DS3000:
Entrepreneurship & Management functions

Session 5

INDIAN INSTITUTE OF INFORMATION TECHNOLOGY, DESIGN AND MANUFACTURING, KANCHEEPURAM

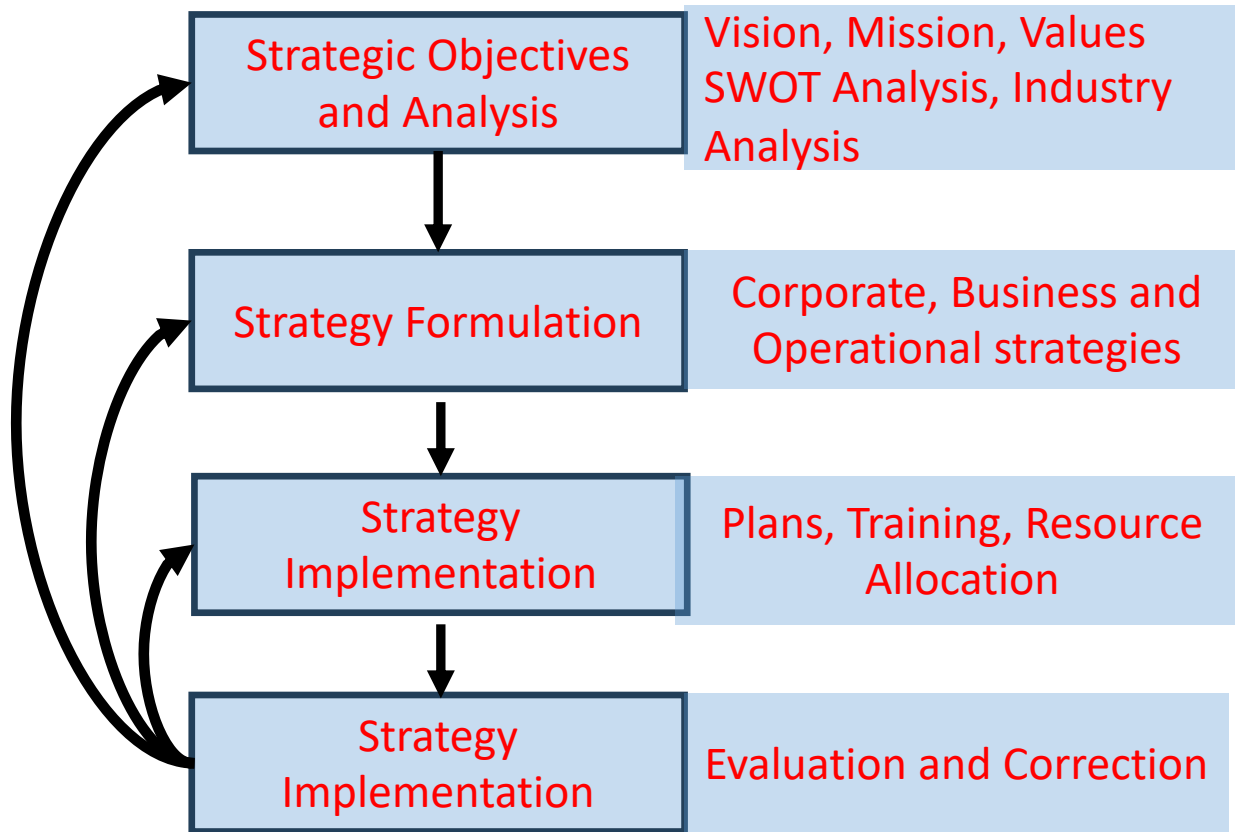- Dr Sudhir Varadarajan
- Dr. Suresh Varadarajan

Contents

Strategy Formulation

Organization Design Principles

Models of organization

Strategic Management Process

|	
Strategic Objectives and Analysis	Vision, Mission, Values SWOT Analysis, Industry Analysis
Strategy Formulation	Corporate, Business and Operational strategies
Strategy Implementation	Plans, Training, Resource Allocation
Strategy Implementation	Evaluation and Correction

Strategic management:
- comprehensive and ongoing management process aimed at formulating and implementing effective strategies
- a way of approaching business opportunities and challenges.

What is strategy?

- The most basic idea of strategy is the application of strength (advantage) against the most promising opportunity and mitigate risks due to weaknesses

- Advantages could be due to scale, scope, network effects, reputation, patents, brands and several others

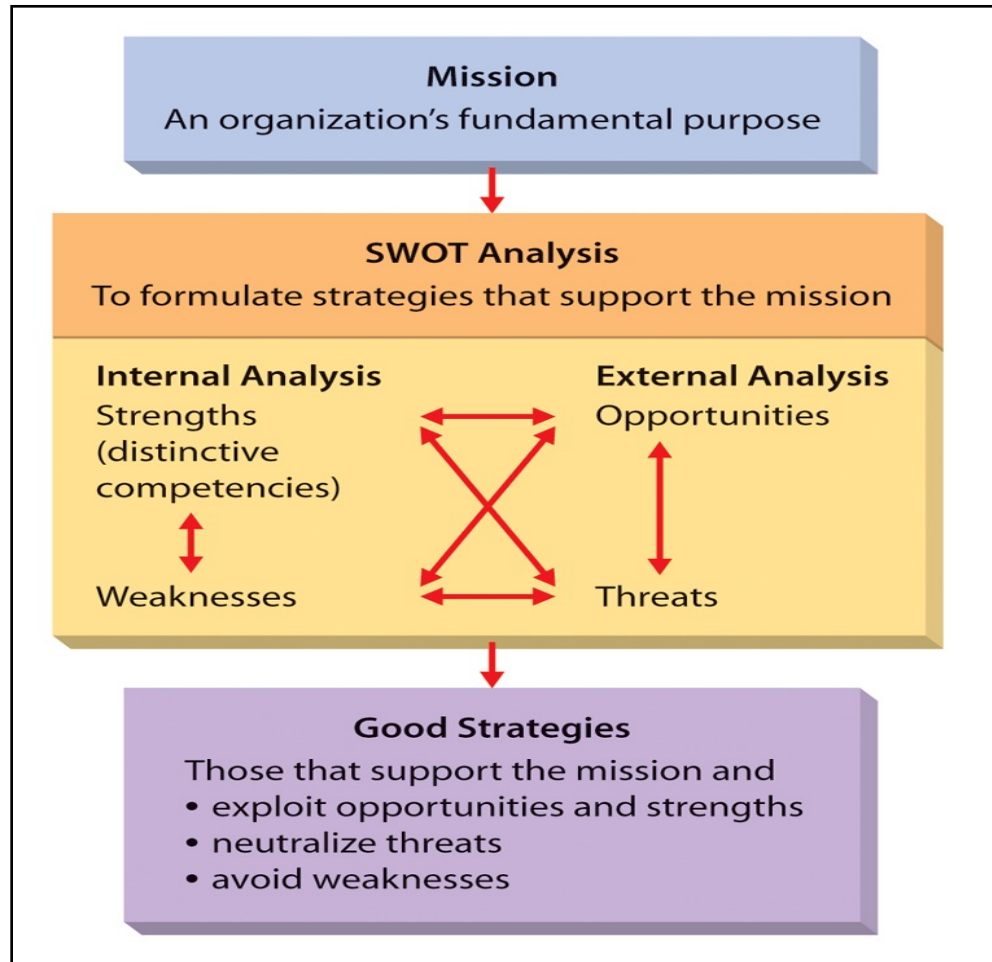- Strategic choices have a big impact on the firm's future … it is like 'concept design' in new product development

SWOT: A simple & popular technique

Internal   External

Positive

Strengths   Opportunities
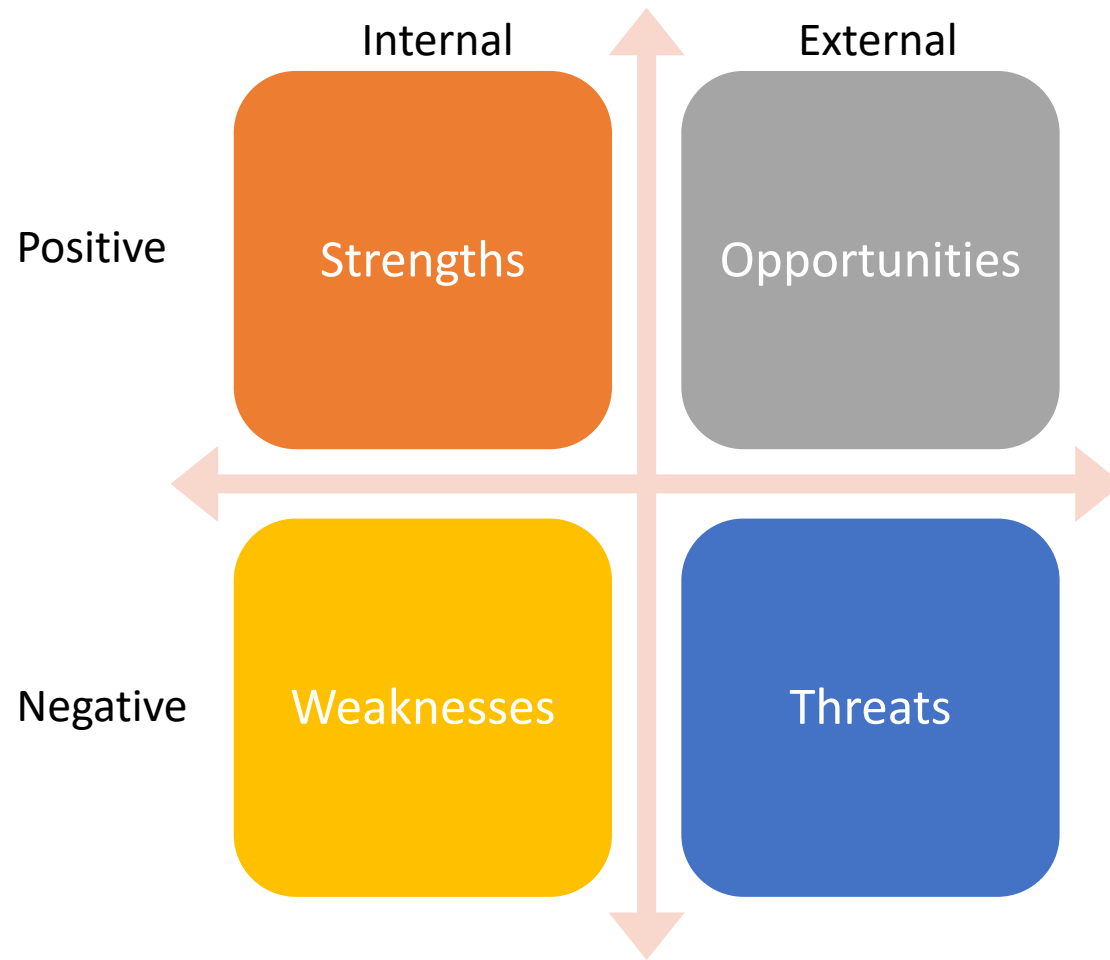
List the key points under each category and make an assessment

Negative

Weaknesses   Threats

SWOT Analysis

Organizational Strength :

Strategic imitation: the practice of duplicating another organization's distinctive competency and thereby implementing a valuable strategy.

Sustained competitive advantage: a competitive advantage that exists after all attempts at strategic imitation have ceased.

Organizational weaknesses

Organizational weakness: a skill or capability that does not enable an organization to choose and implement strategies that support its mission.
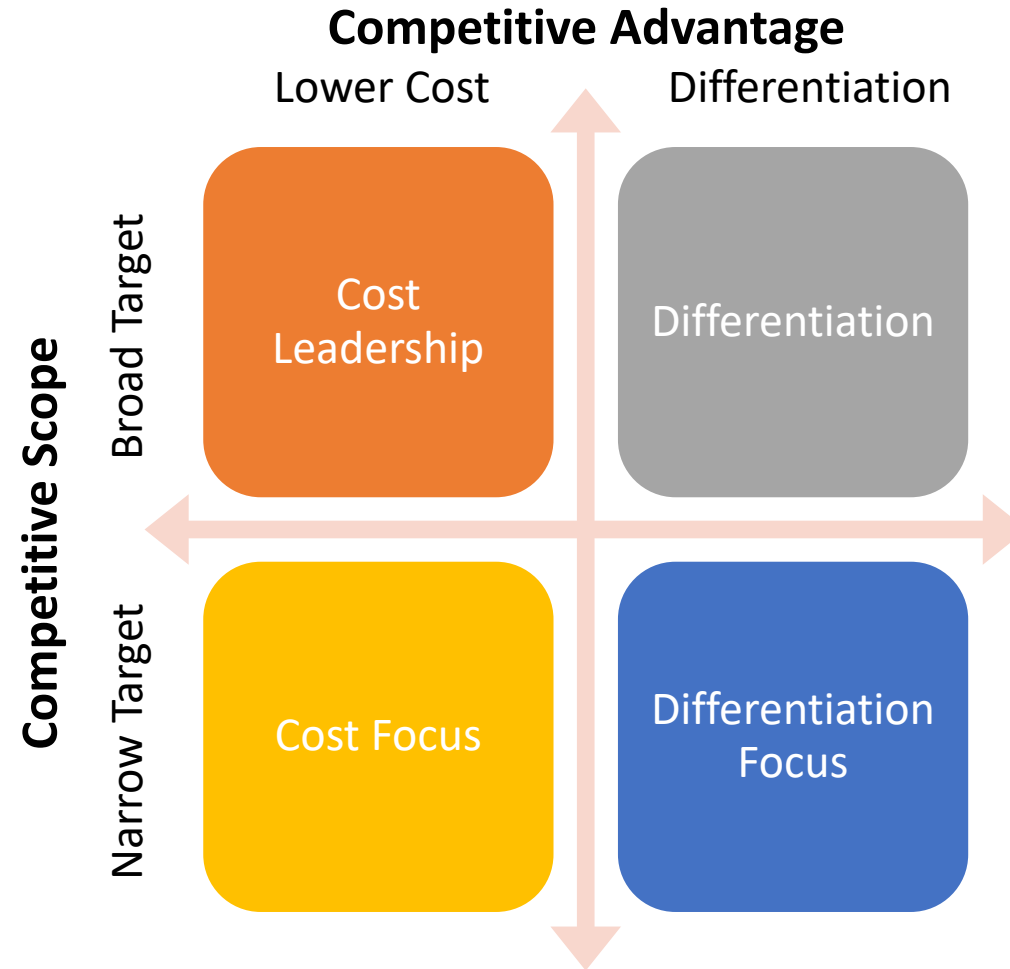
Competitive disadvantage: a situation in which an organization is not implementing valuable strategies that are being implemented by competing organizations.

Opportunities and Threats:

Organizational opportunity: an area in the environment that, if exploited, may generate higher performance.
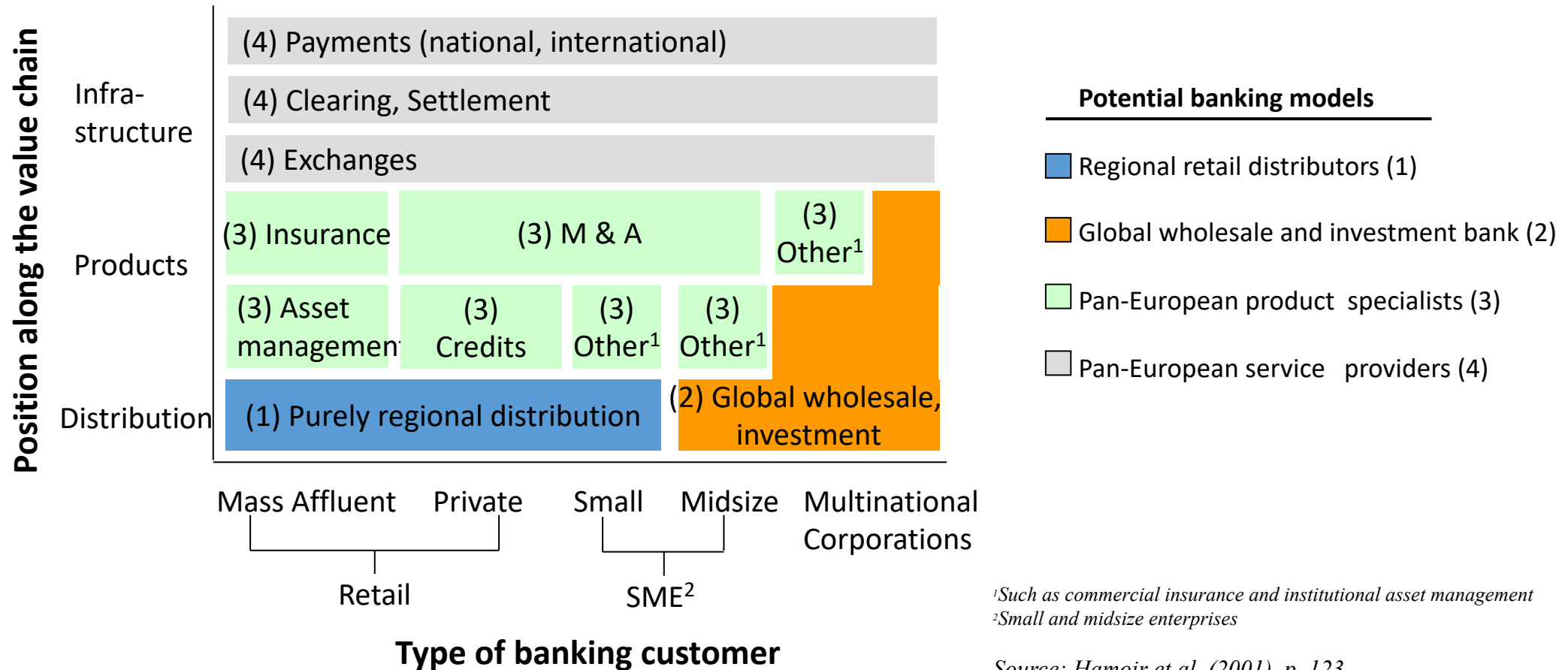
Organizational threats: an area in the environment that increases the difficulty of an organization performing at a high level.

Generic Strategies (Porter)

Competitive Advantage

Lower Cost   Differentiation

Competitive Scope

Broad Target

Narrow Target

Cost Leadership

Differentiation

Cost Focus

Differentiation Focus

General recommendation: Firms have to make a choice between one or the other. They cannot be in both places

Financial Industry Value Chain & Banking Models

Position along the value chain

Infra-structure
- (4) Payments (national, international)
- (4) Clearing, Settlement
- (4) Exchanges

Products
- (3) Insurance
- (3) M & A
- (3) Other[1]
- (3) Asset management
- (3) Credits
- (3) Other[1]
- (3) Other[1]

Distribution
- (1) Purely regional distribution
- (2) Global wholesale, investment

Mass Affluent | Private | Small | Midsize | Multinational Corporations

Retail | SME[2]

Type of banking customer

Potential banking models

- Regional retail distributors (1)
- Global wholesale and investment bank (2)
- Pan-European product specialists (3)
- Pan-European service providers (4)

[1]*Such as commercial insurance and institutional asset management*
[2]*Small and midsize enterprises*

Source: Hamoir et al. (2001), p. 123

What is a Good Strategy?

- A good strategy relies on two fundamentally important and natural sources of strength

  - **A good strategy** doesn't just draw on existing strength; it **creates strength through the coherence of its design** … most organizations don't do this… rather they pursue multiple objectives that are unconnected with one another or worse conflict with one another

  - The creation of new strengths through **subtle shifts in viewpoint**. An insightful framing of a competitive situation can create whole new patterns of advantage and weaknesses. The most **powerful strategies arise from such game-changing insights**

  - Source: Richard Rumelt (Good Strategy, Bad Strategy)

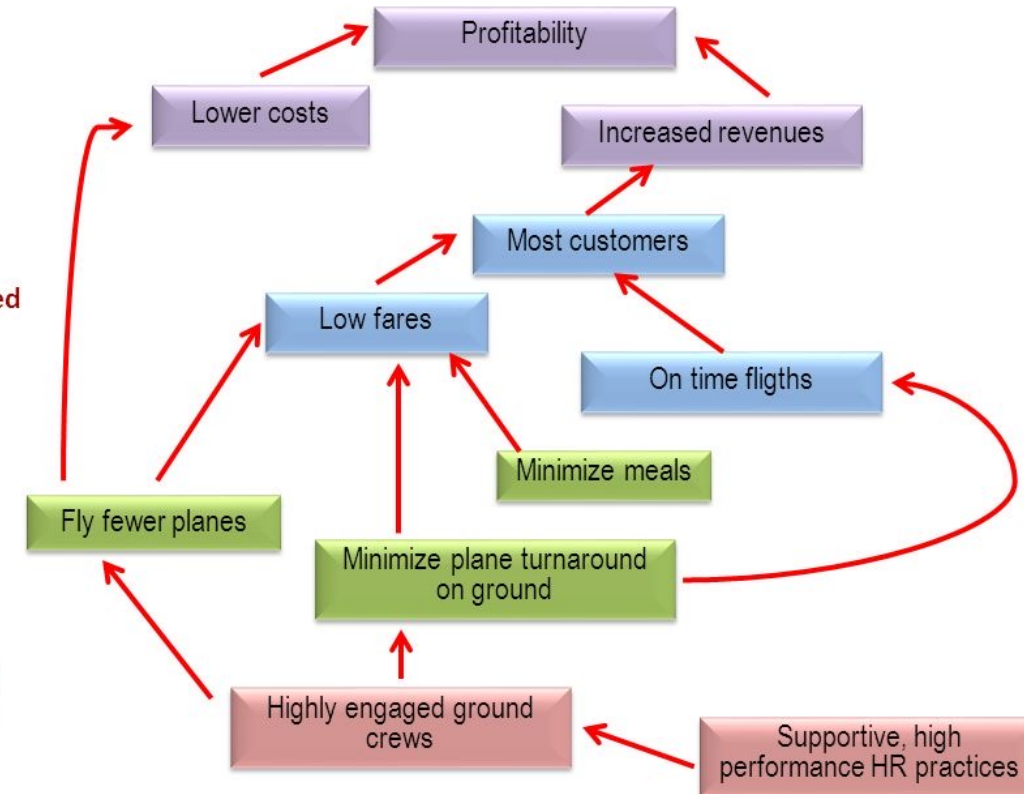# Kaplan & Norton's Strategy Map & Balanced Scorecard

Completed Generic Strategy Map
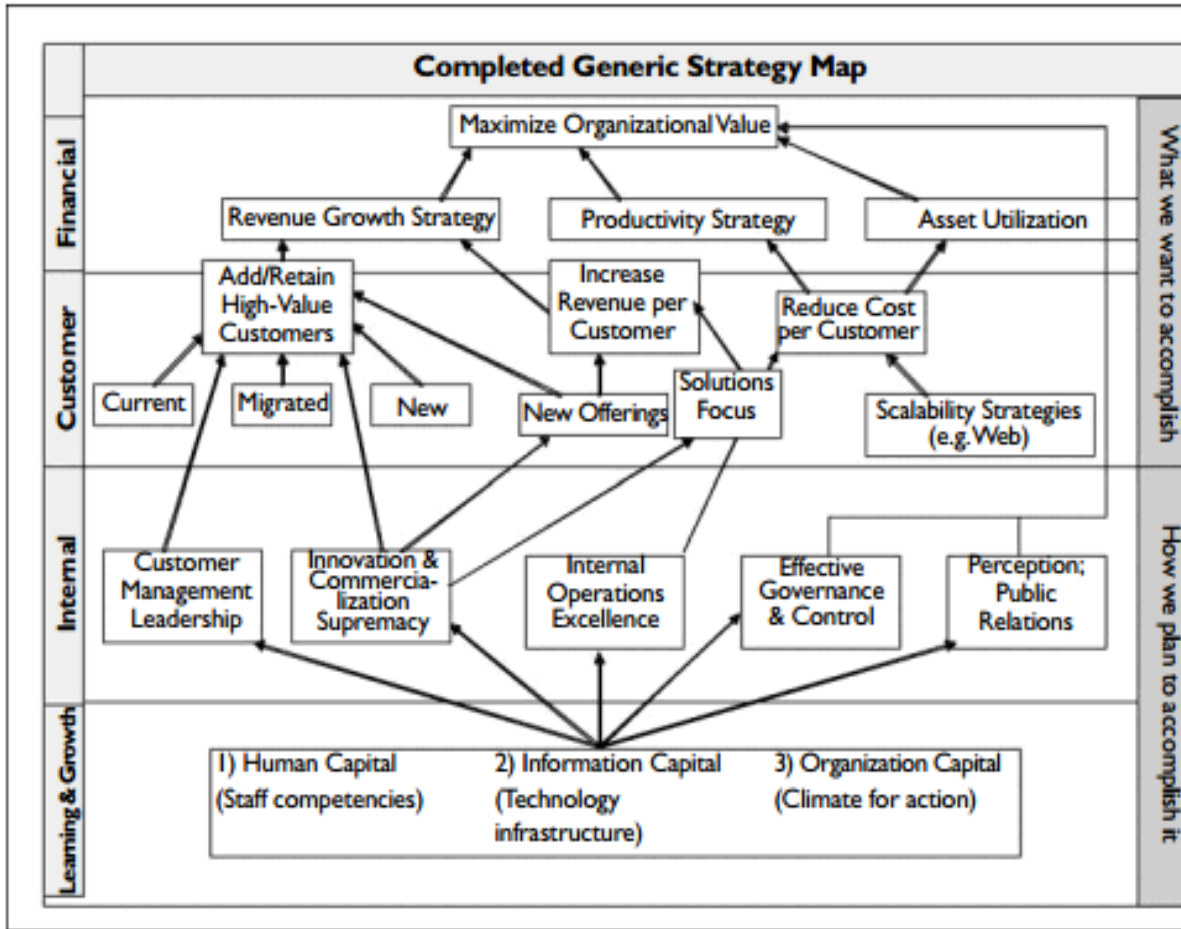

FIGURE 3–8 Strategic Map for Southwest Airlines

Signs of Bad Strategy

- Failure to face the challenge … bad strategy fails to recognize or define the challenge

- Bad strategic objectives … when they fail to address critical issues or when they are impracticable

- Mistaking goals for strategy … Many bad strategies are just statements of desire rather than plans for overcoming obstacles. Example, "we want to be a billion dollar company"

- Fluff… use of abstruse and unnecessary words and concepts to create the illusion of high-level thinking. Example:
    - A quote from a major retail bank "Our fundamental strategy is one of <u>customer-centric intermediation</u>"
    - "An elastic execution environment of resources involving multiple stakeholders and providing a metered service at multiple granularities for a specified level of quality of service"

Source: Richard Rumelt

Paradoxical Challenges & Strategy Formulation

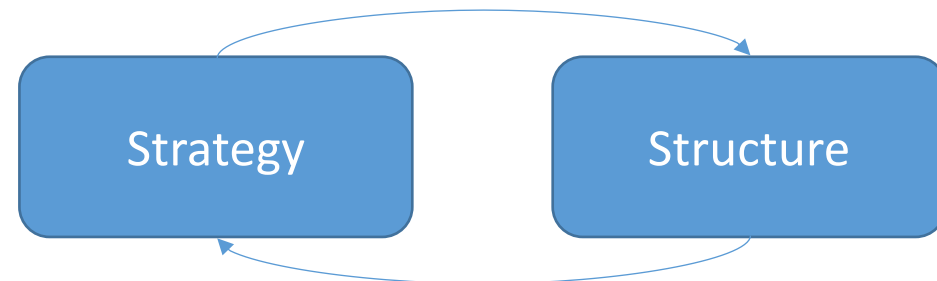
1998

2004
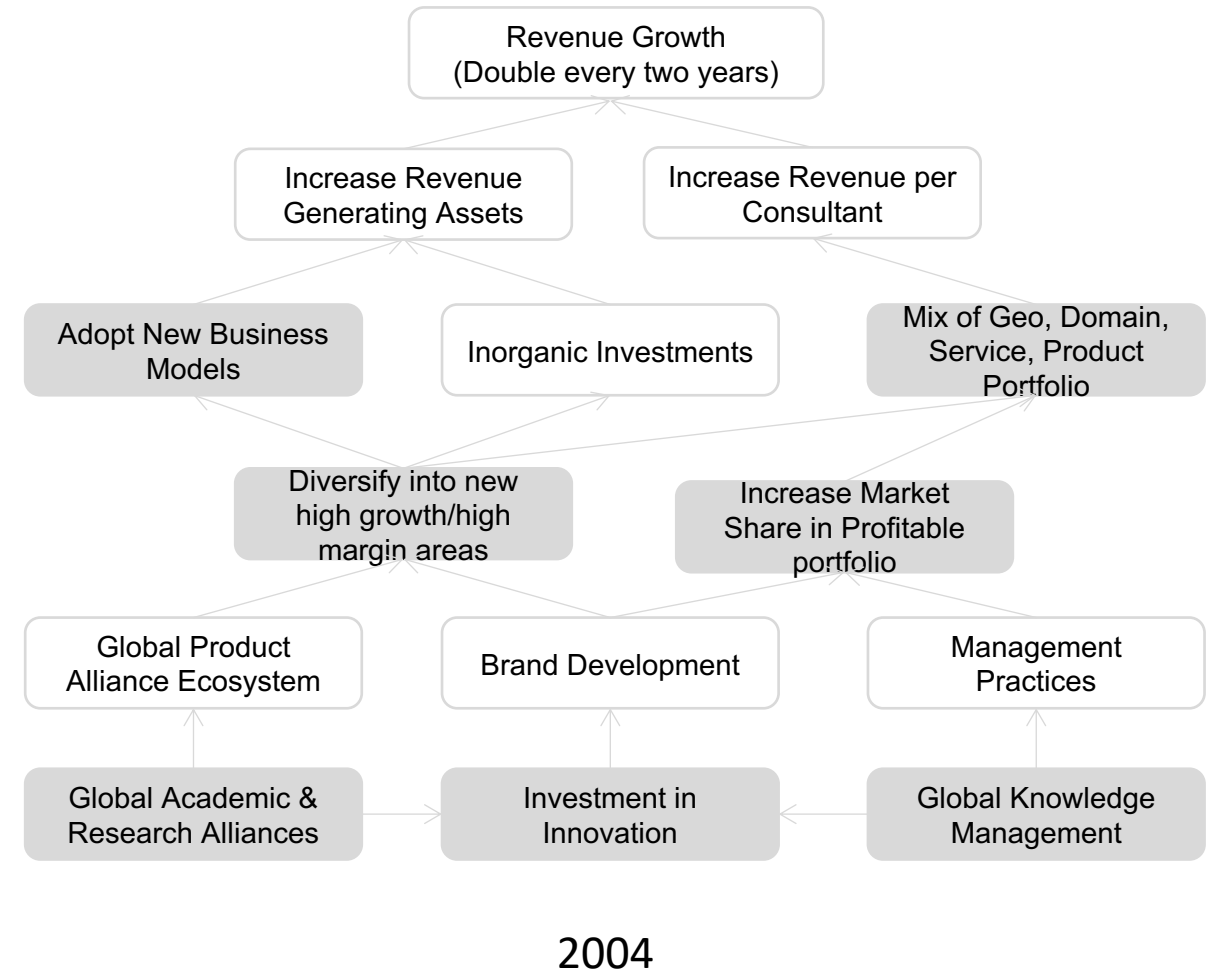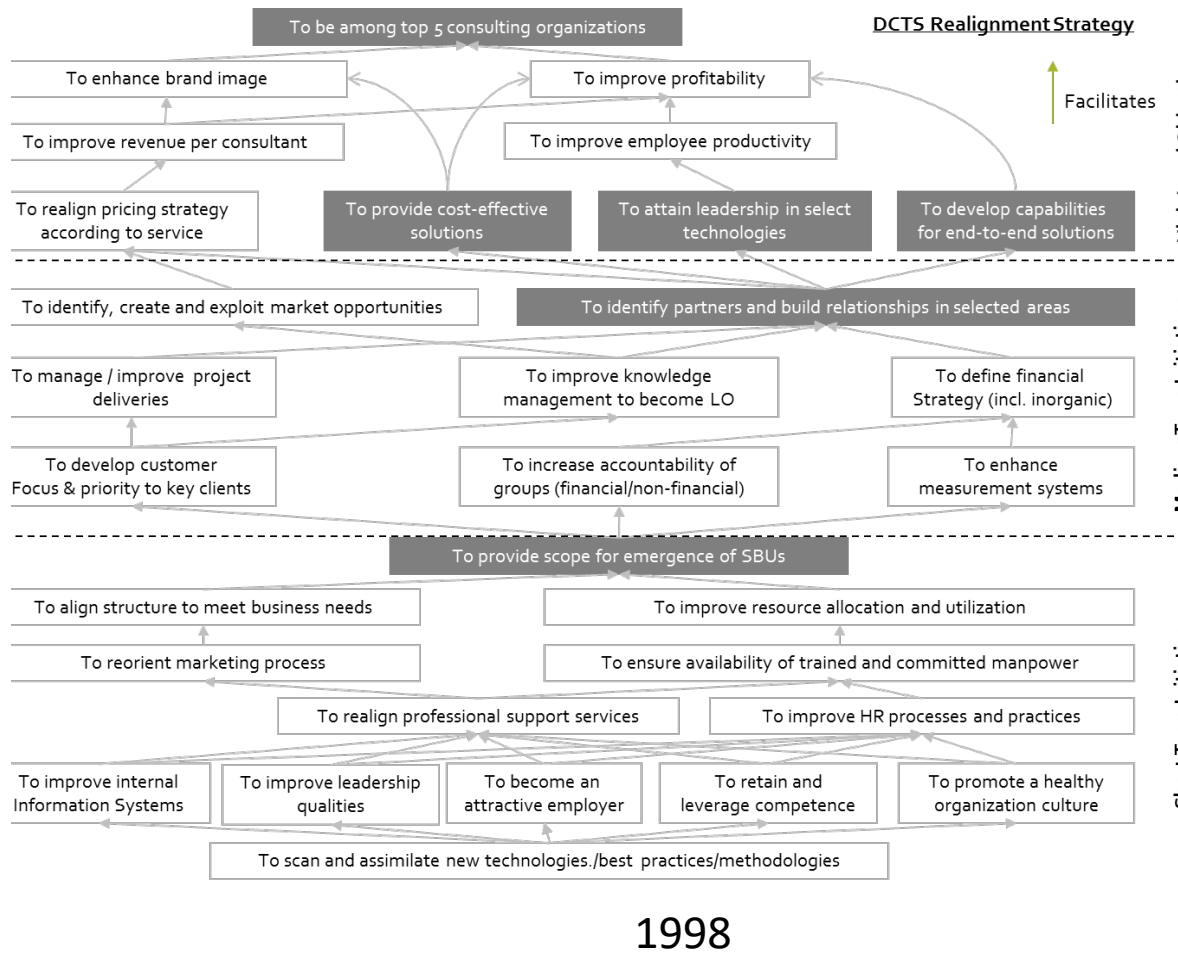
Singapore Airlines

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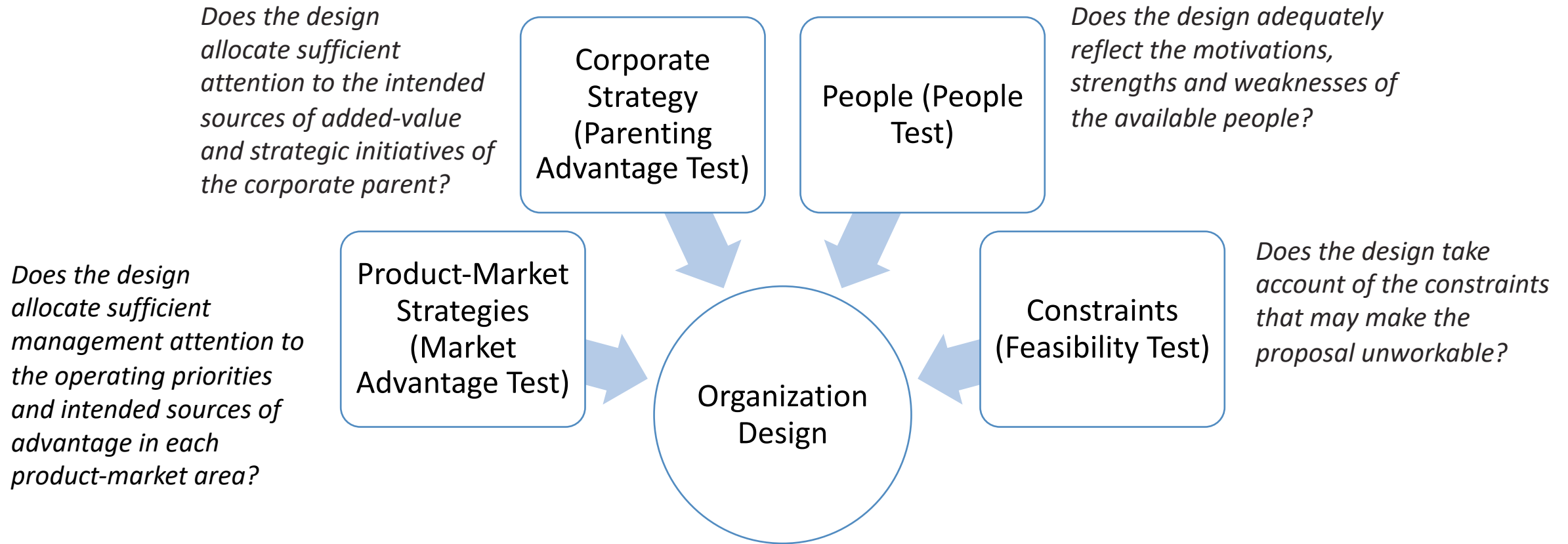Strategy Formulation

Organization Design Principles

Models of organization

Perspectives on Organization Structure

- Structure: A grouping of relevant strategic objectives & functions into roles & responsibilities

- Thesis: Structure Follows Strategy (Alfred Chandler) … Form follows Function
    - Structure is critical to translate strategy into action

- Anti-thesis: Structure Constrains Strategy
    - Especially true for existing organizations ("culture eats strategy for breakfast")

- Synthesis: Strategy and Structure are mutually Reinforcing (Henry Mintzberg)

Strategy

Structure

Considerations for Organization Design: Fit Drivers (1/2)

Does the design allocate sufficient attention to the intended sources of added-value and strategic initiatives of the corporate parent?

Does the design adequately reflect the motivations, strengths and weaknesses of the available people?

Does the design allocate sufficient management attention to the operating priorities and intended sources of advantage in each product-market area?

Does the design take account of the constraints that may make the proposal unworkable?

Corporate Strategy (Parenting Advantage Test)

People (People Test)

Product-Market Strategies (Market Advantage Test)

Constraints (Feasibility Test)

Organization Design

Source: Michael Goold & Andrew Campbell (2002), Designing Effective Organizations

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Considerations for Organization Design: Design Principles (2/2)

Are all levels in the hierarchy and all responsibilities retained by higher levels based on a knowledge and competence advantage?

Does the organization design call for any 'difficult links', co-ordination benefits that will be hard to achieve on a networking basis, and does it include 'solutions' that will ease the difficulty?

Does the design facilitate the creation of a control process for each unit that is appropriate to the unit's responsibilities, economical to implement, and motivating for the managers in the unit?

Knowledge & Competence Principle (Redundant Hierarchy Test)

Co-ordination Principle (Difficult Links Test)

Control and Commitment Principle (Accountability Test)

Organization Design

Do any 'specialist cultures', units with cultures that need to be different from sister units and the layers above, have sufficient protection from the influence of the dominant culture?

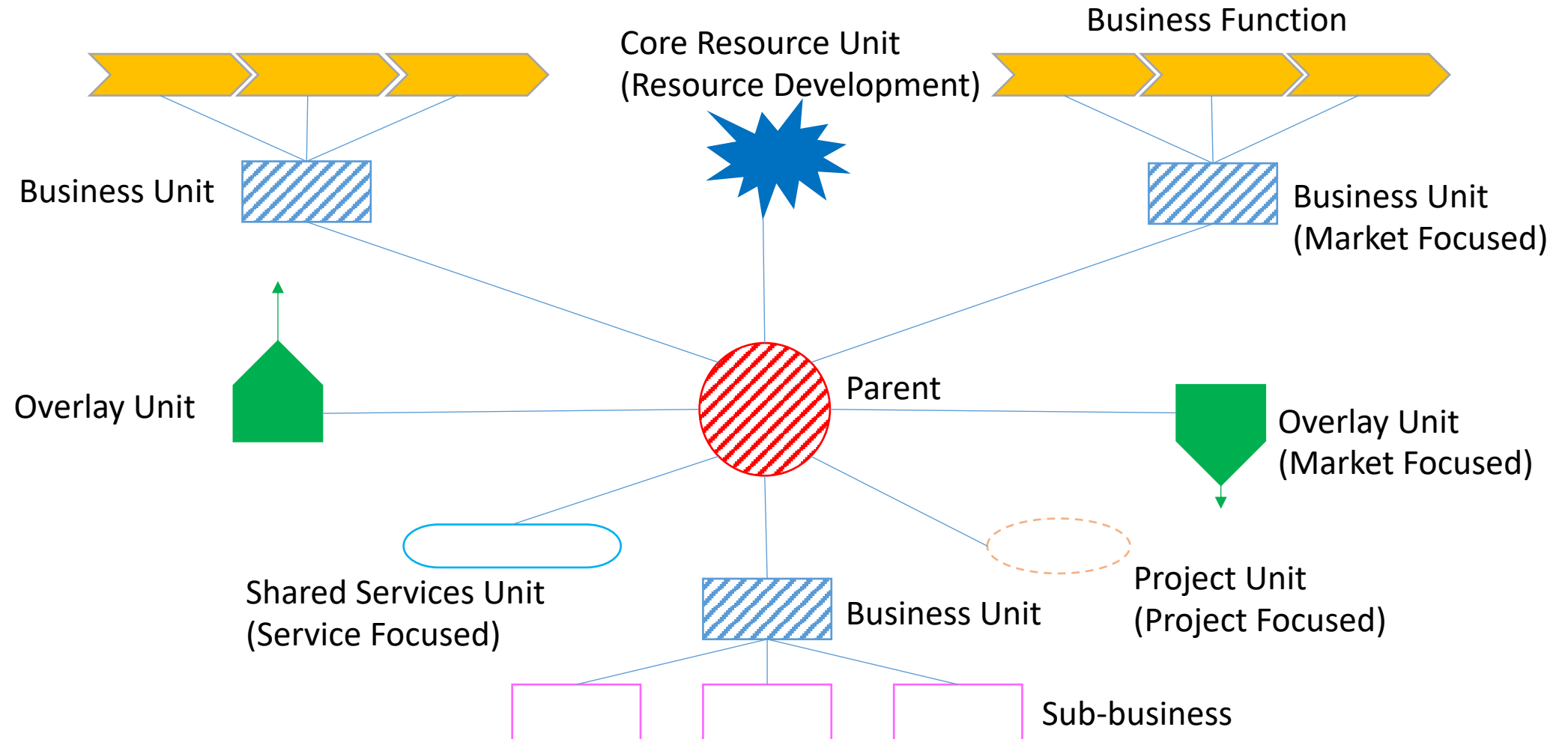Specialization Principle (Specialist Cultures Test)

Innovation & Adaptation Principle (Flexibility Test)

Will the design help the development of new strategies and be flexible enough to adapt to future changes?

Source: Michael Goold & Andrew Campbell (2002), Designing Effective Organizations

Taxonomy of Organizational Units

5A: What may be the guiding principles for an early-stage startup and a large company (Ex: one company you invested in)?
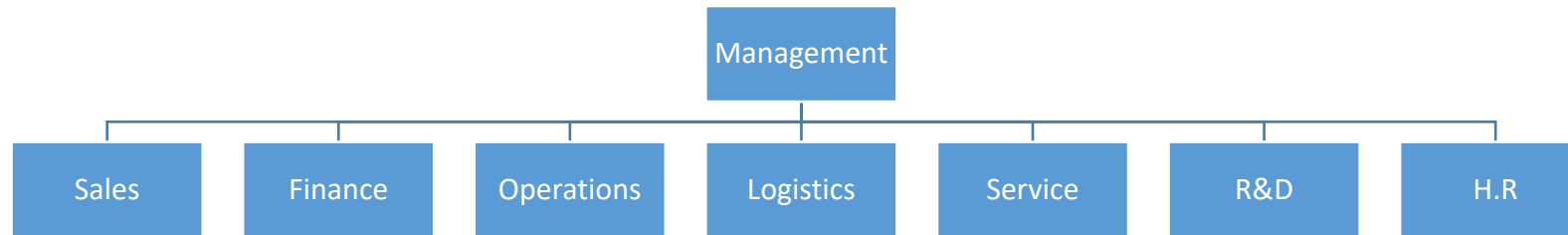
Contents

Strategy Formulation

Organization Design Principles

Models of organization Structure

Organization Structure : Questions

- Important to know about the structure as everyone operates in the structure
- Everyone is likely at some point to influence the structure
- Should Taks and Grouping be formalised or remain informal?
- Who is authorised to make decisions ?
- Authority at the top (Centralized) or should there be a decentralized structure for more participation
- How many layers of Management?
- Hierarchal structure or flat structure

Functional Structure

```
                        Management
   ┌────┬────────┬──────────┼─────────┬────────┬────────┐
 Sales  Finance  Operations  Logistics  Service  R&D   H.R
```

- grouping of people and tasks around similar activities
- connects individuals with comparable and complementary knowledge and abilities.
- helps employees achieve their goals and work together more cohesively.
- organized into layers of hierarchy that encompass several departments and are led by authorized leaders.
- Functional structure work best with small to medium-sized firms with limited product offerings that operate n relatively stable environments and where outcomes such as efficiency and consistency are key drivers of success.
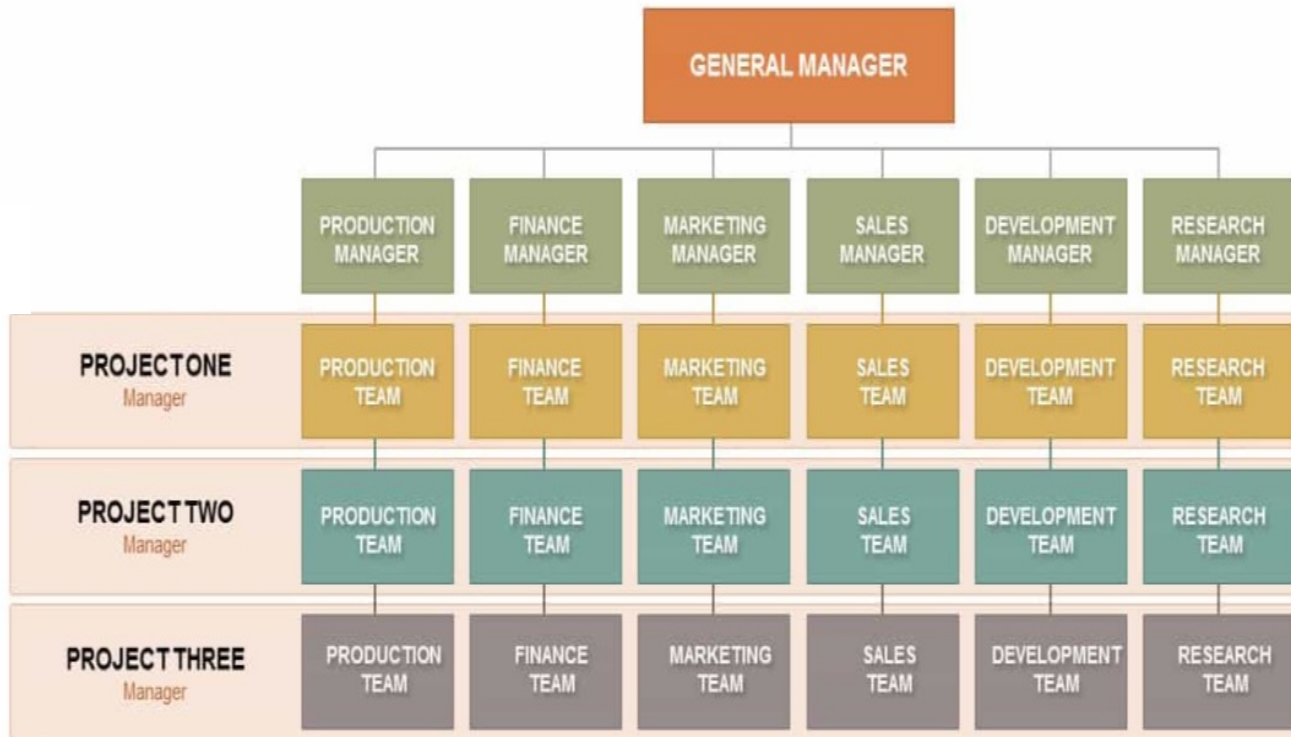
Question: What are some limitations of Functional structure?

Divisional Structure:

Groups employees based on product, customer, or geographic divisions.

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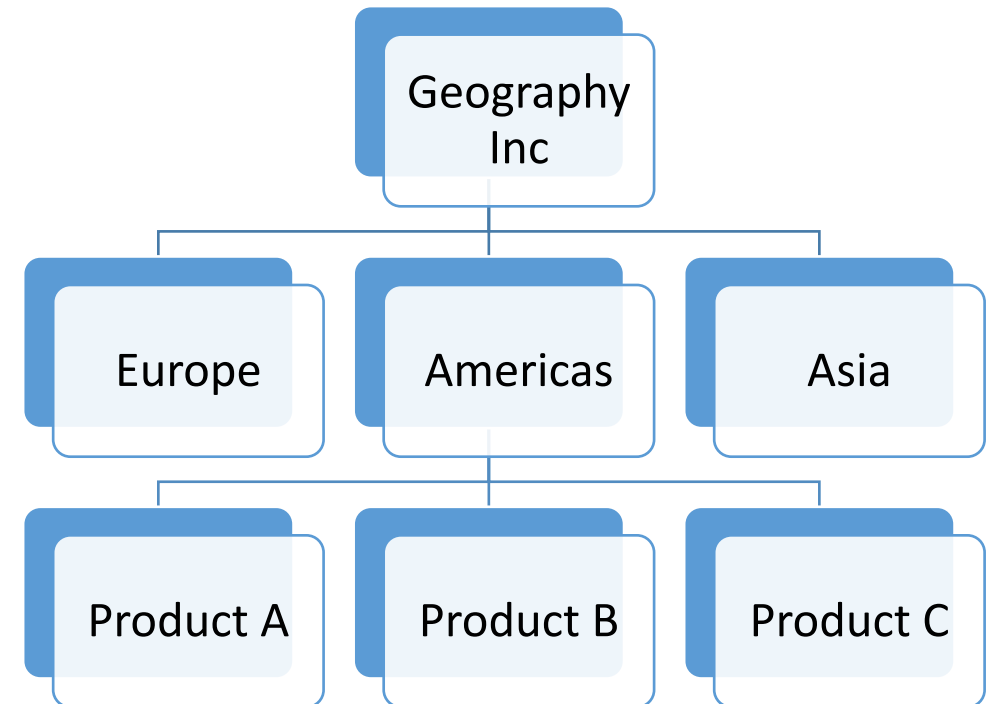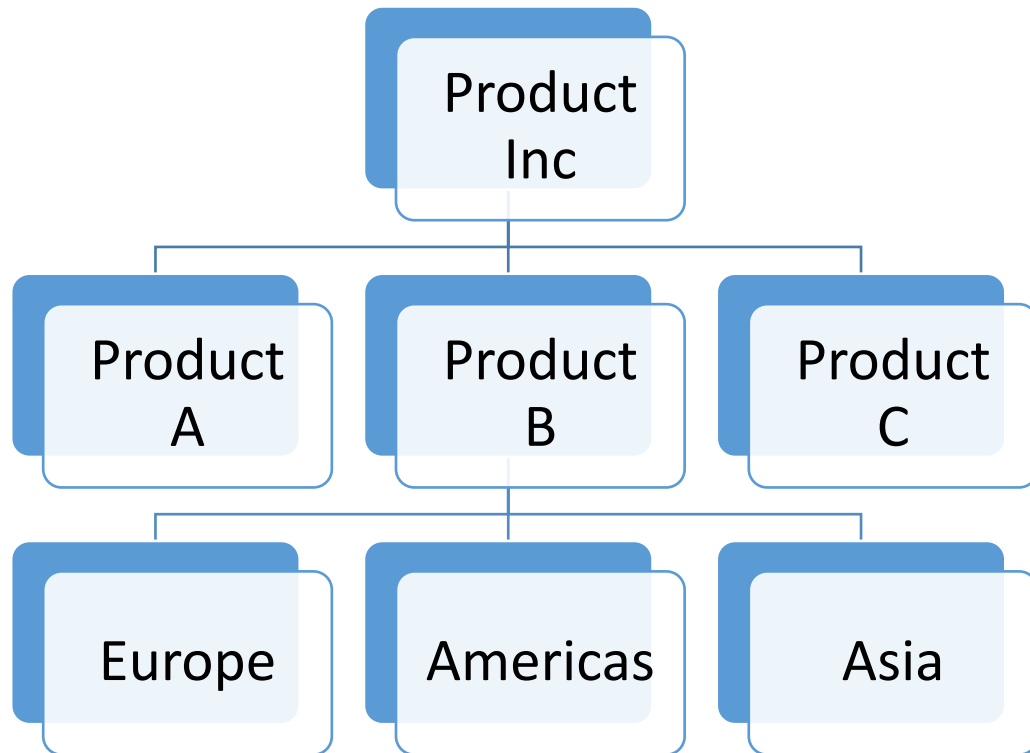
Matrix Structure

- combination of two or more organizational structure types

- Organizations with various product divisions and services employ this structure

- Multiple Management reporting structures

- maintains open lines of communication between departments and can assist businesses in producing more cutting-edge goods and services.

- effectiveness of matrix architectures is based on their promotion of resource sharing and cross-team collaboration

Matrix Structure Example : Boeing
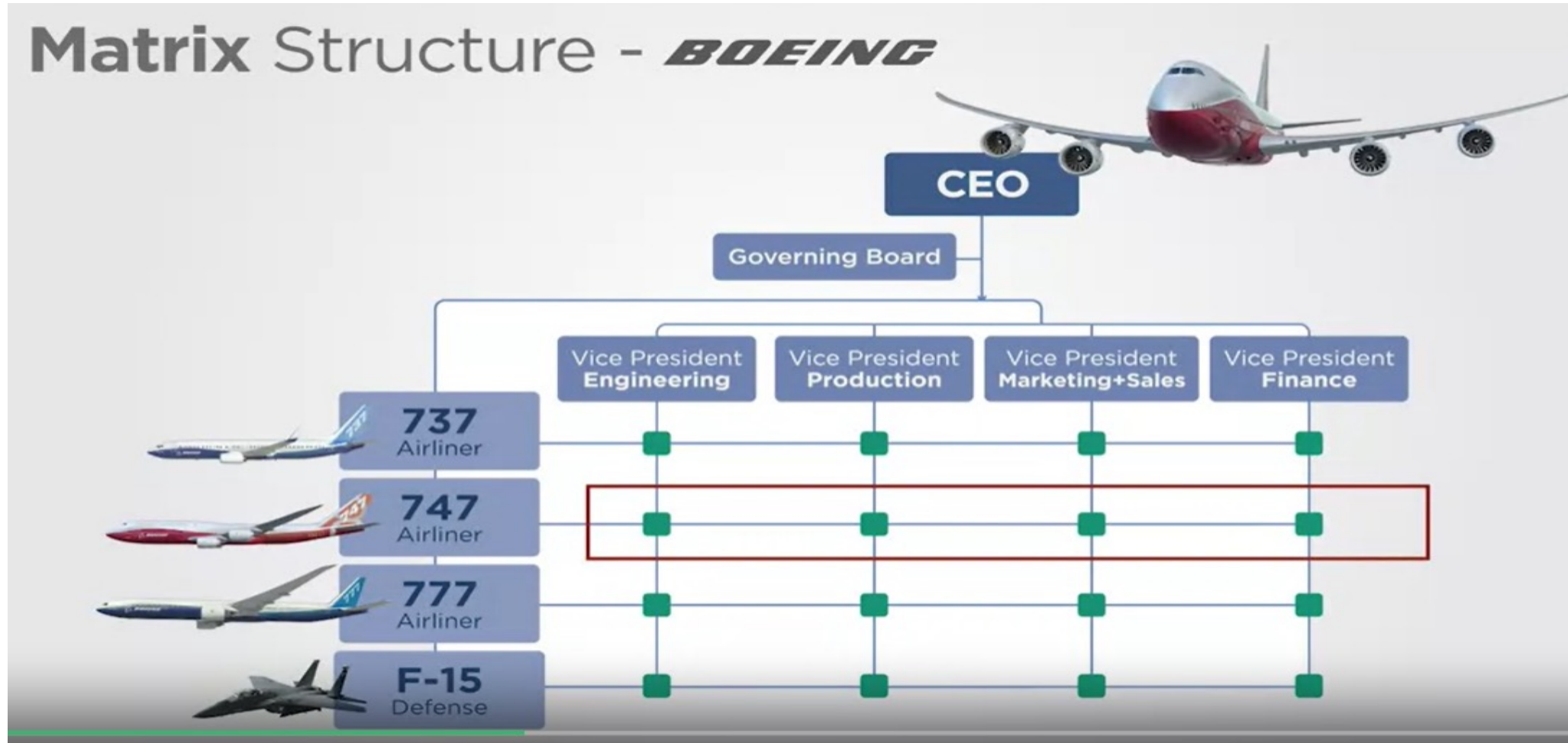
Matrix Structure Example :Proctor &Gamble
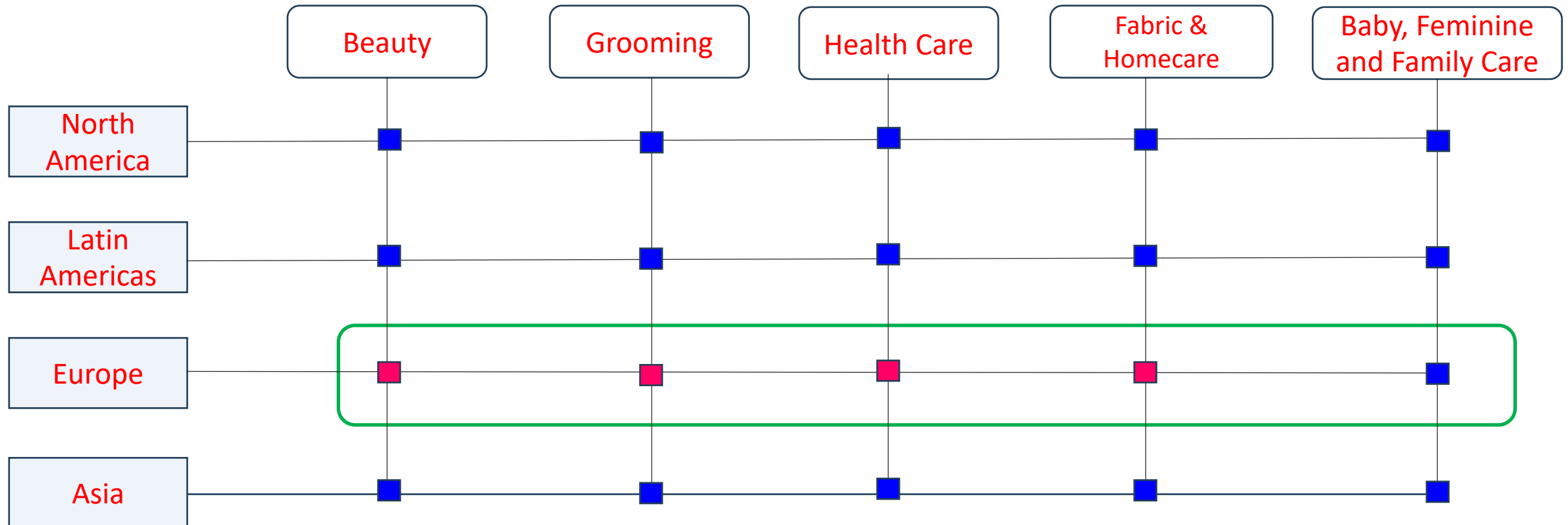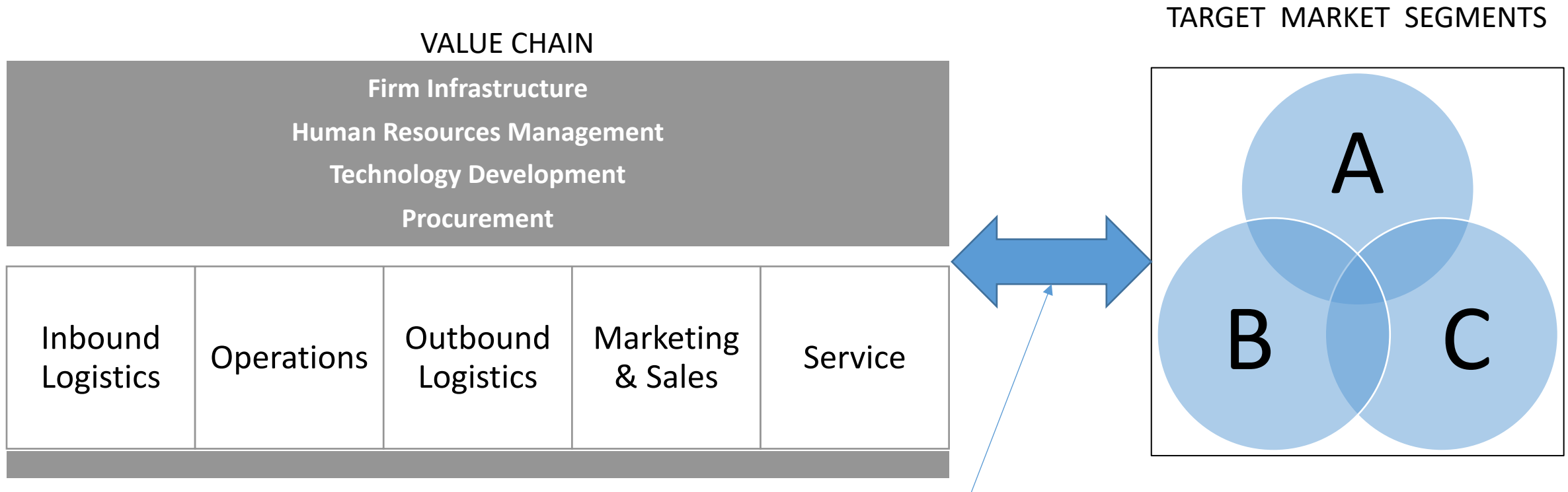
Matrix Structure : Pros and Cons

Advantages

- allows the sharing of skilled resources between functional units and projects, which facilitates resource planning.
- fosters better cross-functional communications, which improves team collaboration and builds a more dynamic organization.
- helps organizations achieve their goals at a faster pace, thanks to a higher use of material and human resources.
- creates an environment that facilitates learning and Professional growth

Limitations

- Possibility issues/confusion due to dual reporting and prioritization of tasks
- Limited resources can become an issue if managers don't communicate during the resource planning process.
- lot of managers in a matrix organizational chart, which is not to everyone's liking and leading to increased company
- Team members can feel the strain of working in a matrix organizational structure, in that their workload can be heavy.

Market-Focused Strategic Business Units

VALUE CHAIN

TARGET MARKET SEGMENTS

Firm Infrastructure				
Human Resources Management				
Technology Development				
Procurement				
Inbound Logistics	Operations	Outbound Logistics	Marketing & Sales	Service

A

B

C

Value Chain that is coordinated and aligned to serve the target segments profitably

Question

What are the factors that would strongly influence changes in the organization structure?
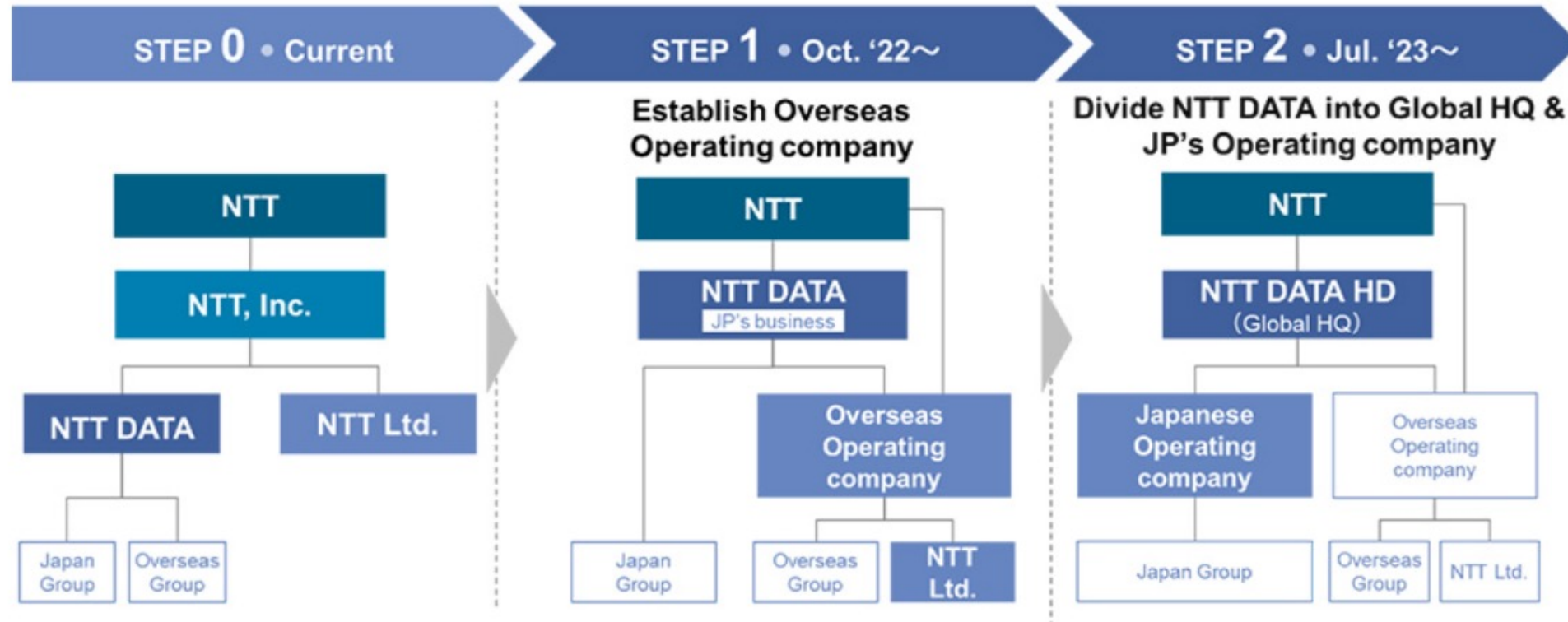
Organization structure : Group Company Realignment

Fig. 2: Transition to Holding company structure

https://www.nttdata.com/global/en/news/press-release/2022/may/ntt-data-and-ntt-will-combine-their-it-services-organizations-outside-japan--into-a-new-operating
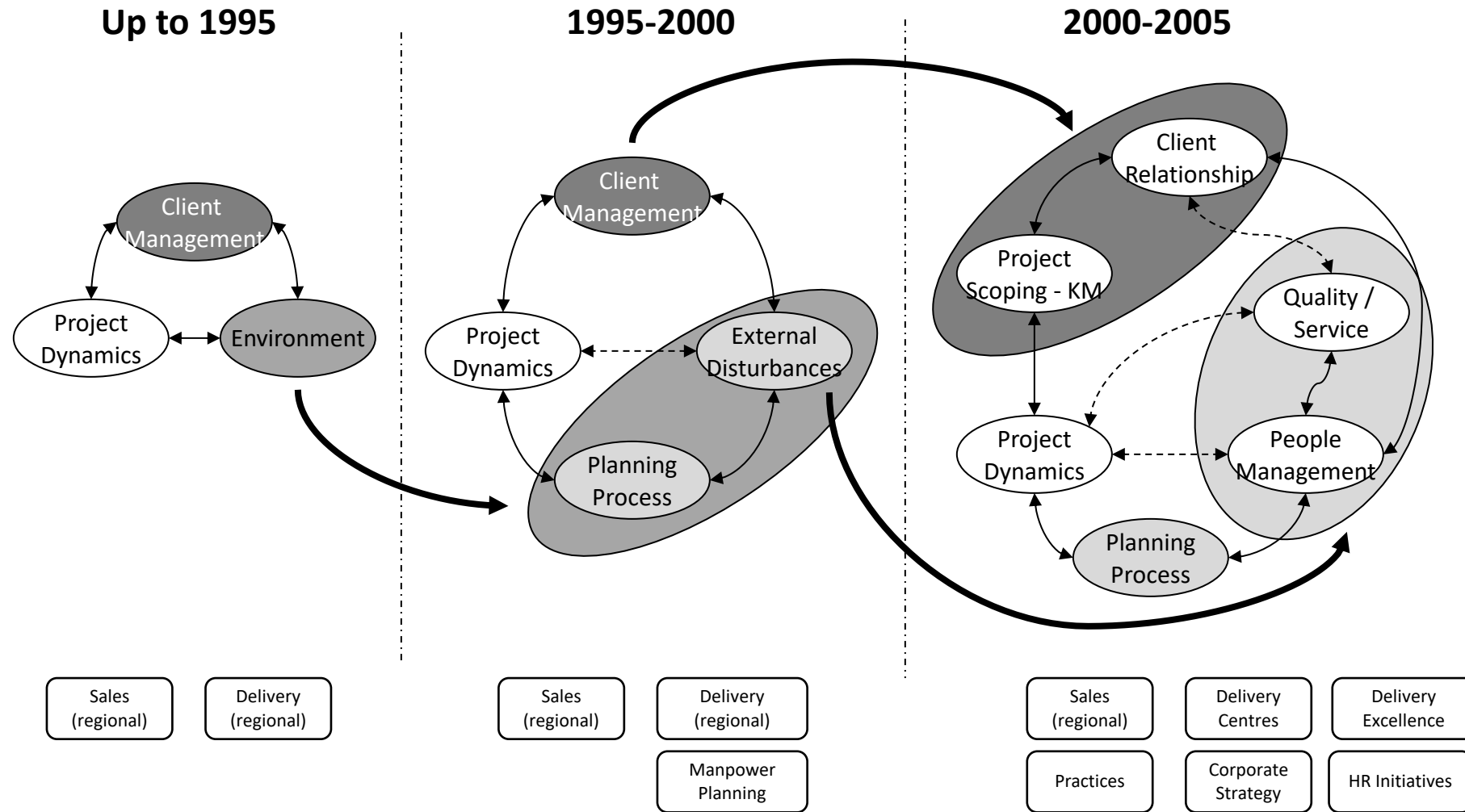
Examples

- Ashok Leyland (2018); Commercial vehicle maker Ashok Leyland ha initiated an organizational rejig to create three divisions — one each for trucks, buses and power solutions. Historically, Ashok Leyland's corporate structure has been organized functionally, in terms of human resources, marketing, finance and sales.

- Wipro (2020); Under the new model, the IT services firm will replace the current structure of its various strategic business units (SBUs), service lines and geographies with four strategic market units (SMUs) and two global business lines (GBLs). The four SMUs will be Americas 1, Americas 2, Europe and Asia Pacific Middle East Africa (APMEA). While Americas 1 and Americas 2 will be organized into sectors, Europe and APMEA will be organized into countries.

- Unilever (Mar 2022): The company will move away from its current matrix structure and will be organized around five distinct Business Groups: Beauty & Wellbeing, Personal Care, Home Care, Nutrition, and Ice Cream. Each Business Group will be fully responsible and accountable for their strategy, growth, and profit delivery globally
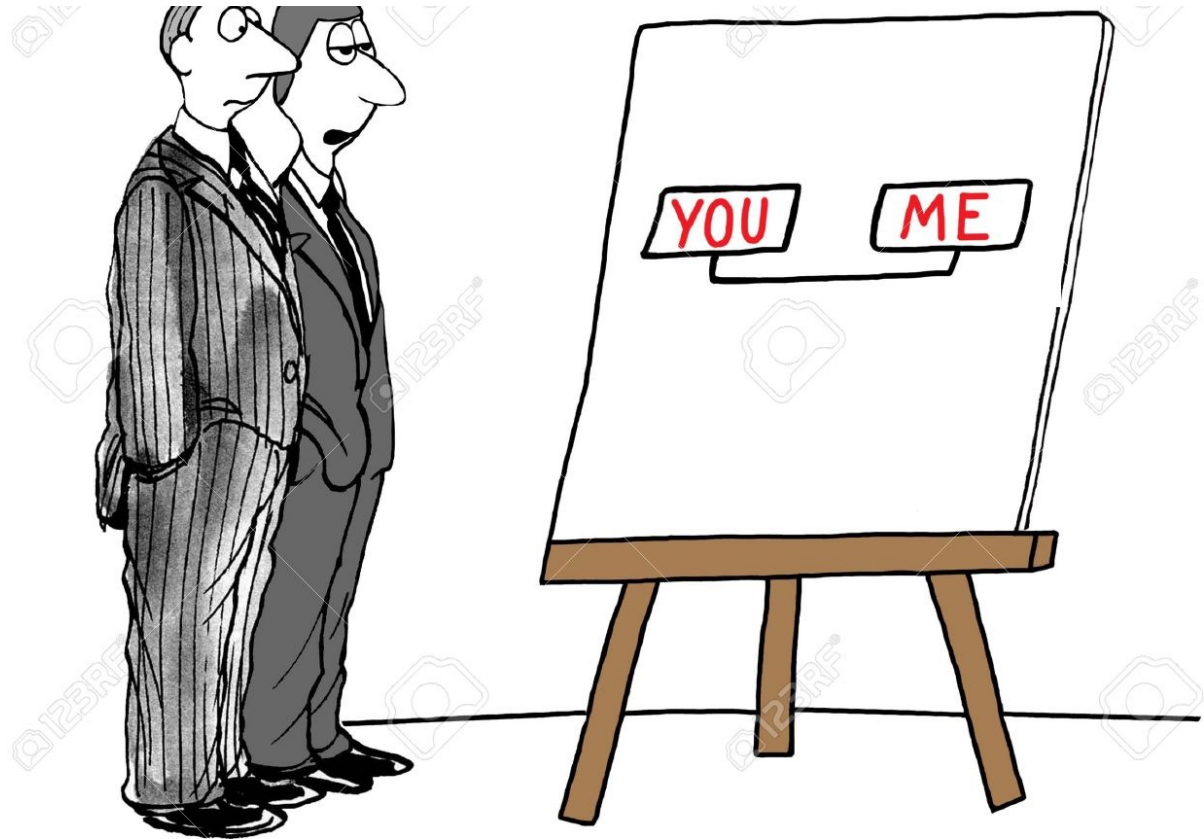
"We have finally achieved simplicity

Source: internet

Evolution of Indian IT Services Organizations

Up to 1995

1995-2000

2000-2005

Ex: 5b: Analyze the fitment of one 'invested' company structure to its value chain and goals

Value Chain Analysis -> Strategy -> Critical Goals/Measures

- Example, To grow by X% in a product / market

Grouping of critical parts of the value and measures -> Structure

- Tight alignment of product / market to achieve X% growth … in the structure

Customer Identification
(to be done by 30 Sep 2023)

- Each team member may speak to 3 potential customers of your product (they may include alumni + external)

- You need to prepare a proper questionnaire and interview the prospect to understand their pain points, unmet needs and their willingness to pay advance for a product – 30 min interview

- You may reach out through linkedin and other contacts

- You may strictly not discuss or pitch your product or idea

- Based on the need identification, redefine/refine your product

- Interview details need to be submitted

Backup

Simple and Complex Structures
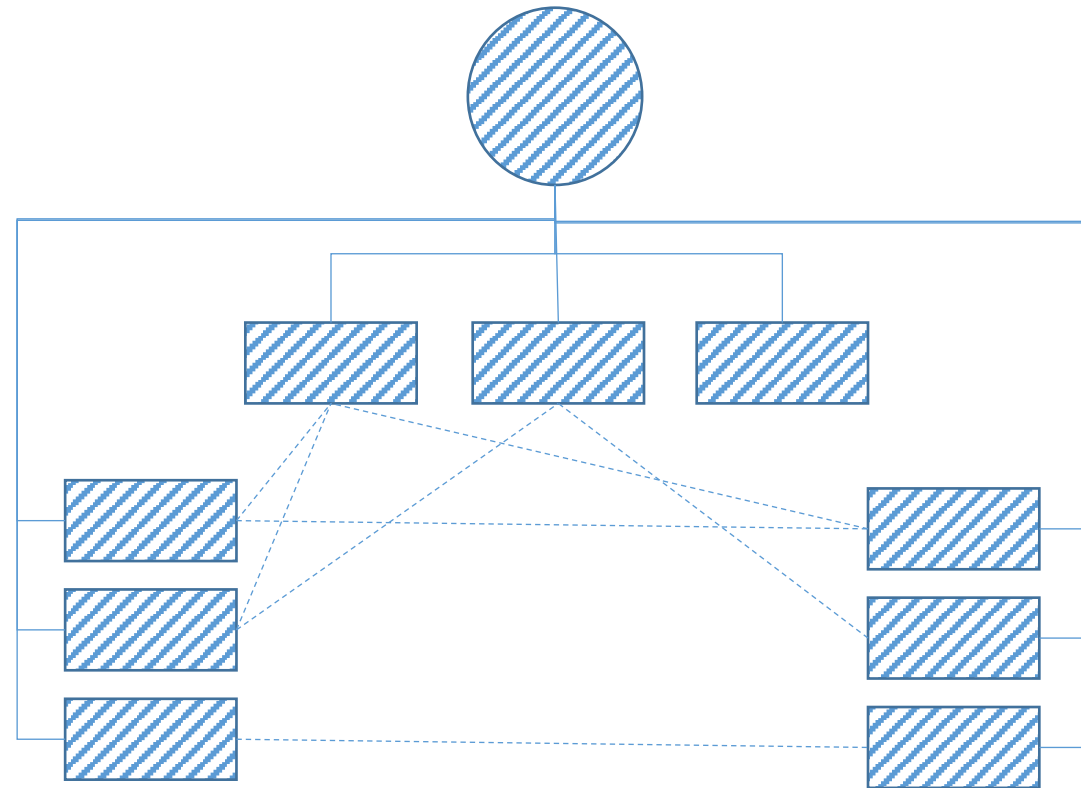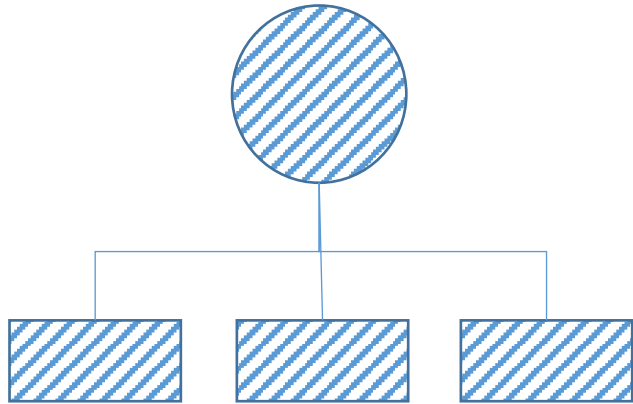
A Typical Organizational Chart