dynamic:

Business environment is highly flexible and keep changing. It is not static or rigid that is why it is essential to monitor and scan the business environment continuously.

6. Complex:

It is very difficult to understand the impact of Business environment on the companies. Although it is easy to scan the environment but it is very difficult to know how these changes will influence Business decisions. Some-time change may be minor but it might have large impact. For example, a change in government policy to increase the tax rate by 5% may affect the income of company by large amount.

7. Relativity:

The impact of Business environment may differ from company to company or country to country. For example, when consumer organisation CES published the report of finding pesticides in cold drinks, resulted in decrease in sale of cold drinks, on the other hand it increased the sale of juice and other drinks.

Components/Dimensions of Business Environment

The various components of business environment are-

External environment consists of those factors that affect a business enterprise from outside. External environment includes shareholders, competitors, customers, society, government laws and regulations, policies and technology. External environment is generally classified into micro environment and macro environment.

The micro environment consists of factors in the company's immediate environment that affects the performance of the company. These include the suppliers, marketing intermediaries, competitors, customers and the public. On the other hand, macro external environment includes larger factors such as economic, demographic, technological, political, natural and cultural factors. Different players in the micro environment normally do not affect all the companies of a particular industry in a similar way. However, sometimes micro environment of the various firms of an industry remains almost same.

External Micro- Environment

Micro environment includes those players whose decisions and actions have a direct impact on the company. Production and selling of commodities are the two important aspects of modern business. Accordingly, the micro environment of business can be divided. The various constituents of micro environment are as under:

1. Suppliers of inputs: An important factor in the external micro environment of a firm is the supplier of its inputs such as raw materials and components. Normally, most firms do not depend on a single supplier of inputs. To reduce risk and uncertainty business firms prefer to keep multiple suppliers of inputs.

2. Customers: The people who buy and use a firm's product and services are an important part of external micro environment. Since sales of a product or service is critical for a firm's survival and growth, it is necessary to keep the customers satisfied. A concern for customers' satisfaction is essential for the success of a business firms. Besides, a business firm has to compete with rival firms to attract customers and thereby increase the demand and market for its product.

3. Marketing intermediaries: In the firm's external micro environment, marketing intermediaries play an essential role of selling and distributing its products to the final customers. Marketing provides an important link between a business firm and its ultimate customers.

4. Competitors: Different firms in an industry compete with each other for sale of their products. This competition may be on the basis of pricing of their products and also non- price competition through competitive advertising such as sponsoring some events to promote the sale of different varieties and models of their products. As a consequence of liberalisation and globalisation of the Indian economy since the adoption of economic reforms there has been a significant increase in the competitive environment of business firms. Now, Indian firms have to compete not only with each other but also with foreign firms whose products can be imported. In America, American firms faced a lot of competition from the Japanese firms producing electronic goods and automobiles.

5. Publics: Finally, publics are an important force in external micro environment. Environmentalists, media groups, women's associations, consumer protection groups, local groups, Citizens Association are some important examples of publics which have an important bearing on the business decisions of the firm. The existence of various types of publics influences the working of business firms and compels them to be socially responsible.

External Macro Environment

Apart from micro environment, business firms face large external environmental forces. An important fact about external macro environmental forces is that they are uncontrollable by the management. Because of the uncontrollable nature of macro forces a firm has to adjust or adapt it to these external forces. These factors are:

1.**Economic Environment**: Economic environment includes all those forces which have an economic impact on business. Accordingly, total economic environment consists of agriculture, industrial production, infrastructure, planning, basic economic philosophy, stages of economic development, trade cycles, national income, per capita income, savings, money supply, price level and population. Business and economic environment is closely related.

2.**Political-legal Environment**: Business firms are closely related to the government. The political- legal environment includes the activities of three political institutions, namely, legislature, executive and judiciary which usually play a useful role in shaping, directing, developing and controlling business activities..

3.**Technological Environment**: Technological environment is exercising considerable influence on business. Technology implies systematic application of scientific or other organised knowledge to practical tasks or activities. Business makes it possible for technology to reach the people in proper format. As technology is changing fast, businessmen should keep a close look on those technological changes for its adaptation in their business activities.

4.**Global or International Environment**: Global environment plays an important role in shaping business activity. With the liberalisation and globalisation of the economy, business environment of an economy has become totally different wherein it has to bear all shocks and benefits arising out of global environment.

5.**Socio-cultural Environment** : Social and cultural environment also influences the business environment indirectly. These includes people's attitude to work and wealth, ethical issues, role of family, marriage, religion and education and also social responsiveness of business.

6.**Demographic Environment**: The demographic environment includes the size and growth of population, life expectancy of the people, rural-urban distribution of population, the technological skills and educational levels of labour force. All these demographic features have an important bearing on the functioning of business firms. The labour force in the country is always changing. This will cause changes in the work force of a firm.

7.**Natural Environment** : Natural environment influences business in diverse ways. Business in modern times is dictated by nature. The natural environment is the ultimate source of many inputs such as raw materials and energy, which firms use in their productive activity. In fact, the availability of natural resources in the region or country is the basic factor in determining business activity in it. The natural environment which includes geographical and ecological factors such as minerals and oil reserves, water and forest resources, weather and climatic conditions are all highly significant for various business activities.

8. **Ecological Environment**: Due to the efforts of environmentalists and international organisations such as the World Bank the people have now become conscious of the adverse effects of depletion of exhaustible natural resources and pollution of environment by business activity. Accordingly, laws have been passed for conservation of natural resources and prevention of environment pollution. T

Internal Environment

The factors in internal environment of business are to a certain extent controllable because the firm can change or modify these factors to improve its efficiency. However, the firm may not be able to change all the factors.

The various internal factors are:

1. Value system of the organisation
2. Mission and objectives of the organisation

3. Organisation structure
4. Corporate culture
5. Quality of human resources
6. Labour unions
7. Physical resources and technological capabilities

Steps Involved in Environmental Analysis

1. **Identifying**: First of all, the factors which influence the business entity are to be identified, to improve its position in the market. The identification is performed at various levels, i.e. company level, market level, national level and global level.
2. **Scanning**: Scanning implies the process of critically examining the factors that highly influence the business, as all the factors identified in the previous step effects the entity with the same intensity. Once the important factors are identified, strategies can be made for its improvement.
3. **Analysing**: In this step, a careful analysis of all the environmental factors is made to determine their effect on different business levels and on the business as a whole. Different tools available for the analysis include benchmarking, Delphi technique and scenario building.
4. **Forecasting**: After identification, examination and analysis, lastly the impact of the variables is to be forecasted.

Environmental analysis is an ongoing process and follows a holistic approach, that continuously scans the forces effecting the business environment and covers 360 degrees of the horizon, rather than a specificsegment.

Environmental Scanning

Environmental scanning refers to possession and utilization of information about occasions, patterns, trends, and relationships within an organization's internal and *external environment.* It helps the managers to decide the future path of the organization. Scanning must identify the threats and opportunities existing in the environment. While strategy formulation, an organization must take advantage of the opportunities and minimize the threats. A threat for one organization may be an opportunity for another.

Internal analysis of the environment is the first step of environment scanning. Organizations should observe the internal organizational environment. This includes employee interaction with other employees, employee interaction with management, manager interaction with other managers, and management interaction with shareholders, access to natural resources, brand awareness, organizational structure, main staff, operational potential, etc. Also, discussions, interviews, and surveys can be used to assess the internal environment. Analysis of internal environment helps in identifying strengths and weaknesses of an organization.

As business becomes more competitive, and there are rapid changes in the external environment, information from external environment adds crucial elements to the effectiveness of long-term plans. As environment is dynamic, it becomes essential to identify competitors' moves and actions. Organizations have also to update the core competencies and internal environment as per external environment. Environmental factors are infinite; hence, organization should be agile and vigile to accept and adjust to the environmental changes. For instance - Monitoring might indicate that an original forecast of the prices of the raw materials that are involved in the product are no more credible, which could imply the requirement for more focused scanning, forecasting and analysis to create a more trustworthy prediction about the input costs. In a similar manner, there can be changes in factors such as competitor's activities, technology, market tastes and preferences.

While in **external analysis**, three correlated environments should be studied and analysed —

- immediate / industry environment
- national environment
- broader socio-economic environment / macro-environment

Examining the **industry environment** needs an appraisal of the competitive structure of the organization's industry, including the competitive position of a particular organization and it's main rivals. Also, an assessment of the nature, stage, dynamics and history of the industry is essential. It also implies evaluating the effect of globalization on competition within the industry. Analysing the **national environment** needs an appraisal of whether the national framework helps in achieving competitive advantage in the globalized environment. Analysis of **macro-environment** includes exploring macro-economic, social, government, legal, technological and international factors that may influence the environment. The analysis of organization's external environment reveals opportunities and threats for an organization. Strategic managers must not only recognize the present state of the environment and their industry but also be able to predict its future positions.

Competitive Strategy

Definition: Competitive Strategy can be defined as the firm's long-term action plan that formulated by considering several external factors, that helps the company to achieve competitive advantage, increase the share in the market and overpower rivals. Competitive advantage is the result of the firm's excellence in performing activities.

The firm's external environment, has the potential to influence the company's internal environment, especially the economic and technical elements. The company should have an idea of its market position, in relation to its competitors, which assists the company in competing in the market.

Dynamics of Competitive strategy

1. **Competitive Landscape**: It tends to identify and understand the competition deeply while cognizing the vision, mission, objectives, strengths, weakness, opportunities and threats of the enterprise. While analysing the competition, the firm also keeps an eye on the competitor's overall position in the market, to choose the right strategy for the enterprise.

2. **Strategic Analysis**: It implies the detailed examination of various components of the firm's business environment. It is important for strategy formulation, strategy implementation and strategic decision making.
3. **Industry and Competitive Analysis**: The analysis in which a number of methods are used to have a clear view of the basic industry practices, the intensity of competition,

strategies of competitors and their share in the market, change drivers, profit prospects and so forth, is called as Industry and Competitive Analysis. It assists the company in strategically observing the condition of the industry.

4. **Core Competence**: Core competencies of the company are those capabilities which help the company in defeating its competitors by gaining a competitive advantage. It is a blend of company's technical and managerial know-how, skills, knowledge, experience, strategy, resources, manpower, etc.

5. **Competitive Advantage**: Competitive Advantage assist the firm in defeating its rival organization, through its core competencies which include a combination of distinguishing characteristics of the firm and the product offered by it, which is considered as outstanding, that has the edge over its competitors.Simply put, competitive advantage is when the profitability of an organization is comparatively higher than the average profitability of the other companies operating in the same industry.

6. **Portfolio Analysis**: It is a management tool which helps the company to analyse its product lines and business units, from which good returns are expected. In other words, it identifies and evaluates those products and strategic business units which help the company to survive and grow in the market.

7. **SWOT Analysis**: SWOT Analysis is the analysis of the firm's strengths, weakness, opportunities and threats, to generate strategic alternatives. It aims at facilitating the management in developing a business model, which accurately aligns the firm's resources and capabilities, according to the business environment.

8. **Globalization**: In basic terms, globalization refers to the process through which a business or any other organization creates its presence across the world and begins its operations on an international scale.

A competitive strategy is used to attract customers, gain an edge over its competitors, increase market share and strengthen its position, and expand the business to a larger scale.

Review question

I. 2 weightage questions.

1. Define business environment and its features.
2. Define environment analysis.
3. What are the steps involved in environmental analysis?
4. Write a note on environmental scanning.
5. What is competitive strategy?
6. Describe micro environment of business.
7. What is macro environment of business?
8. List out dimensions of business environment.
9. What are the advantages of business environment analysis?
10. Write a note on competitive strategy.

II. 3or 5 weightage questions

1. Define business environment and describe the components of business environment.
2. Define environmental analysis, also explain its importance and steps.
3. Describe various aspects of environmental scanning,
4. Describe the dynamics of competitive strategy.

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Unit 3

Tools of Strategic/ Competitive Analysis

Strategic Analysis

Strategic analysis can be defined as "the process of conducting research on the business environment within which an organisation operates and on the organisation itself, in order to formulate strategy.' - BNET Business Dictionary

"a theoretically informed understanding of the environment in which an organisation is operating, together with an understanding of the organisation's interaction with its environment in order to improve organisational efficiency and effectiveness by increasing the organisation's capacity to deploy and redeploy its resources intelligently.' - Professor Les Worrall, Wolverhampton Business School

Definitions of strategic analysis often differ, but the following attributes are commonly associated with it:

1. Identification and evaluation of data relevant to strategy formulation.
2. Definition of the external and internal environment to be analysed.
3. A range of analytical methods that can be employed in the analysis. Examples of analytical methods used in strategic analysis include:
   - SWOT analysis
   - PEST analysis
   - Porter's five forces analysis
   - four corner's analysis
   - value chain analysis
   - early warning scans

- war gaming.

Competitor Analysis

Organizations must operate within a competitive industry environment. They do not exist in vacuum. Analysing organization's competitors helps an organization to discover its weaknesses, to identify opportunities for and threats to the organization from the industrial environment. While formulating an organization's strategy, managers must consider the strategies of organization's competitors. Competitor analysis is a driver of an organization's strategy and effects on how firms act or react in their sectors. The organization does a competitor analysis to measure / assess its standing amongst the competitors.

Competitor analysis begins with identifying present as well as potential competitors. It portrays an essential appendage to conduct an industry analysis. An industry analysis gives information regarding probable sources of competition (including all the possible strategic actions and reactions and effects on profitability for all the organizations competing in the industry). However, a well-thought competitor analysis permits an organization to concentrate on those organizations with which it will be in direct competition, and it is especially important when an organization faces a few potential competitors.

I. SWOT Analysis

SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. By definition, Strengths (S) and Weaknesses (W) are considered to be internal factors over which you have some measure of control. Also, by definition, Opportunities (O) and Threats (T) are considered to be external factors over which you have essentially no control.

SWOT Analysis is the most renowned tool for audit and analysis of the overall strategic position of the business and its environment. Its key purpose is to identify the strategies that will create a firm specific business model that will best align an organization's resources and capabilities to the requirements of the environment in which the firm operates.In other words, it is the foundation for evaluating the internal potential and limitations and the probable/likely opportunities and threats from the external environment. It views all positive and negative factors inside and outside the firm that affect the success. A consistent study of the environment in which the firm operates helps in forecasting/ predicting the changing trends and also helps in including them in the decision-making process of the organization.

An overview of the four factors (Strengths, Weaknesses, Opportunities and Threats) is given below-

1. **Strengths** - Strengths are the qualities that enable us to accomplish the organization's mission. These are the basis on which continued success can be made and continued/ sustained.Strengths can be either tangible or intangible. These are what you are well-versed in or what you have expertise in, the traits and qualities your employees possess (individually and as a team) and the distinct features that give your organization its consistency.Strengths are the beneficial aspects of the organization

or the capabilities of an organization, which includes human competencies, process capabilities, financial resources, products and services, customer goodwill and brand loyalty. Examples of organizational strengths are huge financial resources, broad product line, no debt, committed employees, etc.

2. **Weaknesses** - Weaknesses are the qualities that prevent us from accomplishing our mission and achieving our full potential. These weaknesses deteriorate influences on the organizational success and growth. Weaknesses are the factors which do not meet the standards we feel they should meet.Weaknesses in an organization may be depreciating machinery, insufficient research and development facilities, narrow product range, poor decision-making, etc. Weaknesses are controllable. They must be minimized and eliminated. For instance - to overcome obsolete machinery, new machinery can be purchased. Other examples of organizational weaknesses are huge debts, high employee turnover, complex decision-making process, narrow product range, large wastage of raw materials, etc.

3. **Opportunities** - Opportunities are presented by the environment within which our organization operates. These arise when an organization can take benefit of conditions in its environment to plan and execute strategies that enable it to become more profitable. Organizations can gain competitive advantage by making use of opportunities.

Organization should be careful and recognize the opportunities and grasp them whenever they arise. Selecting the targets that will best serve the clients while getting desired results is a difficult task. Opportunities may arise from market, competition, industry/government and technology. Increasing demand for telecommunications accompanied by deregulation is a great opportunity for new firms to enter telecom sector and compete with existing firms for revenue.

4. **Threats** - Threats arise when conditions in external environment jeopardize the reliability and profitability of the organization’s business. They compound the vulnerability when they relate to the weaknesses. Threats are uncontrollable. When

a threat comes, the stability and survival can be at stake. Examples of threats are - unrest among employees; ever changing technology; increasing competition leading to excess capacity, price wars and reducing industry profits; **etc.**

Advantages of SWOT Analysis

SWOT Analysis is instrumental in strategy formulation and selection. It is a strong tool, but it involves a great subjective element. It is best when used as a guide, and not as a prescription. Successful businesses build on their strengths, correct their weakness and protect against internal weaknesses and external threats. They also keep a watch on their overall business environment and recognize and exploit new opportunities faster than its competitors.

SWOT Analysis helps in strategic planning in following manner-

a. It is a source of information for strategic planning.
b. Builds organization's strengths.
c. Reverse its weaknesses.
d. Maximize its response to opportunities.
e. Overcome organization's threats.
f. It helps in identifying core competencies of the firm.
g. It helps in setting of objectives for strategic planning.
h. It helps in knowing past, present and future so that by using past and current data, future plans can be chalked out.

Limitations of SWOT Analysis

SWOT Analysis is not free from its limitations. It may cause organizations to view circumstances as very simple because of which the organizations might overlook certain key strategic contact which may occur. Moreover, categorizing aspects as strengths, weaknesses, opportunities and threats might be very subjective as there is great degree of uncertainty in market. SWOT Analysis does stress upon the significance of these four aspects, but it does not tell how an organization can identify these aspects for itself.

There are certain limitations of SWOT Analysis which are not in control of management. These include-

a. Price increase;
b. Inputs/raw materials;
c. Government legislation;
d. Economic environment;
e. Searching a new market for the product which is not having overseas market due to import restrictions; etc.

Internal limitations may include-

a. Insufficient research and development facilities;
b. Faulty products due to poor quality control;
c. Poor industrial relations;
d. Lack of skilled and efficient labour; etc

II. PEST analysis

PEST analysis is a scan of the external macro-environment in which an organisation exists. It is a useful tool for understanding the political, economic, socio-cultural and technological environment that an organisation operates in. It can be used for evaluating market growth or decline, and as such the position, potential and direction for a business.

a. Political factors- These include government regulations such as employment laws, environmental regulations and tax policy. Other political factors are trade restrictions and political stability.

b. Economic factors-These affect the cost of capital and purchasing power of an organisation. Economic factors include economic growth, interest rates, inflation and currency exchange rates.

c. Social factors- These impact on the consumer's need and the potential market size for an organisation's goods and services. Social factors include population growth, age demographics and attitudes towards health.

d. Technological factors-These influence barriers to entry, make or buy decisions and investment in innovation, such as automation, investment incentives and the rate of technological change.

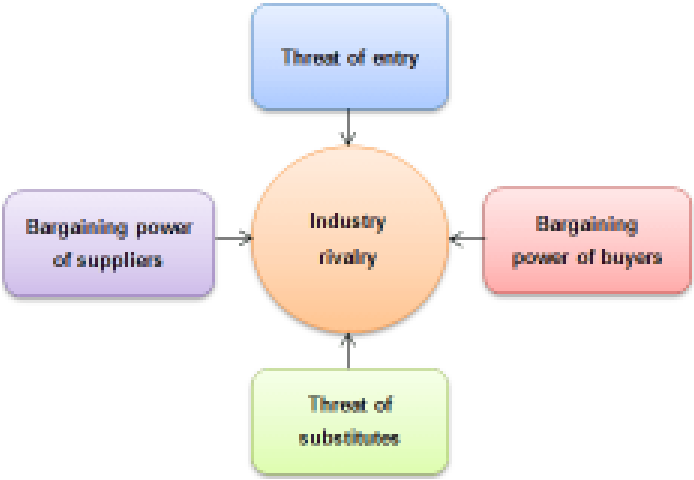
PEST factors can be classified as opportunities or threats in a SWOT analysis. It is often useful to complete a PEST analysis before completing a SWOT analysis.

It is also worth noting that the four paradigms of PEST vary in significance depending on the type of business. For example, social factors are more obviously relevant to consumer businesses or a B2B business near the consumer end of the supply chain. Conversely, political factors are more obviously relevant to a defence contractor or aerospace manufacturer.

III. Porter's five forces

Michael Porter (Harvard Business School Management Researcher) designed various vital frameworks for developing an organization's strategy. One of the most renowned among managers making strategic decisions is the five competitive forces model that determines industry structure. According to Porter, the nature of competition in any industry is personified in the following five forces:

i. Threat of new potential entrants
ii. Threat of substitute product/services
iii. Bargaining power of suppliers
iv. Bargaining power of buyers
v. Rivalry among current competitors



Porters 5 Factor Model

The five forces mentioned above are very significant from point of view of strategy formulation. The potential of these forces differs from industry to industry. These forces jointly determine the profitability of industry because they shape the prices which can be charged, the costs which can be borne, and the investment required to compete in the industry. Before making strategic decisions, the managers should use the five forces framework to determine the competitive structure of industry.

Let's discuss the five factors of Porter's model in detail:

1. Risk of entry by potential competitors: Potential competitors refer to the firms which are not currently competing in the industry but have the potential to do so if given a choice. Entry of new players increases the industry capacity, begins a competition for market share and lowers the current costs. The threat of entry by potential competitors is partially a function of extent of barriers to entry. The various barriers to entry are-
    - Economies of scale

- Brand loyalty
- Government Regulation
- Customer Switching Costs
- Absolute Cost Advantage
- Ease in distribution
- Strong Capital base

2. Rivalry among current competitors: Rivalry refers to the competitive struggle for market share between firms in an industry. Extreme rivalry among established firms poses a strong threat to profitability. The strength of rivalry among established firms within an industry is a function of following factors:
    - Extent of exit barriers
    - Amount of fixed cost
    - Competitive structure of industry
    - Presence of global customers
    - Absence of switching costs
    - Growth Rate of industry
    - Demand conditions
3. Bargaining Power of Buyers: Buyers refer to the customers who finally consume the product or the firms who distribute the industry's product to the final consumers. Bargaining power of buyers refer to the potential of buyers to bargain down the prices charged by the firms in the industry or to increase the firms cost in the industry by demanding better quality and service of product. Strong buyers can extract profits out of an industry by lowering the prices and increasing the costs. They purchase in large quantities. They have full information about the product and the market. They emphasize upon quality products. They pose credible threat of backward integration. In this way, they are regarded as a threat.

4. Bargaining Power of Suppliers: Suppliers refer to the firms that provide inputs to the industry. Bargaining power of the suppliers refer to the potential of the suppliers to increase the prices of inputs(labour, raw materials, services, etc) or the costs of industry in other ways. Strong suppliers can extract profits out of an industry by increasing costs of firms in the industry. Suppliers products have a few substitutes. Strong suppliers' products are unique. They have high switching cost. Their product is an important input to buyer's product. They pose credible threat of forward integration. Buyers are not significant to strong suppliers. In this way, they are regarded as a threat.
5. Threat of Substitute products: Substitute products refer to the products having ability of satisfying customers' needs effectively. Substitutes pose a ceiling (upper limit) on the potential returns of an industry by putting a setting a limit on the price that firms can charge for their product in an industry. Lesser the number of close substitutes a product has, greater is the opportunity for the firms in industry to raise their product prices and earn greater profits (other things being equal).

The power of Porter's five forces varies from industry to industry. Whatever be the industry, these five forces influence the profitability as they affect the prices, the costs, and the capital investment essential for survival and competition in industry. These five forces model also help in making strategic decisions as it is used by the managers to determine industry's competitive structure.

Michael Porter in Porter's Five Forces Model has assumed that the competitive environment within an industry depends on five forces- Threat of new potential entrants, Threat of substitute product/services, bargaining power of suppliers, bargaining power of buyers, Rivalry among current competitors. These five forces should be used as a conceptual background for identifying an organization's competitive strengths and weaknesses and threats to and opportunities for the organization from it's competitive environment.

IV. Four corner's analysis

Developed by Michael Porter, the four corner's analysis is a useful tool for analysing competitors. It emphasises that the objective of competitive analysis should always be on generating insights into the future.

The model can be used to:

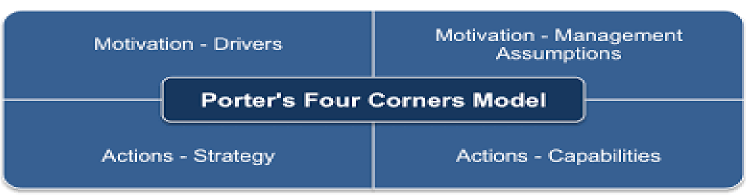
· develop a profile of the likely strategy changes a competitor might make and how successful they may be

· determine each competitor's probable response to the range of feasible strategic moves other competitors might make

· determine each competitor's probable reaction to the range of industry shifts and environmental changes that may occur.

The 'four corners' refers to four diagnostic components that are essential to competitor analysis: future goals; current strategy; assumptions; and capabilities.

A summary of Porter's four corner's analysis



1. Drivers

- Financial goals
- Corporate culture
- Organisational structure
- Leadership team backgrounds
- External constraints

- Business philosophy

2. Current strategy

- How the business creates value
- Where the business is choosing to invest
- Relationships and networks the business has developed

3. Management assumptions

- Company's perceptions of its strengths and weaknesses
- Cultural traits
- Organisational value
- Perceived industry forces
- Belief about competitor's goals

4. Capabilities

- Marketing skills
- Ability to service channels
- Skills and training to work force
- Patents and copyrights
- Financial strength
- Leadership qualities of CEO

V. Value chain analysis

Before making a strategic decision, it is important to understand how activities within the organisation create value for customers. One way to do this is to conduct a value chain analysis.

Value chain analysis is based on the principle that organisations exist to create value for their customers. In the analysis, the organisation's activities are divided into separate sets of activities that add value. The organisation can more effectively evaluate its internal capabilities by identifying and examining each of these activities. Each value adding activity is considered to be a source of competitive advantage.

The three steps for conducting a value chain analysis are:

1. Separate the organisation's operations into primary and support activities.

Primary activities are those that physically create a product, as well as market the product, deliver the product to the customer and provide after-sales support. Support activities are those that facilitate the primary activities.

2. Allocate cost to each activity.

Activity cost information provides managers with valuable insight into the internal capabilities of an organisation.

3.Identify the activities that are critical to customer's satisfaction and market success.

There are three important considerations in evaluating the role of each activity in the value chain.

- Company mission. This influences the choice of activities an organisation undertakes.
- Industry type. The nature of the industry influences the relative importance of activities.
- Value system. This includes the value chains of an organisation's upstream and downstream partners in providing products to end customers.

Value chain analysis is a comprehensive technique for analysing an organisation's source of competitive advantage.

VI. Early warning systems

The purpose of strategic early warning systems is to detect or predict strategically important events as early as possible. They are often used to identify the first scene of attack from a competitor or to assess the likelihood of a given scenario becoming reality.

The seven key components of an early warning system are:

1. Market definition - A clear definition of the scope of the arena to be scrutinised. For example, is the arena a particular geographical region, brand or market?

2. Open systems- An ability to capture a wide range of information on relevant competitors.

3. **Filtering-** Information that has been collected on the arena needs to be filtered according to significance. Expert interpretation is required in order to identify particular events that signify strategic moves or shifts.

4.Predictive intelligence- Using knowledge of the forces driving a competitor to predict which direction they are likely to take. One technique is to build likely scenarios and actively seek the signals that confirm the scenario. The predictions need to be assessed for their probability of occurring and potential impact.

5.Communicating intelligence- Ensuring that the right people in an organisation receive regular briefing on key signals.

6.Contingency planning -Events that have a high potential impact or probability of occurring may merit contingency plans, for example, a change of strategy or mitigating actions.

7. A cyclical process -The process of scrutinising information for new warning signals should never stop. While the emphasis is on emerging threats and opportunities, the process should be flexible enough to tackle unexpected shorter term developments too.

VII. War gaming

War games are a useful technique for identifying competitive vulnerabilities and misguided internal assumptions about competitors' strategies.Simulations of competitive scenarios are used to explore the implications of changes in strategy in a 'no risk' environment. They also encourage new ways of thinking about the competitive context. War games are often particularly useful for organisations facing critical strategic decisions.

A typical business war game has the following characteristics:

- an off-site venue
- senior managers representing a cross-functional mix of participants
- two to three full days' duration
- four or more teams of between four to eight people each. Each team represents either the sponsoring company or one of its competitors
- preparation time in which each team receives a dossier describing the company they are representing, and its strengths and weaknesses

It also has the following characteristics.

- A structure where games comprise several 'moves' or decision rounds. Each move consists of a fixed, predetermined amount of time ranging from a couple of months to several years. During each move, teams make and carry out strategic decisions. After each move, teams assess their positions relative to other teams.
- A 'control team' of facilitators who serve as the board of directors. They ensure that strategic plans are acceptable and legal. They also facilitate the debrief, in which participants review the merit of each strategy

Objective of Competitor Analysis

The main objectives of doing competitor analysis can be summarized as follows:

- To study the market;
- To predict and forecast organization's demand and supply;
- To formulate strategy;
- To increase the market share;
- To study the market trend and pattern;
- To develop strategy for organizational growth;
- When the organization is planning for the diversification and expansion plan;
- To study forthcoming trends in the industry;
- Understanding the current strategy strengths and weaknesses of a competitor can suggest opportunities and threats that will merit a response;
- Insight into future competitor strategies may help in predicting upcoming threats and opportunities.

Competitors should be analysed along various dimensions such as their size, growth and profitability, reputation, objectives, culture, cost structure, strengths and weaknesses, business strategies, exit barriers, etc.

Review question

I. 2 weightage questions.

1. Define Competitor analysis. what are its objectives?
2. Define Strategic analysis with its attributes.
3. What is SWOT Analysis?
4. List out the benefits and limitation of SWOT analysis.
5. What is PEST analysis?
6. What is 'Porters 5 Factor model'?
7. What you mean by "four corner analysis"?
8. Describe Value Chain analysis.
9. What is Early Warning System?
10. Write a note on 'War gaming".

II. 3or 5 weightage questions

1. Define Competitor Analysis and describe various methods of CA.
2. Describe the components, merits and demerits of SWOT analysis.
3. Discuss the contributions of Michael Porter in Competition analysis,
4. Discuss the objectives and tools of Competitor Analysis.
5. Write notes on: a. Value Chain analysis.
   b. Porter's Five forces Model.
   c. Early Warning System
   d. War gaming.

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Unit 4

Competitive Advantage and Core competency

Competence Based Management is comparatively a modern method to find on the means by which firms achieve excellent performance and also more important sustain that good performance. The significance of this method lies in the fact that it can provide a theoretical explanation about the way in which firms will be able attain and also sustain **competitive advantage**. This management approach provides the theoretical approach that can explain this method in a methodical and ordered manner. In this method it is important to give stress to the competence of an organization rather than the environment in which it functions. So it is rather a method that looks inward into the organization. Therefore this theory will be useful to understand the abilities of an organization that help it to achieve competitive advantage. It is considered to be based on four pillars namely **dynamic, systemic, cognitive and holistic** aspects of competences of the organization. Fundamentally competence should include these four natures of the organization to attain competitive advantage. Competitive advantage is a favourable position a business holds in the market which results in more customers and profits. It is what makes the brand, product, or service to be perceived as superior to the other competitors.

A brand can create a competitive advantage if it is clear about these three determinants:

- **Target Market**: The perfect knowledge of who buys from the brand, what they desire from the brand, and who could start buying from the brand if certain strategies are executed is essential for the business to create a competitive advantage over the competitors.

- **Competition:** The business should have an answer to these two questions: Who is the present competition and who could be a prospective competition in the coming years? What are the production, pricing, marketing and branding strategies they're using to develop and market their products?
- **USP**: The **unique selling proposition** is usually the chief trigger of the competitive advantage and separates the business from the competition. It is the reason why the customers choose the concerned brand over others. The USP should be clear to both the business and the customers in order for a brand to create a competitive advantage.

Types of Competitive Advantages

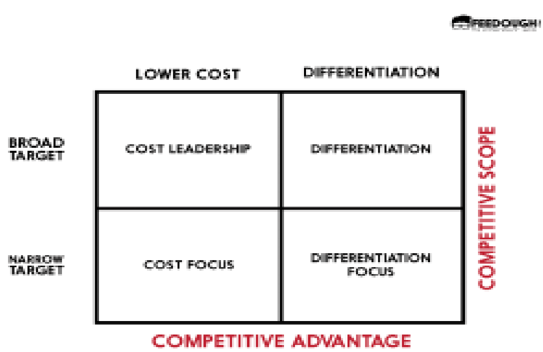
Even though the *definition of competitive advantage* remains the same, different marketers have stated different types of competitive advantages.

Michael Porter, a Harvard University graduate, wrote a book in 1985 named – Competitive Advantage: Creating and Sustaining Superior Performance, which identified three strategies which businesses can use to tackle competition and create a *sustainable competitive advantage*. According to him, these three generic strategies are:

1. **Cost Leadership:** It is a strategy where a business produces the same quality of the product as of the competitors' but sells it at a lower price. Cost leadership is achieved by continuously improving the operational efficiency (using less but more efficient workers or outsourcing to places where the costs are less), and getting the advantage of economies of scale (in the case of bigger businesses like Aldi, Walmart, etc.).
2. **Differentiation**: A differential advantage is when the product or service offered by the business deliver different benefits than the products offered by the competitors. It

involves defining the offering's unique position in the market by explaining the unique benefit it provides to the target group. This unique position can refer to the high quality, better delivery, more features, or any other specific attribute of the product or service. Differentiation is usually achieved by innovation and big innovation usually result in disruption of the industry and creating a sustainable competitive advantage for the business. An example of the creation of differential advantage through disruption is Uber. It differentiated the service it was offering by providing it on demand.

3. Focus: Also called the segmentation strategy, the focus strategy involves targeting a pre-defined segment rather than everyone. It involves understanding the target market better than everyone else and use the data for better offering crafted according to the target market's needs. This strategy was initially used by small businesses to compete with the big companies, but with the advent of the internet and the introduction of microtargeting, even big businesses like Amazon, Facebook, & Google use the focus strategy to differentiate themselves from others.



However, modern competitive advantages aren't limited to these three. A strong brand, big pockets, network effect, patents, and trademarks are few other *competitive advantage strategies* businesses use to outdo their competitors.

- **Brand:** Brand loyalty is one of the biggest competitive advantages any business can capitalize on. An effective brand image and positioning strategy leads to customers becoming loyal to the brand and even paying more than usual to own the brand's product. Apple is a perfect example when it comes to brand-related competitive advantage.
- **Big Pockets:** Some companies enter the market with huge funding and disrupt the ecosystem by providing some really enticing offers or providing the products at really low prices. This acts as a competitive advantage as other companies often fail to respond to such tactics.
- **Network Effect:** The network effect makes the good or service more valuable when more people use it. For example, WhatsApp enjoys a competitive advantage over other players because its users are reluctant to try other applications as most of their contacts use WhatsApp.
- § **Barriers to Entry & Competition:** Businesses often make use of natural and artificial barriers to entry like Government policies, access to suppliers, patents, trademarks, etc. to stop others from becoming a close competition.

It is a truism that strategic management is all about gaining and maintaining competitive advantage. The term can be defined to mean "anything that a firm does especially well when compared with rival firms". Note the emphasis on comparison with rival firms as competitive advantage is all about how best to best the rivals and stay competitive in the market.

Competitive advantage accrues to a firm when it does something that the rivals cannot do or owns something that the rival firms desire. For instance, for some firms, competitive advantage in these recessionary times can mean a hoard of cash where it can buy out struggling firms and increase its strategic position. In other cases, competitive advantage can mean that a firm has lesser-fixed assets when compared to rival firms, which is again a plus in an economic downturn.

Sustained Competitive Advantage

We have defined what competitive advantage is as it relates to strategic management and the sources of competitive advantage differing from firm to firm. However, a firm can have a source of competitive advantage for only a certain period because the rival firms imitate and copy the successful firms' strategies leading to the original firm losing its source of competitive advantage over the longer term. Hence, it is imperative for firms to develop and nurture sustained competitive advantage.

This can be done by:

Continually adapting to the changing external business landscape and matching internal strengths and capabilities by channelling resources and competencies in a fluid manner.

By formulating, implementing, and evaluating strategies in an effective manner which make use of the factors described above.

The fact that firms lose their sources of competitive advantage over the longer term is borne out by statistics that show that the top three broadcast networks in the United States had over 90 percent market share in 1978 which has now come down to less than 50 percent.

Competitive Intelligence

Definition: In business parlance, competitive intelligence can be understood as the process of identifying, gathering, evaluating and disseminating, information concerning competitor's strengths and weaknesses, products, and customers, which a firm requires for strategic decision making. In other words, it is a legal and ethical practice that helps in improving the firm's competitive ability and capacity.

Competitive intelligence or otherwise called as early signal analysis encompasses information relating to competitor's plans, products, next moves, and actions. Such intelligence influences the organization's own plans and strategies. Add to that, it helps in prior ascertainment of opportunities and threats in the marketplace, before they are apparent.

Objectives of Competitive Intelligence

- To provide an advanced warning of risks and opportunities, such as mergers, takeovers, alliances, new products and services.
- To make sure that strategic planning decision, relies on relevant and up-to-date competitive intelligence.
- To ensure that organization is able to adapt and respond to the changing business environment.
- To provide periodic and systematic audit of firm's competitiveness, which provides an unbiased evaluation of firm's actual position, with respect to the environment.

Competitive Intelligence intends to make the firm more competitive with respect to the environment in which the firm operates, i.e. competitors, customers, distributors, and other stakeholders.

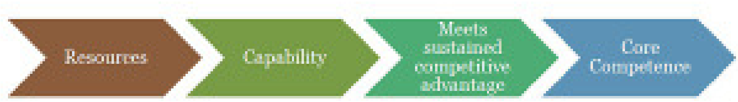
Competitive Intelligence Process

1. Identify the business problem
2. Ascertain competitive data sources
3. Collect and assemble the data
4. Produce actionable intelligence
5. Communicate results and findings to the users
6. Communicate information to the strategic planning process
7. Provide response and re-evaluate.

The competitive intelligence process helps the firm to obtain, process, analyse, spread and interpret competitor's information vigorously and systematically, in order to react appropriately.

Core Competency

Core Competence can be defined as the fundamental strength of a business which includes a unique combination of various resources, knowledge and skills, which differentiates a company in the marketplace. It is the profound dexterity that provides one or more lasting competitive advantage to the company in creating and delivering perceived benefits to the customers.



Core Competency is something that provides access to a number of markets, difficult to catch up by rivals and must make a considerable amount of contribution, in providing value to the customers. It can be gained by the distinct set of skills or production techniques. It provides a structure to the companies, which is helpful in ascertaining their major strengths, to strategize accordingly.

Core competency theory

The core competency theory is the theory of strategy that prescribes actions to be taken by firms to achieve competitive advantage in the marketplace. The concept of core competency states that firms must play to their strengths or those areas or functions in which they have competencies. In addition, the theory also defines what forms a core competency and this is to do with it being not easy for competitors to imitate, it can be reused across the markets that the firm caters to and the products it makes, and it must add value to the end user or the consumers who get benefit from it. In other words, **companies must orient their strategies to tap into the core competencies and the core competency is the fundamental basis for the value added by the firm**.

Core Competencies and Strategy

The term core competency was coined by the leading management experts, CK Prahalad and Gary Hamel in an article in the famous Harvard Business Review. By providing a basis for firms to compete and achieve sustainable competitive advantage, Prahalad and Hamel pioneered the concept and laid the foundation for companies to follow in practice.

Some core competencies that firms might have include technical superiority, its customer relationship management, and processes that are vastly efficient. In other words, each firm has a specific area in which it does well relative to its competitors, this area of excellence can be reused by the firm in other markets and products, and finally, the area of strength adds value to the consumer. The implications for real world practice are that core competencies must be nurtured and the business model built around them instead of focusing too much on areas where the firm does not have competency. This is not to say that other competencies must be neglected or ignored. Rather, the idea behind the concept is that firms must leverage upon their core strengths and play to their advantages.

Some Examples

If we take the examples from real world companies and evaluate their core competencies, we find that many firms have benefited from the application of this theory and that they have succeeded in attaining competitive advantage and sustainable strategic advantage. For instance, the core competencies of Walt Disney Corporation lie in its ability to animate and design its shows, the art of storytelling that has been perfected by the company, and the operation of its theme parks that is done in an efficient and productive manner. Hence, Walt Disney Corporation would be well advised to configure its strategy around these core competencies and build a business model that complements these competencies.

The important aspect to be noted is that **core competencies provide the companies with a framework wherein they can identify their core strengths and strategize accordingly**. Of course, the identification and evaluation of core competencies must be done as accurately and reliably as possible since the divestment of non-core areas must not lead to the firm missing key areas of operation and competitive advantage. Finally, care must be taken when building the organizational edifice around the core competencies to avoid the situation where many or too few of the competencies are identified leading to redundancies or scarcity.

Competence based Strategy

The core competence approach of strategy views the business in a particular way. For this approach business are open systems intermingling with their environments to obtain resources and deliver outputs. As per this approach of strategy, the capacity of the business to build up core competences that are not acquired by its competitors and that generate recognizable profits for consumers form the basis of its superior performance.

The business can create **competitive advantage** in both new and current markets as below:

- By leveraging the presently available core competences
- By building new competences
- Through alliance relationships with suppliers, customers and also competitors

The collective learning or knowledge of the organization forms the basis of its core competences.

Knowledge

In recent time the study of core competences has concentrated more on knowledge as its main aspect. In an organizational perspective, principles, facts, skills, and rules which update the organizational decision-making, behaviour and actions are regarded as knowledge. The organization's activities, competences, products and services are founded on this knowledge. Also, the capability of the organization to build up new knowledge, and thereby core competences, faster and more efficiently when compared to its competitors form the key for its competitive advantage.

Knowledge and Resource based Approach

In the knowledge and resource-based approach to strategy, the point of concentration as the chief supply of competitive advantage is the business itself instead of the industry.

The business which is capable of performing extraordinarily in a global market is able to do so as it has certain qualities which make them both distinguishable from and better than their competitors. Core competences of the business are these distinctive qualities.

Core competences are certainly distinguishable for competences. While competences are Abilities acquired by all competitors in an industry form the competences whereas core competences are acquired only by those who accomplish superior performance.

Core competences have to be based on superior knowledge. For a good strategy for business it is important to know the elements of the core competences, details of the knowledge on which they are formed, creation and management of knowledge and lastly about, the knowledgeable deployment of the core competences. Understanding these aspects are essential to give proper strategic direction to the business.

The exclusive source of core competence is knowledge. For this reason, knowledge becomes the critical reason for an organization to achieve sustainable competitive advantage. As an upshot of the rapid speed with which the business environment is changing in the present scenario, competitive advantage is not easy to accomplish. Even more difficult is to sustain it. To accomplish and sustain competitive advantage it is essential to generate new knowledge at a pace which is not possible for its competitors to catch up with. Individual and organizational learning form the basis for knowledge creation.

In short, the present business world demands that organizations have to build up behaviours and structures which will facilitate them the generation and handling of knowledge more successfully than their competitors.

Technology Competence

Technology is a term that is frequently used in the business world. It is a term habitually related to science. But there is a significant difference between the two. Science comprises of outcomes of basic academic studies whereas technology infers to the relevant application of science. This difference is critical when it is to be understood about the manner in which businesses attain new technologies.

The significance of technology to an organization is positioned in the reality that having of technology can provide a competitive advantage. Consequently technology can be considered as an asset of strategic importance. In addition it can be said that an organization''s capacity to handle and take advantage of technology can symbolize a core competence.

Technology Competence Features

Technology competence can improve an organization''s product portfolio. This is possible in different ways as below:

- **New Functions**

A novel product can be built which permits the customer to execute activities that were earlier not doable or else extremely hard. For instance, consider the growth of mobile technology. It permits customers to converse with least difficult around the world. There are users who are ready to compensate high values to have products of latest technology. These products are expected to be extremely pioneering needing good investments in new technology.

- **New Features**

An available product can be transformed to turn it into more functional while the fundamental utility continues to be the same. For instance, take the case of mobile phones having cameras. Organizations incessantly search for innovations to make their products distinctive from those of their competitors. Even if such innovations can be small, over a period of time these can combine to denote a major leap forward in technology.

- **Superior Dependability**

With the technology developing into a more advanced stage, product dependability turns out to be a major feature in product differentiation. For instance, improved utilization of specific integrated circuits can result in easiness of product assembly. Enhancements in designs and diverse techniques of construction will concentrate on performance and quality.

- **Reduced Costs**

With the product developing into matured stage technology advancement can concentrate more on cost lessening. For instance, consider the utilization of specialized integrated circuits as referred previously. They are costly to conceive but in mass production present massive cost benefits over separate components. They can present a magnificent improvement to the business that can take control of this technology.

Technology is one of the fundamental causes for the existence of a product life cycle. When the technology is in novel phase, enhancements are fast and product functioning ascents rapidly. As the technology becomes established, the speed of transformation of functioning becomes reach stability since the technological threshold is attained. At certain point, another new technology is developed and integrated in the product. The cycle will start again.

Key Differences Between Competitive Advantage and Core Competence

The primary differences between Competitive Advantage and Core Competence are given hereunder:

1. Competitive Advantage can be understood as the specific feature, which helps the firm to outrun its rivals at the market place. On the contrary, core competence is defined as the set of skills and strength, that results in a competitive advantage.
2. Competitive advantage does not ensure success to the firm in the long term. As against this, core competence ensures the success of the firm in the long term.
3. Competitive Advantage provides a temporary competitive superiority to the firm, over other firms in the marketplace. Conversely, core competence provides

a long-lasting superiority to the firm, over its competitors.

4. Competitive Advantage is a result of functional strength, whereas core competence is derived from core strength, i.e. the proficiency which is fundamental to the business or product, such as a distinct capability in business process or technology.
5. When it comes to impact, the core competence has a far-reaching impact, as it helps the firm in general and multifaceted manner, while the competitive advantage has a limited and specific impact on the business.
6. Competitive advantage helps in gaining competitive strength in a particular business or product. As against this, core competence helps in gaining excellence in multiple businesses and products.

Core competencies are the major source of attaining competitive advantage and determines the areas, which a firm must focus. It helps the firms in identifying prospective opportunities for adding value to customers. On the other hand, competitive advantage helps a firm to get an edge over the competitors.

Review Questions

I. 2 weightage questions.

1. Define Competitive Advantage.
2. Define Core Competency.
3. What are the determinants of Competitive Advantage?
4. What are the types of Competitive Advantage?
5. What is PEST analysis?
6. What is 'Sustained competitive Advantage'?
7. What you mean by "competitive Intelligence"?
8. Differentiate between Competitive advantage and Core competency.
9. What is Early Warning System?
10. Write a note on 'War gaming".

II. 3or 5 weightage questions

1. Define Competitive Advantage and describe various strategies of competitive Advantage.
2. Describe Core CompetencyTheories.
3. Discuss the competence-based strategies,
4. Discuss the factors influencing Competitive Advantage and also explain various types of Competitive advantage.

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Unit 5

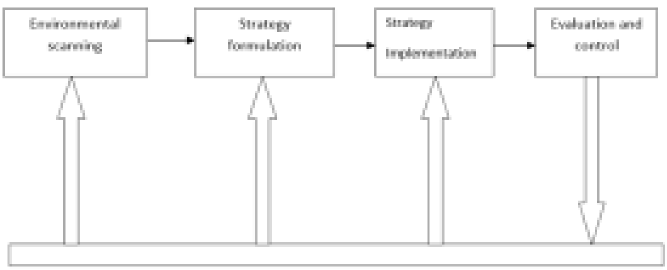
Emerging Trends in Strategic Management

Strategic management is the process in which management implements a plan or strategy that maximizes the utilization of resources for the benefit of the organization. Often times companies implement a plan, but fail to execute a process that measures performance on meeting and achieving goals. The strategic management plan should be used as a general blueprint of the direction of the organization, which includes a strategic analysis, such as — SWOT (strength, weaknesses, opportunities and threats). And successful plans need to be flexible and innovative in order to adapt to complex fluid environments. A strategic manager must have a keen watch on the trend forms of business environment. Following are the recent trends in strategic Management.

1. Management of Strategic Change

In business Environment, company has to undergo different kind of changes. These changes occur due to internal issues of company or advancement of technology. Change denotes to cope development of touching from an unacceptable present state to a preferred state. Currently, organizations obtain benefit from strategic change, so they must adjust themselves with new condition if they want have profits. The challenge for managers in current business climate is learning to manage change successfully. To stay competitive in the long term, enterprises are required to assume compound changes with increasing speed, effectiveness and success. Strategic change is described as "changes in the content of a firm's strategy as defined by its scope, resource deployments, competitive advantages, and synergy". Managers who are responsible for strategic change must consider some issues. First of all, they have to consider the culture and behaviours of workforce. It is understandable that changing something that people used to it for a long time is not easy to change. Another factor is that when talking about a strategic change there must be good consideration about context compatibility between the change and organization. Lynch (2008) argues that in order "to manage strategic change, it is important to understand what is driving the process".

There are four steps in managing strategic change:



Types of strategic change: Change can be categorized by the extent of the change required, and the speed with which the change is to be achieved. Characteristically, strategic development is incremental. It builds on prior strategy, it is adaptive in the way it occurs, with only occasional more transformational changes. Balogun and Hailey recognized four types of strategic change

Speed of change \ Extent of change	Transformation	Realignment
Incremental	**Evolution:** Transformational change implemented gradually through inter-related initiatives; likely to be proactive change undertaken in participation of the need for future change	**Adaptation:** Change undertaken to realign the way in which the organisation operates; implemented in a series of steps
Big Bang	**Revolution:** Transformational change that occurs via simultaneous initiatives on many fronts: ▪ more likely to be forced and reactive because of the changing competitive conditions that the organisation is facing	**Reconstruction:** Change undertaken to realign the way in which the organisation operates with many initiatives implemented simultaneously: ▪ often forced and reactive because of a changing competitive context

Barriers of strategic change: Theorists have realized numerous challenges and barriers in strategic change such as culture and management, technology, strong competition, environment, structure, labour and employees and political issues .The chief obstacle in organization versus strategic change is culture. In the organization, people come from diverse cultural background and they have different outlook. Culture has a strong effect on organization's strategy and also decision making between managers. Culture refers to attitude of employees and top managers in the organization that shows how they behave and carry out the business. Culture can completely destroy everything in the firms. It is observed that the indulgence of the employees, their response and reaction to the new change is always had been the main trouble that the firms has to face.

New technology and product development required for strategic changing that is very expensive for an organization therefore it creates hurdle in growth of organization. Strong competitors also create problems in strategic change management. The company should have a strategic plan for competing among it its competitors. Environment is another factor that plays a challenging role in organizations. It can be said that uncertain strategic direction, insufficient concept of business environment, not to share the knowledge and problem among each other, poor vision and mission and goal setting, high speed of external change are factors that create environment hurdle. Structure of organization is also a major challenge that limited performance, inadequate creativity and imaginative power, different moral patterns and competitions are the most dominant elements in the structure.

To summarize, Strategic change management is the method of managing change in an organised, thoughtful way to accomplish organizational goals, objectives, and missions. Change is essential for organizations for success and stay competition in fierce business environment.

2. Strategic Social Audit

A social audit is a way of measuring, understanding, reporting and ultimately improving an organization's social and ethical performance. A social audit helps to narrow gaps between vision/ goal and reality, between efficiency and effectiveness. It is a technique to understand, measure, verify, report on and to improve the social performance of the organization. Social auditing creates an impact upon governance. It values the voice of stakeholders, including marginalized/poor groups whose voices are rarely heard. Social auditing is taken up for the purpose of enhancing local governance, particularly for strengthening accountability and transparency in local bodies.

The key difference between development and social audit is that a social audit focuses on the neglected issue of social impacts, while a development audit has a broader focus including environment and economic issues, such as the efficiency of a project or programme.

Objectives of social audit

- Assessing the physical and financial gaps between needs and resources available for local development.

- Creating awareness among beneficiaries and providers of local social and productive services.
- Increasing efficacy and effectiveness of local development programmes.
- Scrutiny of various policy decisions, keeping in view stakeholder interests and priorities, particularly of rural poor.
- Estimation of the opportunity cost for stakeholders of not getting timely access to public services.

Advantages of social audit

- ➢ Trains the community on participatory local planning.
- ➢ Encourages local democracy. Encourages community participation.
- ➢ Benefits disadvantaged groups.
- ➢ Promotes collective decision making and sharing responsibilities.
- ➢ Develops human resources and social capital

To be effective, the social auditor must have the right to:

seek clarifications from the implementing agency about any decision-making, activity, scheme, income and expenditure incurred by the agency; consider and scrutinize existing schemes and local activities of the agency; and access registers and documents relating to all development activities undertaken by the implementing agency or by any other government department. This requires transparency in the decision-making and activities of the implementing agencies. In a way, social audit includes measures for enhancing transparency by enforcing the right to information in the planning and implementation of local development activities.

3. Environmental Auditing

Environmental audit is defined as basic management tool which comprises a systematic, documented, periodic and objective evaluation of how well organization, management systems and equipment's are performing.

A good environment management policy requires that there should be a constant effort to analyse and monitor various industrial working system and processes to generate and transmit this information for the inspecting authority such as exercise which generates necessary information on analysis of pollution being generated or will be generated and completion of annual estimate has been termed as environmental audit.

Generally following are the 3 phases when an environmental audit is taken up for an industry:

- phase: Preaudit activity- pertaining to collection of information.
- phase: Activity at site pertaining to evaluation of information collected.
- phase: Post audit activity pertaining to drawing conclusion and identifying areas of improvement if any.

Objectives of EA

- Environment audit needs for an industry are internal as well as external value
- External needs serve to achieve compliance standards and establish a report with regulatory bodies for implementation of environment management policies.
- Internal need serves the industry as well as self-evaluation tool for the process and technology.
- It helps in pollution control, improves production safety and health conservations of nocturnal resources by the

way of ensuring waste prevention and reduction, assessing compliance with regulatory requirement, placing environmental information to the public.

Advantages:

- EA report provides the necessary information on how well the management systems are performing to keep place with sustainable level of development.
- It provides performance evaluation of industrial working facilities and its possible effect in the surrounding.
- It refers to compliance with local, regional and national laws and regulation
- Potential areas for reduction in raw material consumption leads to cost saving
- Provide an up to- date environmental data to the inspecting authority.

4. Supply Chain Management (SCM)

Supply chain management (SCM) is the active management of supply chain activities to maximize customer value and achieve a sustainable competitive advantage. It represents a conscious effort by the supply chain firms to develop and run supply chains in the most effective & efficient ways possible. Supply chain activities cover everything from product development, sourcing, production, and logistics, as well as the information systems needed to coordinate these activities.The concept of Supply Chain Management (SCM) is based on two core ideas:

The first is that practically every product that reaches an end user represents the cumulative effort of multiple organizations.

These organizations are referred to collectively as the supply chain.The second idea is that while supply chains have existed for a long time, most organizations have only paid attention to what was happening within their "four walls." Few businesses understood, much less managed, the entire chain of activities that ultimately delivered products to the final customer. The result was disjointed and often ineffective supply chains.

The organizations that make up the supply chain are "linked" together through physical flows and information flows.

Physical Flows- Physical flows involve the transformation, movement, and storage of goods and materials. They are the most visible piece of the supply chain. But just as important are information flows.

Information Flows- Information flows allow the various supply chain partners to coordinate their long-term plans, and to control the day-to-day flow of goods and materials up and down the supply chain.

5. Total Quality Management

Total Quality Management (TQM) is a participative, systematic approach to planning and implementing a constant organizational improvement process. Its approach is focused on exceeding customers' expectations, identifying problems, building commitment, and promoting open decision-making among workers. There are five major steps to TQM, and each are essential to successful implementation.

1. **Commitment and Understanding from Employees-**It is key to ensure that all employees within your organization know about the Total Quality Management (TQM) policies and make them a fundamental part of their work. Your employees should know your corporate goals and recognize the importance of these goals to the overall success of your organization. Employees need to know what is expected from them and why. It may sound like a no-brainer but too often this is not driven home by management.

When employees understand and share the same vision as management a world of potential is unleashed. If they are in the dark, commitment is lacking and policies will not be successfully deployed.

2.**Quality Improvement Culture** -The organizational culture needs to be modernized on a continuous basis to encourage employee feedback. Your employees are full of valuable knowledge- embrace it! Listen to those executing the processes that keep your business moving daily. If employees have an idea on how to improve operations, they need to know management respects their ideas or they will not share.

3. Continuous Improvement in Process- There is no standing still. If you are not moving forward, you are moving backwards. Total Quality Management (TQM) is a continuous process and not a program. This requires constant improvement in all the related policies, procedures and controls established by management. Do your research. Keep your ear to the market and make an effort to routinely revise all aspects of your operation. There should be a constant effort to improve proficiency – which will result in constant scopes for improvement (even if some improvements are small).

4. Focus on Customer Requirements- In today's market, customers require and expect perfect goods and services with zero defects. Focusing on customer requirements is significant to long term survival and essential in order to build relationships with customers. People do business based on emotion. Competitors will always be a risk. Keep your customers close and happy. Make sure precise requirements of all customers are documented and understood by everyone that touches the account.

5. **Effective Control-** It is essential to monitor and measure the performance of the business. It's easy to forget how many times in a year an employee does not conform to a controlled procedure or how many times a piece of equipment was down due to unplanned maintenance. If strict documentation is maintained, you will be able to objectively quantify areas for

improvement and focus your efforts where they will provide the greatest return of both your time and financial resources.

Always remember that TQM is an amalgamation of many steps. Today's ever changing economic market requires organizations to consistently exceed expectations, and workers demand being more than an observer in decision making.

6. Corporate Social Responsibility

Definition: Corporate Social Responsibility (also known as CSR, corporate conscience, and corporate citizenship) is the integration of socially beneficial programs and practices into a corporation's business model and culture. CSR aims to increase long-term profits for online and offline businesses by enabling them to become more efficient and attract positive attention for their efforts.

Benefits of CSR

Both ecommerce and brick-and-mortar businesses stand to benefit from the implementation of CSR strategies. Some activities that fall under the umbrella of CSR, with their corresponding benefits, include:

- Prevent financial ramifications: Compliance with the spirit and letter of the law — both nationally and internationally — through self-regulatory processes will prevent fines, put your business "low on regulators' radar screens," and lower legal expenses.
- Increase employee loyalty: Treating your employees fairly and generously is a part of corporate social responsibility. By providing good jobs and encouraging high professional and moral standards, you increase employee loyalty, and by procuring only those overseas products produced at factories where workers were treated ethically, you gain support among "Fair Trade" advocates.
- Maintain a positive reputation: Demonstrated consciousness in a variety of areas can garner publicity

and give a business tangible proof of their conduct, which can be proudly displayed on a company website. These include:

- Environmental consciousness: Reducing waste, recycling, minimizing carbon footprint, and other best practices can. Using or producing only sustainable products, lowering energy usage, and supporting environmental causes will boost a business's "green reputation" among environmentally concerned clients.
- Social Concern: Donating to humanitarian causes that fight persistent poverty, help the victims of epidemics like AIDS or Ebola, or assist those displaced by hurricanes or earthquakes shows concern for issues that consumers are more and more aware of in our modern, interconnected world.
- Local Community: Involvement in local community projects, either through financial donations, employee participation, connecting your customers with project leaders, or promotion of the project through advertising and fundraising enhances your CSR credentials with clients in the given location.

7. Benchmarking

Benchmarking is a process of measuring the performance of a company's products, services, or processes against those of another business considered to be the best in the industry, aka "best in class." The point of benchmarking is to identify internal opportunities for improvement. By studying companies with superior performance, breaking down what makes such superior performance possible, and then comparing those processes to how your business operates, you can implement changes that will yield significant improvements.

That might mean tweaking a product's features to more closely match a competitor's offering, or changing the scope of services you offer, or installing a new customer relationship management (CRM) system to enable more personalized communications with customers.

There are two basic kinds of improvement opportunities: continuous and dramatic. Continuous improvement is incremental, involving only small adjustments to reap sizeable advances. Dramatic improvement can only come about through reengineering the whole internal work process.

Step-by-Step Benchmarking

Benchmarking is a simple, but detailed, five-step process:

- Choose a product, service, or internal department to benchmark
- Determine which best-in-class companies you should benchmark against – which organizations you'll compare your business to
- Gather information on their internal performance, or metrics
- Compare the data from both organizations to identify gaps in your company's performance
- Adopt the processes and policies in place within the best-in-class performers

Benchmarking will point out what changes will make the most difference, but it's up to you to actually put them in place.

Benefits of Bench Marking

In addition to helping companies become more efficient and profitable, benchmarking has other benefits, too, such as:

Improving employee understanding of cost structures and internal processes

Encouraging team-building and cooperation in the interests of becoming more competitive

Enhancing familiarity with key performance metrics and opportunities for improvement company-wide

In essence, benchmarking helps employees understand how one small piece of a company's processes or products can be the key to major success, just as one employee's contributions can lead to a big win.

8. VMOST Analysis

The VMOST analysis is a tool developed by Rakesh Sondhi, a professor of global strategy at Hult International Business School. It maps a hierarchy of elements that work in tandem to build an effective strategy for planning and evaluation.

Vision and mission form the core of an effective strategy, providing guiding principles for more practical and tangible aspects of the plan. Vision is an abstract guiding principle, such as making the world a better place or providing world-class customer service. Mission is a more concrete expression of this vision, such as designing and building environmentally friendly technologies or making every customer feel like your only customer.

Objectives are the concrete and measurable part of a plan, the reference points through which you can most clearly and objectively measure success. The measurable aspect of strategic objectives are sometimes referred to as key performance indicators because they provide the framework for gathering the real data that is necessary for assessing progress toward goals. Strong key performance indicators are expressed quantitatively as far as number of units or sales volume to be achieved and also in terms of specific timelines and deadlines for achieving these aims.Strategy is a course of action unifying benchmarks and vision. It lays out where you want to go and how you want to get there. Strategy can then be broken down into tactics, which are actionable steps that move your business toward the end results you aim to achieve. Tactics may be spread out over different departments, such as creative and financial, for launching a project while also figuring out how to pay for it.

9. Strategic Leadership

Strategic leadership refers to a manager's potential to express a strategic vision for the organization, or a part of the organization, and to motivate and persuade others to acquire that vision. Strategic leadership can also be defined as utilizing strategy in the management of employees. It is the potential to influence organizational members and to execute organizational change. Strategic leaders create organizational structure, allocate resources and express strategic vision. Strategic leaders work in an ambiguous environment on very difficult issues that influence and are influenced by occasions and organizations external to their own.

The main objective of strategic leadership is strategic productivity. Another aim of strategic leadership is to develop an environment in which employees forecast the organization's needs in context of their own job. Strategic leaders encourage the employees in an organization to follow their own ideas. Strategic leaders make greater use of reward and incentive system for encouraging productive and quality employees to show much better performance for their organization. Functional strategic leadership is about inventiveness, perception, and planning to assist an individual in realizing his objectives and goals.

Strategic leadership requires the potential to foresee and comprehend the work environment. It requires objectivity and potential to look at the broader picture.

Strategic Leader : A strategic leader is someone who determines the organization's strategies and actions and makes every effort to implement it, in an intended manner.In general, the **manager acts as a strategic leader** in the organization, who foresees and interprets, the dynamic business environment and work on issues that can influence and can be influenced by the events that occur to/with the organization.

Functions of Strategic Leader

- Setting the direction
- Strategic decision making
- Human capital management
- Translating strategies into actions
- Change Management
- Effective communication within the organization

- Ensuring efforts are made in the right direction.
- Developing strategic competencies.
- Framing policies and plans for the effective implementation of strategic decisions.
- Developing and maintaining a constructive work culture

The strategic leader has the following qualities – **Open-mindedness, Foresightedness, Accountable, Risk-taking ability, Influential, Discipline, Endurance, Up-to-date, Self-control and Self Awareness**.

Roles played by the strategic leader

1. **Navigator**: A strategic leader identifies the major issues and its causes. Further, he/she always look for better opportunities, to affect actions.
2. **Strategist**: As a strategist, he/she develops such strategies which have a long range view and establish

those objectives which suit the organization's vision and mission.

3. **Entrepreneur**: A strategic leader has the risk-taking ability, who takes risks after completely analysing it. For this purpose, he/she always looks for opportunities and exploit them at the right time.
4. **Change Agent**: As a change agent, he/she initiates changes in the organization, wherever required. And to do so, first of all, he/she makes sure that the members of the organization realize the need for change so that they can accept it positively and the changes are successfully implemented.
5. **Motivator**: A strategic leader plays the role of a motivator, by attracting, developing, encouraging and retaining talent in the organization, to make sure that the organization possess the best human resource.
6. **Captivator**: As a captivator, the strategic leader aims at developing passion, dedication, persistence and commitment towards the common goals, by influencing them in a way that people get ready to follow the vision.

Apart from these roles a strategic leader also plays the role of a visionary, policy maker, crisis manager, spokesperson, process integrator, mobilizer, enterprise guardian etc.To conclude, Strategic leaders can create vision, express vision, passionately possess vision and persistently drive it to accomplishment.

10. Organizational (Re)Design

Organizational design is a step-by-step methodology which identifies dysfunctional aspects of work flow, procedures, structures and systems, realigns them to fit current business realities/goals and then develops plans to implement the new changes. The process focuses on improving both the technical and people side of the business. For most companies, the design process leads to a more effective organization design, significantly improved results (profitability, customer service, internal operations), and employees who are empowered and committed to the business. The hallmark of the design process is a comprehensive and holistic approach to organizational improvement that touches all aspects of organizational life, so you can achieve:

- Excellent customer service
- Increased profitability
- Reduced operating costs
- Improved efficiency and cycle time
- A culture of committed and engaged employees
- A clear strategy for managing and growing your business

By design we're talking about the integration of people with core business processes, technology and systems. A well-designed organization ensures that the form of the organization matches its purpose or strategy, meets the challenges posed by business realities and significantly increases the likelihood that the collective efforts of people will be successful.

Six Key Elements in Organizational Design

Organizational design is engaged when managers develop or change an organization's structure. Organizational Design is a process that involves decisions about the following six key elements:

I. Work Specialization

Describes the degree to which tasks in an organization are divided into separate jobs. The main idea of this organizational design is that an entire job is not done by one individual. It is broken down into steps, and a different person completes each step. Individual employees specialize in doing part of an activity rather than the entire activity.

II. Departmentalization

It is the basis by which jobs are grouped together. For instance, every organization has its own specific way of classifying and grouping work activities.

III. Chain of command

It is defined as a continuous line of authority that extends from upper organizational levels to the lowest levels and clarifies who reports to whom. There are three important concepts attached to this theory:

- **Authority:** Refers to the rights inherent in a managerial position to tell people what to do and to expect them to do it.
- **Responsibility:** The obligation to perform any assigned duties.
- **Unity of command:** The management principle that each person should report to only one manager.

IV. Span of Control

It is important to a large degree because it determines the number of levels and managers an organization has. Also, determines the number of employees a manager can efficiently and effectively manage.

V. Centralization and Decentralization

VI. Formalization

It refers to the degree to which jobs within the organization are standardized and the extent to which employee behaviour is guided by rules and procedures.

Types of Organizational Designs

Organizational designs fall into two categories, traditional and contemporary. Traditional designs include simple structure, functional structure, and divisional structure. Contemporary designs would include team structure, matrix structure, project structure, boundaryless organization, and the learning organization. I am going to define and discuss each design in order to give an understanding of the organizational design concept.

I. Traditional Designs

1. Simple Structure

A simple structure is defined as a design with low departmentalization, wide spans of control, centralized authority, and little formalization. This type of design is very common in small start up businesses. For example, in a business with few employees the owner tends to be the manager and controls all of the functions of the business. Often employees work in all parts of the business and don't just focus on one job creating little if any departmentalization. In this type of design there are usually no standardized policies and procedures. When the company begins to expand then the structure tends to become more complex and grows out of the simple structure.

2. Functional Structure

A functional structure is defined as a design that groups similar or related occupational specialties together. It is the functional approach to departmentalization applied to the entire organization.

3.Divisional Structure

A divisional structure is made up of separate, semi-autonomous units or divisions. Within one corporation there may be many different divisions and each division has its own goals to accomplish. A manager oversees their division and is completely responsible for the success or failure of the division. This gets managers to focus more on results knowing that they will be held accountable for them.

II. Contemporary Designs

1. Team Structure

A team structure is a design in which an organization is made up of teams, and each team works towards a common goal. Since the organization is made up of groups to perform the functions of the company, teams must perform well because they are held accountable for their performance. In a team structured organization there is no hierarchy or chain of command. Therefore, teams can work the way they want to, and figure out the most effective and efficient way to perform their tasks. Teams are given the power to be as innovative as they want. Some teams may have a group leader who is in charge of the group.

Whole Foods Market, Inc. is structured entirely around teams. Each store composed of an average of 10 self-managed teams with a designated team leader, and the team leaders in each store are a team called store team.

2. Matrix Structure

A matrix structure is one that assigns specialists from different functional departments to work on one or more projects. In an organization there may be different projects going on at once. Each specific project is assigned a project manager and he has the duty of allocating all the resources needed to accomplish the project. In a matrix structure those resources include the different functions of the company such as operations, accounting, sales, marketing, engineering, and human resources. Basically, the project manager has to gather specialists from each function in order to work on a project, and complete it successfully. In this structure there are two managers, the project manager and the department or functional manager.

3. Project Structure

A project structure is an organizational structure in which employees continuously work on projects. This is like the matrix structure; however, when the project ends the employees don't go back their departments. They continuously work on projects in a team like structure. Each team has the necessary employees to successfully complete the project. Each employee brings his or her specialized skill to the team. Once the project is finished then the team moves on to the next project.

Previously known as Oticon Holding A/S,

William Demant Holding A/S has no organizational departments or employee job titles. All work activities are project based, and these project teams form, disband, and form again as the work requires. Once the project is completed, employees move on to the next one.

4. Autonomous Internal Units

Some large organizations have adopted this type of structure. That is, the organization is comprised of many independent decentralized business units, each with its own products, clients, competitors, and profit goals. There is no centralized control or resource allocation.

Brown Boveri (ABB) is a global organization. It is actually about 1,000 companies operating in more than 140 countries around the globe. The whole operation is managed by just eight top executives at headquarters in Zurich, Switzerland, but each individual company has its own products, resources, and so on.

5. Boundaryless Organization

A boundaryless organization is one in which its design is not defined by, or limited to, the horizontal, vertical, or external boundaries imposed by a predefined structure. In other words it is an unstructured design. This structure is much more flexible because there is no boundaries to deal with such as chain of command, departmentalization, and organizational hierarchy. Instead of having departments, companies have used the team approach. In order to eliminate boundaries managers may use virtual, modular, or network organizational structures. In a virtual organization work is outsourced when necessary. There are a small number of permanent employees, however specialists are hired when a situation arises. Examples of this would be subcontractors or freelancers. A modular organization is one in which manufacturing is the business. This type of organization has work done outside of the company from different suppliers. Each supplier produces a specific piece of the final product. When all the pieces are done, the organization then assembles the final product. A network organization is one in which companies outsource their major business functions in order to focus more on what they are in business to do.

ChevronTexaco now spends most of their accounting to the Philippines in order to cut costs. They also send all their computer programming to India.

6. Learning Organization

A learning organization is defined as an organization that has developed the capacity to continuously learn, adapt, and change. In order to have a learning organization a company must have very knowledgeable employees who are able to share their knowledge with others and be able to apply it in a work environment. The learning organization must also have a strong organizational culture where all employees have a common goal and are willing to work together through sharing knowledge and information. A learning organization must have a team design and great leadership. Learning organizations that are innovative and knowledgeable create leverage over competitors.

Strategic management is a relatively youthful discipline that has steadily matured over the past fifty years. The field has become consolidated over this period, while simultaneously expanding the range of topics analysed and research methodologies used. Different theories and approaches, addressing different research topics, have been developed to explain the reasons underlying firms' competitive advantage and success. Since strategy is most related with external as well as internal environment, management experts were very alert in this spectrum and they developed innovative techniques and tools to cope up with emerging business world.

Review Questions

I. 2 weightage questions.

1. Define Strategic Change Management.
2. Define the key steps of Strategic Change management.
3. What are the types of Strategic change?
4. Define social Audit and its objectives.
5. What is TQM?
6. What is 'Supply Chain Management'?
7. What you mean by "Corporate Social responsibility"?
8. Define bench marking with its types.
9. What is VMOST analysis?
10. Write a note on 'Organisational (Re)Design".
11. Explain traditional organisational designs.
12. Describe contemporary designs of organisation.
13. Define 'Learning Organisation'.

II. 3or 5 weightage questions

1. Describe the emerging trends in Strategic Management.
2. Define the term "Strategic Leader" and what are the functions and role of strategic leader.
3. Discuss the Concept of Organisational Re-design with its key elements.
4. Discuss various types of Organisational Design.

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Unit 6

Competitive Environment Analysis

In business, being good is not good enough unless it comes from your customers and is supported by sales and market growth (sustainability). Factors in the macro environment and the competitive nature of business, means that your business and market position can easily be affected should you not predict the trends and movements within the economy, global community and your own industry and market segment. It is impossible for an organization to develop strong competitive positioning strategies without a good understanding of the environment and its competitors and their strengths and weaknesses. This topic will look at:

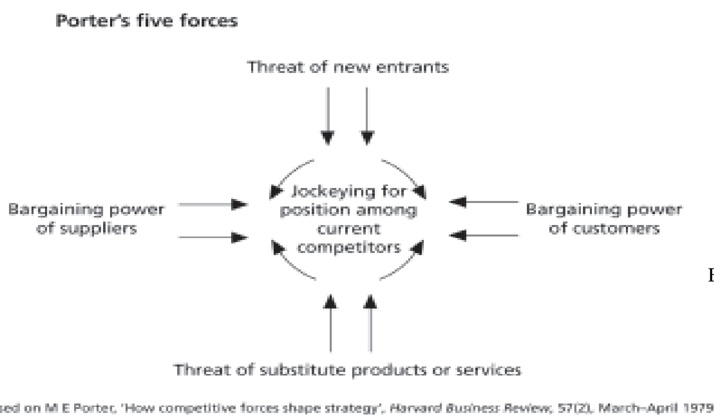
- Industry Analysis
- Competitive Analysis
- Competitor Analysis
- Industry Analysis

In analysing the industry and market sector, we are interested in answering two questions: What are the major trends affecting the growth of the industry in the future? In summary, will this industry grow faster or slower than average?

Remember that your analysis will be conducted at the industry level, not the organization level. The specific effect on the organization can be addressed later, but we are firstly, and primarily, concerned with the issue of expected future industry growth rates and the driving forces of that growth. How far into the future should we look? Since we are undertaking strategic analysis, our time frame of analysis should be consistent with our definition of 'long term' for our particular industry which is probably three to five years in most cases.

Industry Competitiveness-
Porters Five Forces

The model of the Five Competitive Forces was developed by Michael E. Porter in the 1980s. Since that time, it has become an important tool for analysing an organization 'industry structure in strategic processes. Porter's model is based on the insight that a corporate strategy should meet the opportunities and threats in the organizations 'external environment. Especially, competitive strategy should be based on an understanding of industry structures and the way they change. Porter has identified five competitive forces that shape every industry and every market. These forces determine the intensity of competition and hence, the profitability and attractiveness of an industry. The objective of corporate strategy should be to modify these competitive forces in a way that improves the position of the organization. Porter's model supports analysis of the driving forces in an industry. Based on the information derived from the Five Forces Analysis, management can decide how to influence or to exploit particular characteristics of their industry. The Five Competitive Forces are typically described as follows.



Based

on M E Porter (1979),'Howcompetitiveforcessape strategy', Harvard Business Review, 57(2),

Fig No:6 Porter's Five Forces

(Note: Details of Porters 5 forces already explained in previous unit.)

Competition Analysis

Now that you've looked at the competitive nature of your industry /market, it's time to focus on the actual competitors themselves. This subsection of your analysis will require some research about various aspects of your competitor's business such as:

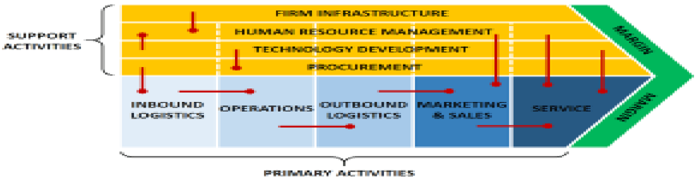
- Description of key competitors and their market positioning
- Size of key competitors in units/dollars
- Market shares of key competitors
- Sales trends of key competitors
- Strengths and weaknesses of key competitors compared to your organization's goods or services
- Perceived marketing strategies of key competitors and their probable impact on your organization

Value Chain Analysis

The value chain can be defined as a framework to differentiate the value-adding activities in an organization. It comprises primary and support activities.

Each of the activities can be considered as adding value to an organization's products. For example, the activity of operations in a car assembly plant. While the separate components do have a value in that they can be sold and bought as individual items, as engines, wheels, etc., but when they are assembled into a complete vehicle then they have added value to customers far in excess of the individual parts.

The value chain can best be described by use of a diagram as follows:



Definition: Margin: The difference between the cost of operations and the income from sales.

The primary activities:

1. **inbound logistics:** These deal with the delivery. movement and handling of raw materials from suppliers;

2. Operations: transformational activities which create end products from raw materials, inputs andlabours

3. outbound logistics: refers to the processes which transfer products to distribution channels;

4. marketing/sales: includes such activities as advertising, promotion, product mix, pricing, working with buyers and wholesalers, and sales force issues;

5. service: Customer service issues include warranty, repair, installation, customer support, product adjustment and modification.

The support activities:

- procurement:
- the firm's purchasing of material and supplies for its activities;
- technology development:
- focuses on improving the processes in primary value-adding activity;
- human resource management:
- hiring, training, compensating, developing and relations with the firm 's people;
- infrastructure:a broad term for such activities as finance, accounting, legal, government relations.

SWOT Matrix

A firm should not necessarily pursue the more lucrative opportunities. Rather, it may have a better chance at developing a competitive advantage by identifying a fit between the firm's strengths and upcoming opportunities. In some cases, the firm can overcome a weakness in order to prepare itself to pursue a compelling opportunity.

To develop strategies that take into account the SWOT profile, a matrix of these factors can be constructed. The SWOT matrix (also known as a **TOWS Matrix**) is shown below:

SWOT / TOWS Matrix

ENVIRONMENTAL FACTORS **INTERNAL**

Strengths

Weaknesses

EXTERNAL **Opportunities**

S-O strategies W-O strategies

Threats S-T strategies W-T strategies

- **S-O strategies** pursue opportunities that are a good fit to the company's strengths.
- **W-O strategies** overcome weaknesses to pursue opportunities.
- **S-T strategies** identify ways that the firm can use its strengths to reduce its vulnerability to external threats.
- **W-T strategies** establish a defensive plan to prevent the firm's weaknesses from making it highly susceptible to external threats.

(Note; read with previous units to understand more about SWOT)

BCG Matrix

Boston Consulting Group (BCG) Matrix is a four celled matrix (a 2 * 2 matrix) developed by BCG, USA. It is the most renowned corporate portfolio analysis tool. It provides a graphic representation for an organization to examine different businesses in its portfolio on the basis of their related market share and industry growth rates. It is a two-dimensional analysis on management of SBU's (Strategic Business Units). In other words, it is a comparative analysis of business potential and the evaluation of environment.

According to this matrix, business could be classified as high or low according to their industry growth rate and relative market share.

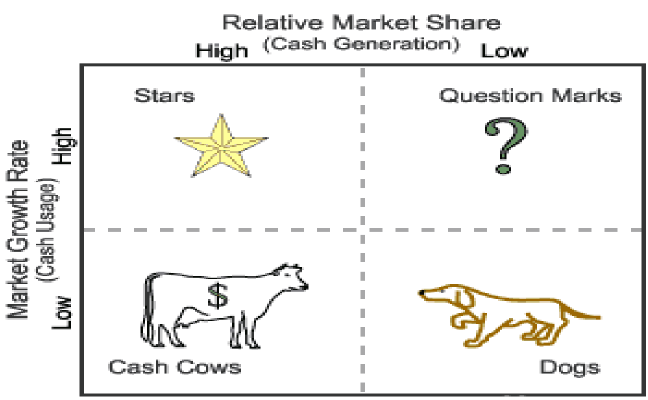
Relative Market Share = SBU Sales this year leading competitors' sales this year.

Market Growth Rate = Industry sales this year - Industry Sales last year.

The analysis requires that both measures be calculated for each SBU. The dimension of business strength, relative market share, will measure comparative advantage indicated by market dominance. The key theory underlying this is existence of an experience curve and that market share is achieved due to overall cost leadership.

BCG matrix has four cells, with the horizontal axis representing relative market share and the vertical axis denoting market growth rate. The mid-point of relative market share is set at 1.0. if all the SBU's are in same industry, the average growth rate of the industry is used. While, if all the SBU's are located in different industries, then the mid-point is set at the growth rate for the economy.

Resources are allocated to the business units according to their situation on the grid. The four cells of this matrix have been called as stars, cash cows, question marks and dogs. Each of these cells represents a particular type of business.



10 x **1 x** **0.1 x**

Figure: BCG Matrix

1. **Stars-** Stars represent business units having large market

share in a fast growing industry. They may generate cash but because of fast growing market, stars require huge investments to maintain their lead. Net cash flow is usually modest. SBU's located in this cell are attractive as they are located in a robust industry and these business units are highly competitive in the industry. If successful, a star will become a cash cow when the industry matures.

2. **Cash Cows-** Cash Cows represents business units having a large market share in a mature, slow growing industry. Cash cows require little investment and generate cash that can be utilized for investment in other business units. These SBU's are the corporation's key source of cash, and are specifically the core business. They are the base of an organization. These businesses usually follow stability strategies. When cash cows lose their appeal and move towards deterioration, then a retrenchment policy may be pursued.
3. **Question Marks-** Question marks represent business units having low relative market share and located in a high growth industry. They require huge amount of cash to maintain or gain market share. They require attention to determine if the venture can be viable. Question marks are generally new goods and services which have a good commercial prospective. There is no specific strategy which can be adopted. If the firm thinks it has dominant market share, then it can adopt expansion strategy, else retrenchment strategy can be adopted. Most businesses start as question marks as the company tries to enter a high growth market in which there is already a market-share. If ignored, then question marks may become dogs, while if huge investment is made, then they have potential of becoming stars.
4. **Dogs-** Dogs represent businesses having weak market

shares in low-growth markets. They neither generate cash nor require huge amount of cash. Due to low market share, these business units face cost disadvantages. Generally retrenchment strategies are adopted because these firms can gain market share only at the expense of competitor's/rival firms. These business firms have weak market share because of high costs, poor quality, ineffective marketing, etc. Unless a dog has some other strategic aim, it should be liquidated if there is fewer prospects for it to gain market share. Number of dogs should be avoided and minimized in an organization.

Limitations of BCG Matrix

The BCG Matrix produces a framework for allocating resources among different business units and makes it possible to compare many business units at a glance. But BCG Matrix is not free from limitations, such as-

1. BCG matrix classifies businesses as low and high, but generally businesses can be medium also. Thus, the true nature of business may not be reflected.
2. Market is not clearly defined in this model.
3. High market share does not always leads to high profits. There are high costs also involved with high market share.
4. Growth rate and relative market share are not the only indicators of profitability. This model ignores and overlooks other indicators of profitability.
5. At times, dogs may help other businesses in gaining competitive advantage. They can earn even more than cash cows sometimes.
6. This four-celled approach is considered as to be too simplistic.

Key Performance Indicators

A KPI is a great tool to measure and control the performance of any given process. In management jargon, there is a famous saying which says "That which cannot be measured cannot be managed". The whole process of control, therefore relies on real time measurement and transfer of information from the site where the task is actually being performed to the control room i.e. the management.

Definition of KPI: A Key Performance Indicator is a measurable value that demonstrates how effectively a company is achieving key business objectives. Organizations use KPIs at multiple levels to evaluate their success at reaching targets. High-level KPIs may focus on the overall performance of the business, while low-level KPIs may focus on processes in departments such as sales, marketing, HR, support and others.

The KPI can therefore be thought of as a measurement that tells that management the precise state of operations at any given point of time.

There are 4 components to any KPI.

1. What is being measured?
2. Who is measuring it?
3. At What Interval is it Being Measured?
4. How frequently is the Information being transmitted to the Control Room?

It is important that these 4 parameters are carefully defined keeping in mind the operational and technical capabilities. Measuring the wrong KPI or measuring the right KPI in the wrong manner can cause more harm than good to the organization that is measuring it.

Key performance indicators are the non-financial measures of a company's performance - they do not have a monetary value but they do contribute to the company's profitability.

Accounts

Some examples are:

1. Percentage of overdue invoices
2. Percentage of purchase orders raised in advance
3. Number of retrospectively raised purchase orders
4. Finance report error rate (measures the quality of the report)

5. Average cycle time of workflow
6. Number of duplicate payments

Marketing and sales

1. New customer acquisition
2. Demographic analysis of individuals (potential customers) applying to become customers, and the levels of approval, rejections, and pending numbers
3. Status of existing customers
4. Customer attrition
5. Turnover (i.e., revenue) generated by segments of the customer population
6. Outstanding balances held by segments of customers and terms of payment
7. Collection of bad debts within customer relationships
8. Profitability of customers by demographic segments and segmentation of customers by profitability

Defining key performance indicators can be tricky business. The operative word in KPI is "key" because every KPI should related to a specific business outcome with a performance measure. KPIs are often confused with business metrics. Although often used in the same spirit, KPIs need to be defined according to critical or core business objectives. Follow these steps when defining a KPI:

- What is your desired outcome?
- Why does this outcome matter?
- How are you going to measure progress?
- How can you influence the outcome?
- Who is responsible for the business outcome?
- How will you know you've achieved your outcome?
- How often will you review progress towards the outcome?

As an example, let's say your Companies objective is to increase sales revenue this year. You're going to call this your Sales Growth KPI. Here's how you might define the KPI:

- To increase sales revenue by 20% this year

- Achieving this target will allow the business to become profitable
- Progress will be measured as an increase in revenue measured in dollars spent
- By hiring additional sales staff, by promoting existing customers to buy more product
- The Chief Sales Officer is responsible for this metric
- Revenue will have increased by 20% this year
- Will be reviewed on a monthly basis

Smart KPI

One way to evaluate the relevance of a performance indicator is to use the SMART criteria. The letters are typically taken to stand for Specific, Measurable, Attainable, Relevant, Time-bound. In other words:

✓Is your objective Specific?

✓Can you Measure progress towards that goal?

✓Is the goal realistically Attainable?

✓How Relevant is the goal to your organization?

✓What is the Time-frame for achieving this goal?

Henry Mintzberg's 5 Ps Strategies

Henry Mintzberg (born 1939) is a highly-regarded Canadian academic and author in the subjects of management and business and is particularly well-known for his various models, theories and approaches to the development of strategy (including his thoughts regarding **deliberate** and **emergent** strategies). He is also known for other work regarding organisational theory, configurations, and how different facets within a single organisational entity can cooperate towards the whole.

Approaching strategy: Strategies often develop very quickly within an organisation, with the key considerations only being how changes will be used to the benefit of the company. Leaders will come together and brainstorm various approaches and then will assess these with regards to their advantages.

Though this can help build the basis of a strategy, there are far more factors that need to be considered in order to develop a well-rounded approach to organisational development. Strategies should also consider such things as the environment in which the organisation operates, its competitors, and the culture and values of the company, and of its workers.

Organisational strengths and opportunities for growth are often unclear, but need to be maximised in order to fully dip into its potential.

The 5Ps of strategy

Mintzberg first tackled his different approaches to strategy in his 1987 work *The Strategy Concept I: Five Ps for Strategy*. These 5P's were developed in order to suit the different demands and strengths of all organisations. They were:

1. **Plan**
2. **Ploy**
3. **Pattern**
4. **Position**
5. **Perspective**

By fully understanding and analysing each P against your own organisation, you can develop a specific strategy which takes full advantages of your strengths, competencies and capabilities.

1. Plan

Planning is something which the vast majority of managers are at least familiar with - it is the natural approach to various day-to-day tasks and activities, and how you manage your own work and that of your team. This is often, therefore, the default approach we take to developing organisational strategy - we brainstorm a number of options, whittle these down to those which are actually viable, and then plan how we are going to put these into action.

Planning is fine as the basis for organisational strategy; however, on its own, it is not enough to develop the full, well-rounded strategy that your company may need to fulfil its potential. This is where the other Ps can be used in collaboration with planning to maximise results.

2. Ploy

Ploy refers to activities which are actively dependent on the actions of others. Organisations can get themselves ahead of competitors by plotting to influence them in various ways, such as through dissuasion, disruption and discouragement. This can be utilised alongside a plan and helps the organisation to look externally at its environment and other operating within it whilst developing strategy. For example, a business could open a new branch in a specific, developing area, in order to stop a competitor business opening a shop there and tapping into the new market. For this to succeed, the leader needs to be competent in identifying and analysing future opportunities which may develop, predicting the actions of competitors, and understand how the effects of organisational activity may affect afore-mentioned competitors.

3. Pattern

Plans and ploys are examples of very **deliberate** strategies. However, strategies can sometimes emerge from past organisational behaviour, from unexpected events, or just from accidentally discovering which actions work. These **emergent** strategies are not a conscious choice, instead, they are the result of discovering a consistent and successful way of doing business. They can often develop incrementally by building on many small decisions made and solutions found. The leader is not aiming to gain a strategic advantage by making good decisions - but often they find themselves with one.

Make note of the behaviours that are displayed within your organisation, and how specific, important tasks are handled and functions are operated. Ask yourself - have these become part of implicit organisational strategy? Are they routine? Are they integral to operations? If the answer to these seems to be a yes, consider how these behaviours could be positioned when you are approaching strategic planning.

4. Position

Position generally refers to how an organisational orientates itself within a market environment. By performing a full analysis of the environment and the opportunities which it presents, an organisation can facilitate the development of a sustainable competitive advantage through key strategic decisions and planning. Notably, Position often has significant overlap with other Ps and can be used in conjunction with another approach, such as a Ploy or a Plan.

The most common example of this is finding a way to differentiate yourselves within a market environment by developing unique products and services. PESTLE analysis and Porter's Five Forces are two key models which can be used in order to assess the environment in which an organisation operates and to identify any specific areas in which one can develop a USP.

5. Perspective

Similar to how Pattern strategies are dependent on the emergence of strategy from behaviour, Perspective can heavily influence the ways an organisation will be able to, or will choose to operate. This Perspective is, in itself, derived from the culture (i.e. the ways of thinking) that are present within the organisation, in conjunction with its values and overall mission. Leaders, when approaching planning, should be aware of the culture of the organisation and how that may influence decision-making and behaviour. For example - an organisation which encourages risk-taking and entrepreneurship may find itself leading the way in the market due to its production of far more innovative products than its competitors. Whereas an organisation that operates are more rigid, uniform structure, based around systems and processes, may get a lot of business due to the quality by which it performs necessary services or through the manufacture of high quality, reliable products.

Developing strategy

Though they can be used as independent approaches to strategy, the 5Ps are best considered as different viewpoints or perspectives which should be considered when developing strategy as a leader. There are three specific points in the strategic planning process when considering the 5Ps can be most effective:

1. Whilst gathering the initial information and conducting an analysis of the data necessary to make an accurate strategic decision, as a way of ensuring that you have considered all of the perspectives required.
2. After the development of initial strategic ideas, in order to ensure that they are comprehensive, feasible and robust, and that there are no obstacles you may have missed.
3. As a final checkpoint, in order to flush out any inconsistencies and issues in your strategic plan, and to once again make sure that there are no opportunities or obstacles that you may not have considered.

The strategic planning process is crucial to operational success. If you do not identify the necessary opportunities for growth, or if you miss obstacles that the organisation will run into immediately or further down the line, then this will restrict or even hinder growth. Utilise the 5Ps as a lense during the planning stage so that you can reap all the possible benefits of a successful strategy.

Critical Success Factors (CSF)

Critical Success Factors, or CSFs, are indicators for opportunities, activities or conditions required to achieve an objective within a project or mission. Critical Success Factors (CSF) differ per organisation and reflect current and future objectives. Whether it concerns a bar, an insurance agency or contractor, it's essential that the course of action is coordinated with those aspects that help the organisation fulfil its mission. These key variables often have a huge impact on the degree to which a company is successful and effective in reaching strategic goals within the mission and are crucial in gaining a competitive advantage.

Critical Success Factors (CSF) are therefore of vital importance for the success of an organisation. They can be created for a specific department within the organisation, for the organisation as a whole, but they are always directly linked to the company's strategy and are created by higher management. The concept of Critical Success Factors (CSF) was developed and introduced by D. Ronald Daniel, on behalf of McKinsey & Co, in 1961. A decade later, John F. Rockart refined and popularised the concept. Ever since then, the concept has been widely applied to guide organisations in developing and implementing strategies and projects.

Below are several examples of Critical Success Factors (CSF). Some might be irrelevant in certain industries, whereas other industries additional CSFs should be added.

- Increase customer loyalty
- Prevent price wars
- Invest in rising markets
- Respond to changing customer needs and wishes
- Analyse and understand the capacity, potency and strategy of the competition
- Develop new technological tools to boost the production process

Steps to achieve the Key Success Factors

The company needs to be aware that it is essential to pull together the team that will be working with the CSFs, its necessary to have employees submit their ideas or give feedback. Never forget to have multiple frameworks to examine the key elements of your long-term goals. Before implementing your company-wide strategic plan with your critical success factors in mind, determine which factors are key in achieving your long-term organizational plan.

1. Skills: The leader needs to be trained and prepared to put the company in the line of success. Some of the skills that can be learned are financial management, marketing sales, and customer service, communication and negotiation, project management and planning, leadership, problem-solving and, lastly, but one of the most important skills, networking.

2. Communication: The company needs to put together all the staffs, all of the giving opinions about what could be better to achieve their goal. The company needs to pay attention in two parts of the communication process: the Initial Launch Communications, which will set the plan to be achieved and the Ongoing Communications, which will be the part where the KSF progress.

3. Planning: To use the CSFs everything needs to be planned, how employees will do it and why. Tools can be used to make planning work faster and easier. A strategy for each department can be planned separately.

4. Team Work: A good teamwork is the key to success, when all the staff collaborate more ideas and opinions can be discussed to find the best way to achieve success.

5. Process: A business process or business method is a collection of related, structured activities or tasks by people or equipment which in a specific sequence produce a service or product (serves a particular business goal) for a particular customer or customers. Business processes occur at all organizational levels and may or may not be visible to the customers. A business process may often be visualized (modelled) as a flowchart of a sequence of activities with interleaving decision points or as a process matrix of a sequence of activities with relevance rules based on data in the process. The benefits of using business processes include improved customer satisfaction and improved agility for reacting to rapid market change.

Relationship Critical Success Factors (CSF) and Strategic Planning

John F. Rockart emphasised that CSFs are intended to expose critical points in the organisation, particularly with regard to management. He believed that CSFs improve an organisation's development and increase the value of procedures by revealing criteria that can hinder the achievement or failure of a specific organisational goal.

Rockart also recognised that CSFs are essential in the strategic planning process. According to him, it's important that a company's characteristics are marked to gain a competitive advantage. Despite the fact that Critical Success Factors (CSF) don't provide a concrete contribution to the strategy's progress, they do provide a significant contribution to the planning procedure of the strategy. When the CSFs are combined with a complete strategic planning method, they function as elements that are vital to an organisation's success.

Sources Critical Success Factors (CSF); Critical Success Factors (CSF) arise from five important sources or areas that influence an organisation. These areas differ from each other, given that different situations lead to different Critical Success Factors (CSF). Rockart and Bullen have written about the following five most important sources of CSF.

Industry Critical Success Factors (CSF); These factors are dependent upon the specific industry characteristics. It's important that the organisation continues to monitor these factors to be able to compete in the market. For instance, a chemical company demands specific technology and a clothing producer absolutely requires cotton. These Critical Success Factors (CSF) may influence all competitors within a specific industry, but could also affect individual organisations.

Competitive Strategy and Industry Position CSF; Not all companies in a specific industry have the same Critical Success Factors (CSF). The current position and development phase impact which Critical Success Factors (CSF) are created, as well as the available means and capacities. In addition to an organisation's total value, the demographic and other factors, each management will create different Critical Success Factors (CSF).

Environmental Factors Critical Success Factors (CSF); The external environment of an organisation largely determines the design of the Critical Success Factors (CSF). A PEST analysis can be used to analyse this external environment. These political, economic, social and technological factors create CSFs for every company. The organisation isn't always able to influence these macro-environmental factors, but these must certainly be considered. Managers who work in production, for instance, must be able to guarantee quality and keep sufficient stock.

Management Critical Success Factors (CSF): Individual or relatively small aspects within organisations may also lead to new CSFs. When certain responsibilities within a management position are considered to be crucial for an organisation's performance as a whole, this must be closely monitored and measured.

Temporary Factors Critical Success Factors (CSF): Temporary factors are linked to short-term situations. Although these factors can be important, they are usually not long-lasting. Temporary or one-time factors are often the result of a certain event. When an organisation expands into a new market, for instance on another continent, the CSF may concern expanding and recruiting new capable management.

Key Result Area

Key result areas or KRAs refer to the rules for a specific role in a company. The terms highlight the scope of the job profile for the employee, enabling them to have a better view of their possible role in the company. Which KRA will defer from each other depending of the department. The Key Result Area is a specific role which each department need to follow to deliver the goods or services in perfect condition to the final customer or to another department which will have different KSFs.

Review Questions

I. 2 weightage questions.

1. Define industry analysis.
2. List out the tools for industry analysis.
3. What is competition analysis?
4. Write a note on Porter's Five Forces.
5. What is KRA?
6. What is 'Value chain Analysis'?
7. What you mean by Primary activities in Value Chain?
8. What are supportive activities?
9. What is TOWS Matrix?
10. Write a note on" BCG Matrix".
11. What is Cash Cow in BCG?
12. What is Question Mark in BCG?
13. Define DOG and Stars in BCG matrix.
14. What is SMART KPIs?
15. Write a note on Mintzberg's 5P Strategies.
16. What is CSF (Critical Success Factors)?

II. 3or 5 weightage questions

1. Describe the tools of analysing industry Competitiveness.
2. Discuss the Concept and Components of BCG Matrix. Also explain the limitation of BCG Matrix
3. Describe the Concept of Mintsberg's 5 P Strategies.
4. Define KPIs. Explain common key performance indicator of an organisation.
5. Describe in detail the concept of Value Chain Analysis.
6. Describe and compare TOWS matrix and BCG matrix.

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Unit 7

Grand Strategies

The Grand Strategies are the corporate level strategies designed to identify the firm's choice with respect to the direction it follows to accomplish its set objectives.The overall strategy which is comprehensive in nature and provides the basis for strategic direction is known asgrand strategies. Simply, it involves the decision of choosing the long-term plans from the set of available alternatives. The Grand Strategies are also called as Master Strategies or Corporate Strategies.

There are four grand strategic alternatives that can be followed by the organization to realize its long-term objectives:

I. Stability Strategy
II. Expansion Strategy
III. Retrenchment Strategy
IV. Combination Strategy

The grand strategies are concerned with the decisions about the allocation and transfer of resources from one business to the other and managing the business portfolio efficiently, such that the overall objective of the organization is achieved. In doing so, a set of alternatives are available to the firm and to decide which one to choose, the grand strategies help to find an answer to it.

Business can be defined along three dimensions: customer groups, customer functions and technology alternatives. Customer group comprises of a particular category of people to whom goods and services are offered, and the customer functions mean the particular service that is being offered. And the technology alternatives covers any technological changes made in the operations of the business to improve its efficiency.

1. Stability Strategy:

When an enterprise is satisfied by its present position, it will not like to change from here and it will be a stability strategy. Stability strategy will be successful when the environment is stable. This strategy is exercised most often and is less risky as a course of action. A stability strategy of a concern for example will be followed when the organization is satisfied with the same product, serving the same consumer groups and maintaining the same market share.

The organization may not be adventurous to try new strategies to change the status quo. This strategy may be possible in a mature industry with static technology. Stability strategy may create complacency among managers. The managers of such an organization may find it difficult to cope with the changes when they come.

Stability strategies can be of the following types:

(i) No-Change Strategy:

Stability strategy is a conscious decision to do nothing new, that is to continue with the present work. It does not mean an absence of strategy, rather taking no decision in itself is a strategy. When external environment is predictable and organizational environment is stable then a businessman may like to continue with the present situation. There may be major opportunities or threats operating in the environment.

There may be no new threat from competitors or no new competing product may be coming into the market, under these circumstances it will be prudent to continue the present strategies. The small and medium firms generally operate in a limited market and supply products and services with the use of time-tested technology, such firms will prefer to continue with their present work. Unless otherwise there is a major threat in the environment or occurrence of some major upset in the market, the present strategy will serve the firms well.

(ii) Profit Strategy:

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

A supposition is that the changed situation will be a temporary phase and old situation will again return. The firm will try to sustain profitability by controlling expenses, reducing investments, raise prices, cut costs, increase productivity etc. These measures will help the firm in sustaining current profitability in the short run.

With the opening of markets, Indian industry is facing lot of problems with the presence of multinationals and reduction in tariff on imports. The firms will have to adjust their policies to the changing environment otherwise they will find it difficult to stay in the market.

Profit strategy will be successful for a short period only. In case things do not improve to the advantage of the firms then this strategy will only deteriorate their position. This strategy can work only if problems are temporary.

(ii) Proceed-With Caution Strategy:

Proceed with caution strategy is employed by firms that wish to test the ground before moving ahead with full-fledged grand strategy or by those firms which had a rapid pace of expansion and now wish to rest for a while before moving ahead. The pause is sometimes essential because intervening period will allow consolidation before embracing on further expansion strategies. The main object is to let the strategic changes seep down the organizational levels, allow structural changes to take place and let the system adopt to new strategies.

II. Growth Strategy/Expansion:

Growth may mean expansion and diversification of operations of the enterprise. The management is not satisfied with their present status, the environment is changing, favourable opportunities are available, in such cases growth strategy will be helpful in expansion as well as diversification. The growth strategy may be implemented through product development, market development, diversification, vertical integration or merger. In product development, new products are added to the existing ones or new products replace the old ones when they are obsolete.

In market development strategy, new customers are approached or those markets are explored which were not covered earlier. In diversification both new products and new markets are added. The enterprise may also enter entirely new lines. In vertificial integration, the backward or forward lines may also be taken up.

A company may start producing its own raw materials or it may start processing its own output before marketing. For example, a weaving unit may start making thread and ginning of cotton (backward integration) or it may start producing readymade garments (forward integration).

In merger, two or more concerns may join their resources to take advantage of financial or marketing factors. Growth should be properly planned and controlled otherwise it may bring adverse results. Since growth is an indication of effective management it is not only essential but desirable too.

Growth strategies may be described as follows:

(i) Growth through Concentration:

Growth involves converging resources in one or more of enterprise's businesses in terms of their respective customer needs, customer functions or alternative technologies in such a way that it results in growth. This strategy involves the investment of resources in a product line for an identified market with the help of proven technology. It may be done in a number of ways.

The enterprise may focus on existing markets with present products by using market penetration or it may attract new users for existing products or it may introduce newer products in existing markets by concentrating on product development. The concentration strategy will apply when industry possesses high growth potential and the firm should be strong enough to sustain the growth.

(ii) Growth through Integration:

Under integration strategy the firm continues serving the same customers but increases the scope of its business definition. Integration involves taking up more activities than taken up earlier. There can be backward integration as well as forward integration.

There are activities ranging from procurement of raw materials to marketing of finished products. The firm may move up or down of the value chain for increasing its scope of work. Several process-based industries such as petrochemicals, steel, textiles etc. have integrated firms. These firms deal with products with a value chain extending from the basic raw materials to ultimate consumer. The firms operating at one end of the value chain attempt to move up or down in the process while integrating activities adjacent to their present activities.

While adopting integration strategy the firm must take into account the alternative cost of make or buy. If the cost of manufacturing one's product is less than the cost of procuring it from the market only then this activity should be integrated. Similarly, if the cost of selling the finished product is lesser than the price paid to the sellers to do the same thing then it will be profitable to move down on the value chain.

Types of Integration

1. **Forward or Downstream Integration**: When the company takes control over its consumer company or say distribution centre, to which the company sell its products, it is known as forward integration. The strategy aims at attaining higher economies of scale and occupying larger share in the market. Due to the drastic change in the technology, in the 21st century and increase in the number of internet users, the forward integration strategy gained much importance. There are a number of manufacturing entities, which exist online, and sell their items directly to the customers, thus bypassing the intermediaries in the supply chain process.
2. **Backward or Upstream Integration**: When the company acquires its suppliers and manufacturer of raw materials, then the merger is termed as backward integration. In upstream integration, the company enters the business of input providers, so as to create effective supply and possess greater dominance over production. The strategy aims at improving the company's operational efficiency, save costs and also increase the profit margins.

When it comes to implementation, vertical integration is the most difficult strategy, which is not only expensive but also hard to take back.

However, once the strategy is adopted, it captures both upstream and downstream profit margins. Vertical integration can create the entry barriers, for prospective rivals, predominantly when the vertically integrated company owns almost all the scarce resources engaged in the process of production.

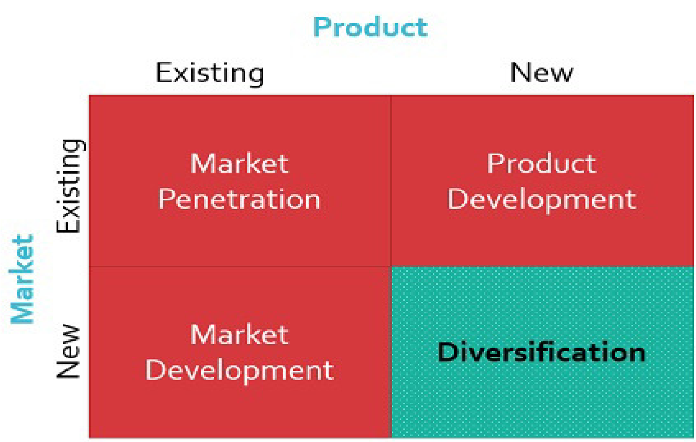
(iii) Growth through Diversification:

Diversification strategy involves a substantial change in the business definition, singly or jointly, in terms of customer functions, customer groups or alternative technologies of one or more of a firm's business. When an organization takes up an activity in such a manner that it is related to the existing business it is called concentric diversification.

The firm may market more products to the same customers, a new product or service may be offered to the same customers, these are the cases of diversification of business activities. Growth may also be undertaken by taking up those activities which are unrelated to the existing business, a cigarette company may diversify into hotel industry, it will be a case of conglomerate diversification. Diversification strategies are helpful in spreading risk over several businesses. If environmental and regulatory factors block growth then diversification may be a proper way.

Simply put, diversification refers to the expansion of business by entering into a completely new segment or investing in a business which is external to the scope of the company's existing product line. Businesses use this strategy for managing risk by potential threats during the economic slowdown.

It is a part of Ansoff's Product/Market grid:



Types of Diversification

1. **Vertically Integrated Diversification**: The form of diversification in which the firm intends to enter in the business which is associated with the firm's present

business. In this way, the firm stays in the same business and moves ahead or reverse in the chain and introduces new product so as to enter the new business for the firm.

- **Forward Integration**: It is a kind of vertically integrated diversification, wherein the firm decides to move ahead in the value chain that is directly related to the firm's existing business, so as to ease the distribution process.
- **Backward Integration**: In this type of integration, the firm opts to move backwards in the value chain so as to create an effective supply of the goods by expanding the business and entering the business of suppliers.

Horizontally Integrated Diversification: In horizontal diversification, the firm acquires one or more than one businesses that are engaged in the similar business and at the equivalent level of production-marketing chain to enter into complementary goods, or taking over competitor's products.

- **Related Diversification**: When the new business has some sort of connection with the existing business then it is known as related diversification. It includes the exchange of business assets by exploiting marketing skills, manufacturing skills — economies of scale, brand name, research and development, etc. **Example**: A cloth manufacturing firm enters into the distribution of clothes.
- **Unrelated Diversification**: When the new business has no relation to the value chain activities of the company. It includes investing in new product portfolios, concentrate on multiple products, minimization of risk by operating in various product markets, implementation of new technologies. **Example**: An FMCG company enters into the textile industry.

Concentric Diversification: It is similar to related diversification, wherein the new business entered into by the firm is associated with the existing business by way of process, technology or market. The newly entered product is a spin-off from the already existing facilities. Hence, there are advantages of synergy with the existing operations.

Conglomerate Diversification: The conglomerate diversification is similar to unrelated diversification, there is no relationship between the new business or product and the existing business or product in any way.

Firm's use diversification strategy to reduce risk, use surplus cash, build corporate brand equity, increase customer base, exploit new opportunities, effective capital utilization, build shareholder's wealth, access to the new market, etc.

(iv) Growth through co-operation:

There is a view that firms operate in a competing market. When one firm gains in its market share then one or more firms lose this share. It is a win-lose situation where if one wins then one or several others have to lose. But thinkers like James Moore, Ray Noorda, Barry J. Nalebuff are of the view that competition could co-exist with co-operation.

The strategies could take into account the possibility of mutual co-operation with competitors while competing with them at the same time so that market potential could expand. The co-operative strategies can take the form of mergers, acquisitions, joint ventures and strategic alliances. All these strategies taken separately or jointly can help the growth of a firm.

(v) Growth through Internationalization:

International strategies are a type of growth strategies that require firms to market their products or services beyond the national or domestic market. A firm would have to assess the international environment and evaluate its own capabilities and to form strategies to enter foreign markets. The firm may start exporting products or services to foreign countries or it may set up a subsidiary in other countries for producing and marketing the products or services there. In such situations the firm would have to implement the strategies and monitor and control its foreign operations. International strategies require a different strategic perspective than the strategies implemented in national context.

III. Retrenchment or Retreat Strategy:

An enterprise may retreat or retrench from its present position in order to survive or improve its performance. Such a strategy may be adopted during a period of recession, tough competition, scarcity of resources and re-organization of company in order to reduce waste. This strategy, though reflecting failure of the company to some degree becomes highly necessary for the survival of the company.

When an organization chooses to focus on ways and means to reverse the process of decline, it adopts a turnaround strategy. If it cuts off the loss-making units, divisions, curtails product line or reduces the functions performed, it adopts a disinvestment strategy. If these actions do not work then the activities may be totally abandoned and the unit may be liquidated.

(i) Turnaround Strategies:

Retrenchment may be done either internally or externally. Internal retrenchment is done to improve internal working. This usually takes the form of an operating turnaround strategy. In contrast, a strategic turn-around is a more serious form of external retrenchment and leads to disinvestment or liquidation.

Turnaround strategies may be adopted in different ways. One way may be that the existing chief executive and management team handles the turnaround strategy with the help of specialist or external consultant. The success of this approach will depend upon the type of credibility the chief executive has with banks and other financing institutions.

In another situation, the present chief executive withdraws from the scene temporarily and the work is done by the outside specialist employed for this job. The third approach to execute the turnaround strategy involves the replacement of the existing team or merging the sick organization with a healthy one.

(ii) Disinvestment Strategies:

It involves the sale or liquidation of a portion of business or major division or profit center etc. Disinvestment is usually a part of rehabilitation or restructuring plan. This strategy is adopted when turnaround strategy has failed. A firm may disinvest in two ways. A part of the company is divested by spinning it off as a financially and managerially independent company, with the parent company retaining or not retaining partial ownership. Alternatively, the firm may sell a unit outright.

(iii) Liquidation Strategies:

It involves the closing down of a firm and selling its assets. It is considered to be the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where the firm could pursue any future activities and also the stigma of failure which will be attached with this action.

IV. Combination Strategy:

A large firm, active in a number of industries may adopt a combined strategy. It represents mix of the three strategies mentioned above. A large concern may adopt growth strategy' on one side and retreat strategy in the other area. In order to make this strategy effective there should be right people who can take objective and intelligent decisions by considering various factors.

There may not be a concern which has adopted only one strategy throughout. The complexity of doing business demands that different strategies be adopted to suit the situational demands made upon the organization. A company which has adopted a stability strategy for long may like to use expansion strategy later. Similarly, a firm which has seen expansion for quite some time may like to consolidate its working. Multi-business companies have to follow multiple strategies.

Such strategy is followed when an organization is large and complex and consists of several businesses that lie in different industries, serving different purposes. Go through the following example to have a better understanding of the combination strategy:

A baby diaper manufacturing company augments its offering of diapers for the babies to have a wide range of its products **(Stability)** and at the same time, it also manufactures the diapers for old age people, thereby covering the other market segment **(Expansion).** In order to focus more on the diapers division, the company plans to shut down its baby wipes division and allocate its resources to the most profitable division **(Retrenchment).**

In the above example, the company is following all the three grand strategies with the objective of improving its performance. The strategist has to be very careful while selecting the combination strategy because it includes the scrutiny of the environment and the challenges each business operation faces. The Combination strategy can be followed either simultaneously or in the sequence.

Encirclement Attack

Definition: The **Encirclement Attack** is a war strategy adopted by the challenger firm intended to attack the competitor **on all the major fronts**. Under this strategy, the challenging firm considers both the strengths and weaknesses of the opponent and then launch the attack simultaneously.

It is assumed that only those firms that are **10 times stronger or powerful** than the opponent firm can launch the encirclement attack. The attacking firm must be adequate in its resources, then only it will be able to launch a grand offensive on several fronts.

The two strategies that can be used under the encirclement attack are **Product and Market Encirclement**. In product encirclement, the challenger firm may introduce different types of products with varied features and quality and may price these differently on the basis of their utility.In the case of market encirclement, the firm may introduce the product for such a market segment, which left untapped by the competitor and thus enjoys the huge market share.

The **e-commerce industry** is the best example of an encirclement attack, wherein the companies are ready to do anything for the huge turnovers and are even selling their products at negative margins.

The **fashion Industry** is another example, where companies frequently launch the different variants of products priced differently, in order to have a huge sales turnover and supersede the competitors.

Review Questions

I. 2 weightage questions.

1. Define Grand Strategies.
2. What is stability strategy?
3. What is business integration?
4. Write a note on Growth strategies.
5. What is Vertical Integration?
6. What is 'Horizontal integration'?
7. What you mean by Conglomeration?
8. What are retrenchment strategies?
9. What is Encirclement attack?
10. Write a note on" Diversification".
11. What is concentric diversification?
12. What is combination strategies?

II. 3or 5 weightage questions

1. Describe various Corporate and grand strategies.
2. Discuss important stability and expansion strategies.
3. Define diversification and describe the types of business diversification

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Unit 8

Strategy Formulation and Implementation

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 vision. Strategy Formulation is an analytical process of selection of the best suitable course of action to meet the organizational objectives and vision. It is one of the steps of the strategic management process. The strategic plan allows an organization to examine its resources, provides a financial plan and establishes the most appropriate action plan for increasing profits.

The process of strategy formulation basically involves six main steps. Though these steps do not follow a rigid chronological order, however they are very rational and can be easily followed in this order.

1. **Setting Organizations' objectives -** The key component of any strategy statement is to set the long-term objectives of the organization. It is known that strategy is generally a medium for realization of organizational objectives. Objectives stress the state of being there whereas Strategy stresses upon the process of reaching there. Strategy includes both the fixation of objectives as well the medium to be used to realize those objectives. Thus, strategy is a wider term which believes in the manner of deployment of resources so as to achieve the objectives.While fixing the organizational objectives, it is essential that the factors which influence the selection of objectives must be analysed before the selection of objectives. Once the objectives and the factors influencing strategic decisions have been determined,

it is easy to take strategic decisions.

2. **Evaluating the Organizational Environment -** The next step is to evaluate the general economic and industrial environment in which the organization operates. This includes a review of the organizations competitive position. It is essential to conduct a qualitative and quantitative review of an organizations existing product line. The purpose of such a review is to make sure that the factors important for competitive success in the market can be discovered so that the management can identify their own strengths and weaknesses as well as their competitors' strengths and weaknesses.After identifying its strengths and weaknesses, an organization must keep a track of competitors' moves and actions so as to discover probable opportunities of threats to its market or supply sources.
3. **Setting Quantitative Targets -** In this step, an organization must practically fix the quantitative target values for some of the organizational objectives. The idea behind this is to compare with long term customers, so as to evaluate the contribution that might be made by various product zones or operating departments.
4. **Aiming in context with the divisional plans -** In this step, the contributions made by each department or division or product category within the organization is identified and accordingly strategic planning is done for each sub-unit. This requires a careful analysis of macroeconomic trends.
5. **Performance Analysis -** Performance analysis includes discovering and analyzing the gap between the planned or desired performance. A critical evaluation of the organizations past performance, present condition and the desired future conditions must be done by the organization. This critical evaluation identifies the degree of gap that persists between the actual reality and the long-term

aspirations of the organization. An attempt is made by the organization to estimate its probable future condition if the current trends persist.

6. **Choice of Strategy -** This is the ultimate step in Strategy Formulation. The best course of action is actually chosen after considering organizational goals, organizational strengths, potential and limitations as well as the external opportunities.

Strategy Implementation

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.

Definition: Strategy Implementation refers to the **execution of the plans and strategies**, so as to accomplish the long-term goals of the organization. It converts the opted strategy into the moves and actions of the organisation to achieve the objectives.

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.

Following are the main **steps in implementing** a strategy:

a. Developing an organization having potential of carrying out strategy successfully.

b. Disbursement of abundant resources to strategy-essential activities.
c. Creating strategy-encouraging policies.
d. Employing best policies and programs for constant improvement.
e. Linking reward structure to accomplishment of results.
f. Making use of strategic leadership.

Excellently formulated strategies will fail if they are not properly implemented. Also, it is essential to note that strategy implementation is not possible unless there is stability between strategy and each organizational dimension such as organizational structure, reward structure, resource-allocation process, etc.

Strategy implementation poses a threat to many managers and employees in an organization. New power relationships are predicted and achieved. New groups (formal as well as informal) are formed whose values, attitudes, beliefs and concerns may not be known. With the change in power and status roles, the managers and employees may employ confrontation behaviour.

The implementation of organization strategy involves the application of the management process to obtain the desired results. Particularly, strategy implementation includes designing the organization's structure, allocating resources, developing information and decision process, and managing human resources, including such areas as the reward system, approaches to leadership, and staffing.

Strategy implementation is "the process of allocating resources to support the chosen strategies". This process includes the various management activities that are necessary to put strategy in motion, institute strategic controls that monitor progress, and ultimately achieve organizational goals.

Prerequisites of Strategy Implementation

1. Institutionalization of Strategy: First of all the strategy is to be institutionalized, in the sense that the one who framed it should promote or defend it in front of the members, because it may be undermined.

2. Developing proper organizational climate: Organizational climate implies the components of the internal environment, that includes the cooperation, development of personnel, the degree of commitment and determination, efficiency, etc., which converts the purpose into results.

3. Formulation of operating plans: Operating plans refers to the action plans, decisions and the programs, that take place regularly, in different parts of the company. If they are framed to indicate the proposed strategic results, they assist in attaining the objectives of the organization by concentrating on the factors which are significant.

4. Developing proper organisational structure: Organization structure implies the way in which different parts of the organisation are linked together. It highlights the relationships between various designations, positions and roles. To implement a strategy, the structure is to be designed as per the requirements of the strategy.

5. Periodic Review of Strategy: Review of the strategy is to be taken at regular intervals so as to identify whether the strategy so implemented is relevant to the purpose of the organisation. As the organization operates in a dynamic environment, which may change anytime, so it is essential to take a review, to know if it can fulfil the needs of the organization.

Even the best-formulated strategies fail if they are not implemented in an appropriate manner. Further, it should be kept in mind that, if there is an alignment between strategy and other elements like resource allocation, organizational structure, work climate, culture, process and reward structure, then only the effective implementation is possible

Strategies Implementation Approaches

On the basis of their research on management practices at a number of companies, *David Brodwin and L. J. Bourgeois III* have identified five distinct basic approaches to strategy implementation and strategic change.

1. The Commander Approach

The strategic leader concentrates on formulating the strategy, applying rigorous logic and analysis. The leader either develops the strategy himself or supervises a team of planners charged with determining the optimal course of action for the organization. He typically employs such tools as experience curves, growth/share matrices and industry and competitive analysis.

This approach addresses the traditional strategic management question of "**How can I, as a general manager, develop a strategy for my business which will guide day-today decisions in support of my longer-term objectives?**" Once the"*best*" strategy is determined, the leader passes it along to subordinates who are instructed to executive the strategy.

The leader does not take an active role in implementing the strategy. The strategic leader is primarily a thinker/planner rather than a doer. The Commander Approach helps the executive make difficult day-to-day decision from a strategic perspective.

However, three conditions must exist for the approach to succeed:

- The leader must wield enough power to *command* implementation; or, the strategy must pose little threat to the current management, otherwise implementation will be resisted.
- Accurate and timely information must be available and the environment must be reasonably stable to allow it to be assimilated.
- The strategist (if he is not the leader) should be insulated from personal biases and political influences that might affect the content of the plan.

A drawback of this approach is that it can reduce employee motivation. If the leader creates the belief that the only acceptable strategies are those developed at the top, he may find himself an extremely unmotivated, un-innovative group of employees.

However, several factors account for the Commander popularity. *First*, it offers a valuable perspective to the chief executive. *Second*, by dividing the strategic management task into two stages -"*thinking*" and "*doing*" -the leader reduces the number of factors that have to be considered simultaneously. *Third*, young managers in particular seem to prefer this approach because it allows them to focus on the quantitative, objective elements of a situation, rather than with more subjective and behavioural considerations.

Finally, such an approach may make some managers feel as an all-powerful hero, shaping the destiny of thousands with his decisions.

2. The Organizational Change Approach

This approach starts where the Commander Approach ends: with implementation. The organizational Change Approach addresses the question "I Have a strategy -now how do I get my organization to implement it?" The strategic leader again decides major changes of strategy and the considers the appropriate changes in structure, personnel, and information and reward systems if the strategy is to be implemented effectively.

The most obvious tool for strategy implementation is to reorganize or to shift personnel in order to lead the firm in the desired direction. The role of the strategic leader is that of an architect, designing administrative systems for effective strategy implementation.

The Change Approach is often more effective than the Commander Approach and can be used to implement more difficult strategies because of used the several behavioural science techniques. This techniques for introducing change in an organization include such fundamentals as: using demonstrations rather than words to communicate the desired new activities; focusing early efforts on the needs that are already recognized as important by most of the organization; and having solutions presented by persons who have high credibility in the organization.

However, the Change Approach doesn't help managers stay abreast of rapid changes in the environment. It can backfire in uncertain or rapidly changing conditions. Finally, this approach calls for imposing the strategy in "top down" fashion, it is subject to the same motivational problems as the Commander Approach.

3. The Collaborative Approach

This approach extends strategic decision-making to the organization's top management team in answer to the question "**How can I get my top management team to help develop and commit to a good set of goals and strategies?**"

The strategic leader and his senior manager (divisional heads, business unit general managers or senior functional managers) meet for lengthy discussion with a view to formulating proposed strategic changes.In this approach, the leader employs group dynamics and "*brainstorming*" techniques to get managers with differing points of view to contribute to the strategic planning process.

The Collaborative Approach overcomes two key limitations inherent in the previous two. By capturing information contributed by managers closer to operations, and by offering a forum for the expression of managers closer to operations, and by offering a forum for the expression of many viewpoints, it can increase the quality and timeliness of the information incorporated in the strategy. And to the degree than participation enhances commitment to the strategy, it improves the chances of efficient implementation.

However, the Collaborative Approach may gain more commitment that the foregoing approaches, it may also result in a poorer strategy.

The negotiated aspect of the process brings with several risks -that the strategy will be more conservative and less visionary than one developed by a single person or staff team. And the negotiation process can take so much time that an organization misses opportunities and fails to react enough to changing environments.A more fundamental criticism of the Collaborative Approach is that it is not really collective decisions making from an organizational viewpoint because upper-level managers often retain centralized control. In effect, this approach preserves the artificial distinction between thinkers and doers and fails to draw on the full human potential throughout the organization.

4. The Cultural Approach

This approach extends the Collaborative Approach to lower levels in the organization as an answer to the strategic management question "**How can I get my whole organization committed to our goals and strategies?**"

The strategic leader concentrates on establishing and communicating a clear mission and purpose for the organization and the allowing employees to design their own work activities with this mission. He plays the role of coach in giving general direction, but encourages individual decision-making to determine the operating details of executive the plan.

The implementation tools used in building a strong corporate culture range from such simple notions as publishing a company creed and singing a company song to much complex techniques. These techniques involve implementing strategy by employing the concept of "*third-order control.*" First-order control is direct supervision; second - order control involves using rules, procedures, and organizational structure to guide behaviour. Third - order control is more subtle - and potentially more powerful. It consists of influencing behaviour through shaping the norms, values, symbols, and beliefs that managers and employees use in making day-to-day decisions.

This approach begins to break down the barriers between "*thinkers*" and "*doers*."

The Cultural Approach has a number of advantages which establish an organization-wide unity of purpose. It appears that the cultural approach works best where the organization has sufficient resources to absorb the cost of building and maintaining the value system.

However, this approach also has several limitations. *First*, it only works with informed and intelligent people. *Second*, it consumes enormous amounts of time to install. *Third*, it can foster such a strong sense of organizational identity among employees that it becomes a handicap; for example, bringing outsider in a top management levels can be difficult because they aren't accepted by other executives.

The strongest criticism of this approach is that it has such an overwhelming doctrinal air about it, and foster homogeneity and inbreeding.

5. The Crescive Approach

This approach addresses the question "**How can I encourage my managers to develop, champion, and implement sound strategies?**" (**Crescive** means "*increasing*" or "*growing*"). The strategic leader is not interested in strategizing alone, or even in leading others through a protracted planning process. He encourages subordinates to develop, champion, and implement sound strategies on their own.

The crescive approach differs from the others in several ways. *First*, instead of strategy being delivered downward by top management or a planning department, it moves upward from the "*doers*" (salespeople, engineers, production workers) and lower middle-level managers. *Second*, "*strategy*" becomes the sum of all the individual proposals that surface throughout the year. *Third*, the top management team shapes the employees' premises -that is, their notions of what would constitute supportable strategic projects. *Fourth*, the chief executive functions more as a judge, evaluating the proposals that reach his desk, than as a master strategist.

Brodwin and Bourgeois suggest use of the Crescive Approach primarily for managers of large, complex, diversified organizations. In these organizations the strategic leader cannot know and understand all the strategic and operating situations, facing each division.

If strategies are to be formulated and implemented effectively, the leader must give up some control to spur opportunism and achievement. Therefore, the Crescive Approach for strategic management suggests some generalizations concerning how the chief executive of the large divisionalized firm should help the organization generate and implement sound strategies.

The recommendation consists of the following four elements:

- Maintain the openness of the organization to new and discrepant information.
- Articulate a general strategy to guide the firm's growth.
- Manipulate systems and structures to encourage bottom-up strategy formulation.
- Use the "*the logical incrementalistic*" manner described by *James Brian Quinn*, to select from among the strategies which emerge.

The Crescive approach has several advantages. For example, it encourages middle-level managers to formulate effective strategies and gives them opportunity carry out the implementation of their own plans.

Moreover, strategies developed, as these are, by employees and managers closer to the strategic opportunity are likely to be operationally sound and readily implemented. However, this approach requires that funds be available for individuals to develop good ideas unencumbered by bureaucratic approval cycles and that tolerance be extended in the inevitable cases where failure occurs despite a worthy effort having been made.

One of the most important and potentially elusive of these methods is the process of shaping managers' decision-making premises. The strategic leader can emphasize a particular theme or strategic thrust to direct strategic thinking.

Second, the planning methodology endorsed by the leader can be communicated to affect the way managers view the business. Third, the organizational structure can indicate the dimensions on which strategies should focus.

The choice of approach should depend on the size of the company, the degree of diversification, the degree of geographical dispersion, the stability of the business environment, and, finally, the managerial style currently embodied in the company's culture.

Brodwin and *Bourgeois's* research suggests that the Commander, Change, and Collaborative Approaches can be effective for smaller companies and firms in stable industries. The Cultural and Crescive alternatives are used by more complex corporations.

Implementing various levels of strategies

1. Implementing Business-level Strategies

Strategy implementation at the business level takes place in the areas of manufacturing, accounting and finance, marketing sales, and organizational culture.

This section examines how these organizational functions are integrated to implement Porter's generic strategies and Miles and Snow's strategies.

Implementing Porter's Generic Strategies

Michael Porter described three strategic options available to firms at the business level: overall cost leadership, differentiation, and focus strategies.

Pure cost leadership strategies focus on those variables that will allow the firm to achieve and maintain a low-cost position. An organization implements an overall cost leadership strategy when it attempts to gain a competitive advantage by reducing its costs below the costs of competing firms.

The tasks associated with the cost strategy variables focus mostly upon the internal operations of the business, emphasizing the productive employment of capital and human resources. A cost strategy requires attention to operational details.

For example, it focuses on simple products attributes and how these product meet customers need in a low-cost and effective manner. In general, an organization that chosen a cost leadership strategy sells a mass-produced product to large members of customers and provide strong incentives to its salespeople to increase the volume of sales.

Conversely, a business with a pure differentiation strategy attempts to enhance the price component of the profit quation by offering customer something they perceive as unique and for which they are willing to pay a higher price. An organization implements a differentiation strategy when it seeks to distinguish itself from competitors through the high quality of its products or services.

This strategy incorporates variables dealing principally with the business' environment. The products and services must be designed to meet unique customer needs. Quality, product performance, perceived quality, and new technical features added are more important components of the marketing effort that is a concern for low price.An organization implements a focus strategy when it uses either a differentiation strategy or an overall cost leadership focus strategy in a particular market segment or geographic area.

2. Implementing Corporate-level Strategies

Corporate-level strategy focuses on how organizations manage their operations across multiple business and markets. The most important corporate strategy decisions that organizations need to make concerns the type and degree of corporate diversification.

Implementing Diversification Strategies

A central concept to understanding and proposing diversification strategies is *relatedness*. A range of diversification strategies-from highly related to highly unrelated can be observed.

*Pitts and Hopkins*have conducted an extensive literature review and summary on this topic. As they suggested, "**the first tasks facing a researcher wishing to measure a firm's diversity therefore, is to identify its individual businesses**".

In this review of strategic diversity, Pitts and Hopkins cite three primary approaches:

* The first, **resource independence**, sees a business as discrete from others of the corporation if the "*resources involved are separate from those supporting the firm's other activities.*"

* The **least-employed approach**, due to data collection difficulties, defines businesses in terms of **market discreteness**.

* Finally, businesses can be defined in terms of **product differences**, viewing each product offering as a separate

business.

Pitts and Hopkins here note two primary approaches to the measurement of diversity:

(**1**) the first is based upon the *number* of businesses in which the firm is positioned;

(**2**) the second approach is termed *strategic* and assesses diversity by either the relatedness of various businesses or the firm's historical growth pattern.

Rumelt developed, as a variation of *Wrigley's scheme*, a typology **-single business, dominant business, related business, and unrelated business** -according to the degree of strategic interdependence across businesses as well as "**the proportion of a firm's revenues that can be attributed to its largest single business in a given year**". *Nathanson* has developed a system that captures both product and market diversity.

Implementing Strategies Through Mergers, Acquisitions, And Joint Ventures

Corporations seeking to implement growth strategies have a number of tactical options from which to choose. Mergers or acquisitions, joint ventures, and internal product or business development are ways of implementing growth strategies.

Implementing Strategies Through Mergers, Acquisitions

Mergers and acquisitions are two frequently used methods for implementing diversifications strategies. A merger takes place when two companies combine their operations, creating in effect, a third company. An acquisition is a situation in which one company buys, and controls another company.

1. **Horizontal mergers or acquisitions** are the combining of two or more organizations that are direct competitors.
2. **Concentric merges or acquisitions** are the combining of two or more organizations that have similar products or services in terms of technology, product line, distribution channels, or customer base.
3. **Vertical merges or acquisitions** are the combining of

two or more organizations to extend an organization into either supplying products or services required in producing its present products or services or into distributing or selling its own product and services.

4. **Conglomerate mergers or acquisitions** involve the combining of two or more organizations that are producing products or services that are significantly different from each other.

Organizations seek mergers and acquisitions for many reasons. The primary reason for large mergers and acquisitions is the potential benefit that can accrue to the stockholders of both companies. Synergy is often cited as a rationale for mergers.

Synergy occurs as the result of a merger, when two operating units can be run more efficiently (i.e.: with lower costs) and / or more effectively (i.e.: with appropriate allocation of scarce resources given environmental constrains) together than apart. Other reason for merging with or acquiring another company include improving or maintaining competitive position in a particular business in order to enter new markets or acquire new products rapidly, to improve financial position, or to avoid a takeover.

Mergers and acquisitions can be carried out in either a friendly or a hostile environment.

Friendly mergers and acquisitions are accomplished when the stockholders and management of both organizations agree that the combination will benefits both firms and the work together to ensure its success.

Hostile (or, as they are frequently called, takeover) mergers and acquisitions result when the organizations to be acquired (also sometimes called the target company) resist the attempt. Several methods are available for carrying out mergers and acquisitions:

- One is, the tender offer, is well - publicized bid made by a corporation to all or a prescribed amount of the stock of another organizations.

- Another option for one company is to purchase stock of the target organization in the open market.
- The acquiring company can also purchase the assets of the target company.
- Finally, the two firms may agree to an exchange of stock.

Because so many terms are used in described activities involved in mergers and acquisitions, there is summary of the definitions of many of these terms.Several factors need to be avoided to ensure a successful merger or acquisition. These factors include:

1. Paying to much
2. Straying too far a field
3. Marrying disparate corporate cultures
4. Counting on key managers staying
5. Assuming that a boom market will not crash
6. Leaping before looking
7. Swallowing too large company

Numerous organizations have been able to integrate sufficiently so that the merger or acquisition becomes a successful strategy of diversification.

Implementing Strategies Through Joint Venture

Another method used in carrying out diversification is the join venture. Joint venture can take place between organizations within national boundaries or between private enterprises and government or non-for-profit organizations. Another frequent form of joint venture takes place between organizations in different countries.

Three basic strategies have been proposed for use in joint ventures: the spiders web, go together-split and successive integration.

1. The **spiders web strategy** is employed in an industry with few large organizations and several smaller ones. One strategy for smaller organizations would be to enter a joint venture with one large organization and then, in order to avoid being absorbed, enter a new joint venture as quickly as possible with one or more

of the remaining organizations.

2. Go **together-split** is a strategy in which two or more organizations cooperate for an extended time and then separate. It is particularly appropriate projects that have ad definite life span, such as construction projects.
3. **Successive integration** starts with a weak joint venture relationship between organizations, becomes stronger, and ultimately may result in a merger - either friendly or hostile.

Three major considerations seem to be particularly important in forming a joint venture:

- The first is choosing partner.
- A second consideration is the question of control over the joint venture.
- final consideration involves the management of the joint venture.

Strategic Alliance

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

Advantages of Strategic Alliances

Strategic alliances usually are only formed if they provide an advantage to all the parties in the alliance. These advantages can be broken down to four broad categories.

The first category is **organizational advantages**. You may wish to form a strategic alliance to learn necessary skills and obtain certain capabilities from your strategic partner. Strategic partners may also help you enhance your productive capacity, provide a distribution system, or extend your supply chain. Your strategic partner may provide a good or service that complements a good or service you provide, thereby creating a synergy. If you are relatively new or untried in a certain industry, having a strategic partner who is well known and respected will help add legitimacy and credibility to your venture.

A second category is **economic advantage.** You can reduce costs and risks by distributing them across the members of the alliance. You can also obtain greater economies of scale in an alliance, as production volume can increase, causing the cost per unit to decline. Finally, you and your partners can take advantage of co-specialization, where you bundle your specializations together, creating additional value, such as when a leading computer manufacturer bundles its desktop with a leading monitor manufacturer's monitor.

Another category includes **strategic advantages.** You may join with your rivals to cooperate instead of compete. You can also create alliances to create vertical integration where your partners are part of your supply chain. Strategic alliances may also be useful to create a competitive advantage by the pooling of resources and skills. This may also help with future business opportunities and the development of new products and technologies. Strategic alliances may also be used to get access to new technologies or to pursue joint research and development.

Lastly is the category of **political advantages**. Sometimes you need to form a strategic alliance with a local foreign business to gain entry into a foreign market either because of local prejudices or legal barriers to entry. Forming strategic alliances with politically-influential partners may also help improve your own influence and position.

Disadvantages of Strategic Alliances

1. It may encourage good employees to cross over.

One of the biggest disadvantages that occurs within a global strategic alliance is the crossover of employees. When companies come together, you are putting your company at risk. You might lose good people because your strategic partners are able to pay your best people more than you can afford to pay them. You might be stuck dealing with mistreatment of your agreement by your partner. Some companies even use these alliances as a way to poach talent, without regard to the health of the other company.

2. It can create conflicts in ownership claims.

When 2+ companies work together to bring new products or services to a specific market, it sometimes creates conflict with regards to who has the rights over the product, the production sites, or the patents and trademarks which are involved. In severe cases, a global strategic alliance can break down into lawsuits and litigation, which reduces all the benefits that are possible with this type of agreement should it occur.

3. It may stick one company with a majority of the expenses.

Within a global strategic alliance, it is common to saddle one company with a greater share of alliance expenses than others. Not every company is willing to step up and help others out when the time comes either, which may leave one company experiencing only benefits and the other fighting to stay profitable. Even the way you've agreed to split profits can come into question. That is why any new global strategic alliance must have clear rules outlined in this scenario to prevent one company from taking advantage of another.

4. It can lead to discrepancies of interpretation.

If an agreement is ambiguous when it is hammered out, then it leaves everyone to interpret what the wording means when it comes time to implement a strategy. That can create difficulties in what each company believes is applicable to them. It can even lead to disagreements over how long the partnership is intended to last. Before signing onto any agreement, thoroughly review an agreement and ask questions about anything that seems uncertain to avoid this disadvantage.

5. It can create a clash of cultures.

Global cultures can vary widely. When companies partner up and there are clear differences in culture, it can create clashes between the two which are sometimes difficult to overcome. These clashes are especially evident in alliances which involve Western companies and Asia-Pacific companies. When this occurs, the blame is often shifted from one party to the other, which doesn't solve the issue, adding tension to an already tense relationship.

6. It may cause delays in implementation.

Even the best partnerships today experience problems with implementation if they are unable to coordinate their services effectively. Open, honest lines of communication are mandatory within a global strategic alliance to ensure this issue does not occur. If delays do occur, it may allow rival companies or strategic partnerships to gain a competitive edge, negating the other advantages which come with a partnership.

The global strategic alliance advantages and disadvantages ultimately involve using common sense. Enter into agreements that are mutually beneficial to all parties involved. Be clear about what you are agreeing to do, along with what is expected from everyone else. There will always be companies that try to take advantage of others to increase their own market share. If you review these agreements, ask questions, and move slowly instead of impulsively, it is possible to avoid many of the pitfalls that these agreements can sometimes form.

The examples of foreign collaboration between an Indian and abroad entity:

1. ICICI Lombard GIC (General Insurance Company) Limited is a financial foreign collaboration between ICICI Bank Ltd., India and Fairfax Financial Holdings Ltd., Canada.
2. ING Vysya Bank Ltd. is a financial foreign collaboration formed between ING Group from Netherlands and Vysya Bank from India.
3. Tata DOCOMO is a technical foreign collaboration between Tata Teleservices from India and NTT Docomo, Inc. from Japan.
4. Sikkim Manipal University (SMU) from India runs some academic programs through an educational foreign

collaboration with abroad universities like Liverpool School of Tropical Medicine from UK, Loma Linda and Louisiana State Universities from USA, Kuopio University from Finland, and University of Adelaide from Australia.

Strategy Formulation vs Strategy Implementation

Following are the main differences between Strategy Formulation and Strategy Implementation-

Strategy Formulation **Strategy Implementation**

Strategy Formulation includes planning and decision-making involved in developing organization's strategic goals and plans. Strategy Implementation involves all those means related to executing the strategic plans.

In short, Strategy Formulation is **placing the Forces before the action**. In short, Strategy Implementation is **managing forces during the action**.

Strategy Formulation is an **Entrepreneurial Activity** based on strategic decision-making. Strategic Implementation is mainly an **Administrative Task** based on strategic and operational decisions.

Strategy Formulation emphasizes on **effectiveness**.
Strategy Implementation emphasizes on **efficiency**.

Strategy Formulation is a **rational process**.
Strategy Implementation is basically an **operational process**.

Strategy Formulation requires co-ordination among few individuals. Strategy Implementation requires co-ordination among many individuals.

Strategy Formulation requires a great deal of **initiative and logical skills**. Strategy Implementation requires specific **motivational and leadership traits**.

Strategic Formulation precedes Strategy Implementation.
Strategy Implementation follows Strategy Formulation.

Review Questions

I. 2 weightage questions.

1. Define Strategy formulation.
2. List out the steps in strategy formulation.
3. What is strategy implementation?
4. Write a note on Strategic Alliance.
5. What is Joint venture strategy?
6. What is 'Mergers and Acquisition'?
7. What you mean Corporate level strategy? Explain with examples.
8. What are integration strategies?
9. What arePorters Generic Strategies?
10. Write the problems of Strategic Alliance.
11. What is Conglomeration?
12. Differentiate between Strategic formulation and implementation.

II. 3or 5 weightage questions

1. Define Strategic Formulation. Describe the Steps in strategy formulation.
2. Define Strategy implementation, Discuss the pre-requisites of strategy implementation.
3. Describe the various approaches of strategy implementation.
4. Describe the strategies at various levels of Business decisions. (Corporate/business/ Functional)
5. Define strategic alliance. Explain the merits and demerits of Strategic alliance.

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Unit 9

Strategy Evaluation and Control

Strategy Evaluation is as significant as strategy formulation because it throws light on the efficiency and effectiveness of the comprehensive plans in achieving the desired results. The managers can also assess the appropriateness of the current strategy in today's dynamic world with socio-economic, political and technological innovations. Strategic Evaluation is the final phase of strategic management.

The significance of strategy evaluation lies in its capacity to co-ordinate the task performed by managers, groups, departments etc, through control of performance. Strategic Evaluation is significant because of various factors such as - developing inputs for new strategic planning, the urge for feedback, appraisal and reward, development of the strategic management process, judging the validity of strategic choice etc.

The process of Strategy Evaluation consists of following steps-

1. **Fixing benchmark of performance -** While fixing the benchmark, strategists encounter questions such as - what benchmarks to set, how to set them and how to express them. In order to determine the benchmark performance to be set, it is essential to discover the special requirements for performing the main task. The performance indicator that best identify and express the special requirements might then be determined to be used for evaluation. The organization can use both quantitative and qualitative criteria for comprehensive assessment of performance. Quantitative criteria include determination of net profit, ROI, earning per share, cost of production,

rate of employee turnover etc. Among the Qualitative factors are subjective evaluation of factors such as - skills and competencies, risk taking potential, flexibility etc.

2. **Measurement of performance -** The standard performance is a bench mark with which the actual performance is to be compared. The reporting and communication system help in measuring the performance. If appropriate means are available for measuring the performance and if the standards are set in the right manner, strategy evaluation becomes easier. But various factors such as managers contribution are difficult to measure. Similarly, divisional performance is sometimes difficult to measure as compared to individual performance. Thus, variable objectives must be created against which measurement of performance can be done. The measurement must be done at right time else evaluation will not meet its purpose. For measuring the performance, financial statements like - balance sheet, profit and loss account must be prepared on an annual basis.
3. **Analysing Variance -** While measuring the actual performance and comparing it with standard performance there may be variances which must be analysed. The strategists must mention the degree of tolerance limits between which the variance between actual and standard performance may be accepted. The positive deviation indicates a better performance but it is quite unusual exceeding the target always. The negative deviation is an issue of concern because it indicates a shortfall in performance. Thus, in this case the strategists must discover the causes of deviation and must take corrective action to overcome it.
4. **Taking Corrective Action -** Once the deviation in

performance is identified, it is essential to plan for a corrective action. If the performance is consistently less than the desired performance, the strategists must carry a detailed analysis of the factors responsible for such performance. If the strategists discover that the organizational potential does not match with the performance requirements, then the standards must be lowered. Another rare and drastic corrective action is reformulating the strategy which requires going back to the process of strategic management, reframing of plans according to new resource allocation trend and consequent means going to the beginning point of strategic management process.

Strategic control

Strategic control is a way to manage the execution of your strategic plan. As a management process, it's unique in that it's built to handle unknowns and ambiguity as it tracks a strategyimplementation and subsequent results. It is primarily concerned with finding and helping you adapt to internal or external factors that affect your strategy, whether they were initially included in your strategic planning or not.Putting strategic control in place is critical to a successful strategy implementation. Without proper controls, your strategy won't have the gut checks required to ensure it remains relevant, on track, and performing at or above standards.

The various components of the strategic control process generate answers to these two questions:

1. Has the strategy been implemented as planned?
2. Based on the observed results, does the strategy need to be changed or adjusted?

In many senses, strategic control is an evaluation exercise focused on ensuring the achievement of your goals. The process bridges gaps and allows you to adapt your strategy as needed during implementation.

Operational and strategic control.

In contrast to the large amount of data and extended time frame required for strategic controls to take effect, operational controls monitor and evaluate day-to-day functions to correct any problems as soon as possible. Operational controls may be either manual or automated, and can involve people, processes, and technology. When successful, they flag potential risks, identify misalignments between plans and actions, and effectively implement changes to stay on course with your strategy.

For example, if there are technical malfunctions or performance is below expectations, operational control processes can initiate a course correction quickly. This could include updating an IT system or retraining particular employees, respectively. Or, imagine a factory that produces widgets. If the number of widgets drops below expectations or the error rate rises above expectations, a process control alert should be triggered to make the proper operational change.

Strategic control, on the other hand, might then evaluate whether your hiring criteria and employee onboarding processes need adjustment in order to achieve your strategy.

Strategic Control Techniques

There are four primary types of strategic control:

1. Premise Control

Every organization creates a strategy based on certain assumptions, or premises. As such, premise control is designed to continually and systematically verify whether those assumptions, which are foundational to organisations strategy, are still true. These are typically environmental (e.g. economic or political shifts) or industry-specific (e.g. new competitors) variables.The sooner we discover a false premise, the sooner we can adjust the aspects of our strategy that it affects. In reality, we can't review every single strategic premise, so focus on those most likely to change or have a major impact on our strategy.

2. Implementation Control

This type of control is a step-by-step assessment of implementation activities. It focuses on the incremental actions and phases of strategic implementation, and monitors events and results as they unfold. Is each action or project happening as planned? Are the proper resources and funds being allocated for each step? This process continually questions the basic direction of your strategy to ensure it's the right one.

There are two subcategories of implementation control:

● **Monitoring Strategic Thrusts or Projects**

This is the assessment of specific projects or thrusts that have been created to drive the larger strategy. This early feedback will help to decide whether to continue onward with the strategy as is or pause to make adjustments. Management can pre-determine which thrusts are critical to the achievement of organisations goals and continually assess them. Or, management can decide which measurements are most meaningful for their thrusts or **projects** (such as timeframes, costs, etc.) and use that data as an indicator of whether a thrust is on track or not, and how that may subsequently affect the strategy.

●**Reviewing Milestones**

During strategic planning, management likely identified important points in the implementation process. When these milestones are reached, the organization will reassess the strategy and its relevance. Milestones could be based on timeframes, such as the end of a quarter, or on significant actions, such as large budget or resource allocations.

Implementation control can also take place via **operational control systems, like budgets, schedules, and key performance indicators.**

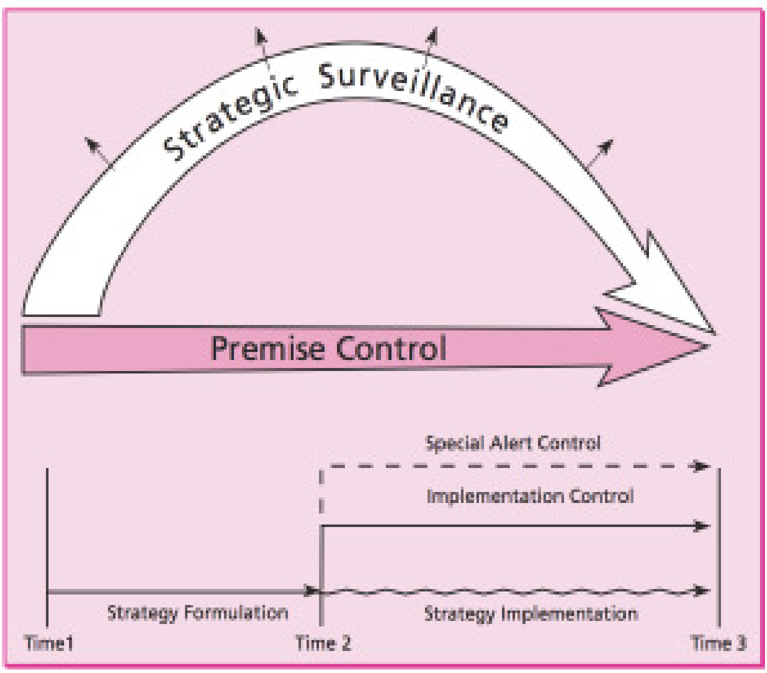
3. Special Alert Control

When something unexpected happens, a special alert control is mobilized. This is a reactive process, designed to execute a fast and thorough strategy assessment in the wake of an extreme event that impacts an organization. The event could be anything from a natural disaster or product recall to a competitor acquisition. In some cases, a special alert control calls for the formation of a crisis team—usually comprising members of the strategic planning and leadership teams—and in others, it merely means activating a predetermined contingency plan.

4. Strategic Surveillance Control

Strategic surveillance is a broader information scan. Its purpose is to identify overlooked factors both inside and outside the company that might impact your strategy. This process ideally covers any "ground" that might be missed by the more focused tactics of premise and implementation control. A firm's surveillance could encompass industry publications, online or social mentions, industry trends, conference activities, etc.

This graph clearly depicts the application of the four techniques for strategic control and how they function alongside each other:



Strategic Control Process

Whether an organization is using one or all four of the above techniques of strategic evaluation and control, each involves six steps:

1. **Determine what to control.**

What are the organization's goals? What elements directly relate to your mission and vision? It's difficult, but you must prioritize what to control because you cannot monitor and assess every minute factor that might impact your strategy.

2. **Set standards.**

What will you compare performance against? How can managers evaluate past, present, and future actions? Setting control standards—which can be quantitative or qualitative—helps determine how you will measure your goals and evaluate progress.

3. **Measure performance.**

Once standards are set, the next step is to measure your performance. Measurement can then be addressed in monthly or quarterly review meetings. What is actually happening? Are the standards being met?

4. **Compare performance.**

When compared to the standards or targets, how do the actuals measure up? Competitive benchmarking can help you determine if any gaps between targets and actuals are normal for the industry, or are signs of an internal problem.

5. **Analyse deviations.**

Why was performance below standards? In this step, you'll focus on uncovering what caused the deviations. Did you set the right standards? Was there an internal issue, such as a resource shortage, that could be controlled in the future? Or an external, uncontrollable factor, like an economic collapse?

6. **Decide if corrective action is needed.**

Once you've determined why performance deviated from standards, you'll decide what to do about it. What actions will correct performance? Do goals need to be adjusted? Or are there internal shifts you can make to bring performance up to par? Depending on the cause of each deviation, you'll either decide to take action to correct performance, revise the standard, or take no action.

Using A Balanced Scorecard for Strategic Control

The entire strategic planning, implementation, and control process takes significant effort and thought. It requires a lot of buy-in from your leadership team. It also requires employees to understand why their actions are important and continuously work toward achievement of goals—even if those goals shift over time.

A Balanced Scorecard helps tie your overall strategy to those day-to-day activities, giving more clarity about the *what* and *why* of strategic implementation to the entire company. You'll be able to do both operational and strategic control within one framework, linking the two processes and getting everyone on the same page. The Balanced Scorecard approach can provide a clear prescription as to what companies should measure during implementation to enact strategic control.

Balanced Scorecards

Accounting academic Dr. Robert Kaplan and business executive and theorist Dr. David Norton first introduced the balanced scorecard.*A balanced scorecard is a strategic management performance metric used to identify and improve various internal business functions and their resulting external outcomes. Balanced scorecards are used to measure and provide feedback to organizations. Data collection is crucial to providing quantitative results as managers and executives gather and interpret the information and use it to make better decisions for the organization.*

Both Kaplan and Norton took previous metric performance measures and adapted them to include nonfinancial information. Companies can easily identify factors hindering business performance and outline strategic changes tracked by future scorecards. The balanced scorecard model reinforces good behaviour in an organization by isolating four separate areas that need to be analysed. These four areas, also called legs, involve learning and growth, business processes, customers, and finance.The balanced scorecard is used to attain objectives, measurements, initiatives, and goals that result from these four primary functions of a business. Companies can easily identify factors hindering business performance and outline strategic changes tracked by future scorecards.

The balanced scorecard can provide information about the company as a whole when viewing company objectives. An organization may use the balanced scorecard model to implement strategy mapping to see where value is added within an organization. A company also uses a balanced scorecard to develop strategic initiatives and strategic objectives.

Characteristics of the Balanced Scorecard Model

Information is collected and analysed from four aspects of a business:

1. Learning and growth are analysed through the investigation of training and knowledge resources. This first leg handles how well information is captured and how effectively employees use the information to convert it to a competitive advantage over the industry.
2. Business processes are evaluated by investigating how well products are manufactured. Operational management is analysed to track any gaps, delays, bottlenecks, shortages, or waste.
3. Customer perspectives are collected to gauge customer satisfaction with quality, price, and availability of products or services. Customers provide feedback about their satisfaction with current products.
4. Financial data, such as sales, expenditures, and income are used to understand financial performance. These financial metrics may include dollar amounts, financial ratios, budget variances, or income targets.

These four legs encompass the vision and strategy of an organization and require active management to analyse the data collected. The balanced scorecard is thus often referred to as a management tool rather than a measurement tool.

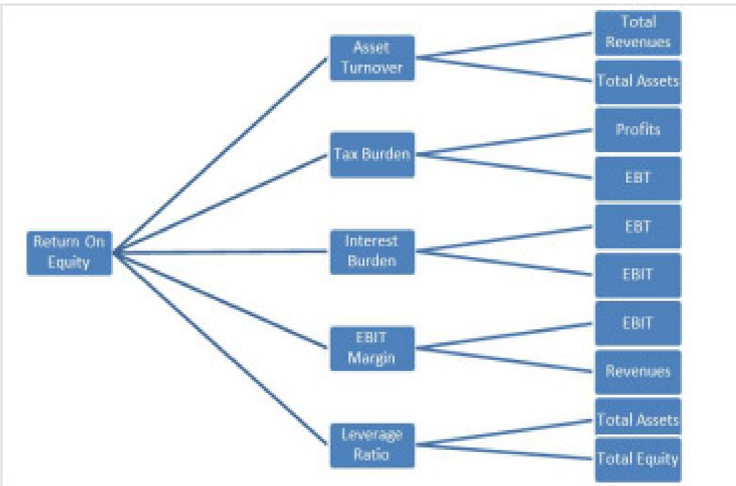
DuPont Model

. This model has been used to detect the drivers of change in financial performance. The model is also an excellent tool for a forward-looking assessment of Strategic Alternatives. The DuPont Model was originally developed in 1919 by a finance executive at E.I. du Pont de Nemours and Co. of Wilmington, Delaware, for financial planning and control purposes. The DuPont system helps many companies understand the critical building blocks in return on assets (ROA) and return on equity (ROE).

Return on assets is a measure of the productivity of assets. Assets appear on your balance sheet. They are things that you own. Some examples of assets are equipment, real estate, inventory, software, trademarks, and patents. ROA tells you how much net income your assets are generating. This type of measurement is important in understanding short-run impacts to value. It can be used to measure the productivity of Strategic Alternatives in isolation and combined with the rest of the business. ROA is an important tool for the analysis of mergers and acquisitions because it measures the productivity of the transaction on the total purchase price.

Return on equity (ROE) measures productivity in relation to equity. This measure focuses on the part of the investment that is funded by equity. Strategic Alternatives can be funded using two sources: debt and equity. Debt is money that is borrowed (for example, money from the bank). Equity is money that is contributed by shareholders. Projects are funded using a mix of debt and equity. This mix affects the cost of capital, which may be used as the adjustment for time and risk (as discussed in Chapter 10)—more specifically, the risk adjustment. Risk adjustments start with a benchmark called the cost of capital that takes into account the proportions of debt and equity used to fund a Strategic Alternative. A detailed treatment of the cost of capital can be found in Chapter 10.

By virtue of its familiarity and simplicity, the DuPont Model is a way of visualizing the components of ROA and ROE. A typical DuPont chart resembles a chart drawn to mark the progress of competitors in a tennis or basketball tournament, as shown below. This schematic shows how the formula links all aspects of the balance sheet and income statement together.



Types of Traditional Managerial Control Techniques

1. Direct Supervision and Observation

'Direct Supervision and Observation' is the oldest technique of controlling. The supervisor himself observes the employees and their work. This brings him in direct contact with the workers. So, many problems are solved during supervision. The supervisor gets first-hand information, and he has better understanding with the workers. This technique is most suitable for a small-sized business.

2. Financial Statements

All business organisations prepare Profit and Loss Account. It gives a summary of the income and expenses for a specified period. They also prepare Balance Sheet, which shows the financial position of the organisation at the end of the specified period. Financial statements are used to control the organisation. The figures of the current year can be compared with the previous year's figures. They can also be compared with the figures of other similar organisations.

Ratio analysis can be used to find out and analyse the financial statements. Ratio analysis helps to understand the profitability, liquidity and solvency position of the business.

3. Budgetary Control

A budget is a planning and controlling device. Budgetary control is a technique of managerial control through budgets. It is the essence of financial control. Budgetary control is done for all aspects of a business such as income, expenditure, production, capital and revenue. Budgetary control is done by the budget committee.

4. Break Even Analysis

Break Even Analysis or Break-Even Point is the point of no profit, no loss. For e.g. When an organisation sells 50K cars it will break even. It means that, any sale below this point will cause losses and any sale above this point will earn profits. The Break-even analysis acts as a control device. It helps to find out the company's performance. So, the company can take collective action to improve its performance in the future. Break-even analysis is a simple control tool.

5. Return on Investment (ROI)

Investment consists of fixed assets and working capital used in business. Profit on the investment is a reward for risk taking. If the ROI is high then the financial performance of a business is good and vice-versa.

ROI is a tool to improve financial performance. It helps the business to compare its present performance with that of previous years' performance. It helps to conduct inter-firm comparisons. It also shows the areas where corrective actions are needed. Extensive application an analysis of ROI were embedded in Du

Pont Chart.

6. Management by Objectives (MBO)

MBO facilitates planning and control. It must fulfill following requirements: -

1. Objectives for individuals are jointly fixed by the superior and the subordinate.
2. Periodic evaluation and regular feedback to evaluate individual performance.
3. Achievement of objectives brings rewards to individuals.

7. Management Audit

Management Audit is an evaluation of the management as a whole. It critically examines the full management process, i.e. planning, organising, directing, and controlling. It finds out the efficiency of the management. To check the efficiency of the management, the company's plans, objectives, policies, procedures, personnel relations and systems of control are examined very carefully. Management auditing is conducted by a team of experts. They collect data from past records, members of management, clients and employees. The data is analysed and conclusions are drawn about managerial performance and efficiency.

8. Management Information System (MIS)

In order to control the organisation properly the management needs accurate information. They need information about the internal working of the organisation and also about the external environment. Information is collected continuously to identify problems and find out solutions. **MIS** collects data, processes it and provides it to the managers. MIS may be manual or computerised. With MIS, managers can delegate authority to subordinates without losing control.

9. PERT and CPM Techniques

Programme Evaluation and Review Technique (**PERT**) and Critical Path Method (**CPM**) techniques were developed in USA in the late 50's. Any programme consists of various activities and sub-activities. Successful completion of any activity depends upon doing the work in a given sequence and in a given time.

CPM / PERT can be used to minimise the total time or the total cost required to perform the total operations.Importance is given to identifying the critical activities. Critical activities are those which have to be completed on time otherwise the full project will be delayed.

So, in these techniques, the job is divided into various activities / sub-activities. From these activities, the critical activities are identified. More importance is given to completion of these critical activities. So, by controlling the time of the critical activities, the total time and cost of the job are minimised.

10. Self-Control

Self-Control means self-directed control. A person is given freedom to set his own targets, evaluate his own performance and take corrective measures as and when required. Self-control is especially required for top level managers because they do not like external control.

The subordinates must be encouraged to use self-control because it is not good for the superior to control each and everything. However, self-control does not mean no control by the superiors. The superiors must control the important activities of the subordinates.

Strategies of leading Indian Companies

Growth

a. Nirma Ltd. started from a very small company and today it is a famous detergent powder.

b. Reliance Industry Ltd. started from textile products to petroleum industry, telecommunication, AD Labs, Reliance media work and various other fields.

c. TISCO establish in 1907 is still the leader in steel sector.

Merger

1. Absorption of Tata Fertilizers Ltd (TFL) by Tata Chemicals Ltd. (TCL). TCL, an acquiring company (a buyer), survived after merger while TFL, an acquired company (a

seller), ceased to exist. TFL transferred its assets, liabilities and shares to TCL.

2. Merger of Hindustan Computers Ltd, Hindustan Instruments Ltd, Indian Software Company Ltd and Indian Reprographics Ltd into an entirely new company called HCL Ltd.
3. Indian telecom major Bharti Airtel is all set to merge with its South African counterpart MTN, with a deal worth USD 23 billion. According to the agreement Bharti Airtel would obtain 49% of stake in MTN and the South African telecom major would acquire 36% of stake in Bharti Airtel.
4. India's financial industry saw the merging of two prominent banks - HDFC Bank and Centurion Bank of Punjab. The deal took place in February 2008 for $2.4 billion.
5. Merger of Broke bond and Lipton

Acquisition

1. Asian Acquired 50.1% controlling stake in Berger International. Deal Rs.57.6 Crores.
2. Aegis BPO of Essar takes over to acquire AOL call centre in white field. It is estimated at $100 million Payable in cash. Purpose is to enhance its voice and non-voice offerings in the technological support space.
3. Tata Steel acquired 100% stake in Corus Group on January 30, 2007. It was an all-cash deal which cumulatively amounted to $12.2 billion.
4. Tata Motors acquired Jaguar and Land Rover brands from Ford Motor in March 2008. The deal amounted to $2.3 billion.
5. Indian pharma industry registered its first biggest in 2008 M&A deal through the acquisition of Japanese pharmaceutical company Daiichi Sankyo by Indian major Ranbaxy for $4.5 billion.
6. In November 2008 NTT DoCoMo, the Japan based telecom firm acquired 26% stake in Tata Teleservices for USD 2.7 billion.

Stability

a. Steel Authority of India has adopted stability strategy because of overcapacity in steel sector. Instead it has concentrated on increasing operational efficiency of its various plants rather than going for expansion.

b. NTPC and ONGC have also adopted stability strategy instead of expansion.

c. Bata also comes under stable strategy following company.

Retrenchment

a. The Industry Standard has announced that it will cut about 7 percent of its work force and The New York Times Company sold almost its entire stake in TheStreet.com, the financial news and analysis site.

b. Vijay Mallya-promoted Kingfisher Airlines slashed salaries of its 50 trainee co-pilots as it charted ways to overcome the ongoing financial turbulence in the aviation industry.

c. Cutting down around 15000 employees by Air India is an example of retrenchment strategy.

d. The Times Company sold about 92 percent of its stake in TheStreet.com, the financial news and analysis site, for $3.2 million. The sale of 1,425,000 shares comes 23 months after the initial investment of $15.6 million in the news site — $3.6 million in cash and $12 million in advertising credits, according to Catherine Mathis, a company spokeswoman

e. Companies like General Motors, Bajaj Auto Mahindra and Mahindra have pursued retrenchment strategy.

Combination

a. The Tube Investments of India (TI), a Murugappa group company, has created strategic alliances in its three major businesses: tubes, cycles, and strips. In cycles, it has entered into Regional outsourcing arrangements with the UP-based Avon (which we could term as co-competition, as Avon is TI's competitor in the cycle industry) and Hamilton Cycles in the western region. In steel strips, TI has entered into a manufacturing contract with Steel Tubes of India, Steel Authority of India, and the Jindals.

b. L&T sold off its cement division to Kumar Mangalam Birla‘s Grasim industries. By selling off this division, L&T was better able to concentrate on its growth strategy of its core engineering business

Competitive Cost Leadership

a. Dell Computer initially achieved market share by keeping inventories low and only building computers to order.

b. Organizations such as Toyota are very good not only at producing high quality autos at a low price, but have the brand and marketing skills to use a premium pricing policy.

c. A leading cost strategy for McDonalds is the ability to purchase the land and buildings of its restaurants. McDonalds also developed a strong division of labor for its production processes, tight management control and product development strategy. Creating a strong top-down style of management is another leading cost strategy for McDonalds.

Focus

a. Examples of firm using a focus strategy include Southwest Airlines, which provides short-haul point-to-point flights in contrast to the hub-and-spoke model of mainstream carriers, and Family Dollar.

b. Chick King which focuses on non-vegetarian food.

c. Johnson and Johnson products mainly focuses on babies.

Differentiation

a. Mercedes-Benz automobile is an example of differentiation strategy. It differentiates other automobiles the quality it provides.

b. Apple also targets the mass market with its iPhone and iPod products, but combines this broad scope with a differentiation strategy based on design, branding and user experience that enables it to charge a price premium due to the perceived unavailability of close substitutes.

c. British Airways differentiates its service from other airlines.

d. Pixar also targets the mass market with its movies, but adopts a differentiation strategy, using its unique capabilities in story-telling and animation to produce signature animated movies that are hard to copy, and for which customers are willing to pay to see and own.

e. Maruti follows the differentiation strategy in terms of its service.

f. Hindustan Unilever follows the differentiation strategy in terms of distribution.

Review Questions

I. 2 weightage questions.

1. Define Strategy Evaluation.
2. List out the steps in strategy evaluation.
3. What is strategy Control?
4. Compare strategic control and operational control.
5. List out the techniques of strategic control.
6. What is Balanced Score card?
7. What Du Pont Control Chart?
8. What is strategic Surveillance?

II. 3or 5 weightage questions

1. Define Strategic Evaluation. Describe the process of strategy Evaluation.
2. Define Strategic Control, Discuss the tools of strategic Control.

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