BA4301 **STRATEGIC MANAGEMENT** **L T P C**
3 0 0 3

COURSE OBJECTIVE:

- To learn the major initiatives taken by a company's top management on behalf of corporate, involving resources and performance in external environments. It entails specifying the organization's mission, vision and objectives, and to equip with skills required to manage business and non-business organizations at senior levels. The course adopts a functional approach to management developing policies and plan to understand the analysis and implementation of strategic management in strategic business units.

UNIT I STRATEGY AND PROCESS 9

Conceptual framework for strategic management, the Concept of Strategy and the Strategy Formation Process – Stakeholders in business – Vision, Mission and Purpose – Business definition, Objectives and Goals - Corporate Governance and Social responsibility-case study.

UNIT II COMPETITIVE ADVANTAGE 9

External Environment - Porter‘s Five Forces Model-Strategic Groups Competitive Changes during Industry Evolution-Globalisation and Industry Structure - National Context and Competitive advantage Resources- Capabilities and competencies–core competencies-Low cost and differentiation Generic Building Blocks of Competitive Advantage- Distinctive Competencies-Resources and Capabilities durability of competitive Advantage- Avoiding failures and sustaining competitive advantage-Case study.

UNIT III STRATEGIES 9

The generic strategic alternatives – Stability, Expansion, Retrenchment and Combination strategies - Business level strategy- Strategy in the Global Environment-Corporate Strategy- Vertical Integration- Diversification and Strategic Alliances- Building and Restructuring the corporation-Strategic analysis and choice – Managing Growth - Environmental Threat and Opportunity Profile (ETOP) – Organizational Capability Profile - Strategic Advantage Profile - Corporate Portfolio Analysis - SWOT Analysis – GAP Analysis - Mc Kinsey's 7s Framework - GE 9 Cell Model – Distinctive competitiveness - Selection of matrix - Balance Score Card-case study.

UNIT IV STRATEGY IMPLEMENTATION & EVALUATION 9

The implementation process, Resource allocation, Designing organisational structure-Designing Strategic Control Systems- Matching structure and control to strategy-Implementing Strategic change- Politics-Power and Conflict-Techniques of strategic evaluation & control-case study.

UNIT V OTHER STRATEGIC ISSUES 9

Managing Technology and Innovation - Strategic issues for Non Profit organisations. New Business Models and strategies for Internet Economy-case study Challenges in Strategic Management: Introduction, Strategic Management as an Organisational Force, Dealing with Strategic Management in Various Situations, Strategic Management Implications and Challenges Recent Trends in Strategic Management: Introduction, Strategic Thinking, Organisational Culture and its Significance, Organisational Development and Change, Change Management, Strategic management in a new globalised economy

TOTAL: 45 PERIODS

COURSE OUTCOMES:

1. Ability to understand the Strategic management process and social responsibility of business organizations
2. In-depth understanding about the need for developing competitive advantage for organizations
3. Provides insights into various corporate and business level strategies
4. Facilitates to identify the various control systems required for organizational strategy implementation process
5. Enhances the cognitive knowledge about various strategic issues and development of new business models

REFERENCES:

1. Hill. Strategic Management: An Integrated approach, 2009 Edition Wiley (2012).

2. John A.Parnell. Strategic Management, Theory and practice Biztantra (2012).
3. Azhar Kazmi, Strategic Management and Business Policy, 3rd Edition, Tata McGraw Hill, 2008
4. AdriauH Aberberg and Alison Rieple, Strategic Management Theory & Application, Oxford University Press, 2008.
5. Lawerence G. Hrebiniak, Making strategy work, Pearson, 2 nd edition, 2013.
6. Gupta, Gollakota and Srinivasan, Business Policy and Strategic Management – Concepts and Application, Prentice Hall of India, 2005.
7 Dr.Dharma Bir Singh, Strategic Management & Business Policy, KoGent Learning Solutions Inc., Wiley, 2012.
8. John Pearce, Richard Robinson and Amitha Mittal, Strategic Management, McGraw Hill, 12th Edition, 2012
9. Lafley AG and Roger L Martin, Playing to Win : Strategy really works, Harvard Business Review

STRATEGIC MANAGEMENT

UNIT I

1. **Strategy**:

It 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‖.

Features of Strategy

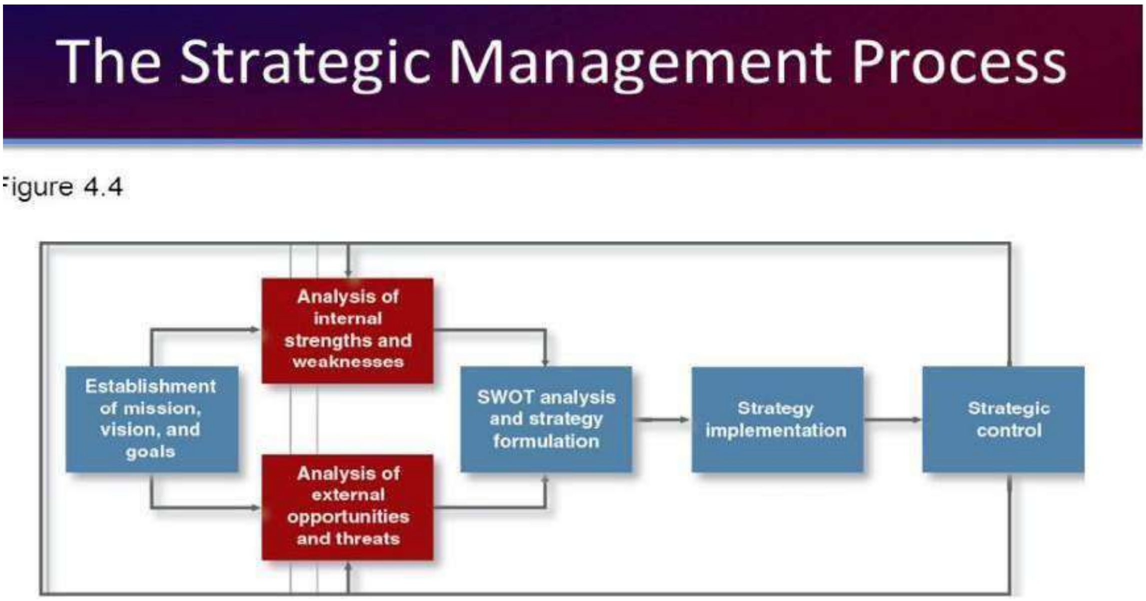
- Strategy is Significant. Without a perfect foresight, the firms must be ready to deal with the uncertain events which constitute the business environment.
- Strategy deals with long term developments rather than routine operations, i.e. it deals with probability of innovations or new products, new methods of productions, or new markets to be developed in future.
- Strategy is created to take into account the probable behavior of customers and competitors. Strategies dealing with employees will predict the employee behavior.
- Strategy is a well defined roadmap or a goal post to be achieved 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 has now evolved to the point that it is primary value is to help the organization operate successfully in dynamic, complex global environment. Corporations have to become less bureaucratic and more flexible.

- **Strategic management involves the formulation and implementation of the major goals and initiatives taken by an organization's top management on behalf of owners, based on consideration of resources and an assessment of the internal and external environments in which the organization operates**

Strategic Formation Process:



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.
- Strategy includes both the fixation of objectives as well the medium to be used to realize those 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

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.

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.

Performance Analysis

- Performance analysis includes discovering and analysing 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.

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

Mission Statement

- Mission statement is the statement of the role by which an organization intends to serve it‘s stakeholders
- 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,
  1. Ex: Microsoft‘s mission is to help people and businesses throughout the world to realize their full potential.
  2. 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. 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.

Features of a Mission

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

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

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

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

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

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

FORMULATION OF MISSION STATEMENT

Defining the Business :

Its Two dimensional

- Focus
- Differentiation
- What is our business
- Who is being satisfied
- What is being satisfied (Customer Needs)
- How it is done (skills, knowledge, distinctive competencies

ROLE OF MISSION STATEMENT

- Deciding direction
- Clarifying aspiration
- Reference point
- Integrating with its relevant environment
- Clear message
- Connect with the subsystem

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.

- 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 it‘s members, unlike the mission statement which is for the customers/clients.

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.

Features of a Vision

a. It must be unambiguous.

b. It must be clear.

c. It must harmonize with organization‘s culture and values

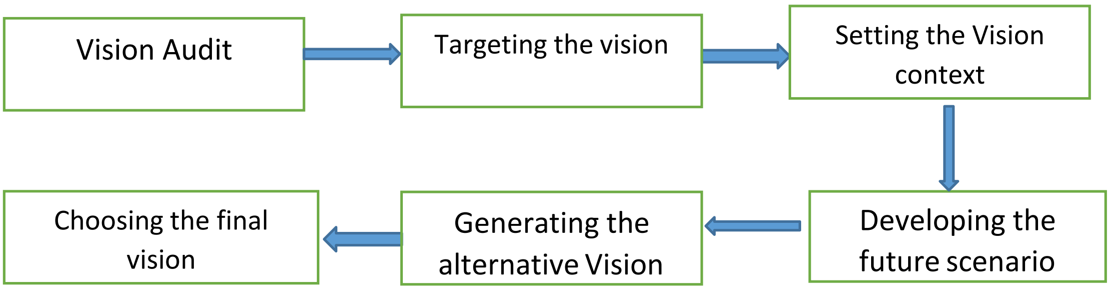
d. The dreams and aspirations must be rational/realistic.

e Vision statements should be shorter so that they are easier to memorize.

GOOD VISION

1. Realistic
2. Shows Direction
3. Inspire organizational members
4. Shows organisation uniqueness
5. Should be easily understood

PROCESS OF CREATING VISION STATEMENT



Goals and objectives

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

Features of a Goal

1. These are precise and measurable.

2. These look after critical and significant issues.

3. These are realistic and challenging.

4. These must be achieved within a specific time frame.

5. These include both financial as well as non-financial components.

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

Features of Objectives

1. These are not single for an organization, but multiple.

2. Objectives should be both short-term as well as long-term.

3. Objectives must respond and react to changes in environment, i.e., they must be flexible.

4. These must be feasible, realistic and operational.

Role of Objectives:

- Objectives define the organizations relationship with its environment.
- Objectives help an organization pursue its vision and mission.

- Objectives provide the basis for strategic decision making.
- Objectives provide the standards for performance Appraisal.

CavinKare

"We shall achieve growth by continuously offering unique products and services that would give customers utmost satisfaction and thereby be a role model."

Tactics

Tactics are concerned with the short to medium term co-ordination of activities and the deployment of resources needed to reach a particular strategic goal. Some typical questions one might ask at this level are: "What do we need to do to reach our growth / size / profitability goals?" "What are our competitors doing?" "What machines should we use?" The decisions are taken more at the lower levels to implement the strategies based on ground realities.

How strategy is initiated?

A triggering event is something that stimulates a change in strategy .Some of the possible triggering events is:

New CEO: By asking a series of embarrassing questions, the new CEO cuts through the veil of complacency and forces people to question the very reason for the corporation‘s existence.

Intervention by an external institution: The firm‘s bank suddenly refuses to agree to a new loan or suddenly calls for payment in full on an old one.

Threat of a change in ownership: Another firm may initiate a takeover by buying the company‘s common stock.

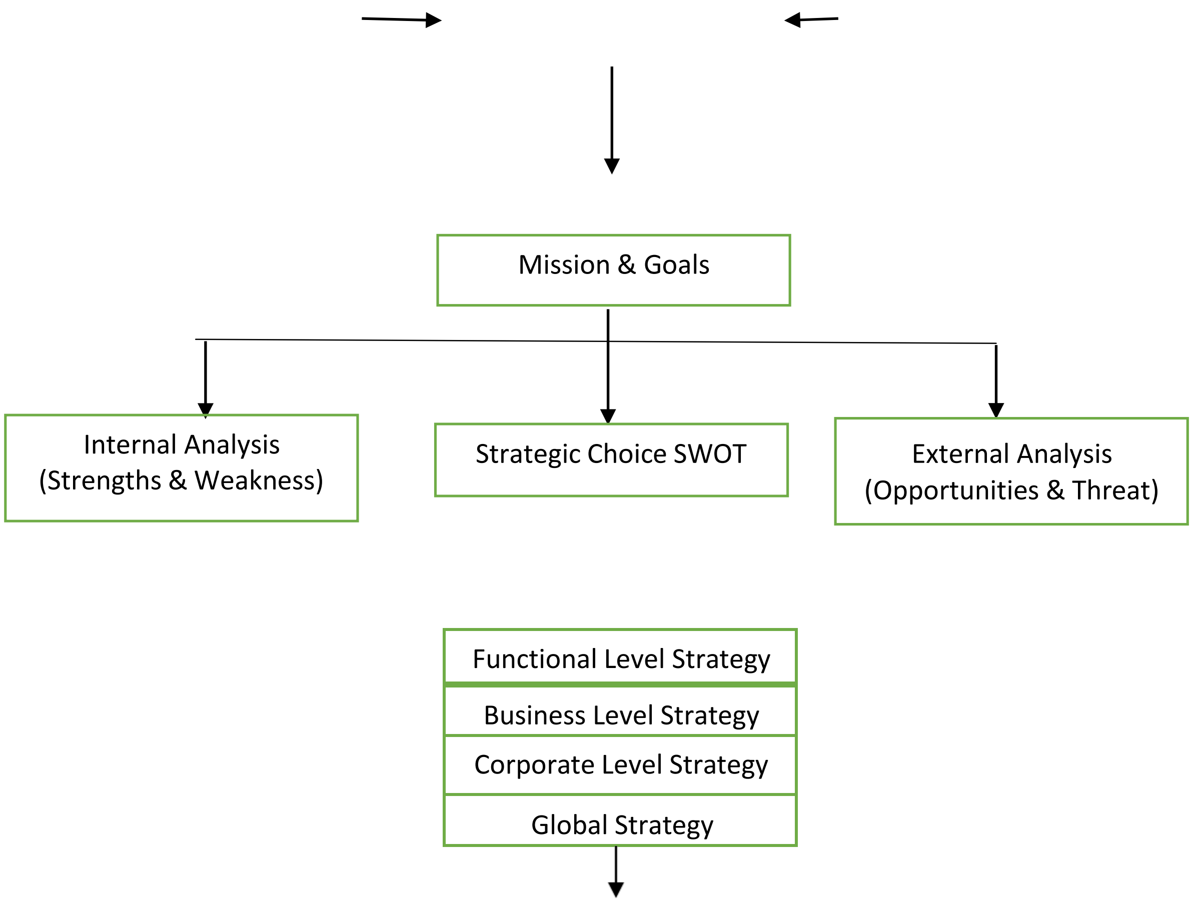
Management's recognition of a performance gap: A performance gap exists when performance does not meet expectations. Sales and profits either are no longer increasing or may even be falling.

Innovation of a new product that threatens the existence of the present status quo.

Basic model of strategic management

Strategic management consists of four basic elements

1. Environmental scanning
2. Strategy Formulation
3. Strategy Implementation and
4. Evaluation and control Management scans both the external environment for opportunities and threats and the internal environmental for strengths and weakness.



Mission & Goals

- Defining the mission and main goals of the organisation is the first step in strategic management process.
- Mission tells clearly why the organisation exists and what it would be doing

- Organisations set goals, which they hope to achieve in the medium to long term basis.

Internal Analysis

Identifying the Strengths and Weaknesses of the organisation involves of identification of quality and quantity of resources and distinctive competencies that helps in building competitive advantage to achieve superior efficiency, quality, innovation and customer loyalty.

External Analysis

- It aims to understand the opportunities and threats in the environment.
- At this stage, examination of three environment takes place. The three environments are

a) The industry environment, in which the organisation operates.
b) The National environment and the macro environmental forces such as social, economical, governmental and legal.
c) International and technological factors, which affect the organisation.

Strategic Choice

- Strategic choice involves generating a series of alternatives in the light of internal strengths and weaknesses and external opportunities and threats, which is known as SWOT analysis
- The purpose of strategic choice is to build the organisations' strengths to exploit opportunities and set right weaknesses and to minimize threat.

Functional Level strategy

Functional strategies are directed to improve the effectiveness of functional operations of the firm such as manufacturing, finance, R&D, marketing and human resources.

Business Level Strategy

Business Level strategies lay emphasis on the way the firm positions itself in the market place to gain competitive advantage. The three generic business level strategies are 1) Cost Leadership 2) Differentiation 3) Focus strategy.

Corporate Level Strategy

Corporate Strategies enable organisations to maximize the long run profitability of the organisation. Vertical Integration, diversification, strategic alliances, acquisitions and joint ventures are examples of corporate level strategies.

Global Level Strategy

Strategies are pursued by organisations while they expand their operations in international business so as to increase their profitability.

Strategy Implementation

Strategy implementation consists of four steps namely

- Designing appropriate Organisational Structure
- Designing Control Systems
- Matching strategy, structure and controls and
- Managing conflicts, politics and change

Structure

Structure involves allocation of duties, responsibilities and decision making authority and integration among the ranks and files of organisation. It is widely believed that structure follows strategy.

Control

The purpose of strategic control is to determine whether the given strategy is effective in achieving the organisational objective and moving on the right track. The organisational control may be classified as market control, output control and bureaucratic control.

Matching strategy, structure and control

In successful organisations a fit among strategy, structure and controls are observed. Different strategies and environments call for different structures and control systems. A fit among strategy, structure and control is essential to ensure success of organisations

Managing conflicts, politics and change

Conflict is common is common in organisation. The reason for conflicts are resource sharing and different agendas of different sub groups within the organisation. The organisation politics plays a key role in strategy implementation. Power, politics, conflict and change should be analysed and managed effectively so that mission could be fulfilled and change could be introduced smoothly.

Feedback

Strategic management is ongoing process. Periodic feedback reveals whether objectives are attainable or implementation is poor or not. It may suggest changes in goals and objectives.

Strategic decision making

Strategic deals with the long-run future of the entire organization and have three characteristic

1. Rare- Strategic decisions are unusual and typically have no precedent to follow.

2. Consequential-Strategic decisions commit substantial resources and demand a great deal of commitment

3. Directive- strategic decisions set precedents for lesser decisions and future actions throughout the organization.

Mintzberg's models of strategic decision making

According to Henry Mintzberg, the most typical approaches or modes of strategic decision making are entrepreneurial, adaptive and planning.

Stake holders in Business:

Stake holders are the individuals and groups who can affect by the strategic outcomes achieved and who have enforceable claims on a firm's performance. Stake holders can support the effective strategic management of an organization.

Stake holder's relationship management. Stake holders can be divided into:

Internal Stakeholders

- Shareholders
- Employees
- Managers
- Directors

External Stakeholders

- Customers
- Suppliers
- Government
- Banks/creditors
- Trade unions
- Mass Media

Stake holder's Analysis:

1. Identify the stake holders.
2. Identify the stake holders expectations interests and concerns
3. Identify the claims stakeholders are likely to make on the organization
4. Identify the stakeholders who are most important from the organizations perspective.
5. Identify the strategic challenges involved in managing the stakeholder relationship.

Making better strategic decisions

He gives seven steps for strategic decisions

1. Evaluate current performance results
2. Review corporate governance
3. Scan the external environment
4. Analyse strategic factors (SWOT)
5. Generate, evaluate and select the best alternative strategy
6. Implement selected strategies
7. Evaluate implemented strategies

SBU or Strategic Business Unit

An autonomous division or organizational unit, small enough to be flexible and large have independent missions and objectives, they allow the owning conglomerate to respond quickly to changing economic or market situations.

Corporate Governance

The term corporate governance refers to the relationship among these three groups (board of directors, management and shareholders) in determining the direction and performance of the corporation. Corporate Governance also enables the board of directors, institutional investors and large shareholders to monitor the firm's strategies to ensure effective managerial response.

Responsibilities of the board

Specific requirements of board members of board members vary, depending on the state in which the corporate charter is issued. The following five responsibilities of board of directors listed in order of importance

1. Setting corporate strategy ,overall direction, mission and vision
2. Succession: hiring and firing the CEO and top management
3. Controlling , monitoring or supervising top management
4. Reviewing and approving the use of resources
5. Caring for stockholders interests

Role of board in strategic management

The role of board of directors is to carry out three basic tasks

1. **Monitor**: The board should be aware of the developments within and outside the organisations and bring it to the notice of the management.
2. **Evaluate and influence**: A board should analyse the plans, decisions and actions of management and highlight the positive and negative side of the issues and suggest alternate proposal.
3. **Initiate and determine**: In evolving the mission an finalizing the strategic choice, the board can exhibit its aggressive nature.

Benefits of Corporate Governance

- Good corporate governance ensures corporate success and economic growth.
- Strong corporate governance maintains investors' confidence, as a result of which, company can raise capital efficiently and effectively.
- It lowers the capital cost.
- There is a positive impact on the share price.
- It provides proper inducement to the owners as well as managers to achieve objectives that are in interests of the shareholders and the organization.
- Good corporate governance also minimizes wastages, corruption, risks and mismanagement.
- It helps in brand formation and development.
- It ensures organization in managed in a manner that fits the best interests of all.

Corporate Social Responsibility:

Corporate Social Responsibility (CSR) is an important activity to for businesses. As globalization accelerates and large corporations serve as global providers, these corporations have progressively recognized the benefits of providing CSR programs in their various locations. CSR activities are now being undertaken throughout the globe

What is corporate social responsibility?

CSR has become integral part of corporate strategy. It means open and transparent business practices that are based in ethical values and respect for employees, community and the natural environment. It is designed to deliver sustainable value to society at large as well to shareholders.

The term is often used interchangeably for other terms such as Corporate Citizenship and is also linked to the concept of Triple Bottom Line Reporting (TBL) that is people, planet and profits., which is used as a framework for measuring an organization‘s performance against economic, social and environmental parameters.

The key drivers for CSR are

Enlightened self-interest - creating a synergy of ethics, a cohesive society and a sustainable global economy where markets, labour and communities are able to function well together. Sustainability you need to understand sustainability. It is being used mostly in organizational forums and a basic understanding is needed for you. The discussion on sustainability is only for your understanding.

Sustainability means "meeting present needs without compromising the ability of future generations to meet their needs‘. These well-established definitions set an ideal premise, but do not clarify specific human and environmental parameters for modelling and measuring sustainable developments.

The following definitions are more specific:

"Sustainable means using methods, systems and materials that won't deplete resources or harm natural cycles".

1. Sustainability "identifies a concept and attitude in development that looks at a site's natural land, water, and energy resources as integral aspects of the development".

2. "Sustainability integrates natural systems with human patterns and celebrates continuity, uniqueness and place making".

Combining all these definitions; Sustainable developments are those which fulfil present and future needs while using and not harming renewable resources and unique human-environmental systems of a site:[air, water, land, energy, and human ecology and/or those of other [off-site] sustainable systems (Rosenbaum 1993 and Vieira 1993).

Social investment

Contributing to physical infrastructure and social capital is increasingly seen as a necessary part of doing business.

Transparency and trust - business has low ratings of trust in public perception. There is increasing expectation that companies will be more open, more accountable and be repaired to report publicly on their performance in social and environmental arenas. Increased public expectations of business - globally companies are expected to do more than merely provide jobs and contribute to the economy through taxes and employment.

Corporate social responsibility is represented by the contributions undertaken by companies to society through its core business activities, its social investment and philanthropy programmes and its engagement in public policy. In recent years CSR has become a fundamental business practice and has gained much attention from chief executives, chairmen, boards of directors and executive management teams of larger international companies.

They understand that a strong CSR program is an essential element in achieving good business practices and effective leadership. Companies have determined that their impact on the economic, social and environmental landscape directly affects their relationships with stakeholders, in particular investors, employees, customers, business partners, governments and communities. According to the results of a global survey in 2002 by Ernst & Young, 94 per cent of companies believe the development of a Corporate Social Responsibility (CSR) strategy can deliver real business benefits, however only 11 per cent have made significant progress in implementing the strategy in their organization. Senior executives from 147 companies in a range of industry sectors across Europe, North America and Australasia were interviewed for the survey.

Why should business be socially responsible?

- Public image
- Government Regulation
- Survival and growth
- Employee satisfaction
- Consumer Awareness

Social Responsibility towards different Interest groups:

1. **Responsibility towards owners:** Owners are the persons who own the business. They contribute capital and bear the business.

- Run the business efficiently
- Proper utilization of capital and other resources.
- Regular and fair return on capital invested.

2. **Responsibility towards Investors:** Investors are those who provide finance by way of investment in shares, bonds, etc. Banks, financial institutions and investing public are all included in this category.

- Ensuring safety of their investment
- Regular payment of interest.

3. **Responsibility towards employees:** Business needs employees or workers to work for it. If the employees are satisfied and efficient, then the business can be successful.

- Timely and regular payment of wages and salaries.
- Opportunity for better career prospects.
- Proper working conditions
- Timely training and development
- Better living conditions like housing, transport, canteen and crèches.

.

4. **Responsibility towards suppliers:** Suppliers are businessmen who supply raw materials and other items required by manufacturers and traders.

- Giving regular orders for purchase of goods
- Availing reasonable credit period
- Timely payment of dues.

5. **Responsibility towards Government:** Business activities are governed by the rules and regulations framed by the government.

- Payment of fees, duties and taxes regularly as well as honestly
- Conforming to pollution control norms set up by government
- Not to indulge in restrictive trade practices.

6. **Responsibility towards society:** A society consists of individuals, groups, organizations, families etc. They all are the members of the society.

- To help the weaker and backward sections of the society.
- To generate employment.
- To protect the environment
- To provide assistance in the field of research on education, medical science, technology etc.

Strategic Management

Unit II

ENVIRONMENTAL ANALYSIS

Is the process through which an organization monitors and comprehends various environmental factors and determine the opportunities and threats that are provided by these factors

ENVIRONMENTAL FACTORS

- Demographic Environment
- Technological Environment
- Socio-cultural Environment
- Economic Environment
- Political Environment
- Regulatory Environment
- International Environment
- Supplier Environment
- Task Environment

DEMOGRAPHIC ENVIRONMENT

- Demographic factors such as population growth, Age Composition, Family Size, Family life cycle, income Level and religion have significant implications for business.
- The demographic factors differs from country to country, region to region and from time to time.
- Size of the population, growth rate of the population, literacy level, distribution on the basis of work and religion, workforce composition and their mobility are aspects of demographic environment.

TECHNOLOGICAL ENVIRONMENT

- Technology has impact on business in terms of improved products, improved processing, usage of new materials and new product development.
- Sources of technology such as indigenous R&D, foreign Source, cost of Transfer and collaboration of technology.
- Technology development, rate of change of technology and stages of technology development.
- Impact of technologies on human beings, impact on environment, man-machine interface.
- Communication technology and infrastructure technology for management.

SOCIO-CULTURAL ENVIRONMENT

- Socio-Cultural Environment consists of culture, traditions, beliefs, values and life styles. These factors determine what the people will buy and consume.
- Culture is the result of complex factors such as religion, language, education and upbringing.
- A social class is identified by income, occupation, lifestyle and class norms

ECONOMIC ENVIRONMENT

- Industry and business depend heavily on economic environment. The survival of business and industry mainly depend on the purchasing power of the people.
- The economic structure adopted
- The economic policies like industrial policy, fiscal policy and monetary policy.
- The economic planning like five year plans annual budgets etc
- Infrastructure factors like banks, transportation methods and financial institution and communication facilities

POLITICAL ENVIRONMENT

- The impact of political environment on industry and business is enormous. The economic environment is a by- product of the political environment.
- The form of government in position is an important aspect of political environment and political stability is a must for economic growth.

REGULATORY ENVIRONMENT

- Business and industry operate within the framework of the prevailing legal environment. The business firms are expected to understand the nature and complexity of legislations in general and those related to their business in particular.

INTERNATIONAL ENVIRONMENT

- International environment includes factors such as globalisation, global economic forces, global trade, global financial system, global legal system, global technological standards and global human resource.

SUPPLIER ENVIRONMENT

- Supplier includes supplier of raw material, components, finance, energy, human resource, infrastructure facilities and subassemblies.
- Suppliers determine the cost, reliability and availability of different factors of production.
- Suppliers, with their bargaining power, are considered to be a major force shaping competition in an industry and influence profit margin of any unit

Environmental Scanning

- Environmental Scanning is defined as Monitoring, evaluating and disseminating of information from external and internal environmental to managers in organisations.
- Is the careful monitoring of an organization's internal and external environments for detecting early signs of opportunities and threats that may influence its current and future plans.

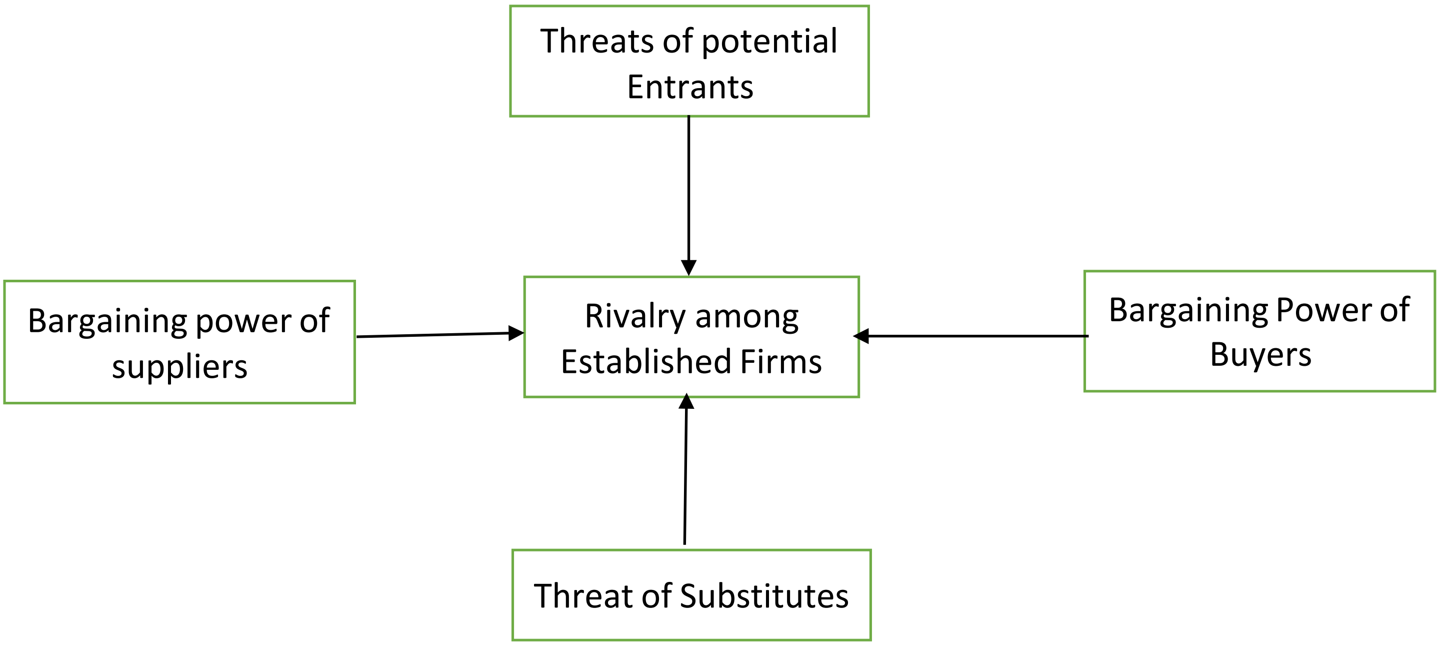
TASK ENVIRONMENT

- It is difficult to exploit all the opportunities available in the macro environment.
- In environmental scanning a close monitoring of events , trends, issues and expectations are undertaken

PORTER'S FIVE FORCES MODEL

A model for analysing the industry environment is developed by Michael.E.Porter, an authority This model is known as five forces model and it helps managers to identify and analyse the competitive forces in an industry environment.

Porter's Five Forces Model



Threats of new Entry

- Entry of potential competitors to an industry is a threat to the profitability of established players.
- In any industry, new entrants bring in new capacity, substantial resources and aggressiveness to gain market share.

Economies of Scale

- Economies of scale in production and sale give a significant cost advantage for existing players over a new rival. Economies of scale is obtained through cost reductions and mass production, discount on bulk purchase of raw materials and advertising

Product Differentiation

A company creates brand loyalty through continuous advertising of brand, product innovation, customer service and high product quality

Cost Advantage

Established firms often acquire cost advantage due to their access to raw materials, cheaper funds, superior production techniques, patents, secret processes, managerial skill, government subsidies, assets acquired in pre inflation prices and advantages arising from learning curve effects

Capital Requirements

The necessity to invest substantial resources for creating infrastructure facilities, inventories and to wipe out preliminary expenses in industries is a barrier to new entrants.

Access to distribution channels.

Small firms often find it difficult to acquire shelf space for distribution of their products because large retailers often give preference to established firms

Government Policy

The government can limit entry into an industry through licensing requirements, air and water pollution standards and safety regulations. This has restricted the entry of potential competitors.

Brand Identity

Building a favourable image is tough for new comers.

Bargaining power of supplier

- The bargaining power of supplier s is considered a threat to new entrants. Suppliers enjoy bargaining power by raising the price or reduce the quality of purchased goods and services and thereby reduce the profitability of the company. According to porter , a supplier is said to be powerful, if the following conditions prevail
- The supplier industry is dominated by few companies selling too many as happens in petroleum industry.
- The product or service is differentiated, unique where it has built up switching costs.(word Processing Software)
- Substitutes are not easily available(electricity)

Bargaining power of buyer

- Buyers are viewed as a threat when they force the companies to charge low prices or demand higher quality and better service with their bargaining power. According to Porter the buyers are powerful in the following circumstances.
- The suppliers are more in number but the buyers are few
- The buyers buy in large quantity
- The cost of changing supplier is not much
- The supplier depends on the buyer for a large percentage of total orders

Substitute Products

- Substitutes are those products, which satisfy similar needs though appear to be different. Tea is substitute of coffee, water is substitute of soft drinks and saccharine is viewed as a substitute for sugar.
- The existence of close substitutes poses a threat, by limiting the price and profitability of a company.

Rivalry among Existing Players

- When the intensity of rivalry is weak among existing players within an industry, companies can raise prices and earn profits.
- If the rivalry is strong among other players, price competition and price war may result and it will reduce the profit margin.
- The intensity of rivalry among established players is mainly due to three reasons
- Industry competition structure

Demand conditions

- The height of exit barriers in the industry.

STRATEGIC GROUPS

Companies in an industry often differ significantly from each other with respect to the way they strategically position their products in the market in terms of such factors as the distribution channels they use, the market segments they serve, the quality of their products, technological leadership, customer service, pricing policy, advertising policy, and promotions

A strategic group is defined as a group of corporations that employ the same or similar strategies in a particular industry. Those sub-groups, which display similar behaviour along key strategic dimensions, were called strategy groups. The strategic behaviour and performance within a strategy group are very similar. The industry may consist of several or only one strategic group.

TYPES OF STRATEGIC GROUPS

DEFENDERS
The defender strategic type companies have a limited product line and they focus on efficiency of existing operations.

PROSPECTORS
These firms with broad product items focus on product innovation and market opportunities. They are pre-occupied with creativity at the expense of efficiency.

ANALYZERS
Analysers are firms which operate in both stable and variable markets. In stable markets the companies emphasize efficiency and in variable markets they emphasize innovation, creativity and differentiation.

REACTORS
The firms, which do not have a consistent strategy to pursue, are called reactors. There is an absence of well-integrated strategy structure culture relationship. Their strategic moves are not integrated but piecemeal approach to environmental change makes them ineffective.

PROPRIETARY
The companies in this proprietary strategic group are pursuing a high risk high return strategy. It is a high risk strategy because basic drug research is difficult and expensive. The risks are high because the failure rate in new drug development is very high.

GENERIC
Low R&D spending, Production efficiency, as an emphasis on low prices characterizes the business models of companies in this strategic group. They are pursuing a low risk, low return strategy. It is low risk because they are investing millions of dollars in R&D. It is low return because they cannot charge high prices.

INDUSTRY EVOLUTION

An industry can be defined as a group of companies offering products services that are close substitutes for each other that is product or services that satisfy the same basic customer needs. A company's closest competitors its rivals are those that serve the same basic customer needs. The attention on firm's competitors helps to define the Industry Boundaries

The factors that determine an industry structure are

CONCENTRATION: It refers to the extent to which the industry sales are determined by few firms High concentration serves as a barrier for new firms.

DIFFERENTIATION: It refers to the extent to which the customers perceive products or services offered by firms in the industry as different. This depends on how firms position their products.

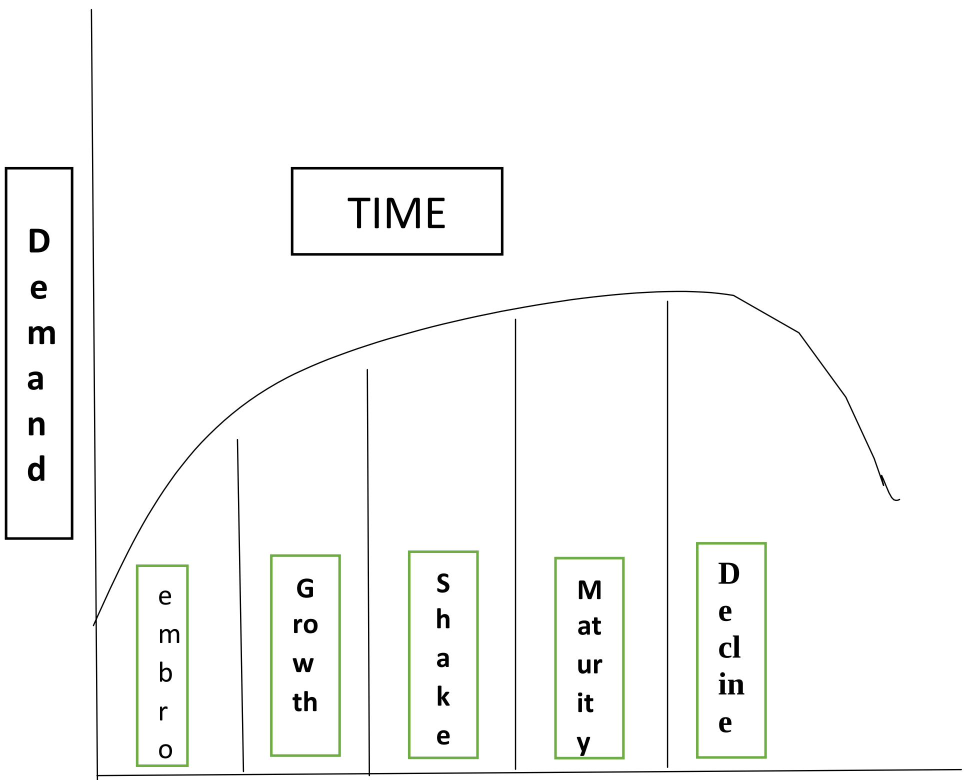
ECONOMIES OF SCALE: It refers to the cost advantages that enterprises obtain due to size, output, or scale of operation, with cost per unit of output generally decreasing with increasing scale as fixed costs are spread out over more units of output.

BARRIERS TO ENTRY: The obstacles a firm has to overcome to entry a particular industry.

<u>INDUSTRY LIFE CYCLE ANALYSIS</u>

The task facing managers is to anticipate how the strength of competitive forces will change as the industry environment evolves and to formulate strategies that take advantage of opportunities arise and that counter emerging threats.

A STAGES IN INDUSTRY LIFE CYCLE



EMBRYONIC STAGE:

Slow growth stage

- Buyer unfamiliarity
- High price product
- Less developed distribution channel

Rivalry will be not based on price rather

- Educating customer
- Developing channels
- Solve design problem

GROWTH STAGE:

- Customers are aware about the product
- Demand increases because, more customers enter the market
- Prices fall, distribution channel develops
- Control over technological knowledge diminished
- Threat for potential competitors generally high
- Because of high growth , new entrants can be absorbed into an industry without a marked increase in the intensity of rivalry
- Rapid growth increases the profit without taking market share away from competitors

INDUSTRY SHAKEOUT STAGE:

- Demand approaches saturation level
- Rivalry becomes intense
- Decreased demand results in excess productivity
- In attempt to use the capacity companies often cut prices

MATURE STAGE

- Market saturated, demand is limited, growth is zero or low
- Growth comes only because of population expansion
- Barriers to entry increases and threat of potential entrants decreases
- Companies focus on cost minimization and brand loyalty
- Very few companies survive and gets opportunity to increase prices and profits
- Main focus would be to reduce the threat of intense rivalry among established companies
- A general slump in the economic activity can depress industry demand

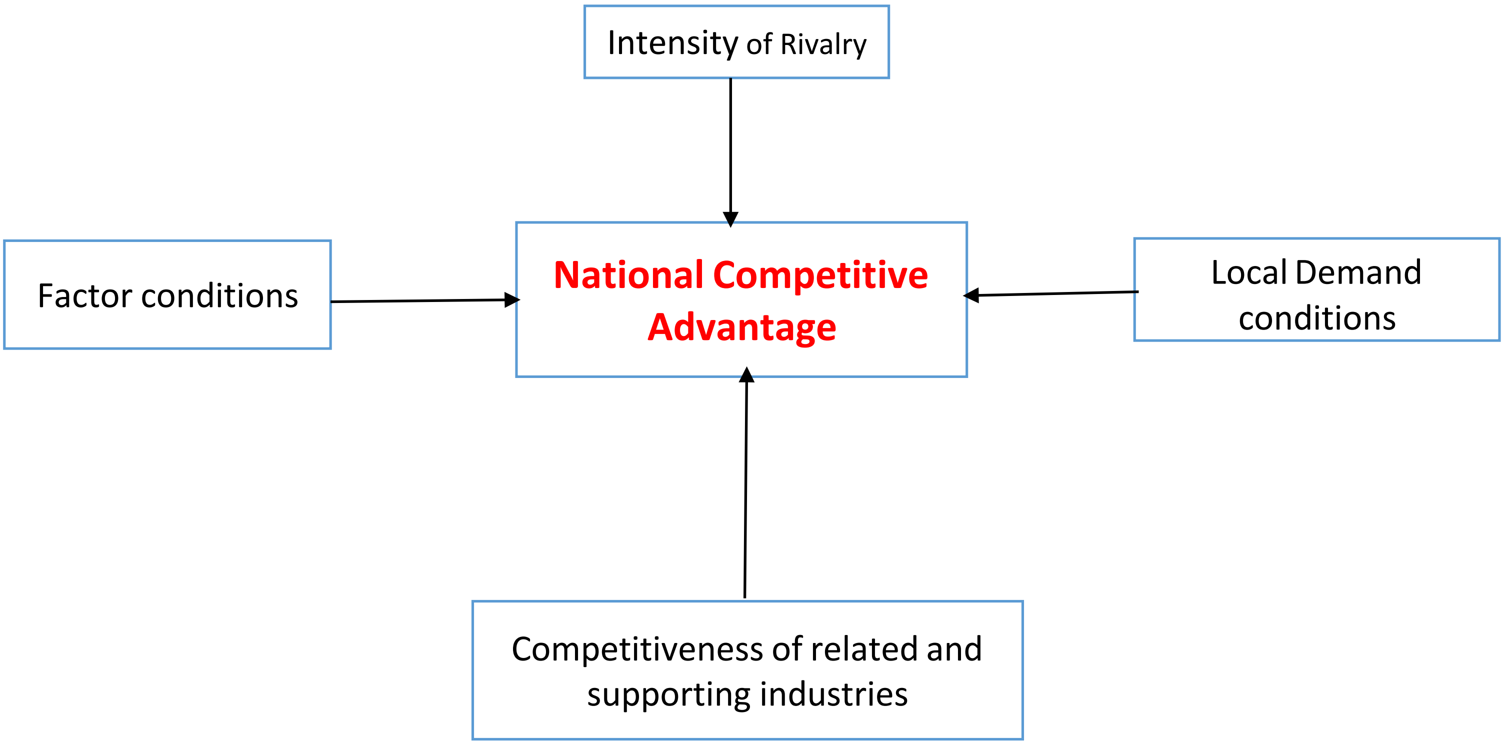
DECLINE STAGE:

- Negative growth
- Reasons – Technological substitution, social changes, demographics and international competition
- Exit barriers leads to excess capacity and which leads to severe price competition

- In spite of globalization of markets and production successful companies in certain industries are found in specific countries Japan has most successful consumer electronics companies in the world Germany has many successful chemical and engineering companies in the world

- According to Michael porter the nation's competitive position in an industry depends on factor conditions, Industry rivalry, demand conditions, and related and supporting industries.

THE DETERMINANTS OF NATIONAL COMPETITIVE ADVANTAGE



The country will have the competitive advantage in any industry subject to the following conditions

- The country has right mix of basic and advanced factors of production to support the industry
- Intense rivalry among domestic companies forces them to be efficient
- Demanding consumers and demand conditions force the local industry to be efficient
- Low cost and high quality inputs and complementary products are supplied by related and supporting industries which are internationally competitive with respect to the given industry

GLOBALISATION – MEANING

Globalization can usefully be conceived as a process (or set of processes) which embodies a transformation in the spatial organization of social relations and transactions, generating transcontinental or interregional flows and networks of activity, interaction and power.

It is characterized by four types of change:

- First, it involves a stretching of social, political and economic activities across political frontiers, regions and continents.
- Second, it suggests the intensification, or the growing magnitude, of interconnectedness and flows of trade, investment, finance, migration, culture, etc.
- Third, the growing extensity and intensity of global interconnectedness can be linked to a speeding up of global interactions and processes, as the evolution of world-wide systems of transport and communication increases the velocity of the diffusion of ideas, goods, information, capital, and people
- Fourth, the growing extensity, intensity and velocity of global interactions can be associated with their deepening impact such that the effects of distant events can be highly significant elsewhere and even the most local developments may come to have enormous global consequences. In this sense, the boundaries between domestic matters and global affairs can become increasingly blurred

THE BENEFITS

- Globalization lets countries do what they can do best. If, for example, you buy cheap steel from another country you don't have to make your own steel. You can focus on computers or other things.
- Globalization gives you a larger market. You can sell more goods and make more money. You can create more jobs.
- Consumers also profit from globalization. Products become cheaper and you can get new goods more quickly.
- Elimination of tariffs; creation of free trade zones with small or no tariffs
- Reduced transportation costs, especially resulting from development of containerization for ocean shipping.
- Reduction or elimination of capital controls
- Reduction, elimination, or harmonization of subsidies for local businesses
- Creation of subsidies for global corporations
- Harmonization of intellectual property laws across the majority of states, with more restrictions.
- Supranational recognition of intellectual property restrictions (e.g. patents granted by China would be recognized in the United States)
- By buying products from other nations customers are offered a much wider choice of goods and services.
- Creates competition for local firms and thus keeps costs down.
- Globalisation promotes specialisation. Countries can begin to specialise in those products they are best at making.
- Economic Interdependence among different nations can build improved political and social links

CHALLENGE OF GLOBALIZATION AND CHANGE

- Cheap imports from developing nations could lead to unemployment in developed countries where the cost of production is high.
- Choosing to specialise in certain products may lead to unemployment in other sectors which are not prioritized.
- Increased competition for infant industry.
- 'Dumping' of goods by certain countries at below cost price may harm industries in order countries.
- Globalization causes unemployment in industrialized countries because firms move
- Their factories to places where they can get cheaper workers.
- Globalization may lead to more environmental problems. A company may want to build factories in other countries because environmental laws are not as strict as they are at home. Poor countries in the Third World may have to cut down more trees so that they can sell wood to richer countries.
- Globalization can lead to financial problems. In the 1970s and 80s countries like Mexico, Thailand, Indonesia or Brazil got a lot of money from investors who hoped they could build up new businesses there. These new companies often didn't work, so they had to close down and investors pulled out their money.

Competitive Advantage – Meaning

A company is said to have competitive advantage when the profit rate of a company is higher than the industry average. Return on Sales (ROS) and Return on Assets (ROA) are ratios calculated to determine the profit rate.

$$\textbf{Gross profit Margin} = \frac{\textbf{Total Revenue – Total Costs}}{\textbf{Total costs}}$$

The gross profit margin is to be higher, the following three conditions should be satisfied,

- The unit price of the company must be higher than that of other average companies.
- The unit cost of the company must be lower than that of other average companies.
- The company must have a lower unit cost and a higher unit price

FEATURES

- The competitive advantage has four dimensions namely. Efficiency, Quality, Innovation and Customer Responsiveness.
- These dimensions of competitive advantage are developed by building competencies, resources and capabilities.
- **Low cost and differentiation** are classified as generic business level strategies as they present the two basic ways of attaining competitive advantage.

  LOW COST or COST ADVANTAGE: Companies, which go for a low cost strategy, do everything possible to reduce unit costs.

  DIFFERENTIATION: Firms, which opt for differentiation strategy, do everything differentiate the product from that of other players.

COMPETENCIES

- Special qualities possessed by an organization that make them withstand the pressure of competition in the market place.
- When a specific ability is possessed by a particular organization exclusively or relatively in large measure is called a Distinctive competency

- Organization achieves strategic advantage by building distinctive competencies around critical success factors.
    - Superior product
    - Market Niche
    - R&D
    - Low cost financial sources

CAPABILITIES

- It's the potential of the organization to use its strengths and overcome its weaknesses in order to exploit the opportunities and face the threat in its external environment

- Organization can have capabilities like technological skill, managerial talent, Production Knowledge, Experience with government, contracts and customer loyalty

- Capability exist when resources have been purposely integrated to achieve a specific task or set of tasks

- Marketing Capability
- Financial Capability
- Operation capability
- Human resource capability
- Information management capability

TYPES OF RESOURCES

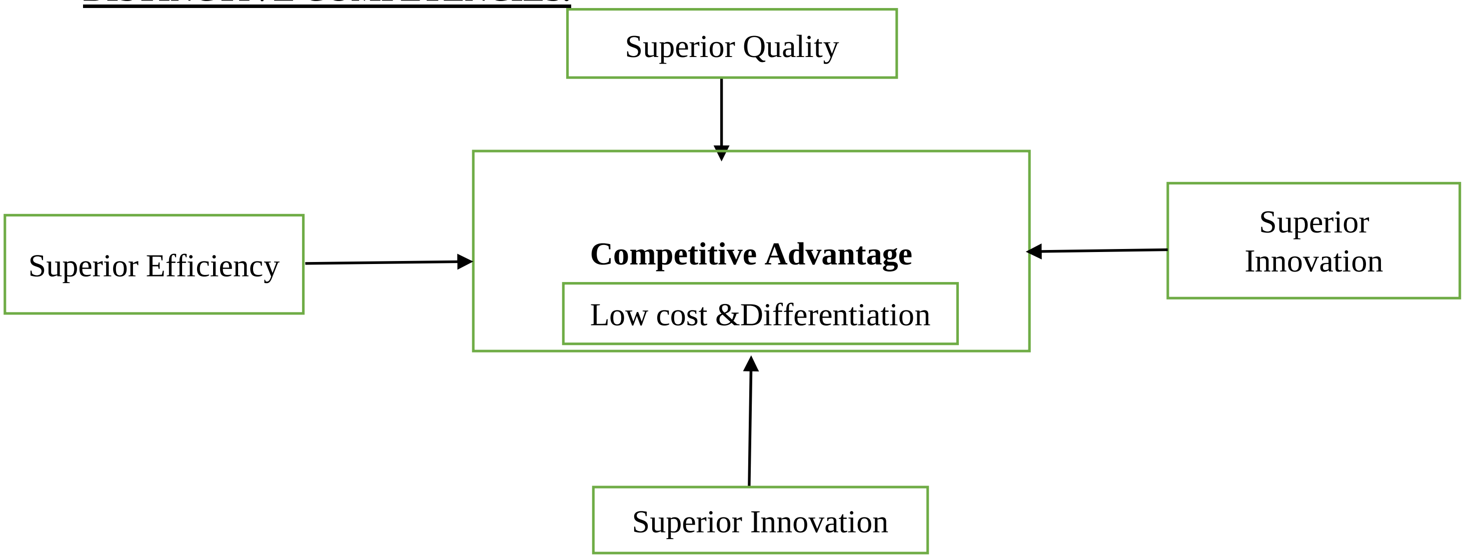
TANGIBLE

- Financial
- Physical
- Labour

INTANGIBLE

- Technological
- Innovation
- Reputation
- Organizational activity systems
- Knowledge

<u>GENERIC BUILDING BLOCKS OF COMPETITIVE ADVANTAGE and DISTINCTIVE COMPETENCIES.</u>

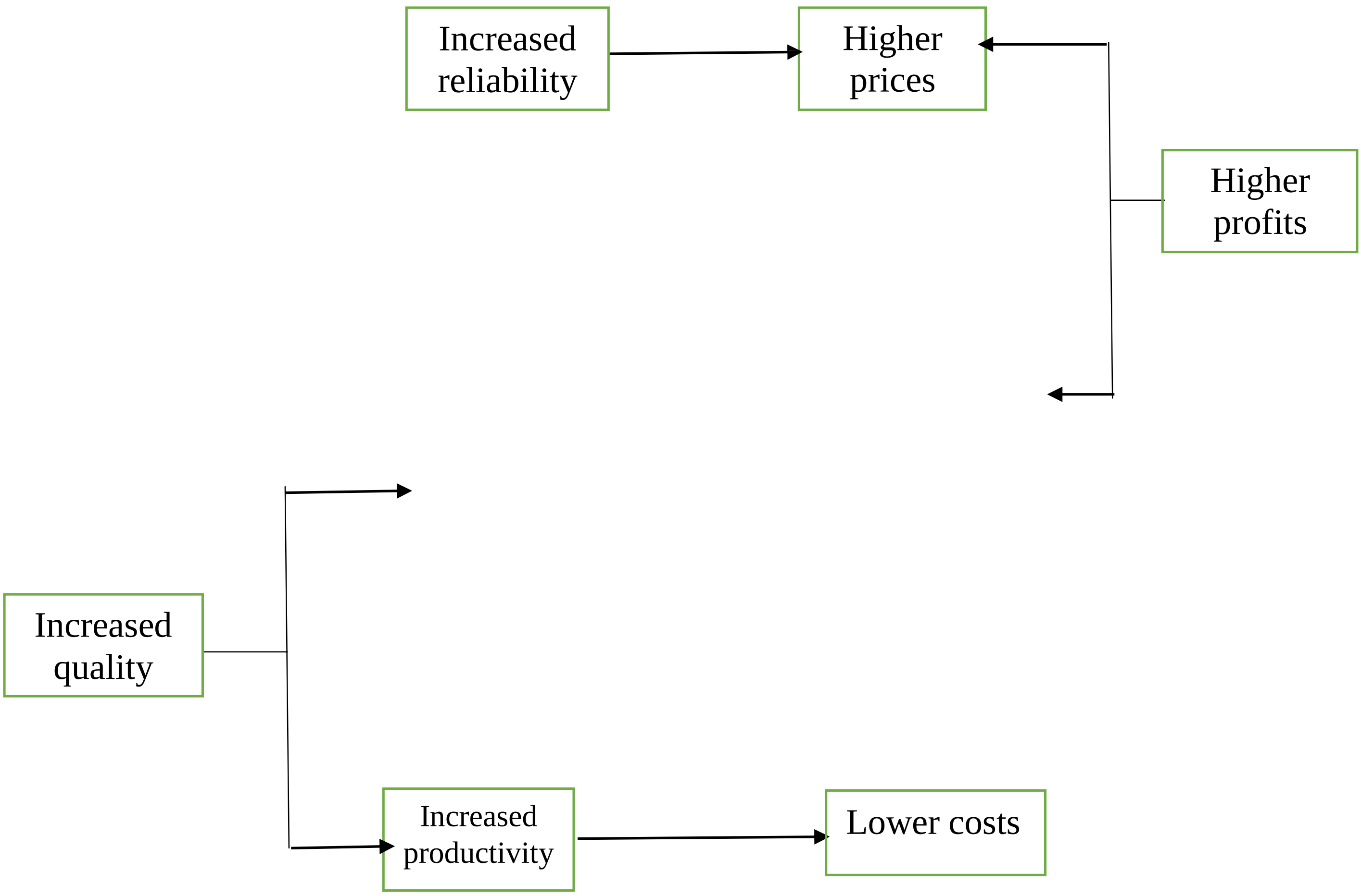


SUPERIOR EFFICIENCY

- Inputs such as land, capital, raw material, managerial know-how and technological know-how are transformed into outputs such as products/ services.
- Efficiency is measured as a ratio between the costs of inputs required to produce a given output.
- Efficiency of operations enables a company to lower the cost of inputs to produce given output and to attain competitive advantage.
- The employee productivity also plays a significant role in efficiency and low cost of production. Employee productivity measured in terms of output per employee.

QUALITY

- Quality of goods and services indicates the reliability of doing the job, which the product is intended for.
- High quality products create a reputation and brand name, which in turn permits the company to charge higher price for the products.



INNOVATION

Innovation means new way of doing things. Innovation results in new knowledge, new product development, new production processes, management systems, organisational structures and strategies in a company

CUSTOMER RESPONSIVENESS

- Companies are expected to provide customers what they are exactly in need of by understanding customer needs and desires.
- Achieving superior customer responsiveness involves giving customers value for money.
- The popularity of courier service over Indian postal service is due to the
- quickness of service.

DURABILITY OF COMPETETIVE ADVANTAGE

- Barriers of imitation
- Capability of competency
- General Dynamism of industry

BARRIERS OF IMITATION

- Factors that make it difficult for a competitor to copy a company's distinctive competitiveness. The greater the barrier to imitation the more sustainable are a company's competitive advantage.

- **Imitating resources:**
- Imitation of tangible resource
- Imitation of intangible resource

- **Imitating Capability** :
- It's difficult to find, how a company operates.
- Hire people from the competitor

CAPABILITY OF COMPETITORS

- When the competitors have long established **commitments** to a particular way of doing business, they may be slow to imitate an innovating company's competitive advantage
- **Absorptive capacity** : Refers to the ability of an enterprise to
- Identify
- Value
- Assimilate
- Use new knowledge

INDUSTRY DYNAMISM

- Dynamic industrial environment is one that is changing rapidly.
- high rate of product innovation
- Product life cycle are shortening

SUSTAINING COMPETETIVE ADVANTAGE

- **REASONS FOR FAILURE:**
- Inertia
- Prior strategic commitments
- Icarus Paradox

INERTIA

- In changed market condition, companies find it difficult to change their strategies and structure accordingly.
- The changed competitive condition put pressure on the decision makers to introduce suitable changes in developing countries.
- The typical example is IBM and its inability to adapt to environmental changes.

Unit- III

GENERIC STRATEGIC ALTERNATIVES

This is classified as follows

- Cost Leadership
- Differentiation
- Focus

	Cost Leadership	**Differentiation**	**Focus**
Product Differentiation	Low (Principally By Price)	High (Principally By Uniqueness)	Low to High (Price or uniqueness)
Market Segmentation	Low (Mass Market)	High (Many Market Segments)	Low (one or a Few Segments
Distinctive Competency	Manufacturing And Materials Management	Research and Development, Sales and Marketing	Any kind of distinctive competency

Cost Leadership Strategy

- Organisations, which adopt cost leadership strategy, try to produce goods/services at a lower cost than other players and try to outperform others.
- The cost leader can charge lower price than immediate competitors and achieve higher profit than competitors.
- When rivalry increases in the industry at a later stage with price competition, the cost leader can survive and withstand the competitive forces and make above average profits.
- ***The cost advantage arises from different factors like***

- Efficient scale economies
- Benefits of early entry
- A large market share
- Locational advantage
- Synergy between functions
- Experience curve effects
- Dropping unprofitable customers
- Minimum R&D expenses
- Just in time inventory

- **Advantages**

- Low cost strategy serves as a barrier to entry as the other companies are unable to enter the industry and match the leader's cost or price.
- The arrival of substitute products and be managed with price reduction to retain the market share.
- Powerful buyers and powerful suppliers will have less influence on cost leaders as the cost leader buys in large quantities and exercise bargaining power.

► **Disadvantages**

❑ Competitors imitate the cost leader's methods in course of time.

❑ The technological changes make economies of scale completely obsolete and the cost leader's position is risky in these circumstances.

Differentiation Strategy

- This is a generic business level strategy wherein a larger business produces and markets to the entire industry products that can be readily distinguished from those of others.
- Companies which pursue differentiation strategy create products which are perceived as unique by customers, and they charge premium price, which is above industry average.

► **Advantages**

- Differentiation develops brand loyalty in the minds of the consumer and it safeguards against competitors from all directions. Brand loyalty is an asset.
- Powerful buyers and powerful suppliers rarely pose a threat as the differentiator provides a buyer unique product.

Focus Strategy

► This strategy is pursued to serve the needs of a limited customer groups or segment. A focused company pays attention to serve a particular market niche, which may be defined geographically, by type of customer, or by segment of a product line.

► A geographic niche is defined by a locality. A customer niche is serving one type of customer (eg) only the school going children. A product line niche is focussing on only one product line (eg) fast food.

Advantage

- A focused company is safeguarded from competitors till rivals copy the product. This ability gives the focuser power over its buyers since they cannot get the same from anywhere.

Disadvantage

- A focuser produces in small volume so that the production costs often exceeds that of low cost producer.

BUSINESS LEVEL STRATEGIES

- EXPANSION OR GROWTH STRATEGY
- STABILITY STRATEGY
- RETRENCHMENT OR RENEWAL STRATEGY
- COMBINATION STRATEGY

EXPANSION OR GROWTH STRATEGY

A growth strategy is when an organization expands the number of markets served or products offered, either through its current business or through new business. Because of its growth strategy, an organization may increase revenues, number of employees, or market share. Organizations grow by using

- Concentration,
- Vertical integration,
- Horizontal integration
- Diversification.

Concentration strategy

- Market Penetration
- Market Development
- Product Development

Integration Strategy

Vertical Integration

Vertical integration is the combination of technological distinct production, distribution and other economic process within the confines of a single organization

- Forward integration
- Backward Integration

Forward integration

Forward integration is a strategy where a firm gains ownership or increased control over its previous customers (distributors or retailers)

- Few quality distributors are available in the industry.
- Distributors or retailers have high profit margins.
- Distributors are very expensive, unreliable or unable to meet firm's distribution needs.
- The industry is expected to grow significantly.
- There are benefits of stable production and distribution.
- The company has enough resources and capabilities to manage the new business.

Backward Integration

Backward integration is a strategy where a firm gains ownership or increased control over its previous supplier's .When the same manufacturing company starts making intermediate goods for itself or takes over its previous suppliers, it pursues backward integration strategy.

- Firm's current suppliers are unreliable, expensive or cannot supply the required inputs.
- There are only few small suppliers but many competitors in the industry.
- The industry is expanding rapidly.
- The prices of inputs are unstable.
- Suppliers earn high profit margins

Horizontal Integration

- A firm is said to follow horizontal integration if it acquires another type of firm that produces the same type of products with similar production process or marketing practices.
- This strategy is adopted to acquire competitor's business or to acquire market share or to reduce competition or to gain

Diversification

- Diversification is considered to be a complex one because it involves a simultaneous departure from current business, familiar products and familiar markets.
- Firms choose diversification when the growth objectives are very high and it could not be achieved within the existing product/market scope.
- Diversification makes addition to the portfolio of businesses.
- The main attraction arises for diversification arises from new and fresh opportunities, which hold promise of high quality.

Types of diversification

► **Related diversification**:

In related diversification the firm enters into a new business activity, which is linked in a company's existing business activity by commonality between one or more components of each activity value chain.

► **Unrelated diversification/ Conglomerate diversification**

In unrelated diversification, the firm enters into new business area that has no obvious connection with any of the existing business. It is suitable, if the company's core functional skills are highly specialized and have few applications outside the company's core business.

► **Concentric diversification**

Concentric diversification is similar to related diversification as there are benefits of synergy when the new business is related to existing business through process, technology and marketing.

STABILITY STRATEGY

A stability strategy is a corporate strategy in which an organization continues to do what it is currently doing. Examples of this strategy include continuing to serve the same clients by offering the same product or service, maintaining market share, and sustaining the organization's current business operations. The organization does not grow, but does not fall behind, either.

RETRENCHMENT OR RENEWAL STRATEGY

► The two main types of renewal strategies are retrenchment and turnaround strategies**.**

RETRENCHMENT

► A strategy used by corporations to reduce the diversity or the overall size of the operations of the company. This strategy is often used in order to cut expenses with the goal of becoming a more financial stable business.

Turnaround

► Typically the strategy involves withdrawing from certain markets or the discontinuation of selling certain products or service in order to make a beneficial turnaround

COMBINATION STRATEGY

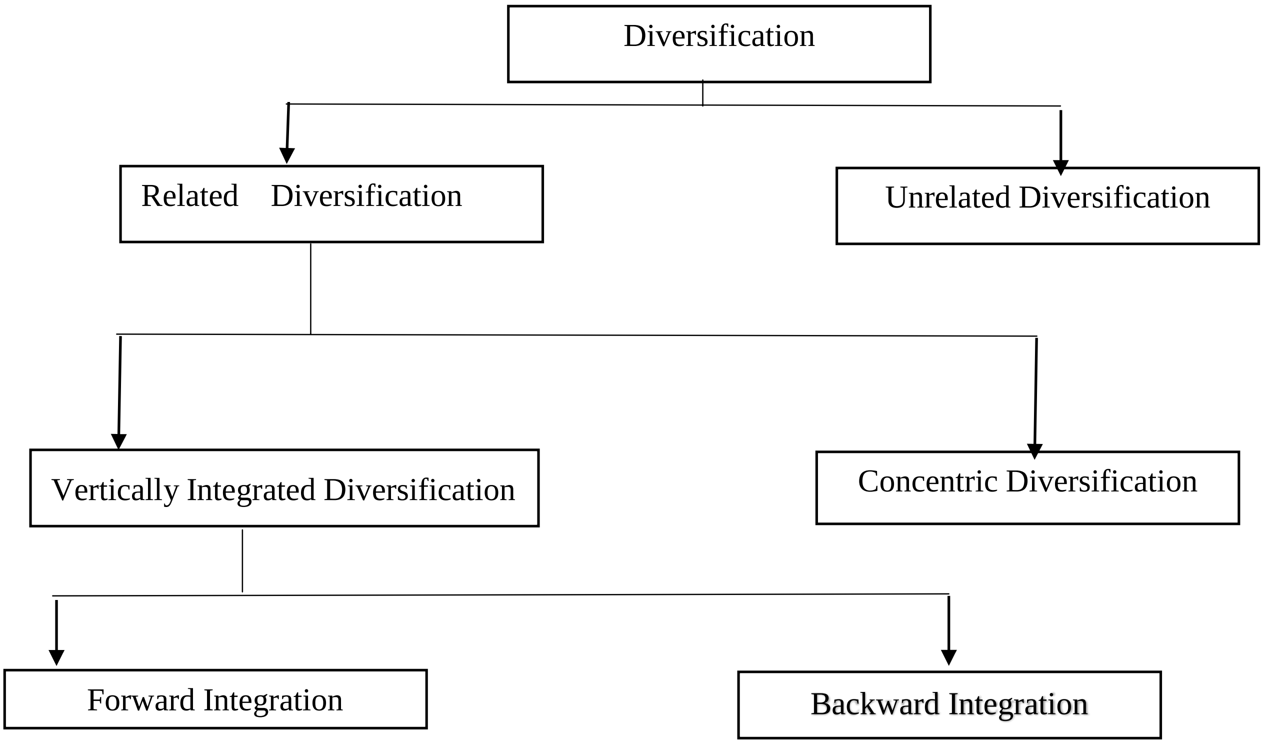
The combination strategy is followed when an organization adopts a mixture of stability, expansion and retrenchment strategies either at the same time in its different businesses or at different times in one of its businesses with the aim of improving its performance.

Corporate level Strategies

Generic business level strategies such as cost leadership and differentiation. Companies expand their operations globally in order to increase their profitability. They perform the following activities towards this end.

- ► Transferring their distinctive competencies
- ► Dispersing various value creation activities to favourable locations
- ► Exploiting experience curve effects.

- Integration
- Diversification
- Strategic Alliance



Strategic Alliance

A strategic alliance is a cooperative agreement between companies who are competitors from different companies. It may take the form of joint venture or short-term contractual agreement with equity participation or issue based participation. Strategic alliance has been formed for the following reasons.

- ► To gain access to foreign market
- ► To reduce financial risk

- To reduce political risk
- To achieve competitive advantage
- To set technological standards.

Strategy in the Global Environment

Global companies have five options to enter into a foreign market

- ✓ Exporting
- ✓ Licensing
- ✓ Franchising
- ✓ Joint venture
- ✓ Wholly owned subsidiaries

Exporting

- Exporting involves manufacturing the product in a centralised location and exporting to other national markets.
- Exporting avoids the cost of established manufacturing operation in the host country, which is substantial in nature.

Licensing

- International licensing involves an arrangement by which a foreign licensee buys the rights to manufacture a company's product in the licensee's country for a negotiated fee.
- Licensee has to make arrangements for the resources required for overseas operations.

Franchising

- International franchising is a long term licensing in which a local franchisee pays the franchiser in another country for the right to use franchise's brand names, promotion, materials and procedures.
- This strategy is widely used by service organisation.
- The main advantage of franchising is that company does not bear the development costs.

Joint Venture

In joint venture the domestic company and a foreign company enter into 50:50 agreement in which both of them take 50% of ownership stake and operating control is shared between team of managers drawn from both companies.

Wholly Owned Subsidiaries

In a wholly owned subsidiaries, the parent company owns 100% of the shares. A wholly owned subsidiary may be established in two ways. A company set up completely new operations in new country or acquires already established host Country Company to promote its products.

Entry Mode	Advantages	Disadvantages
Exporting	• Realise economies of experience curve effects • Realise economies of location curve effects	• High transport expenses • Trade barriers
Licensing	• Low development costs and risks	• No control over technology • Difficult to realize location economies • Difficult to realize experience curve economies
Franchising	• Less developmental costs and risks	• Less control over consistent quality • Global coordination difficult
Joint venture	• Sharing of developmental costs • Sharing of marketing risks • Political acceptability • Access to market and market information partners	• Control over technology • Global coordination difficult • Location economies difficult • Experience curve economies difficult.
Wholly owned subsidiaries	• Protection of technology • Global coordination possible • Location economies possible • Experience curve economies possible	• High costs • High risks

Building and Restructuring the corporation

Building

- There are various methods for the firms to enter into a new business and restructure the existing one. Firms use following methods for building:
- **Start-up route**: In this route, the business is started from the scratch by building facilities, purchasing equipment's, recruiting employees, and opening up distribution outlet and so on.
- **Acquisition**: Acquisition involves purchasing an established company, complete with all facilities, equipment and personnel.
- **Joint Venture**: Joint venture involves starting a new venture with the help of a partner.
- **Merger**: Merger involves fusion of two or more companies into one company
- **Takeover**: A company which is in financial distress can undergo the process of takeover. A takeover can be voluntary when the company requests another company to take over the assets and liabilities and save it from becoming bankrupt.

RE-STRUCTURING:

Re-structuring involves strategies for reducing the scope of the firm by exiting from unprofitable business. Restructuring is a popular strategy during post liberalization era where diversified organizations divested to concentrate on core business.

RE-STRUCTURING STRATEGIES:

Retrenchment:

Retrenchment strategies are adopted when the firm's performance is poor and its competitive position is weak.

Divestment Strategy:

Divestment strategy requires dropping of some of the businesses or part of the business of the firm, which arises from conscious corporate judgment in order to reverse a negative trend.

Spin-off:

Selling of a business unit to independent investors is known as spin-off. It is the best way to recover the initial investment as much as possible. The highest bidder gets the divested unit.

Management-buyout: selling off the divested unit to its management is known as management buyout.

Harvest strategy:

A harvest strategy involves halting investment in a unit in order to maximize short- to- medium term cash flow from that unit before liquidating it.

Liquidation:

Liquidation is considered to be an unattractive strategy because the industry is unattractive and the firm is in a weak competitive position. It is pursued as a Last step because the employees lose jobs and it is considered to be a sign of failure of the top management.

Strategic analysis and choice

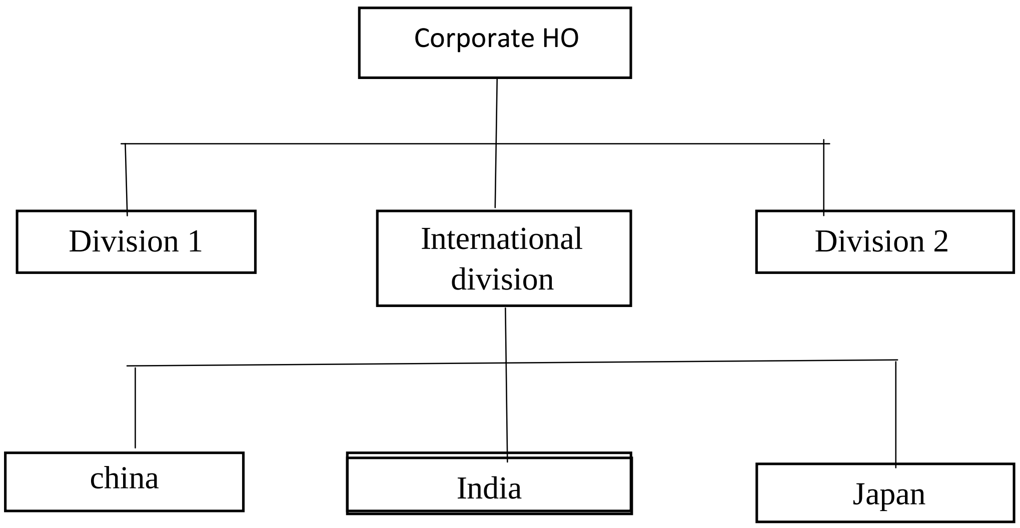
- In international business, companies pursue four strategies such as international strategy, multi-domestic strategy, global strategy and transnational strategy.
- The suitability of the strategy is determined by the extent of pressures on cost reduction and local responsiveness.

Global • Centralised production of standardised product • Lowest cost global location	**Transnational** • Centralised production of standardised product • Lowest cost global location
International • Decentralised production of standardised product • Transfer of skills and products from parent to local market	**Multi domestic** • Decentralised production of customised product • Near autonomous facilities at different global locations

International strategy

► **Decentralised production of standardised product**

- Transfer skills and products from parent to local market.
- Minimum customisation
- No local competition for similar products
- Centralise product development , decentralise manufacturing, marketing, sales

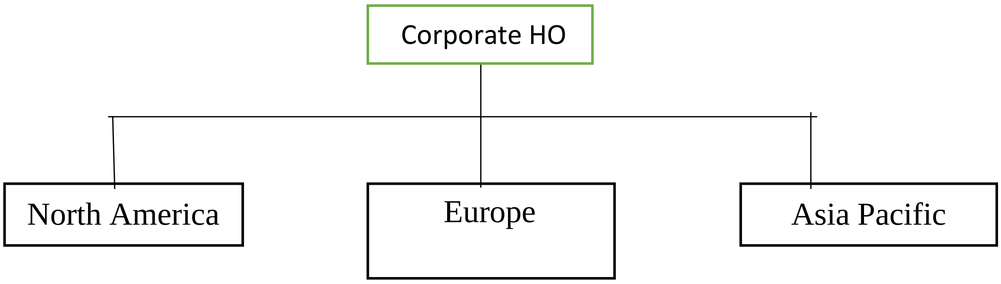


Multi-Domestic strategy

► **Decentralised production of customised product**

- Transfer skills and products from parent to local market.
- Customisation for achieving local responsiveness

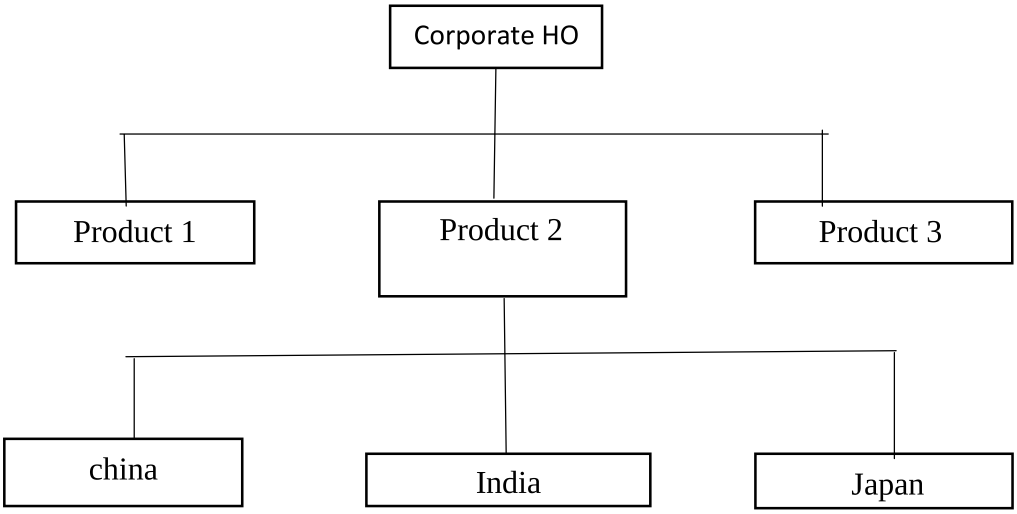
- Have end to end value creation activities in local markets
- Duplication of value creation activities in local markets.



Global strategy

► **Centralised production of standardised products**

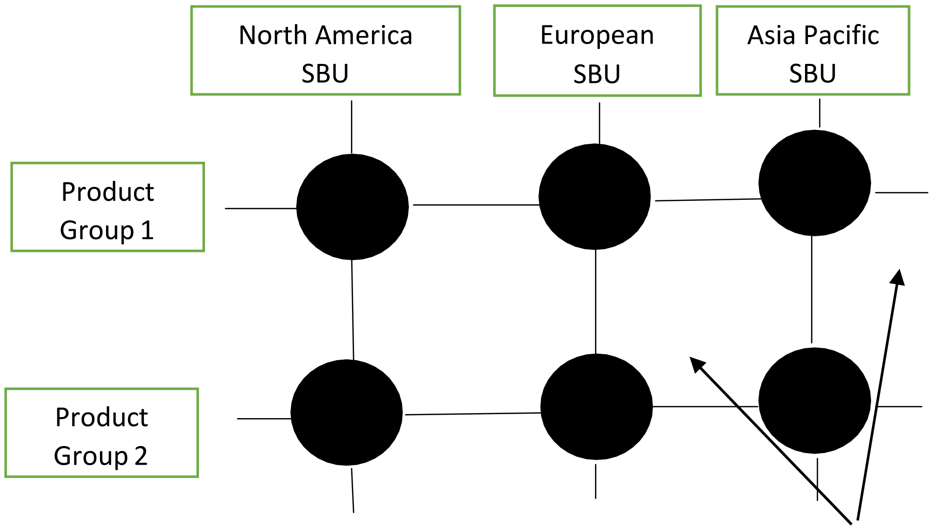
- Distinctive value creation activities at least cost locations
- Minimum customisation
- Low cost producer leveraging global scale and location economies
- High need of integration



Transnational strategy

► Centralised production of customised products

- Simultaneous achievement of low cost and differentiation
- Exploit location and experience based cost economies
- Customised offering to cater to local demands
- Centralised manufacturing innovations with localised assembly plants.



Strategy	Advantages	Disadvantages
Global	• Ability to exploit experience curve effects • Ability to exploit location economies	• Lack of local responsiveness
International	• Transfer of distinctive competencies to foreign markets	• Lack of local responsiveness • Lack of location economies • Lack of experience curve effects
Multi- domestic	• Ability to customize products and marketing in accordance with local responsiveness	• Inability to relate location economies • Failure to exploit experience curve effects • Failure to transfer distinctive to foreign markets
Transnational	• Ability to exploit experience curve effects • Ability to exploit experience curve effects • Ability to customize products and marketing in accordance with local responsiveness • Reaping benefits of global learning	• Difficulties in implementation because of organisational problems
Global	• Ability to exploit experience curve effects • Ability to exploit location economies	• Lack of local responsiveness
International	• Transfer of distinctive competencies to foreign markets	• Lack of local responsiveness

		• Lack of location economies • Lack of experience curve effects

- **STRATEGIC CHOICE ANALYSIS**

  GAP Analysis
  ETOP
  SWOT
  Mc Kinsey's 7's framework
- BCG portfolio matrix
  Balance score card

ENVIRONMENT THREAT AND OPPORTUNITY PROFILE (ETOP)

Meaning of ETOP

Environmental scanning can be defined as the process by which organizations monitor their relevant environment to identify opportunities and threats affecting their business for the purpose of taking strategic decisions.

Appraising the Environment:

In order to draw a clear picture of what opportunities and threats are faced by the organization at a given time. It is necessary to appraise the environment. This is done by being aware of the factors that affect environmental appraisal identifying the environmental factors and structuring the results of this environmental appraisal.

It is a environmental analysis in structured way
The economic environment can be divided into Rate of economic growth, Rate of inflation, monetary policy, Fiscal policy.
The competitive environment can be divided into threats of entry and exit, competitive position of competitors etc.
The degree of importance can be in qualitative terms or can be quantified
The impact factor for each of these environmental factor is quantified
Combination of importance and impact factor can give a clear picture of the industry sector
ETOP can be presented in two forms- Matrix and Descriptive form

ETOP profile for a bicycle company.

Environmental sector	Nature of impact	Impact of each sector
Economic	↑	Growing influence among urban consumers, rising disposable incomes and living standards
Market	↑	Organized sector a virutal ologopoly with four major manufacturers, buyers critical and better informed, overall industry growth rate not encouraging
International	↓	Global imports growing but India's share shrinking, India second globally as manufacturer, consumer and exporter after china , major importers are the US and EU but india exports only to africa ; threat of chinese cheap imports
Political	→	Industry tool small for any political attention
Regulatory	→	Parts and components reserved for small scale industry, heavy restrictions

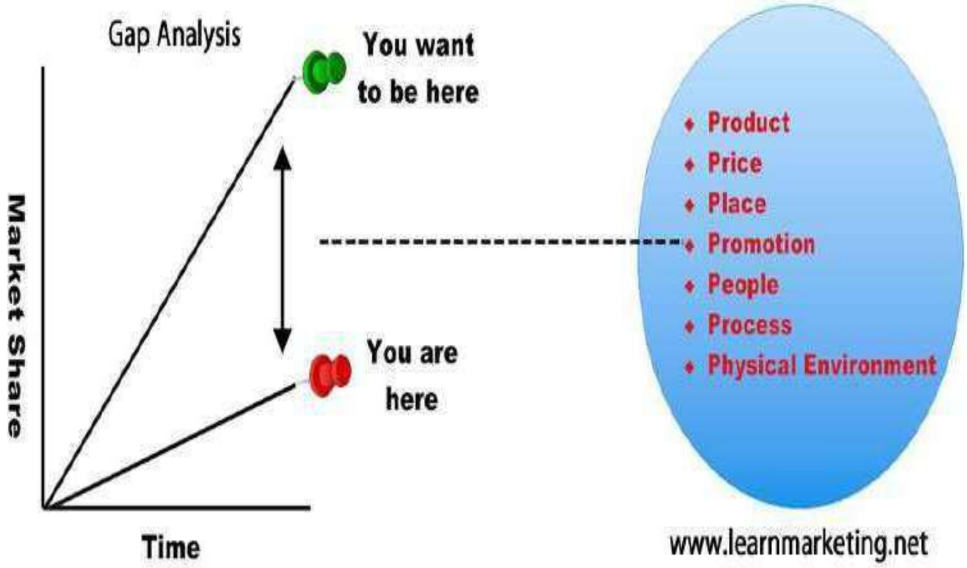
- Up Arrow indicates Favourable Impact
- Down Arrow indicates unfavourable Impact
- Horizontal Arrow indicates Neutral Impact

The preparation of an ETOP provides a clear picture to the strategists about which sectors and the different factors in each sector have a favourable impact on the organization. By the means of an ETOP, the organization knows where it stands with respect to its environment. Obviously, such an understanding can be of a great help to an organization in formulating appropriate strategies to take advantage of the opportunities and counter the threats in its environment.

ORGANIZATIONAL CAPABILITY PROFILE (OCP)

The organizational capability profile is drawn in the form of a chart. The strategists are required to systematically assess the various functional areas and subjectively assign values to the different functional capability factors and sub factors along a scale ranging from values of -5 to +5.

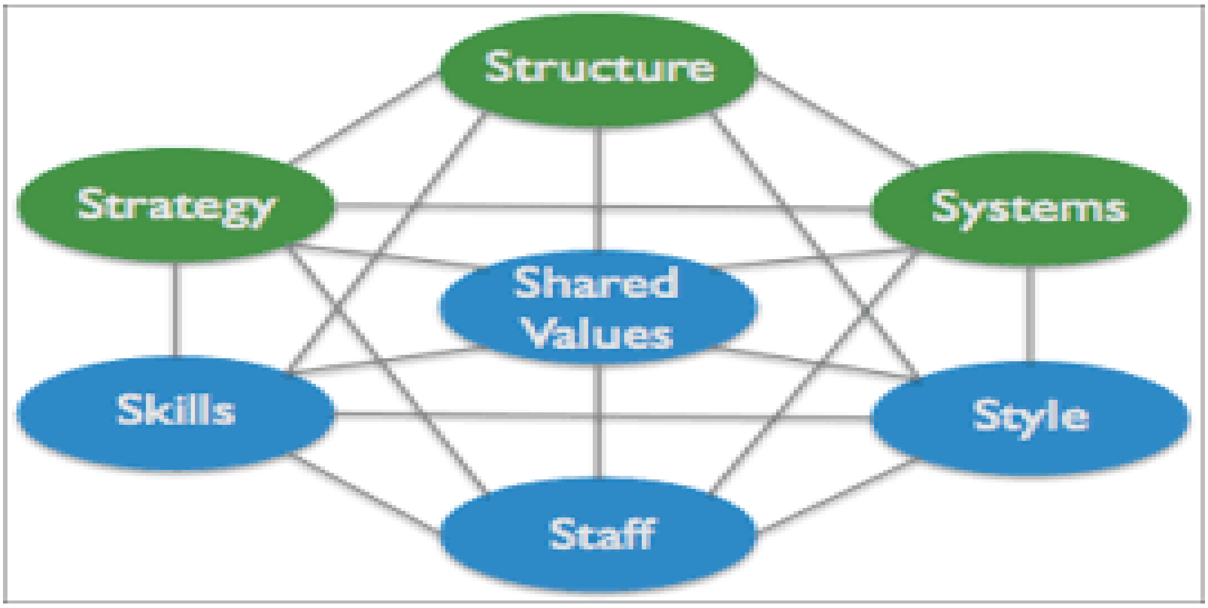
GAPANALYSIS



- It's a tool that helps companies to compare actual performance with potential performance
- It identifies the gap between the optimized allocation and integration of the inputs and current allocation level.
- It involves determining , documenting, approving the variance between business requirements and current capabilities
- **Usage Gap :**
  Market Potential - Existing usage
- **Product Gap :** Segment or Positioning gap
  Having no products in certain segments
  Product positioning excludes certain customers
- **Competitive Gap :**
  Effects of price and promotion

Mc Kinsey's 7's framework

- Developed by Mckinsey and co
- 7 factors to organise a company in a holistic and effective way



- **Strategy :** Concept of strategy includes purposes, missions, objectives, goals and major action plans and policies
- **Structure :** Organizational chart (Divisions , Units etc), Who is accountable to whom, easily visible and to change
- **System :** Rules, regulation, procedure/ business daily activities, How decisions are made, How business is done, and how to be focused in an organizational change.
- **Staff -** Inducting young recruits- how they manage their career to develop as a manager
- - Choosing the culture of organization
- - Employee blending to the culture
- - How many we need , how to recruit, train, motivate and reward
- **Skills -** Distinctive competency (dominant skill)
- - Engineering skill, new product development, customer service, quality commitment, market power.
- **Style :** Effectiveness of organizational change effort
- Way the company is managed by the top level
- How they interact, what action do they take
- **Shared Values :**
- Set of values and aspirations beyond corporate objective
- Norms that guide employees behaviour
- **BENEFITS**

- Used to improve the performance of an organization and its culture
- It helps to consider the future effects of organizational transformation
- It helps to improve interdepartmental cooperation and to gain a perspective on implementing organizational change.

BCG MATRIX

- BCG Growth Matrix was developed by Boston Consulting group.
- Consulting Group has two dimensions namely market growth and relative market share.
- The main objective of BCG matrix is to help top management to identify the cash flow requirements of different businesses in their portfolio.

BCG MATRIX OF NESTLE CO. LTD

INDUSTRIAL GROWTH RATE

STARS	QUESTION MARKS
1. NESCAFE 2. CERALAC	1. NESCAFE DECAF 2. NESTLE NESTUM 3. SMARTIES 4. NESQUIK
CASH COWS 1. MAGGI NOODLES 2. KIT KAT	**DOGS** 1. NEASTEA 2. MILKY BAR 3. NESTLE DAHI 4. NESTLE CRUNCH 5. NESTLE MUNCH

MARKET SHARE

RELATIVE MARKET SHARE.
One of the dimensions used to evaluate business portfolio is relative market share. Higher corporate market share results in higher cash returns.
MARKET GROWTH RATE.
High market growth rate means higher earnings and sometimes profits but it also consumes lots of cash, which is used as investment to stimulate further growt

STARS.
Stars operate in high growth industries and maintain high market share. Stars are both cash generators and cash users. They are the primary units in which the company should invest its money, because stars are expected to become cash cows and generate positive cash flows.
Strategic choices: Vertical integration, horizontal integration, market penetration, market development, product development

► QUESTION MARKS.

Question marks are the brands that require much closer consideration. They hold low market share in fast growing markets consuming large amount of cash and incurring losses. It has potential to gain market share and become a star, which would later become cash cow.
Strategic choices: Market penetration, market development, product development, divestiture

► DOGS.

Dogs hold low market share compared to competitors and operate in a slowly growing market. In general, they are not worth investing in because they generate low or negative cash returns. But this is not always the truth.
Strategic choices: Retrenchment, divestiture, liquidation

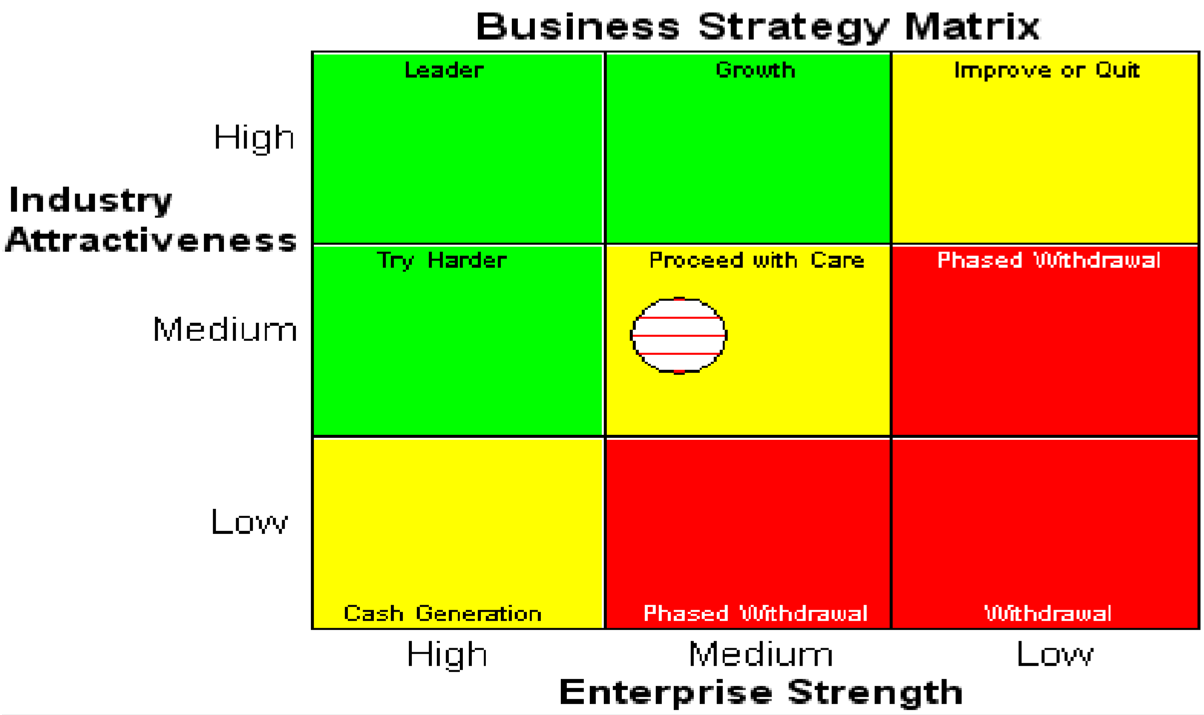
CASH COWS
Cash cows are strategic business unit That generate lot of cash but growth potential is negligible.Cash generation exceeds the reinvestment opportunities and business is in the mature stage of product life cycle.

ADVANTAGES

- Benefits of the matrix:
- Easy to perform;
- Helps to understand the strategic positions of business portfolio;
- It's a good starting point for further more thorough analysis.
- Growth-share analysis has been heavily criticized for its oversimplification and lack of useful application.

GE 9 Cell Model

- Mc Kinsey company of USA developed this model for GE
- It studies using the two factors industry attractiveness and business strength
- Also considers three degree of dimension- high/Medium/Low
- Business strength is measured using market share, Profit margin, Ability to compete, customer and market knowledge, Competitive position, Technology and management caliber
- Industry attractiveness is measured using market size and growth rate, industry profit margin, competition, seasonality and cyclicality, economies of scale, technology, and social, environmental and legal and human factors



Invest & Expand

- In this zone business has opportunity to grow through further investment
- When business strength and industry attractiveness is high , it is an ideal situation for growth
- When business strength is average and the industry attractiveness is high it is an situation where the organization should keep building its business strength to survive
- When the business strength is high and a average industry attractiveness then the organisation can generate competitive advantage for itself

SELECT / EARN

- It presents opportunity for selective earning

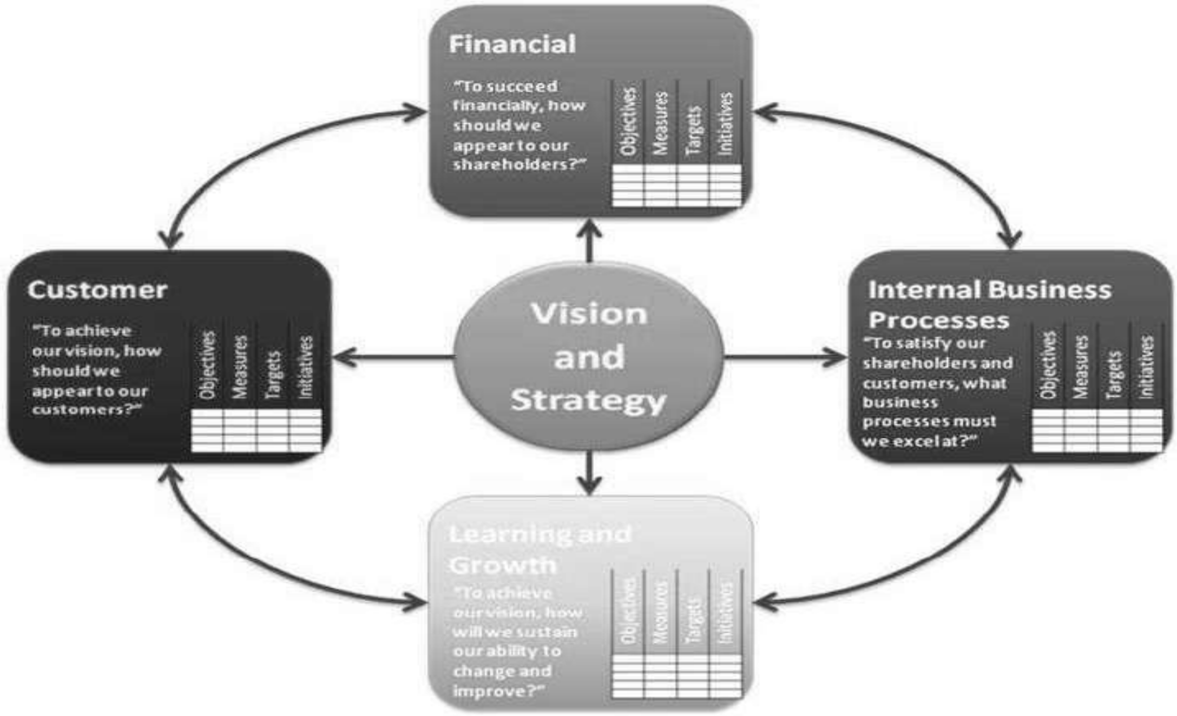
- Business strength(Weak) and industry attractiveness is high industry need to focus on building its strength
- Business strength is strong and industry attractiveness is low then the industry has to think about divest
- Business strength is average and industry attractiveness is medium then the industry has to hold position, earn profit with the present level of capacity

HARVEST/DIVEST

- Harvesting (or) Divesting strategy is suitable
- Harvesting is to withdraw from business, cutting down the cost, earn short term profit and then totally withdraw
- Divest is where you need to totally withdraw immediately rather than incuring any further loss

BALANCED SCORECARD

► The "balanced scorecard," formalized by Kaplan and Norton in 1992, is a simple concept (executed in many different ways) that has at its core the goal to use a balanced set of metrics to measure the health of a business. In practicality, this means expanding management's view beyond the financial metrics and adding other metrics to balance out the equation.



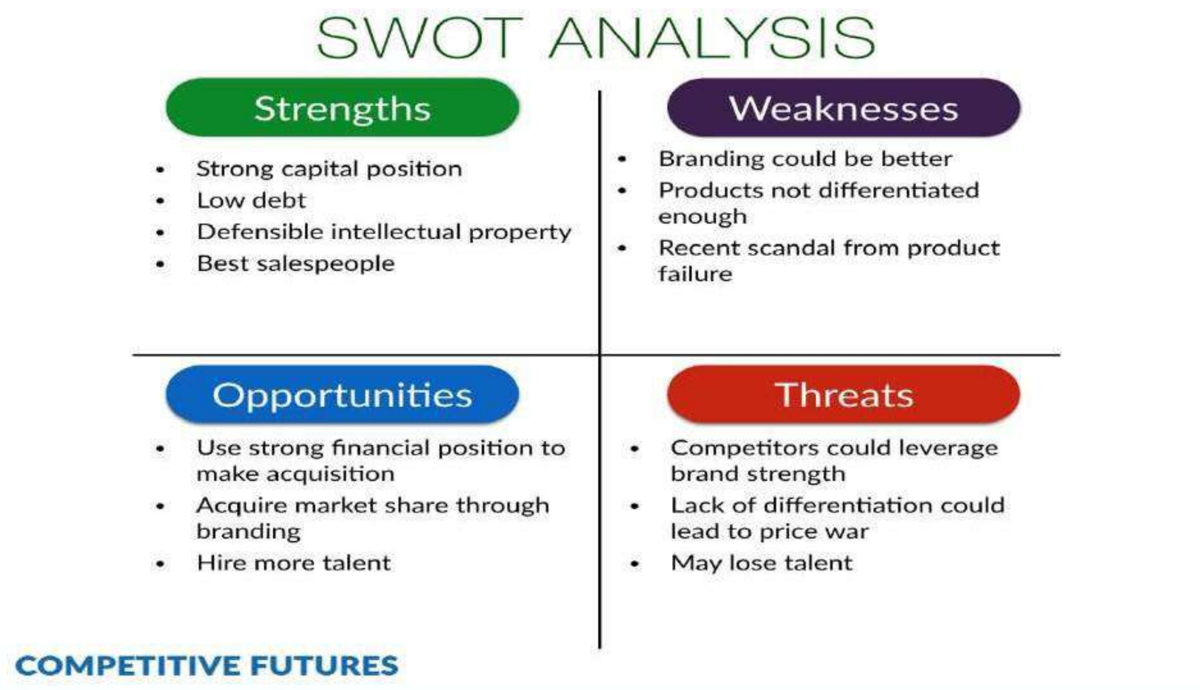
	Strategic Objectives	Strategic Measures
Financial	F1. Return on Capital Employed F2. Cash Flow F3. Profitability F4. Lowest Cost F5. Profitable Growth	▪ ROCE ▪ Cash flow ▪ Net margin ▪ Cash expense (cpg) vs. industry ▪ Volume growth rate vs. industry ▪ Premium ratio ▪ Non-gasoline revenue
Customer	C1. Delight the Target Consumer (Fast, Friendly, Clean) C2. Improve Dealer Profitability	▪ Consumer feedback ▪ Mystery Shopper rating ▪ Dealer profit growth ▪ Dealer survey
Internal	I1. Build the Franchise ▪ Create non-gasoline products I2. Increase Customer Profitability ▪ Understand consumer segments ▪ Best-in-class franchise teams I3. Operational Excellence ▪ Improve hardware performance ▪ Improve inventory management ▪ On-spec, on-time ▪ Industry cost leader I4. Good Neighbor ▪ Improve EHS performance	▪ New program introduction rate ▪ Share of target segment ▪ Dealer quality rating ▪ Unplanned downtime ▪ Inventory levels ▪ Run-out rate ▪ Quality index ▪ Activity cost vs. competition ▪ Environmental incidents ▪ Safety incidents
Learning & Growth	L1. Organization Alignment L2. Core Competencies and Skills L3. Access to Strategic Information	▪ Employee survey ▪ Staff with personal BSC (%) ▪ Strategic job coverage ratio ▪ Strategic system milestones

- ► The four areas addressed in the original presentation of the balanced scorecard were:
- ► **Financial Perspective**—How is your organization performing financially? What financial metrics are the key indicators of success?
- ► **Customer Perspective**—How do your customers perceive your company? How can you best understand the loyalty of your customers across the various touch points in your organization?
- ► **Internal Business Perspective**—What must your company excel at? How successful is the execution of your company's key business processes? What metrics best indicate both efficient and effective performance?
- ► **Innovation and Learning Perspective**—What elements in your organization most contribute to your company's ability to innovate, improve, and learn?

Since then, consultants and business leaders have suggested additional measurement areas and supplied alternative titles for some of the original four areas. The balanced scorecard has evolved and adapted.

What is 'SWOT Analysis'

- ► SWOT analysis is a framework used to evaluate a company's competitive position by identifying its strengths, weaknesses, opportunities and threats. Specifically, SWOT analysis is a foundational assessment model that measures what an organization can and cannot do, and its potential opportunities and threats.



► Strengths

describe what an organization excels at and separates it from the competition: a strong brand, loyal customer base, a strong balance sheet, unique technology and so on. For example, a hedge fund may have developed a proprietary trading strategy that returns market-beating results. It must then decide how to use those results to attract new investors.

Weaknesses stop an organization from performing at its optimum level. They are areas where the business needs to improve to remain competitive: higher-than-industry-average turnover, high levels of debt, an inadequate supply chain or lack of capital.

Opportunities refer to favorable external factors that an organization can use to give it a competitive advantage. For example, a car manufacturer can export its cars into a new market, increasing sales and market share, if a country cuts tariffs.

Threats refer to factors that have the potential to harm an organization. For example, a drought is a threat to a wheat-producing company, as it may destroy or reduce the crop yield. Other common threats include things like rising costs for inputs, increasing competition, tight labor supply and so on.

UNIT – 4: STRATEGY IMPLEMENTATION AND EVALUATION

Strategy implementation

Strategy implementation concerns the managerial exercise of putting a freshly chosen strategy into place. It deals with the way in which a firm creates the organisational arrangements that allow it to pursue (practice) its strategy.

Strategy is mainly implemented through appropriate structure and control. Selecting the right combination of organisational structure and control system is known as organisational design. Strategy implementation concerns the managerial exercise of putting a freshly chosen strategy into place.

Problems while implementing strategy

1. Implementation takes longer time than required
2. Unanticipated major problems crop up
3. Ineffective co-ordination of activities
4. Crisis management took lot of time
5. Employees have less than required capabilities
6. Inadequate training of lower level employees
7. Problems arising from uncontrollable external environment
8. Inadequate leadership on the part of departmental environment
9. Lack of precise definition of implementation of tasks and activities
10. Inadequate monitoring of activities through information system

Barriers to strategy implementation

Hrebiniak listed the following major barriers/ obstacles

1. Inability to manage change
2. Poor or vague strategy
3. Not having guidelines or a model to guide implementation efforts
4. Poor or inadequate information sharing
5. Unclear responsibility and accountability
6. Working against the organisational power structure

Implementation process

Organizational structure and culture can have a direct bearing on a company's profits. This chapter examines how managers can best implement their strategies through their organization's structure and culture to achieve a competitive advantage and superior performance.

Implementing strategy through organizational design:

Strategy implementation involves the use of organizational design, the process of deciding how a company should create, use and combine organizational structure control systems and culture to pursue a business model successfully.

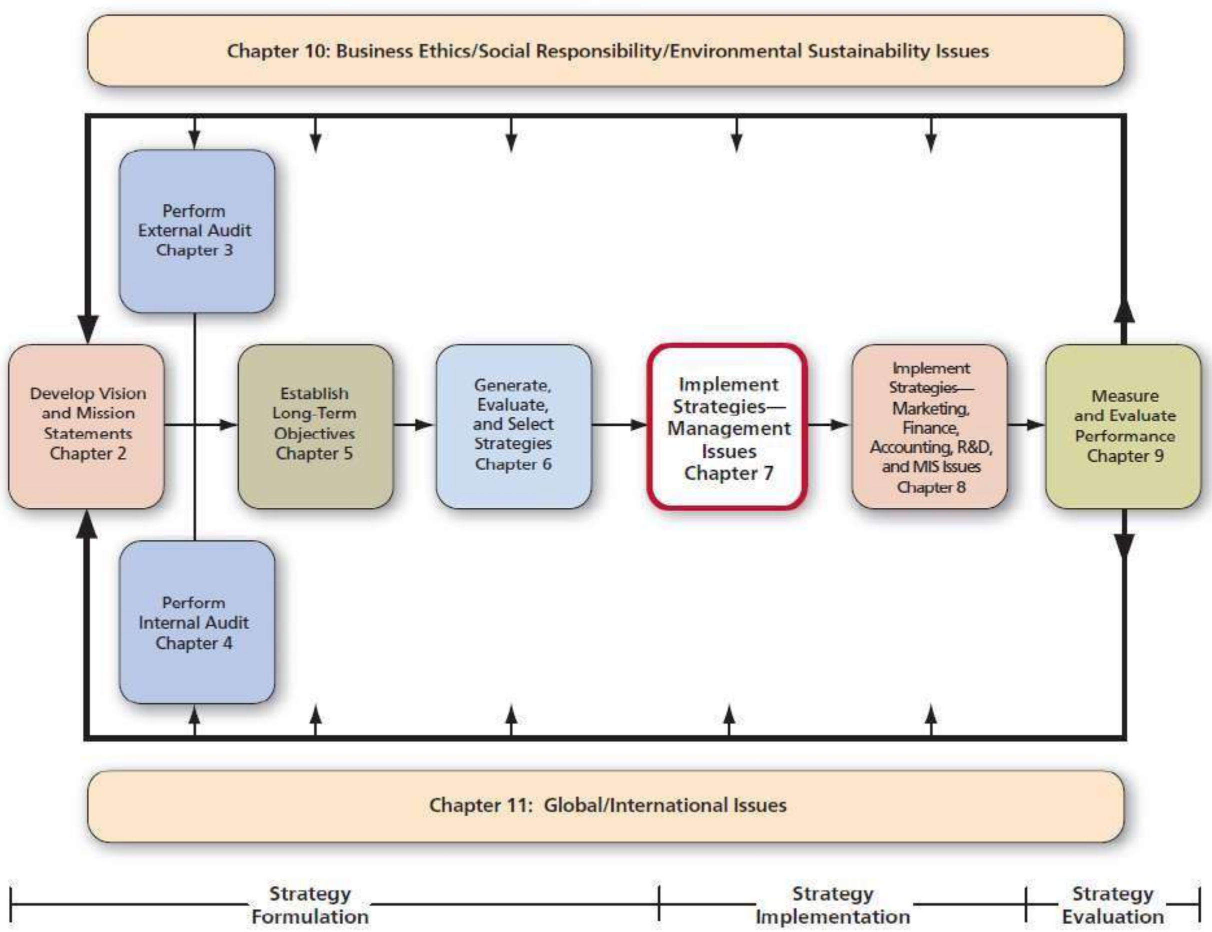
Inter-relationship of Formulation and Implementation

There is an interrelationship exist between formulation and implementation of strategies. Two type of linkages exists between these two phases of strategic management, such as forward linkage and backward linkage.

Froward linkage

FIGURE 7-1

Comprehensive Strategic-Management Model



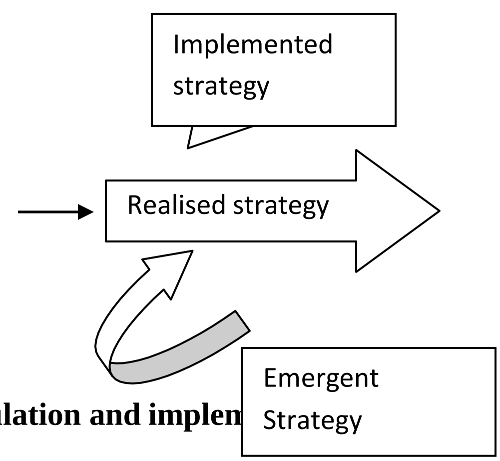
The strategies formulated provide the direction for implementation. In this way, the formulation of strategies has forward linkages with their implementation. For instance, the organisational structure has to be changed based on the modified or new strategy.

Backward linkage

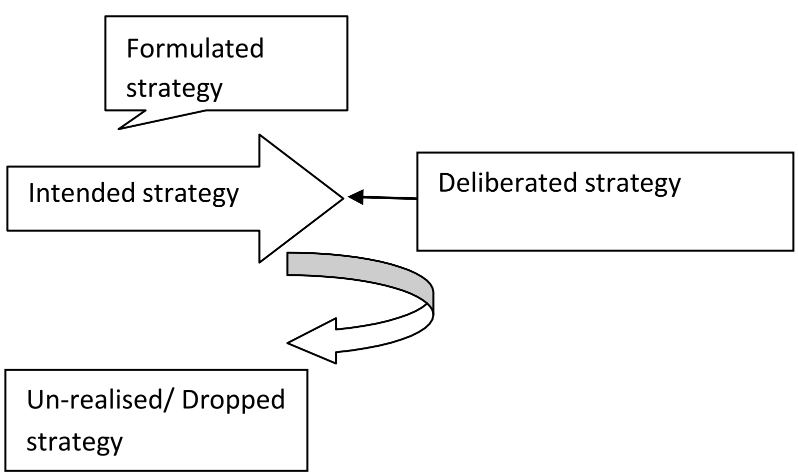
The formulation process is also affected by factors related with implementation. During the process of strategic choice, we found past strategies also determine the choice or modification of strategy.

It is noted that formulation is an entrepreneurial activity, based on strategic decision-making, the implementation of strategy is mainly an administrative task, based on strategic as well as operational decision making.

Formulation of strategy is a managerial task requiring analysis and thinking, while implementation primarily rest on action and doing.

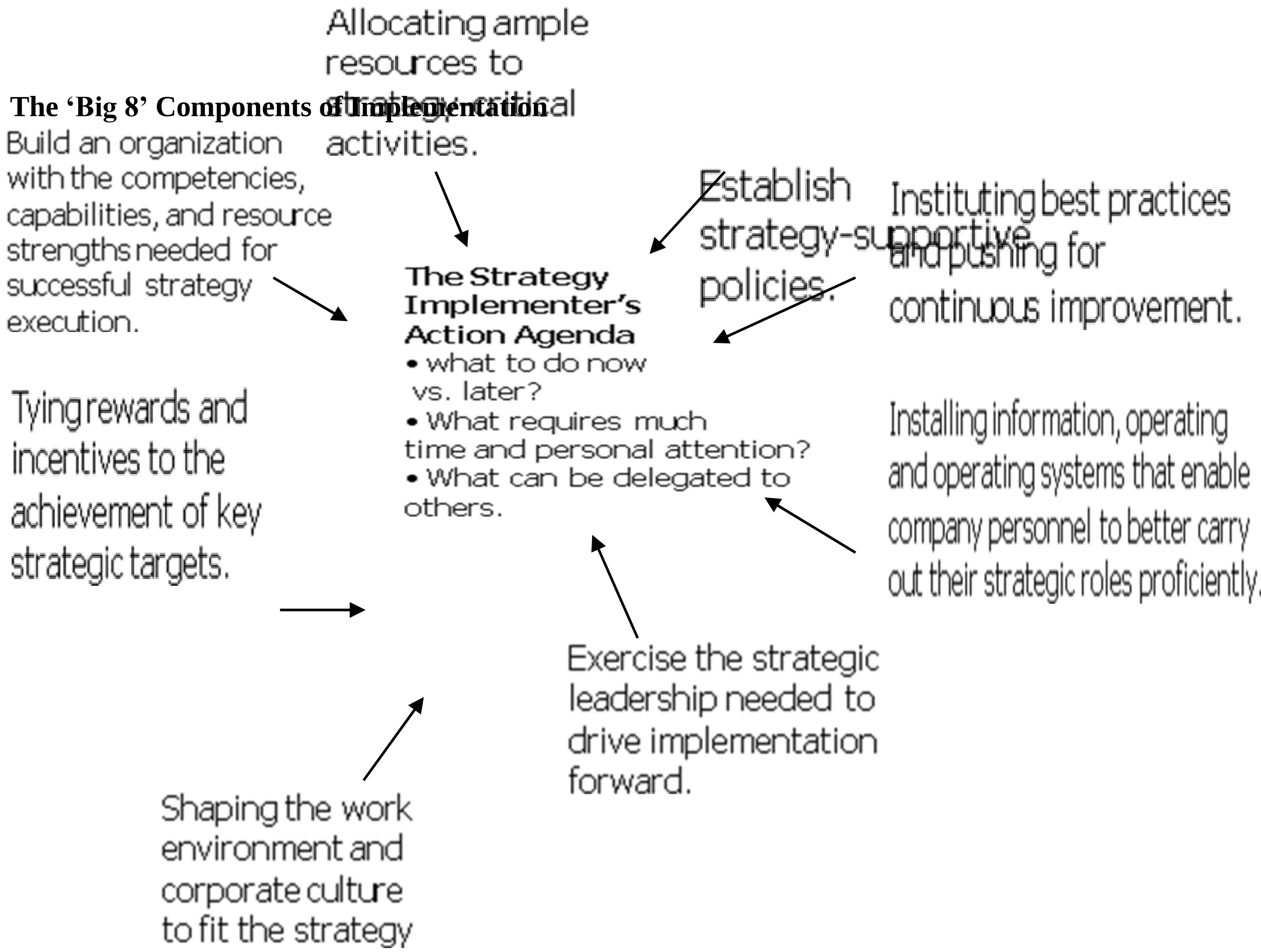


Mintzberg's two-way linkage between strategy formulation and implen



According to Henry Mintzberg, the strategies that are formulated do not get implemented in the intended way. Rather, implementation faces unforeseen circumstances so that, in practice, strategists have to observe the emerging circumstances, dropping some of the parts of the intended strategy that is the unrealized strategy and adding some other elements that are the

The 'Big 8' Components of Implementation



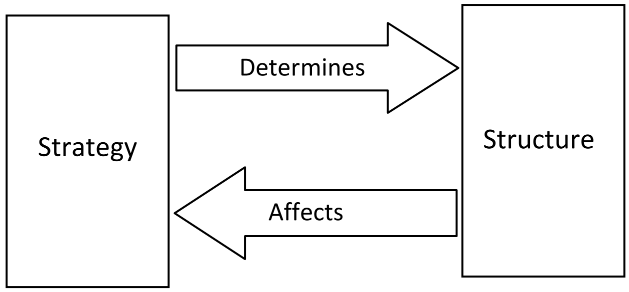
STEP: 1 - Designing organisational structure

Organisation under strategy implementation is the arrangement of tasks and sub-tasks required to implement a strategy.

Chandler presents two way relationships of structure and strategy. That is the strategy determines the structure in a major way. It does this by providing the necessary infrastructure and administrative mechanisms that enable implementation of the chosen strategy.

The structure is also affects the strategy, but to a lesser extent. The structure once established may affect the selection of some type of strategies.

Interrelationship of structure and strategy



When an organisation implements a new or revised strategic plan, then new or modified strategies are put in place. When implementing new strategies, managers noticed mismatches that occur due to variety of reasons. As a consequence of these mismatches, the performance declines, leading to a reduction in effectiveness. When the structure is changed appropriately so as to resolve the problems, performance improves, leading to better effectiveness.

Basic consideration of designing structure

There are two basic aspects must be considered while designing a structure:

A. **Differentiation** – In which a company allocates people and resources to organisational tasks in order to create value.

Two types – (i) Vertical differentiation – Establishment of reporting relationship, which connects people, tasks and functions at all levels of the firm. The manager has to choose appropriate number of hierarchical level (Best span of control).

Flat structure – few hierarchical levels – wide span

Tall structure – Too many levels – narrow span

(ii) Horizontal differentiation – Division of tasks into functions and divisions to increase their ability to create value. It involves decision to group organisational activities and tasks to fulfill organisational objectives.

B. **Integration** – in which a firm tries to co-ordinate people and functions to accomplish organisational tasks. Integration means the extent to which an organisation seeks to co-ordinate the value creation activities and makes them interdependent.

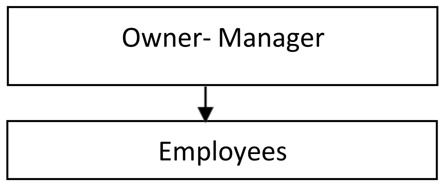
Types: (i) Direct contact – Where all functional heads work together to solve mutual problems, which cannot be solved in a single department.

(ii) Inter department liaison role – The interaction between two departments, when one person from each department is assigned task of co-ordination.

(iii) Temporary task forces – Task forces are ad-hoc committees. One member from each division is nominated as member of a task force and they participate in solving the problem. Once the solution are reached, members of the task forces get back to their normal roles in their departments.

(iv) Permanent teams: Known as standing committees, it involves co-ordination and integration among many departments on permanent basis.

(v) Integrating role: Usually senior managers play integrating roles as they have deep knowledge of two departments. The integrating job involves co-ordination of decision making process among departments.



Different types of organisation structure

1. Entrepreneurial structure

This structure is appropriate for an organisation that is owned and managed by one person. Typically, these organisations are single – business –product or service firms that serve local markets. The owner – manager takes all decisions

Functional structure: Based on the need of specialized skills and delegation of authority to managers, this structure iscreated based on different functional areas. It includes line and staff functions.

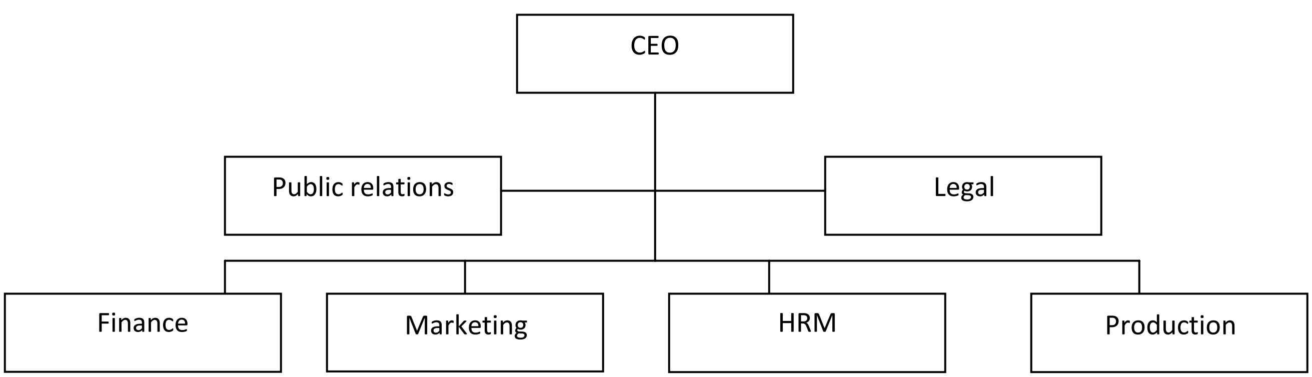


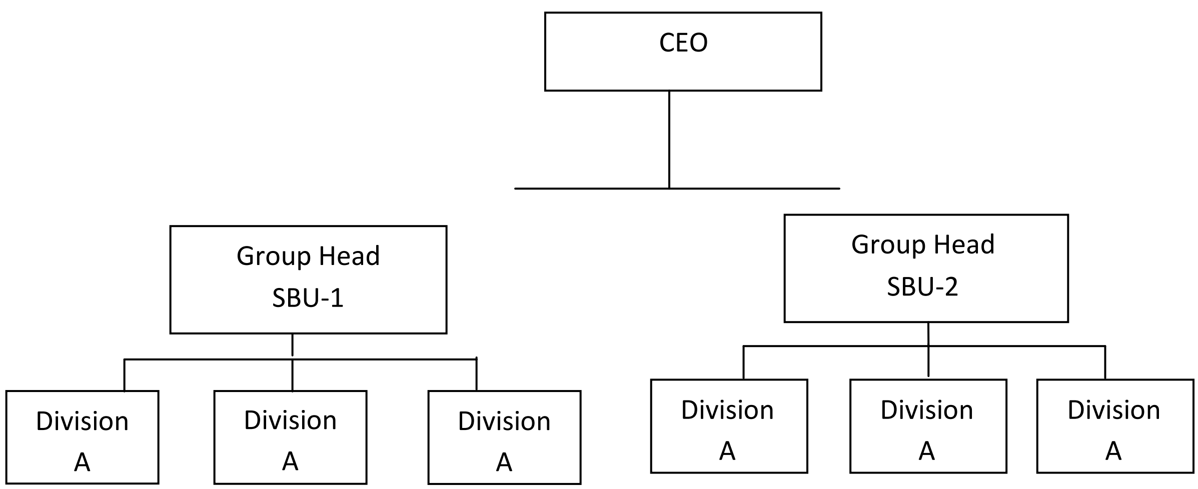
TABLE 7-7 Advantages and Disadvantages of a Functional Organizational Structure

Advantages	Disadvantages
1. Simple and inexpensive	1. Accountability forced to the top
2. Capitalizes on specialization of business activities such as marketing and finance	2. Delegation of authority and responsibility not encouraged
3. Minimizes need for elaborate control system	3. Minimizes career development
4. Allows for rapid decision making	4. Low employee/manager morale
	5. Inadequate planning for products and markets
	6. Leads to short-term, narrow thinking
	7. Leads to communication problems

SBU Structure

A Strategic business unit (SBU) is any part of a business organisation which is treated separately for strategic management purposes. Designing the organisation on the basis of SBUs. This structure establishes co-ordination between divisions having common strategic interests. But it is difficult to assign responsibilities and define autonomy to SBUs.

It groups similar divisions into strategic business units and delegates authority and responsibility for each unit to a senior executive who reports directly to the chief executive officer



2. Product Team Structure

In product team structure, cross-functional teams operate on permanent basis. It is less expensive and it has all advantages of matrix structure.

3. Geographic structure

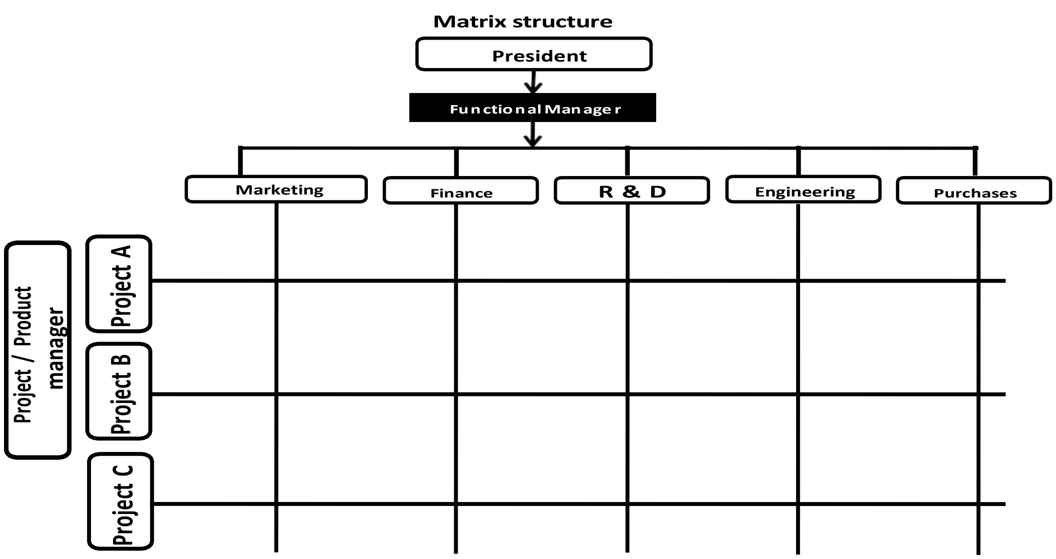
The organisational activities are grouped on the geographical basis. This structure is widely used in organisations, which operate over wide geographical regions.

4. Matrix structure

In this type of organisation structure, assigning functional specialists to work on a special project or a new product or service. For the duration of the project, specialists from different areas form a group or team and report to a team leader. Simultaneously, they may also work in their respective parent departments. Once the project is completed, the team members revert to their parent departments.

TABLE 7-9 Advantages and Disadvantages of a Matrix Structure

Advantages	Disadvantages
1. Project objectives are clear	1. Requires excellent vertical and horizontal flows of communication
2. Employees can clearly see results of their work	2. Costly because creates more manager positions
3. Shutting down a project is easily accomplished	3. Violates unity of command principle
4. Facilitates uses of special equipment/ personnel/facilities	4. Creates dual lines of budget authority
5. Functional resources are shared instead of duplicated as in a divisional structure	5. Creates dual sources of reward/punishment
	6. Creates shared authority and reporting
	7. Requires mutual trust and understanding



Most complex of all designs because it depends upon both vertical and horizontal flows of authority and communication

1. Network Structure

Network structure is also known as virtual organisation/ spider's web structure. It involves outsourcing many activities. It is suitable for unstable environment. This is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical networks.

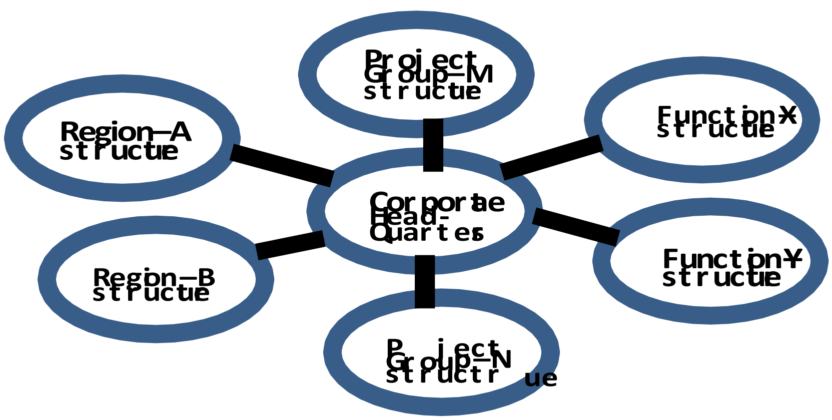
The core organisation is only a shell, with one small headquarters acting as a 'broker', connected to suppliers and specialized functions performed by autonomous teams and workforces. The network design, underlying the network structure 'subcontracts some or many of its operations to other firms and co-ordinates them to accomplish specific goals'.

2. Cellular structure

A cellular organisation is composed of cells such as self managing teams and autonomous business units which can work alone as well as interact with other cells in order to produce a more potential and competent business mechanism.

Bureaucratic cost

The cost of operating a structure and control system is known as bureaucratic costs. Depending upon the complexity of the structure, differentiation and integration tend to be complex and bureaucratic costs will vary.



Resource Allocation

Resource allocation deals with the procurement, commitment and distribution of financial, human, informational and physical resources to strategic tasks for the achievement of organisational objectives.

Resource allocation is both a one-time and a continuous process. When a new project implemented, it would require allocation of resources. An on-going concern would also require a continual infusion of resources.

Strategy implementation should deal with both these types of resources allocation. Resource allocation, ***especially for financial and physical resources, could be done through budgeting.***

Strategic Budgeting

The resources are mainly allocated through budgets. There are three approached to resources allocation through budgeting.

First: Top-down approach: The top management decides the requirement and distributes the resources to the operating levels.

Second: Bottom-up: Where resources are allocated after a process of aggregation (sum-up) from the bottom level that is operating level

Mixed approach: It is a mix of these two and involves a participative form of strategic decision making between different levels of management.

Aligning resource allocation to strategy

Allocating scarce resources to competitive strategic tasks that lead to the accomplishment of organisational objectives and goals by overcoming misallocation of resources and considering trade-offs (allocation based on priorities) in resource allocation. It would be easier for strategists to allocate resources if the strategic priorities are clear.

Factors affecting resource allocation

- Objectives of the organisation
- Preference of dominant strategists
- Internal politics
- External influences (Govt. policies, financial institutions, community and others)

Difficulties in resource allocation

- Scarcity of resources
- Restrictions on generating resources
- Overstatement of needs
- Tendency to imitate competitors.

STEP: 2 - Designing control systems: Matching control and structure to strategy

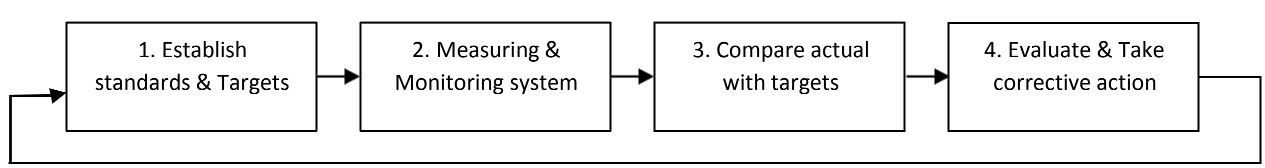
Strategic control

It is a process by which suitable control system are established at the corporate, business and functional levels in a company in order to evaluate whether a firm is able to achieve superior efficiency, quality, innovation and customer responsiveness.

Strategic control involves monitoring and evaluating the performance of divisions and employees and taking appropriate control actions.

Strategic control system & Evaluation process

It is frame work provides managers with required information to find out whether strategy and structure move in the same direction. It includes target setting, monitoring, evaluation and feedback system. The following is the process of strategic control system.



1. **Establish targets or standards** – Framing standards against which actual or expected performance is measured. Standards may be classified as:

   a. Physical standards – Standards on physical things, that is establishing standards on Men, Money, material and machines/ methods
   b. Cost standards – Costs involved on physical objects, selling cost, direct and indirect costs per unit produced.
   c. Capital standards – Investments and ratios
   d. Revenue standards – Standards on revenues

2. **Develop a measuring system**

   Company has to develop or frame a measuring system to measure the performance of tangible (out-put, usage of machine hour, etc.,) and intangible (performance of new market, employees loyalty and quality of performance, etc.,) aspects of performance.

3. **Comparison of actual performance against the target**

   Here, monitoring whether the targets and measures are moving in the planned/ proposed directions and to decide the extent of deviation if they are noticed.

4. **Evaluate and corrective action**

   Measuring and comparing actual performance with expected performance after implementing the chosen strategy, if find any deviation taking corrective actions in the form of redrawing the plans or modifying the goals..

   Corrective actions may include clarification of duties, reassigning of duties, or training the subordinates and adopting effective leadership styles

Characteristics of good control system

- Flexible to respond unforeseen events
- Give accurate information about the company
- Provide information in timely manner by avoiding financial losses.

Types of control system

There are four types of control systems.

- Market control
- Output control
- Bureaucratic control
- Organisational culture
- Other control systems

Organisational culture – It is defined as the values, norms and beliefs, which are shared by members of the organisation. It affects the way the organisation operates and its business.

Market control	**Output control**	**Bureaucratic control**	**Organisational culture**	**Other control systems**
Stock price Return on investment Transfer price	Divisional goals – *sales, productivity, growth and market share* Functional goals – *Efficiency, quality, customer responsiveness, innovation* Individual goals – *Sales target, output, etc.*	Rules and procedures Standardisation – *behaviour of employees, inventories, tools, etc*.	Norms Values Socialisation	Balanced score card Management audit – *Done by BoDs on Top mgmt.* Responsibility centers – *It is created to measure the performance of budgets, etc.* Benchmarking ERP

Responsibility centers - *It is created to measure the performance of budgets, etc. Each centre has its own budget and is assessed based on its use of budgeted resources. Types of Responsibility centers are:*

a) Standard cost center: Determining standard cost by comparing expected costs and actual costs
b) Revenue cost center: Actual sales and production compared with previous year sale & production
c) Expense centre: Admin., service and R&D are considered to be expense centers and comparing its expenses with budgeted one. It is further divided into
   (i) Profit centers: Control over revenues and expenses on resources and production & Sales
   (ii) Transfer pricing centers and (iii) investment centers.

ERP (Enterprise Resource planning)

It consists of a single family of software modules for a company's major business activities from order processing to production. It gives instant access to functional information to everyone in the organisation.

Essentials of control system

- Control system should follow strategy
- Involve minimum amount of information
- Point out exceptions
- Monitor essential activities and results
- Linked to rewards and not to punishment
- It should be timely

Structures for strategies - Structure for business strategies

Structural Building Blocks

1. Division of Labor
2. Departmentalization
3. Managerial Hierarchy
4. Span of Control
5. Centralization of Decision-Making

Implementing Strategic Change: Politics, Power and Conflict

All organisations are political in nature. The organisational members bring with them their likes and dislikes, views and opinions, prejudice (intolerance) and inclination (partiality), when they enter organisations. So, strategists should understand that how corporate politics (Organisational politics) works and how the use of power is to be made for effective strategic management.

Power - It is defined as, 'the ability to influence others'.

Sources of power

a. Reward power – arises from the ability of managers to reward positive outcomes
b. Coercive power – arises from the ability of managers to penalize negative outcomes
c. Legitimate power – arises from the ability of managers to use position to influence behaviour
d. Referent power – arises from the ability of managers to create liking among subordinates due to charisma or personality
e. Expert power – arises from the managers' competence, knowledge and expertise that is acknowledged by others

Sources of power at functional and divisional level

a. Ability to cope-up with uncertainty
b. Centrality – ability to influence resource transfers among divisions.
c. Control over information
d. Non-substitutability
e. Control over contingencies
f. Control over resources

Politics – It is 'the carrying out of activities not prescribed by policies for the purpose of influencing the distribution of advantages within the organisation'.

The use of power and politics is the mean to resolve conflicts and bridge genuine differences of opinions through a process of negotiations and seeking collaboration. It also involves managing coalitions (union) and creation of commitment to organisational purpose and mission.

The corporate politics and power in strategic management is generally viewed in the positive sense. Political considerations and use of power, therefore, are a part of behavioural implementation by strategists.

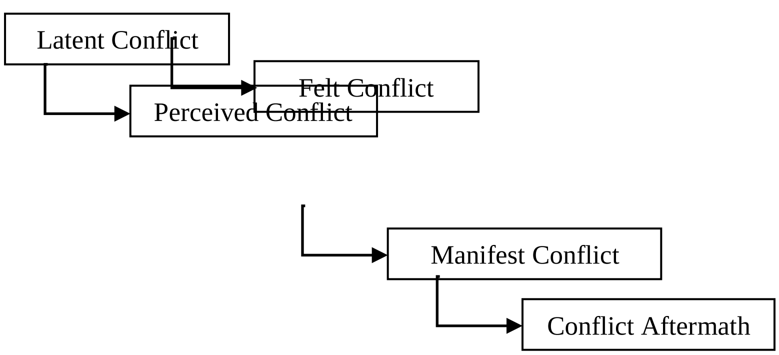
Organisational conflict

Conflict under strategic management is "As a situation when the goal directed behaviour of one group blocks the goal directed behaviour of another".

The Sources of conflict

a. Differentiation
    - Difference in sub-group orientation
    - Status inconsistencies – Some functions are considered be to more important
b. Task relationships
    - Overlapping authority
    - Task interdependencies
    - Incompatible (Unsuited) evaluation systems
c. Scarcity of resources
- Distributing scares resources

Organisation's conflict process



1. **Latent Conflict** – It arises due to frequent changes in organizations' strategy and structure which results in changed relationships among functions and divisions.

2. **Perceived conflict** – It arises when a company expanding product range, the task relationship among different product managers changes completely.

3. **Felt conflict -** The functioning of one division hinders (delay) the functioning of other, in this situation, one dept. starts blaming the other dept. for the delay.

4. **Manifest conflict** – The conflict between functions or divisions due to aggression among top managers, circulation of defamatory (insulting) information about other divisions, knowledge hoarding, damaging the performance of other divisions, etc.

5. **Conflict aftermath** – The long term effects of conflict is known as conflict aftermath. If it is not solved, it continues forever.

Conflict resolution strategies

- Changing task relationship – reduce interdependence
- Changing controls – Job rotation is suitable measure
- Implementing strategic change – it involves new leadership, new strategy and orgnl. Change, etc.
- Changing leadership – A new leader from outside the company

Techniques for Strategic evaluation and control

1) Evaluation techniques for strategic control

Strategic control is to continually assess the changing environment to observe events that may significantly affect the organisation's strategies.

Strategic control classified in to two on the basis of types of environment –

a) Strategic momentum control – for stable environment
b) Strategic lead control- for unstable environment

a) Strategic momentum control – for stable environment

It is assumed that the formulated strategies are still valid and allow the organisation to maintain its existing strategic momentum.

(i) *Responsibility control centers*: Establishing revenue, expenses, profit and investment control centers and evaluate and applying control process, whether the attained budgeted one or not by applying this present strategies.

(ii) *The underlying success factors:* Focusing on the critical success factors (Factors that contribute to the success of strategies) and evaluates such factors, whether or not these are helping the organisation to achieve its objectives.

(iii) *Generic strategies:* Strategic control is based on the assumption that the strategies adopted by firms similar to another firm are compared with each other. Based on such comparison, a firm can study why and how other firms are implementing particular strategies and assess whether or not its own strategy is following a similar path. (Comparing with strategic group).

b) Strategic Leap control (For unstable environment)

Strategic leap control assist organisation to identify new strategic requirements and to cope with emerging environmental realities.

(i) *Strategic issue management*: Identifying one or more strategic issues (forthcoming development in inside/outside organisation relating to objectives) and assessing their impact on the organisation strategies.

(ii) *Strategic field analysis:* Examining the nature and extent of synergies that exist or synergies which are lacking between the components of the organisation. If so, find its impact on implemented strategies.

Synergy: It is an idea that the whole is greater or lesser than the sum of its part (2+2 = 5 or 3).
Synergistic effect: Two strong points in a particular functional area add-up to something more than double the strength. Likewise two weak points in a particular functional area add-up to something more than double the weakness.

Ex: Within functional area (Example- Marketing), the strategic effect may occur when the product, price, distribution and promotion aspects support each other, resulting in high level of marketing strategy.

(iii) ***System modeling:*** Through computer based models, organisation exercise pre-action control by assessing the impact of environment on the organisation by adopting particular strategy.

(iv) ***Scenarios:*** Which are perceptions about the likely environment a firm could face in the future and compare the implemented strategies with perceived environment and find the difference and impact.

2) Evaluation techniques for operational control

Aimed at the allocation and use of organisational resources.

a) **Internal analysis:** Identification of the strength and weakness of a firm in absolute terms.

(i) ***'VRIO' frame work:*** VRIO frame work is sustainable strategic advantage through use of capabilities, such as Value, Rare, Inimitable and Organisation. Evaluating capabilities of these resources and examine whether these are present and properly utilized or not.

(ii) ***Value chain analysis**:* Focuses on set of inter related activities performed in a sequence – under this, segregating the total task of a firm into identifiable activities, then evaluate them separately.

(iii) ***Quantitative analysis:*** Taking financial and non-financial measurable quantitative parameters, such as physical units or time in order to assess performance.

(iv) ***Qualitative analysis:*** Aspects which are not feasible to measure on the basis of figures and numbers, such as employee attitude, skill level, etc. – evaluation based on judgement and opinions.

b) Comparative analysis

- **(i) Historical analysis** – Comparing performance of a firm over a given period of time
- **(ii) Industry norms** – Comparison to its revals (Competitors) in the same industry
- **(iii) Benchmarking** – Firm finds the best practice in an area and then attempts to bring its own performance in that area.

c) Comprehensive analysis

- **(i) Key factor rating** – It takes into account the key factors in several areas and then evaluate performance on the basis of these.
- **(ii) Business Intelligence system:** Accessing data warehouse, using data mining tools and creating analytical reports that help in performance evaluation.
- **(iii) Balanced score card:** A "balanced scorecard"- a set of measures that gives top managers a fast but comprehensive view of the business. The balanced scorecard includes financial measures that tell the results of actions already taken. And it complements the financial measures with operational measures on customer satisfaction, internal processes, and the

(iv) organization's innovation and improvement activities-operational measures that are the drivers of future financial performance.

d) Special purpose techniques

(i) Network technique – PERT and CPM

(ii) Management by Objectives (MBO)

(iii) 'Parta' system – Preparing daily cash budget, comparing actual expenses and income with budgeted one, if there is any deviation, taking corrective action.

(iv) Memorandum of Understanding (MoU): Involving outside agencies to assess the performance of the organisation in terms of implemented strategies and find the deviation for correction.

Four types of strategic controls

1. Premise control

Every strategy is based on certain assumptions about environmental and organisational factors. If any, change in these factors can affect the strategy to large extent.

Premise control identifies the key assumptions and keeps track of any change in them, so, as to assess their impact on strategy and its implementation.

Example: Assumption on environmental factor – Favourable Govt. policies
Assumption on organisational factor – Expected breakthrough in R&D.

2. Implementation control

The implementation of a strategy results in a series of plans, programmes and projects. The required resources are allocated to these plans, programmes and projects. This control system aimed at evaluating whether the plans, programmes and projects are actually goes in right direction (pre-determined way) and being benefited to achieving organisational goal. If not so, they have to be revised and modified.

3. Strategic Surveillance

It is designed to monitor a broad range of events inside and outside the company that ate likely threatens the course of a firm's strategy.

It is a general monitoring, on the basis of selected information sources to unexpected events that are likely to affect the course of the strategy of an organisation.

4. Special alert control

It is a rapid control system. It is an immediate reassessment system of strategy in the light of sudden and unexpected events. The special alert control can be exercised through the formulation of contingency strategies and assigning responsibility of handling unforeseen events to crisis management team.

Example: Sudden fall of a State/ Central Govt./ Instant change in competitors' financial position/ Unfortunate industrial disaster.

UNIT – 5: OTHER STRATEGIES

Strategic Issues in Managing Technology & Innovation

The strategic issues in managing technology and innovation and their influence on environmental scanning, Strategy formulation, Strategy implementation, Strategy evaluation and control are worth studying from the perspective of strategists in modern organization.

Role of Management:
The top management should emphasize the importance of technology and innovation and they should provide proper direction.

Strategic Issues in Managing Technology & Innovation

1. Environmental scanning – Developing a scanning system to measure technological development. Such scanning enables them to prepare 'technological road-maps' and assess where technological break-through are likely to happen, the amount of initial investment and the period required for commercializing the new product.

   a. External scanning: It is a way to keep track of new technological development in the industry and updating the changes.

   b. Impact of stakeholders on innovation- The stakeholders (Customers, suppliers and distributors) provide new directions for product improvement, service improvement and product development.

   c. Lead users – Lead users are "companies, organisations and individuals that are well ahead of market trends and have needs than the average users".

   d. Market research – Identifying the technological changes through market research and do modification on the products.

   e. New product experimentation – Introducing many new models to the market and study the acceptance. Those models that sell successfully are continued and those are not, will be dropped.

   f. Internal scanning – Assessing the internal environment, whether the organisation got necessary resources, new ideas, etc., to adjust with the changing new technology and innovation.

   g. Resource allocation to R&D – Another strategy to manage technology and innovation is to provide sufficient and required resources to R&D.

2. **Time to Market issue** – It is another strategic issue to manage technology and innovation is to shorter the product development cycle.

3. **Strategy formulation-** Formulating the strategies to promote R&D, to develop own technology, possibilities of technological outsourcing, etc.,

4. **Following innovative culture**

   Promoting innovative culture within the company in all aspects through the following persons
   (i) Product champions – One who generate new idea & guides the company to overcome setbacks
   (ii) Sponsor – Who facilitates funding to develop innovation and its implementation
   (iii) Orchestrator – Top executive, who supports innovative activities and rewards the innovation and who are involved in innovative activities.

5. **Corporate Entrepreneurship**

Corporate entrepreneurship (or intrapreneurship) is focusing on innovation and creativity and transforms the dreams of an idea into a profitable venture by operating within the organisational environment.

<u>Strategic issues for Non-Profit Organizations</u>

"A Non-profit organizations also known as a Not-for- profit organization (NFPO) is an organization that does not distribute its surplus funds to owners or shareholders, but instead uses them to help pursue its goals/

Types of Non-profit-organizations

- Private non-profit organizations
- Public governmental units

Sources of Revenue

The sources of revenue differentiate Not-for-profit organisations from a business firm. The sources of revenue of each is

- Profit making organization through Sales of goods or services
- Not for profit organization through Sponsor or donations

Constraints in Not-for-profit organization:

- Service is intangible in nature and difficult to measure
- The client's (beneficiary) have very little influence as they make little payment
- The sponsor and Contributors like Government may interfere with the internal management of the organisation
- Strong employees are more committed to their profession rather than to the NFPO
- Restraints on the use of rewards and punishments

Problems (issues) in the strategy formulation

- The main aim is to collect the funds
- They don't know how to frame strategy
- Internal conflict with the sponsor
- Worthless will be rigid

Problems (issues) in Strategy implementation

- The problem in decentralization
- Links in internal and external is important – Heavy dependence on outside sponsors
- Need professional expertise on job enlargement and enrichment, because to deal with sponsors

Problems (issues) in evaluation and control

- Rewards/ punishments are not related to performance
- Wasting money on administrative expenses may be uncontrollable

Popular Strategies for Not-for-profit organizations

1) Strategic piggybacking

It is a strategy to reduce the gap between expenses and revenue of NFPO by adjusting main expenses by generating supplement revenues from the same organisation by providing another form of paid services with same resources.

Ex: NFP Hospital running a mediation class and fitness programme by charging from others

2) Mergers

NFPOs prefer merger in the light of reduced resources to bring down their cost of operations.

3) Strategic Alliances

Strategic alliance is pursued by Not-for-profit organisations to increase their capacity and to get more resources and to serve the clients better. In strategic alliance, co-operative ties are established between organisations without undermining their identity.

New Business models and Strategies for the Internet Economy

Business model

A Business model describes the rationale of how an organization creates, delivers, and captures value (economic, social, cultural, or other forms of value). The process of business model construction is part of business strategy.

The term *business model* is used for a broad range of informal and formal descriptions to represent core aspects of a business, including purpose, target customers, offerings, strategies, infrastructure, organizational structures, trading practices, and operational processes and policies.

The model includes the components and functions of the business, as well as the revenues it generates and the expenses it incurs.

The term business model to describe the logic of a firm, the way it does business and how it creates value for its stakeholders

Referred to business models particularly when dealing with the formation of novel (systemic) mechanisms and architectures through which business will be done vis-à-vis the greater business environment and industry networks

A Business Model describes how your company creates, delivers and captures value

Business model canvas (Components)

1. Value Propositions

- Describe bundles of products or services that create value for a specific customer segment
- Value delivered to the customer (benefit/cost)
- Customer problem being solved
- Customer needs being satisfied
- Value Propositions assigned to Customer Segments

Attributes

Newness, Performance, Customization, Full Service, Design, Brand/Status, Price, Cost Reduction, Risk Reduction, Accessibility and Convenience/Reusability.

2. Customer Segments

Defines groups of people or organizations that your business aims to reach and serve Customer Segments:

Types - Mass Market, Niche Market, Segmented, Diversified, Multi-Sided Market

3. Channels - Describes how a company communicates with and reaches its Customer Segment to deliver a Value Proposition

4. Customer Relationships - Describes the types of relationships a company establishes with specific Customer Segments

5. Revenue Streams - The cash a company generates from each Customer Segment

Types – Periodicity, One-time, Recurring, Form of generation, Asset sale, Usage fee, Subscription fee, Lending/Renting/Leasing, Licensing, Pricing Mechanism, Fixed list price, Bargaining, Auction, Market dependent, Volume dependent and Yield management.

6. Key Partners - Describes the network of suppliers and partners that make the business model work

Types - Strategic alliances between non-competitors, strategic alliances between competitors, Joint ventures to develop new businesses and Buyer-supplier relationships to assure reliable supplies.

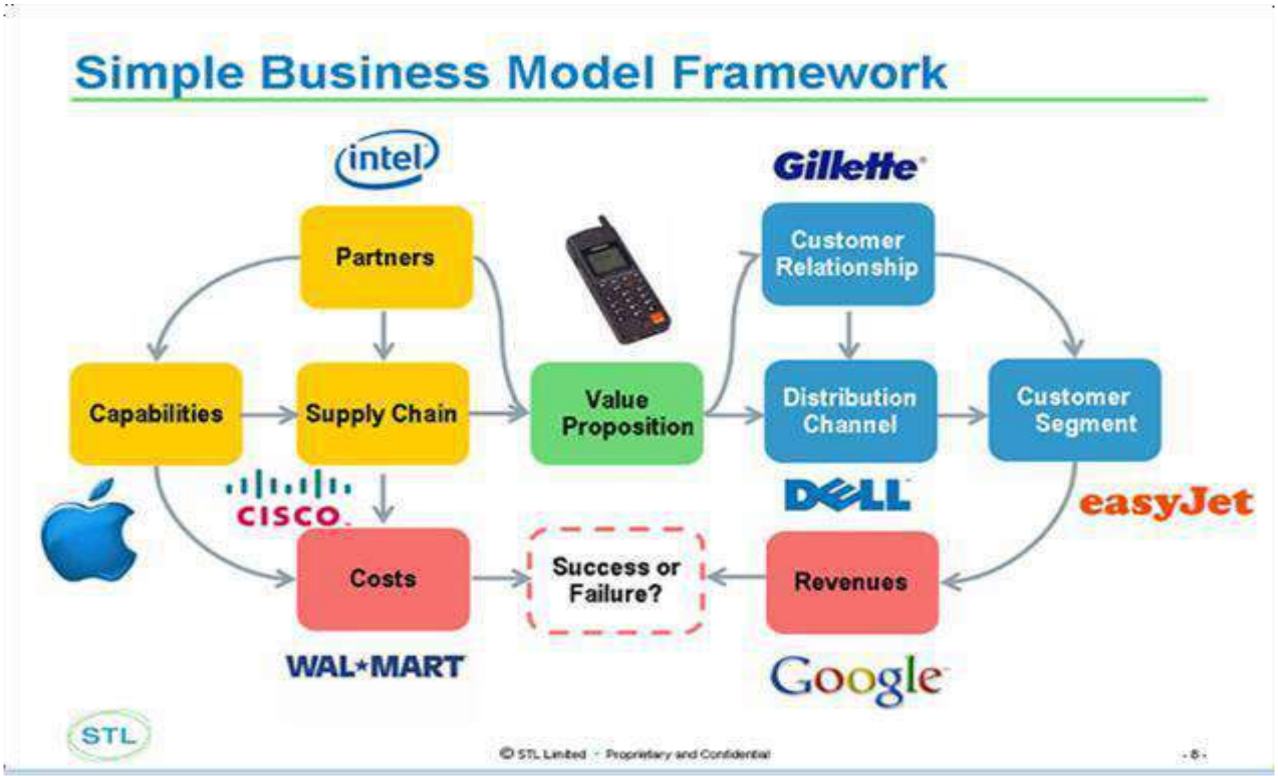
7. Key Activities - Describes the most important things a company must do to make its business model work

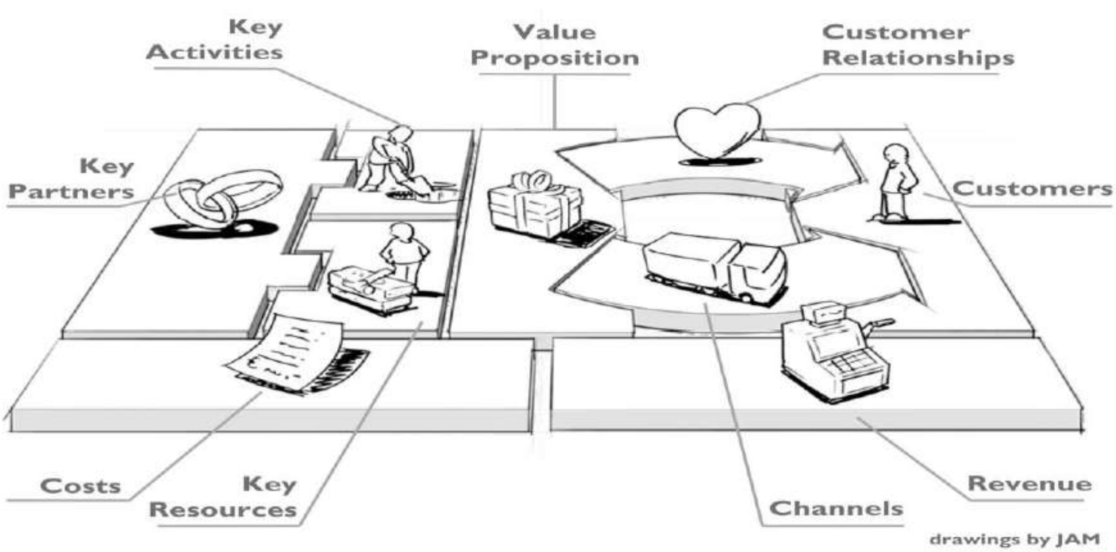
Types – Production, Problem solving, Platform and Network

8. Key Resources - Describes the most important assets required to make a business model work

9. Cost Structure - Describes all costs incurred to operate a business model.

Cost-driven business models focus on minimizing costs whenever possible and Value-driven business models are less concerned about cost, focusing instead on value creation


Simple Business Model Framework
Partners
Capabilities
Supply Chain
Value Proposition
Customer Relationship
Distribution Channel
Customer Segment
Costs
Success or Failure?
Revenues
STL
© STL Limited - Proprietary and Confidential
- 8 -


Key Activities
Value Proposition
Customer Relationships
Key Partners
Customers
Costs
Key Resources
Channels
Revenue
drawings by JAM

INTERNET ECONOMY

The internet economy is an economy is based on electronic goods and services produced by the electronic business and traded through electronic commerce.

The Internet Economy refers to conducting business through markets whose infrastructure is based on the internet and world-wide web.

An internet economy differs from a traditional economy in a number of ways, including communication, market segmentation, distribution costs and price.

Impact of the Internet and E-commerce

1) Impact on external industry environment
2) Changes character of the market and competitive environment
3) Creates new driving forces and key success factors
4) Helps to formation of new strategic groups
5) Impact on internal company environment
6) Having, or not having, an e-commerce capability tilts the scales
7) Toward valuable resource strengths or threatening weaknesses
8) Creatively reconfiguring the value chain will affect a firm's competitiveness rivals.

Characteristics of Internet Market Structure: - Internet is composed of

1) Integrated network of user's connected computers
2) Banks of servers and high speed computers
3) Digital switches and routers
4) Telecommunications equipment and lines

Effects of the Internet and E-commerce

Major groups of internet and e-commerce firms comprising the supply side include

1) Makers of specialized communications components and equipment
2) Providers of communications services
3) Suppliers of computer components and hardware
4) Developers of specialized software
5) E-Commerce enterprises