STRATEGIC MANAGEMENT

Unit I

Business policy an overview – the General management function – concept of corporate strategy – corporate goals and objectives, formulation strategy – Rating opportunity and resources – the company and environment, the company and its resources – Strategy and personal values – strategy and social responsibility.

Unit II

Corporate and strategic planning – mission – vision of the firm – Development, maintenance and the role of Leader – Hierarchial levels of planning – strategic planning process – merits and limitations of strategic planning.

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Environment Analysis and Internal Analysis of firms – General Environment scanning, competitive environment analysis – to identify opportunities and threat, assessing internal environment through Financial approach and value chain – Identifying critical success factors to identify the strength and weakness – SWOT audit – SWOT matrix – Implication core competencies.

Unit IV

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UNIT 1

1.1 BUSINESS POLICY:

Every business organization makes 2 sets of decisions.

1. Decision relates to functional areas such as production, marketing, finance, personal.
2. Integrated decision for the whole organization after taking all the functional areas in to a count such as mergers, acquisitions etc.
3. Whereas functional areas decisions may be both long term & short term but whereas business policy decisions is always long-term decisions. Business policy decisions are usually taken by Top management.
4. Business policy has also been used in the past for corporate planning, strategic planning, management planning & for strategic management.
5. Business policy is hence defined as the "**study of the functions & responsibilities of Top Management".** The crucial problems that effect success in the total enterprise and the decisions that are determined the direction of the organization & shape its future**.**

Business policy is also concerned with "The mobilization of resources for the attainment of goals in the face of completion".

Characteristics of Business Policy:

1. It is concerned with goals & objectives which affect the success of total enterprise.
2. It is concerned with the study of functions & responsibilities of senior management.
3. It deals with future course of action.
4. To realize its goals & objectives.

Business policy – An Integrated approach:

Business policy focuses on strategic planning & strategic management. Its elements are

1. Mission, objectives, & goals
2. Environmental Analysis
3. Strategic alternatives
4. SWOT analysis
5. Strategic analysis
6. Strategic implementation
7. Strategic evaluation

Six major operation are to be integrated into the business policy process.

They are

1. Production
2. Marketing
3. Finance
4. Personal
5. R & D
6. Legal

Production:

The production department will address the questions relating to size of production quality of the product to consumer expectation.

Marketing:

The marketing department will highlight the capabilities & limitations of the product promotion. Physical distribution & personal etc.

Finance:

The finance department is responsible for both short term &long-term financers at competitive costs return on investments.

Research & Development:

R&D is nerves system of the organization. It plays vital role in translation vision in to reality.

Legal:

The legal department should answer the questions relating to patent rights & liabilities.

Personal:

Personal is most crucial component of the organization. It is involved in all functional areas. It is concerned with selecting the best people. Satisfying them through motivation & training.

Importance:

- ✓ Business policy is a course of study.
- ✓ Understanding & scanning of environment.
- ✓ Emphasis on social responsibilities & ethical aspects on the business.
- ✓ Understanding of interpersonal & intrapersonal &organization level development.

Business policy course provides the knowledge and content based to people & enterprise.

Knowledge:

- ✓ Knowledge is needed to decision in functional areas.
- ✓ Environment obtaining within or outside the organization.
- ✓ It knows the strengths & weaknesses of organization.
- ✓ Identifying the alternative expansion mergers etc.

- ✓ Analyzing alternatives
- ✓ Changes in the organizational structure.
- ✓ Evaluation & control.

Nature & Scope:

Nature & Scope of business policy may be judge in relation to the following characteristics.

- ✓ It deals with future perspective of business.
- ✓ Vital role of top management.
- ✓ Emphasis on research & development.
- ✓ Greater involvement of experts.

Business policy is used to achieve long term goals & objectives once the goal has been identified they are executed by operational mangers. Operational managers put additional responsibility on strategic manager to monitor and evaluate the performance in the realization of goals. Goals & objectives are adjusted according to the changes in the environment. Business policy is formulated by top management comprising of board of directors & managing directors. Experts are back bone of effective business policy. Experts are needed to advised & assessed top management to take important role at planning, execution, evaluation & control levels.

Purpose of business policy:

The main purpose of business policy is

- ✓ Knowledge generation
- ✓ Skill creation
- ✓ Attitudinal changes to cope with business situations

Every business practicing business policy to achieve long term goals & objectives of the organization which has to generate fresh knowledge through R&D and with practice.

Research is going on in every functional area such as production, marketing, finance & personal. Lot of research is under taken to improve operating efficiency of business enterprises. In these process lot of data & knowledge is generated. Which is not only useful to the organization but also to the outside work.

Knowledge is contributed by most functional department through investigations, group discussions, training programs like sensitivity training, brain storming sections etc. skills are required through

- ✓ Take decisions
- ✓ Performing the jobs
- ✓ Improving the process
- ✓ And to make the organization effective

Business policy helps in the development of analytical ability, the ability to apply theory in the practice improved mental ability & skill to find solutions for the complex problems. Skills like technical skills, human skills, conceptual skills.

Benefits of business policy:

Business policy has created many benefits to the organization in the modern times.

- ✓ Determine the corporate policies
- ✓ Co-ordination of finance, production and distribution
- ✓ Ultimate control of executive

Financial Strengths:

Higher performance firms resort to systematic planning to prepare themselves for future fluctuations in external & internal environment. Most of the business failures like liquidation on be avoided through business policy planning.

Non-financial benefits:

- ✓ It allows for identification exploitation of opportunities.
- ✓ It provides objectives view of management problems.
- ✓ Represents the frame work for improve coordination & control of activities.
- ✓ Minimizes the effect of adverse conditions.
- ✓ It allows major decisions to support established objectives.
- ✓ It allows effective allocation of time & resources.
- ✓ Encouragement for forward planning.
- ✓ It encourages favorable attitude towards changes.

1.2 GENERAL MANAGEMENT FUNCTIONS

A manager's primary challenge is to solve problems creatively. While drawing from a variety of academic disciplines, and to help managers respond to the challenge of creative problem solving, principles of management have long been categorized into the four major functions of planning, organizing, leading, and controlling (the P-O-L-C framework). The four functions, summarized in the P-O-L-C figure, are actually highly integrated when carried out in the day-to-day realities of running an organization. Therefore, you should not get caught up in trying to analyze and understand a complete, clear rationale for categorizing skills and practices that compose the whole of the P-O-L-C framework.

Planning	Organizing	Leading	Controlling
1. Vision & Mission 2. Strategizing 3. Goals & Objectives	1. Organization Design 2. Culture 3. Social Networks	1. Leadership 2. Decision Making 3. Communications 4. Groups/Teams 5. Motivation	1. Systems/Processes 2. Strategic Human Resources

Fig No:1 Management Functions

Planning

Planning is the function of management that involves setting objectives and determining a course of action for achieving those objectives. Planning requires that managers be aware of environmental conditions facing their organization and forecast future conditions. It also requires that managers be good decision makers.

Planning is a process consisting of several steps. The process begins with environmental scanning which simply means that planners must be aware of the critical contingencies facing their organization in terms of economic conditions, their competitors, and their customers. Planners must then attempt to forecast future conditions. These forecasts form the basis for planning.

Planners must establish objectives, which are statements of what needs to be achieved and when. Planners must then identify alternative courses of action for achieving objectives. After evaluating the various alternatives, planners must make decisions about the best courses of action for achieving objectives. They must then formulate necessary steps and ensure effective implementation of plans. Finally, planners must constantly evaluate the success of their plans and take corrective action when necessary. There are many different types of plans and planning.

- Strategic planning involves analysing competitive opportunities and threats, as well as the strengths and weaknesses of the organization, and then determining how to

position the organization to compete effectively in their environment. Strategic planning has a long-time frame, often three years or more. Strategic planning generally includes the entire organization and includes formulation of objectives. Strategic planning is often based on the organization's mission, which is its fundamental reason for existence. An organization's top management most often conducts strategic planning.

- Tactical planning is intermediate-range (one to three years) planning that is designed to develop relatively concrete and specific means to implement the strategic plan. Middle-level managers often engage in tactical planning.
- Operational planning generally assumes the existence of organization-wide or subunit goals and objectives and specifies ways to achieve them. Operational planning is short-range (less than a year) planning that is designed to develop specific action steps that support the strategic and tactical plans.

Organizing

Organizing is the function of management that involves developing an organizational structure and allocating human resources to ensure the accomplishment of objectives. The structure of the organization is the framework within which effort is coordinated. The structure is usually represented by an organization chart, which provides a graphic representation of the chain of command within an organization. Decisions made about the structure of an organization are generally referred to as organizational design decisions.

Organizing also involves the design of individual jobs within the organization. Decisions must be made about the duties and responsibilities of individual jobs, as well as the manner in which the duties should be carried out. Decisions made about the nature of jobs within the organization are generally called "job design" decisions. Organizing at the level of the organization involves deciding how best to departmentalize, or cluster, jobs into

departments to coordinate effort effectively. There are many different ways to departmentalize, including organizing by function, product, geography, or customer. Many larger organizations use multiple methods of departmentalization.

Leading

Leading involves the social and informal sources of influence that you use to inspire action taken by others. If managers are effective leaders, their subordinates will be enthusiastic about exerting effort to attain organizational objectives. The behavioural sciences have made many contributions to understanding this function of management. Personality research and studies of job attitudes provide important information as to how managers can most effectively lead subordinates. For example, this research tells us that to become effective at leading, managers must first understand their subordinates' personalities, values, attitudes, and emotions.

Studies of motivation and motivation theory provide important information about the ways in which workers can be energized to put forth productive effort. Studies of communication provide direction as to how managers can effectively and persuasively communicate. Studies of leadership and leadership style provide information regarding questions, such as, "What makes a manager a good leader?" and "In what situations are certain leadership styles most appropriate and effective?

Controlling

Controlling involves ensuring that performance does not deviate from standards. Controlling consists of three steps, which include (1) establishing performance standards, (2) comparing actual performance against standards, and (3) taking corrective action when necessary. Performance standards are often stated in monetary terms such as revenue, costs, or profits but may also be stated in other terms, such as units produced, number of defective

products, or levels of quality or customer service. The measurement of performance can be done in several ways, depending on the performance standards, including financial statements, sales reports, production results, customer satisfaction, and formal performance appraisals. Managers at all levels engage in the managerial function of controlling to some degree.

The management functions of planning, organizing, leading, and controlling are widely considered to be the best means of describing the manager's job, as well as the best way to classify accumulated knowledge about the study of management. Although there have been tremendous changes in the environment faced by managers and the tools used by managers to perform their roles, managers still perform these essential functions.

1.3 CONCEPT OF CORPORATE STRATEGY

Organizations are facing exciting and dynamic challenges in the 21st century. In the globalized business, companies require strategic thinking and only by evolving good corporate strategies can they become strategically competitive. A sustained or sustainable competitive advantage occurs when firm implements a value – creating strategy of which other companies are unable to duplicate the benefits or find it too costly to initiate. Corporate strategy includes the commitments, decisions and actions required for a firm to achieve strategic competitiveness and earn above average returns. The goals of corporate strategy are challenging not only for large firms like Microsoft but also for small local computer retail outlets or even dry cleaners.

What is strategy?

Strategy", narrowly defined, means "the art of the general" (the Greek Stratos, meaning 'field, spread out as in 'structure'; and agos, meaning 'leader'). The term first gained currency at the end of the 18th century, and had to do with stratagems by which a

general sought to deceive an enemy, with plans the general made for a campaign, and with the way the general moved and disposed his forces in war. Also, was the first to focus on the fact that strategy of war was a means to enforce policy and not an end in itself. Strategy is a set of key decisions made to meet objectives. A strategy of a business organization is a comprehensive master plan stating how the organization will achieve its mission and objectives. Mintzberg has identified the 5 P's of strategy. Strategy could be a plan, a pattern, a position, a ploy, or a perspective.

- A plan, a "how do I get there"
- A pattern, in consistent actions over time
- A position that is, it reflects the decision of the firm to offer particular products or services in particular markets.
- A ploy, a maneuver intended to outwit a competitor
- A perspective that is, a vision and direction, a view of what the company organization is to become.

Why Corporate Strategy?

Strategic management is basically needed for every organization and it offers several benefits.

1. Universal

Strategy refers to a complex web of thoughts, ideas, insights, experiences, goals, expertise, memories, perceptions, and expectations that provides general guidance for specific actions in pursuit of particular ends. Nations have, in the management of their national policies, found it necessary to evolve strategies that adjust and correlate political, economic, technological, and psychological factors, along with military elements. Be it management of

national polices, international relations, or even of a game on the playfield, it provides us with the preferred path that we should take for the journey that we actually make.

2. Keeping pace with changing environment

The present-day environment is so dynamic and fast changing thus making it very difficult for any modern business enterprise to operate. Because of uncertainties, threats and constraints, the business corporation are under great pressure and are trying to find out the ways and means for their healthy survival. Under such circumstances, the only last resort is to make the best use of strategic management which can help the corporate management to explore the possible opportunities and at the same time to achieve an optimum level of efficiency by minimizing the expected threats.

3. Minimizes competitive disadvantage

It minimizes competitive disadvantage and ads up to competitive advantage. For example, a company like Hindustan Lever Ltd., realized that merely by merging with companies like Lakme, Milk food, Ponds, Brooke bond, Lipton etc. which make fast moving consumer goods alone will not make it market leader but venturing into retailing will help it reap heavy profits. Then emerged its retail giant "Margin Free' which is the market leader in states like Kerala.

4. Clear sense of strategic vision and sharper focus on goals and objectives

Every firm competing in an industry has a strategy, because strategy refers to how a given objective will be achieved. 'Strategy' defines what it is we want to achieve and charts our course in the market place; it is the basis for the establishment of a business firm; and it is a basic requirement for a firm to survive and to sustain itself in today's changing environment by providing vision and encouraging to define mission.

5. Motivating employees

One should note that the labor efficiency and loyalty towards management can be expected only in an organization that operates under strategic management. Every guidance as to what to do, when and how to do and by whom etc., is given to every employee. This makes them more confident and free to perform their tasks without any hesitation. Labor efficiency and their loyalty which results into industrial peace and good returns are the results of broad-based policies adopted by the strategic management

6. Strengthening Decision-Making

Under strategic management, the first step to be taken is to identify the objectives of the business concern. Hence a corporation organized under the basic principles of strategic management will find a smooth sailing due to effective decision-making. This points out the need for strategic management.

7. Efficient and effective way of implementing actions for results

Strategy provides a clear understanding of purpose, objectives and standards of performance to employees at all levels and in all functional areas. Thereby it makes implementation very smooth allowing for maximum harmony and synchrony. As a result, the expected results are obtained more efficiently and economically.

Levels of strategy

A typical business firm should consider three types of strategies, which form a hierarchy.

Corporate strategy – Which describes a company's overall direction towards growth by **managing** business and product lines? These include stability, growth and retrenchment. For example, Coco cola, Inc., has followed the growth strategy by acquisition. It has acquired local bottling units to emerge as the market leader.

Business strategy - Usually occurs at business unit or product level emphasizing the improvement of competitive position of a firm's products or services in an industry or market segment served by that business unit. Business strategy falls in the in the realm of corporate strategy. For example, Apple Computers uses a differentiation competitive strategy that emphasizes innovative product with creative design. In contrast, ANZ Grindlays merged with Standard Chartered Bank to emerge competitively.

Functional strategy – It is the approach taken by a functional area to achieve corporate and business unit objectives and strategies by maximizing resource productivity. It is concerned with developing and nurturing a distinctive competence to provide the firm with a competitive advantage. For example, Procter and Gamble spends huge amounts on advertising to create customer demand.

Operating strategy - These are concerned with how the component parts of an organization deliver effectively the corporate, business and functional -level strategies in terms of resources, processes and people. They are at departmental level and set periodic short-term targets for accomplishment.

Corporate strategy is a continuous ongoing process and extends companywide over a diversified company's business. It is a boundary spanning planning activity considering all the elements of the micro and macro environments of a firm. The following are the key tasks of the process of developing and implementing a corporate strategy.

- Exploring and determining the **vision** of the company in the form of a vision statement. Developing a **mission statement** of the company that should include statement of methodology for achieving the objectives, purposes, and the philosophy of the organization adequately reflected in the vision statement.

- Defining the **company profile** that includes the internal analysis of culture, strengths and capabilities of an organization.
- Making **external environmental analysis** to identify factors as threats, opportunities etc. Finding out ways by which a company profile can be **matched** with its environment to be able to accomplish mission statement.
- Deciding on the most desirable **courses of actions** for accomplishing the mission of an organization.
- Selecting a set of **long-term objectives** and also the corresponding strategies to be adopted in line with vision statement. Evolving short-term and **annual objectives** and defining the corresponding strategies that would be compatible with the mission and vision statement.
- **Implementing** the chosen strategies in a planned way based on budgets and allocation of resource, outlining the action programs and tasks.
- Installation of a continuous comparable **review system** to create a controlling mechanism and also generate data for selecting future course of action.

The strategic management processes

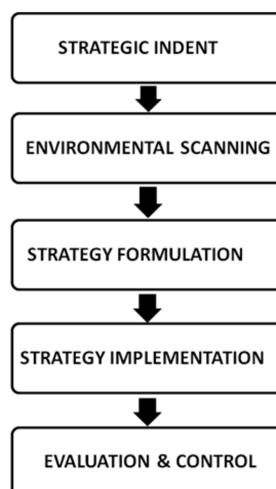


Fig No:2 Strategic Management Process

a) STRATEGIC INTENT

Definition: Strategic Intent can be understood as the philosophical base of strategic management process. It implies the purpose, which an organization endeavor of achieving. It is a statement that provides a perspective of the means, which will lead the organization, reach the vision in the long run.

Strategic intent gives an idea of what the organization desires to attain in future. It answers the question what the organization strives or stands for? It indicates the long-term market position, which the organization desires to create or occupy and the opportunity for exploring new possibilities.

1. **Vision**: Vision implies the blueprint of the company's future position. It describes where the organization wants to land. It is the dream of the business and an inspiration, base for the planning process. It depicts the company's aspirations for the business and provides a peep of what the organization would like to become in future. Every single component of the organization is required to follow its vision.
2. **Mission**: Mission delineates the firm's business, its goals and ways to reach the goals. It explains the reason for the existence of business. It is designed to help potential shareholders and investors understand the purpose of the company. A mission statement helps to identify, 'what business the company undertakes.' It defines the present capabilities, activities, and customer focus and business makeup.
3. **Business Definition**: It seeks to explain the business undertaken by the firm, with respect to the customer needs, target audience, and alternative technologies. With the help of business definition, one can ascertain the strategic business choices. The corporate restructuring also depends upon the business definition.
4. **Business Model**: Business model, as the name implies is a strategy for the effective operation of the business, ascertaining sources of income, desired customer base, and

financing details. Rival firms, operating in the same industry relies on the different business model due to their strategic choice.

5. **Goals and Objectives**: These are the base of measurement. Goals are the end results, that the organization attempts to achieve. On the other hand, objectives are time-based measurable actions, which help in the accomplishment of goals. These are the end results which are to be attained with the help of an overall plan, over the particular period.

The vision, mission, business definition, and business model explains the philosophy of business but the goals and objectives are established with the purpose of achieving them. Strategic Intent is extremely important for the future growth and success of the enterprise, irrespective of its size and nature.

b) Environmental Scan

The environmental scan includes the following components:

- Analysis of the firm (Internal environment)
- Analysis of the firm's industry (micro or task environment)
- Analysis of the External macro environment (PEST analysis)

The internal analysis can identify the firm's strengths and weaknesses and the external analysis reveals opportunities and threats. A profile of the strengths, weaknesses, opportunities, and threats is generated by means of a SWOT analysis

An industry analysis can be performed using a framework developed by Michael Porter known as Porter's five forces. This framework evaluates entry barriers, suppliers, customers, substitute products, and industry rivalry.

(a) The environment

The organization exists in the context of a complex commercial, economic, political, technological, cultural, and social world. This environment changes and is more complex for some organizations than for others. Since strategy is concerned with the position a business takes in relation to its environment, an understanding of the environment's effects on a business is of central importance to strategic analysis. The historical and environmental effects on the business must be considered, as well as the present effects and the expected changes in environmental variables. This is a major task because the range of environmental variables is so great. Many of those variables will give rise to opportunities of some sort, and many will exert threats upon the firm. The two main problems that have to be faced are, first, to distil out of this complexity a view of the main or overall environmental impacts for the purpose of strategic choice; and second, the fact that the range of variables is likely to be so great that it may not be possible or realistic to identify and analyses each one.

(b) The resources of the organization

Just as there are outside influences on the firm and its choice of strategies, so there are internal influences. One way of thinking about the strategic capability of an organization is to consider its strengths and weaknesses (what it is good or not so good at doing, or where it is at a competitive advantage or disadvantage, for example). These strengths and weaknesses may be identified by considering the resource areas of a business such as its physical plant, its management, its financial structure, and its products. Again, the aim is to form a view of the internal influences -- and constraints -- on strategic choice.

c) Strategy Formulation

Strategy Formulation is the development of long-range plans for the effective management of environmental opportunities and threats, in light of corporate strengths & weakness. It

includes defining the corporate mission, specifying achievable objectives, developing strategy & setting policy guidelines.

d) Strategy Implementation

It is the process by which strategy & policies are put into actions through the development of programs, budgets & procedures. This process might involve changes within the overall culture, structure and/or management system of the entire organization.

i) Programs:

It is a statement of the activities or steps needed to accomplish a single-use plan. It makes the strategy action oriented. It may involve restructuring the corporation, changing the company's internal culture or beginning a new research effort.

ii) Budgets:

A budget is a statement of a program in terms of dollars. Used in planning & control, a budget lists the detailed cost of each program. The budget thus not only serves as a detailed plan of the new strategy in action, but also specifies through proforma financial statements the expected impact on the firm's financial future

iii) Procedures:

Procedures, sometimes termed Standard Operating Procedures (SOP) are a system of sequential steps or techniques that describe in detail how a particular task or job is to be done. They typically detail the various activities that must be carried out in order to complete

e) Evaluation & Control

After the strategy is implemented it is vital to continually measure and evaluate progress so that changes can be made if needed to keep the overall plan on track. This is known as the control phase of the strategic planning process. While it may be necessary to develop systems to allow for monitoring progress, it is well worth the effort. This is also where performance

standards should be set so that performance may be measured and leadership can make adjustments as needed to ensure success.

Evaluation and control consists of the following steps:

i) Define parameters to be measured

ii) Define target values for those parameters

iii) Perform measurements

iv) Compare measured results to the pre-defined standard

v) Make necessary changes

1.7 PERSONAL VALUES

Values can be described as a core set of beliefs and principles viewed as desirable by various groups. At the individual level, it is the worth or importance attached to different factors in one’s life. Values are formed in early childhood, influenced strongly by values of the parents, teachers, other significant persons, and the environment. Subsequently at adulthood, values are nurtured by particular individuality, and times – represented by contact with religion, politics, socio-cultural factors, and exposure to education, media etc.

PERSONAL VALUES AND CORPORATE STRATEGY ORIENTATION

Businesses are set-up for profit, and strategies are therefore aimed at achieving the broad goal of value creation. Decisions made by managers/executives tend to affect a consideration of economic value, social value or the environmental value (more appropriately, sustainability). The role of personal values in the decision-making process is to be able to strike a good balance within the contending values. Marcus et al. (2015), in their work on personal values and sustainable action categorize values into three major areas:

Economic Values-

These values give pre-eminence to profit maximization and shareholder value creation as the desired end goal (Jensen 2002). Financial outcomes and indicators hold primacy within economic and management theory, exemplified in the prominent agency perspective which sees acting in ones' rational self-interest as the behavioral means to achieving superior financial ends (Freeman 1999; Jensen and Mackling 1976). As such, economic values are primarily self-oriented rather than other-oriented. In sum, economic values relate to financial objectives and the use of rational and quantifiable means to their attainment.

Social Values:

The dominant concern underlying social values is with the well-being of people both individually and collectively. They are predominantly altruistic or other-oriented in nature. At their most basic level, social values relate to the sanctity of human life and the meeting of human needs, such as those for existence (Alderfer 1972). The means to achieving social well-being include acting ethically and morally, with respect of all persons, especially the least advantaged, and protecting and advancing basic human rights (Reichert 2011). These values are consistent with a stakeholder view that sees all stakeholders as having intrinsic moral worth (Donaldson and Preston 1995). Individuals with strong social values are oriented towards maintaining positive social relations and improving human well-being.

Environmental Values:

Environmental values have an externally directed focus. The primary objective underlying environmental values, is to maintain the integrity of the earth's biophysical systems. The means to achieving environmental integrity include minimizing environmental impacts, and reducing resource consumption and waste (Gibson 2001). It should be noted however that though conceptually distinct, economic, social and environmental values are not

mutually exclusive (Stern et al. 1993). Managers/executives are capable of pursing multiple objectives simultaneously, and may have concurrent enduring beliefs regarding the desirability of financial outcomes, human well-being and environmental integrity. It is possible for managers to have a relatively balanced values profile across the three domains. Balanced values, therefore, can be defined as the "enduring belief that economic, social and environmental objectives are mutually desirable and interrelated" (Marcus et al., 2015).
Organizational values and personal values need to be closely aligned to extract commitment from managers/executives, therefore, organization that spend significant time creating alignment will develop values needed to support the key strategic goals and vision of the organization. A further analysis of the nexus between personal values and corporate strategy orientation was established in Hambrick and Mason (1984) through the Upper Echelon Theory, which posits that personal values act as a perceptual filter for how leaders perceive the external environment and shape strategic choice, behavior, and ultimately organizational performance, thus managers take a particular choice of action because of the forces that drive their behavior. "Although there are universally held values, an individual, and in the aggregate, groups, will espouse a dominant set of values. At the top of each person's system are a small handful of dominant values of paramount importance"

Therefore, a dominant value system exists for each person that is more important to understand than single values. Personal values come to bear where there is a divergence in opinion of business managers formulating the organization's strategies, in which case each executive will tend to behave in accordance with his own concept and, in turn, his own values. Depending on the degree or significance of the divergent opinions, conflict and disorganization in the company's operations may result without being able to identify the source of the difficulty.

1.8 SOCIAL RESPONSIBILITY

Corporate social responsibility is the interaction between business and the social environment in which it exists. Bowen argued that corporate social responsibility rests on two premises: social contract, which is an implied set of rights and obligations that are inherent to social policy and assumed by business, and moral agent, which suggests that businesses have an obligation to act honorably and to reflect and enforce values that are consistent with those of society.

Three Perspectives of Social Responsibility

The three perspectives of corporate social responsibility are economic responsibility, public responsibility, and social responsiveness. The three perspectives represent a continuum of commitment to social responsibility issues, ranging from economic responsibility at the low end and social responsiveness at the high end. The economic responsibility perspective argues that the only social responsibility of business is to maximize profits within the "rules of the game." Moreover, the proponents of this viewpoint argue that organizations cannot be moral agents. Only individuals can be moral agents. In contrast, the public responsibility perspective argues that businesses should act in a way that is consistent with society's view of responsible behavior, as well as with established laws and policy. Finally, the proponents of the social responsiveness perspective argue that businesses should proactively seek to contribute to society in a positive way. According to this view, organizations should develop an internal environment that encourages and supports ethical behavior at an individual level.

To address these challenges, managers and their teams must be fully aware of the fact that their organization's future depends to a large extent on the provisions they make for that future and the decisions they make to place their organization in the best possible situation considering the prevailing circumstances. To achieve this, organizations need a planning process based on strategic thinking.

UNIT II

2.1 CORPORATE AND STRATEGIC PLANNING

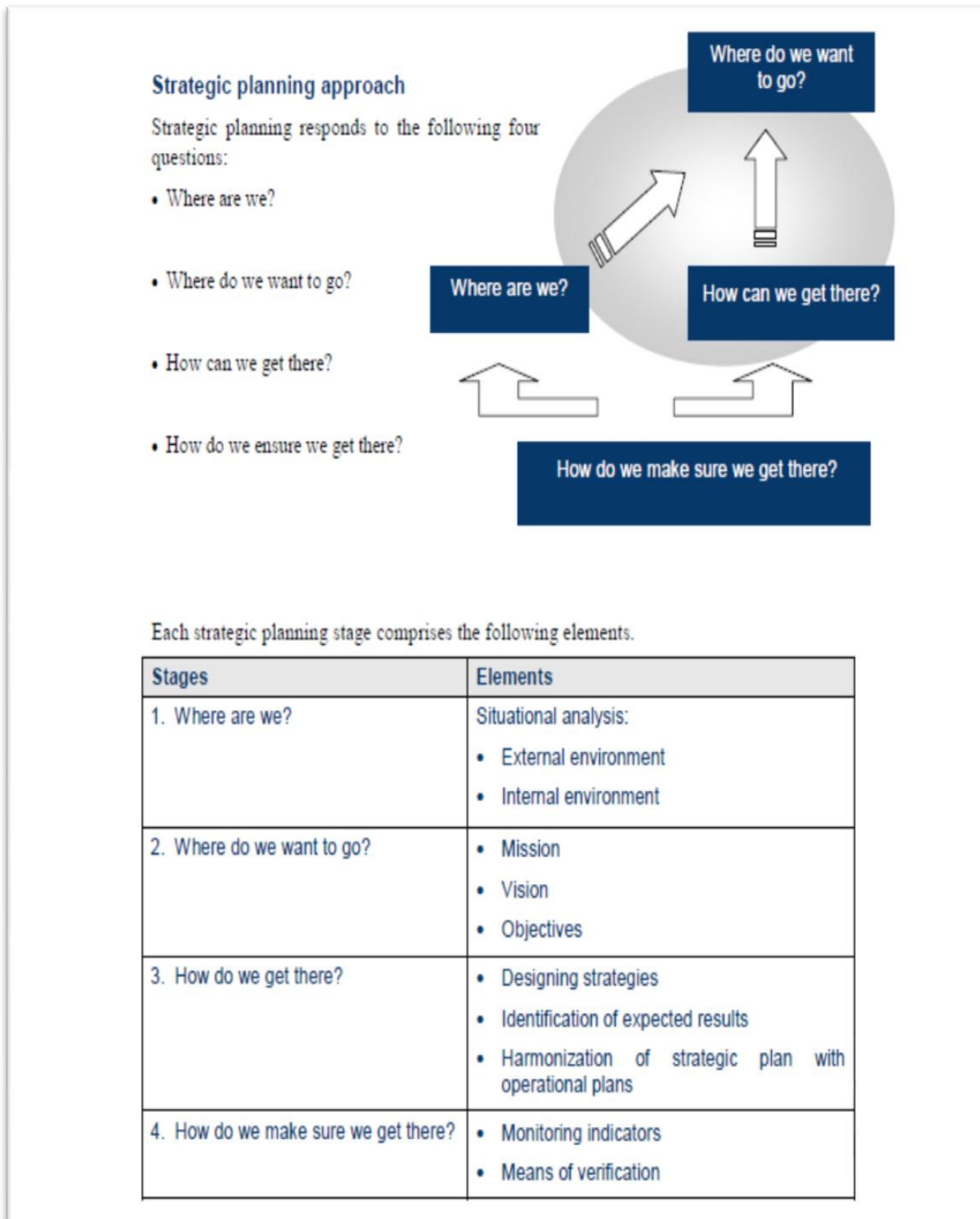
Strategic planning is the establishment of viable connections among long-term objectives, resources and environmental conditions of an organization by using certain methods and activities.

Strategic planning is an organizational management activity that is used to set priorities, focus energy and resources, strengthen operations, ensure that employees and other stakeholders are working toward common goals, establish agreement around intended outcomes/results, and assess and adjust the organization's direction in response to a changing environment. It is a disciplined effort that produces fundamental decisions and actions that shape and guide what an organization is, who it serves, what it does, and why it does it, with a focus on the future. Effective strategic planning articulates not only where an organization is going and the actions needed to make progress, but also how it will know if it is successful.

Steps of the strategic planning process

Definition of organizational mission	Definition of organizational goals	Analysis of external Environment	Identification of internal organizational strengths and weaknesses	Research and analysis of strategic alternatives
Strategy evaluation	Realization control of strategic plans		Strategy implementation	Strategy selection

Fig No:3 Strategic Planning Process



Strategic planning approach

Strategic planning responds to the following four questions:

- Where are we?
- Where do we want to go?
- How can we get there?
- How do we ensure we get there?

Each strategic planning stage comprises the following elements.

Stages	Elements
1. Where are we?	Situational analysis: • External environment • Internal environment
2. Where do we want to go?	• Mission • Vision • Objectives
3. How do we get there?	• Designing strategies • Identification of expected results • Harmonization of strategic plan with operational plans
4. How do we make sure we get there?	• Monitoring indicators • Means of verification

Fig No:4 Strategic Planning Approach

2.2 Mission Statement

The first component of the strategic management process is crafting the organization’s mission statement, which provides the framework or context within which strategies are formulated. A mission statement has four main components: a statement of the raison d’être of a company or organization—its reason for existence—which is normally

referred to as the mission; a statement of some desired future state, usually referred to as the vision; a statement of the key values that the organization is committed to; and a statement of major goals.

Mission of an organization is the purpose for which the organization is. Mission is again a single statement, and carries the statement in verb. Mission in one way is the road to achieve the vision. For **example**, for a luxury products company, the vision could be 'To be among most admired luxury brands in the world' and mission could be 'To add style to the lives'

A good mission statement will be:

- **Clear and Crisp:** While there are different views, we strongly recommend that mission should only provide what, and not 'how and when'. We would prefer the mission of 'Making People meet their career' to 'making people meet their career through effective career counseling and education'. A mission statement without 'how & when' element leaves a creative space with the organization to enable them take-up wider strategic choices.
- Have to have a **very visible linkage** to the business goals and strategy: For **example,** you cannot have a mission (for a home furnishing company) of 'Bringing Style to People's lives' while your strategy asks for mass product and selling. It's better that either you start selling high-end products to high value customers, OR change your mission statement to 'Help people build homes'.
- **Should not be same as the mission** of a competing organization. It should touch upon how its purpose it unique.

The Mission A company's **mission** describes what the company does. For example, the mission of Kodak is to provide "customers with the solutions they need to capture, store,

process, output, and communicate images—anywhere, anytime. ” An important first step in the process of formulating a mission is to arrive at a definition of the organization’s business. Essentially, the definition answers these questions: “What is our business? What will it be? What should it be?”7 There sponges guide the formulation of the mission. To answer the question, “What is our business?” a company should define its business in terms of three dimensions: who is being satisfied (what customer groups); what is being satisfied (what customer needs); and how customers’ needs are being satisfied (by what skills, knowledge, or distinctive competencies).

2.3 Vision

The **vision** of a company lays out some desired future state; it articulates, often in bold terms, what the company would like to achieve. Nokia, the world’s largest manufacturer of mobile (wireless) phones, has been operating with a very simple but powerful vision for some time: “If it can go mobile, it will!” This vision implied that not only would voice technology go mobile but also a host of other services based on data, such as imaging and Internet browsing. This vision led Nokia to become a leader in developing mobile handsets that not only can be used for voice communication but also take pictures, browse the Internet, play games, and manipulate personal and corporate information.

Mission and Objectives

The mission statement describes the company's business vision, including the unchanging values and purpose of the firm and forward looking visionary goals that guide the pursuit of future opportunities. Guided by the business vision, the firm's leaders can define measurable financial and strategic objectives. Financial objectives involve measures such as sales targets and earnings growth. Strategic objectives are related to the firm's business position, and may include measures such as market share and reputation.

2.4 STRATEGIC LEADERSHIP

The Leader's Role in Strategy

- Developing a Strategic Vision and Mission
- Setting Goals and Objectives
- Crafting a Strategy
- Executing the Strategy
- Evaluating Performance

ROLE OF LEADER

- Implement an organizational structure that fosters high plant reliability/availability and efficient and effective maintenance and operations. The structure will assure cross-functional alignment and accountability and include clear roles and responsibilities.
- Implement and ensure the effective use and ongoing improvement of reliability, availability, and manufacturing cost systems consistent with reliability and maintenance system requirements.
- Ensure that reliability, availability, and manufacturing cost objectives are established.
- Ensure long-term plans and annual plans that achieve site reliability, availability, and manufacturing cost objectives are developed and resourced.
- Communicate across the site organization to ensure alignment with the site reliability, availability, and manufacturing cost targets, strategies, and plans. Reliability plans and targets will be consistent and integrated with other strategies, plans, and targets.
- Hold personnel accountable for performance results through regular stewardship based on predefined measures with targets.
- Demonstrate commitment to reliability, availability, and manufacturing cost systems through personal and visible involvement.

- Ensure continuous improvement in the systems through implementation of best practices and active participation in networking exercises.

2.5 HIERARCHICAL LEVEL OF PLANNING

A new small business will not require many levels of business planning right away. However, a business owner may begin with an initial business plan and need to use different levels of business planning as the company grows. In the growth years of a business, new departments or functions will need to be created to meet customer needs, and these units will require goals that support the overall goals of the firm.

Firm-Level Planning

A business owner has to choose a model of planning, such as strategic planning, that will guide the entire business. Planning is about setting goals that can be timed and measured to determine if a company meets the desired level of performance. Without a strategic plan, a business owner will make more reactive decisions in response to the market. With a strategic plan, all of the firm's employees will know what direction to take.

Department-Level Planning

Once a business has grown to a certain point, a business owner or manager will begin to organize employees into departments, teams or business functions. Employees will support a specific product, perform a specific function or serve customers in a defined market. At this level, regardless of business size, a department or team manager must collaborate with the owner or company manager and determine what part of the firm's goals will require his department's tactical plan. This should be a two-way process so that the staff will buy into goal setting and give their input.

Operational Planning

It used to be that middle-level managers created a tactical plan, or how the different units of the company will implement the goals in a broad sense, and that lower-level managers created operational goals. Now, many organizations do not have middle-level managers. Therefore, department-level managers end up doing tactical and operational planning. This level of planning requires that a manager consider which employee or group will be responsible for each department goal at the operational level. This will include looking at the specific activities that employees perform and how they interlace to support the department's goals.

Employee Planning

At the direction of their manager, individuals can write goals to illustrate specifically how they will help achieve operational goals. These should be as specific, measurable, achievable, and relevant and timed as the goals at the other levels of planning. Individuals are also a good source of information about the product or service they support. They can suggest ways for the company to match the strengths of the business with current opportunities in the market.

2.6 THE STRATEGIC PLANNING PROCESS

1. Conduct an environmental scan. Review your organization’s strengths and weaknesses. Reflect on the community and broader environment in which your organization operates to identify the opportunities and threats that it faces. Determine the community’s assets and needs, specifically those of current/potential populations that you’ll try to reach.

2. Identify key issues, questions, and choices to be addressed. Specify "strategic issues" that your organization should address and set priorities in terms of time or importance. Strategic issues emerge from the data and environmental scan.
3. Define or review the organization's values, community vision, and mission. Reach consensus on why the organization exists, what goals or outcomes it seeks to achieve, what it stands for, and whom it serves. Begin your strategic planning by agreeing on the following:

Strategic planning process

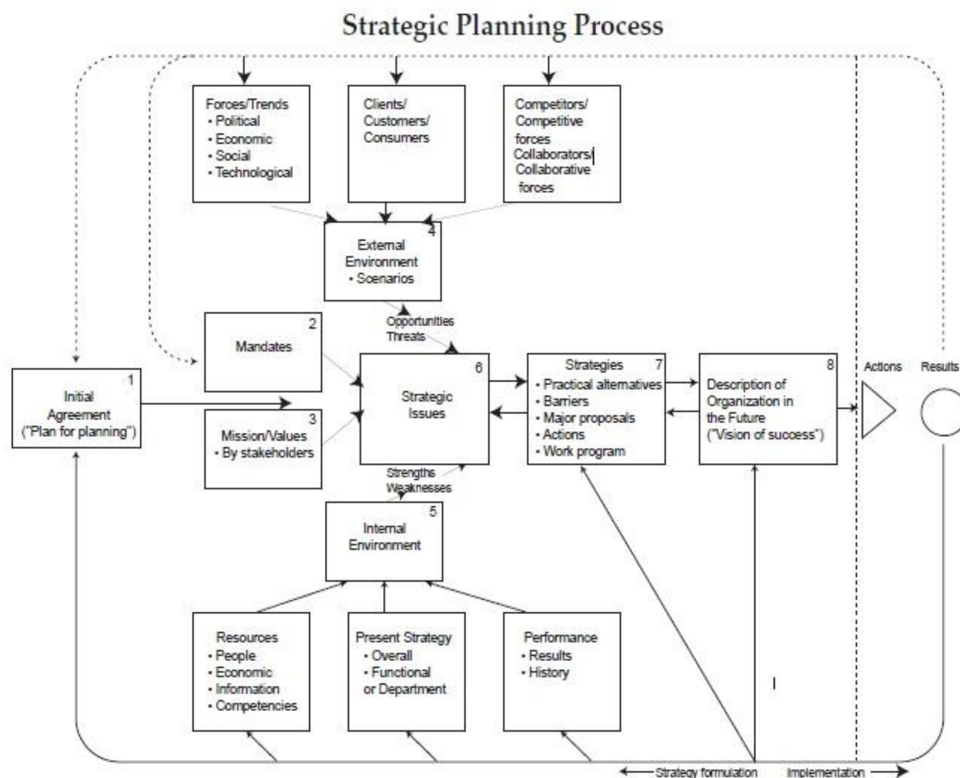


Fig No:5 Strategic planning process

- Organizational core values or operating principles – those beliefs/principles that guide the organization - these are shared, strongly held, and not easily changed.
- Community Vision – the vision for your community - an image of what it would be like if your values were shared and practiced by everyone.

- Mission – the stated purpose for your organization’s existence; the contribution it promises to make to help accomplish the community vision.

4. Transform the vision and mission into a series of key goals for your organization

5. Agree upon key strategies to address strategic issues and reach goals. The emphasis should be on broad strategies, including current/new collaborative approaches that are related to specific goal(s). The process requires that you look at where the organization is now, where its vision and goals indicate it wants to be, and identify strategies to get there. Specific criteria for evaluating and choosing among strategies should be agreed upon, such as the following:

- Value and Appropriateness – Is the strategy consistent with your organization's mission, values, operating principles, and agreed-upon goals?
- Feasibility – Is the strategy practical given current personnel, financial resources and capacity?
- Acceptability – Is the strategy acceptable to your stakeholders?
- Cost-benefit – Is the strategy likely to lead to benefits that justify time, costs and other resources?

6. Create an annual action plan that addresses goals and specifies objectives/work plan. Once long-term elements of your strategic plan have been developed, create a specific work plan for implementation. Its strategies should reflect current organizational/environmental conditions. Objectives should be measurable and time-based. Under these or other agreed upon criteria, strategies can be evaluated, prioritized and chosen.

7. Finalize a written strategic plan that summarizes your decisions. Be sure to include the outputs of each major step.

8. Build in procedures for monitoring and modifying strategies. Monitor the progress towards goals, objectives and strategies and revise your plan based on progress made, obstacles

encountered and the changing environment. Acknowledge and take advantage of unexpected changes, such as more sympathetic elected/appointed officials, economic improvements, and changes in funder priorities or the priority population.

2.7 MERITS AND LIMITATIONS

Advantages

1. **Facilitates communication between managers**. One of the goals of strategic managers is to facilitate the collaboration of functional managers to achieve synergy between different parts of organization. Managers in finances, marketing, operations and human resources are essential for an organization but they often compete rather than collaborate. Even worse situation is with separate SBUs. Strategic planning is in place to facilitate the collaboration between these managers.
2. **identifies strategic goals and strategic intent**. CEOs are usually the people who create goals and envisions the future of the company. Nonetheless, they are often engaged in many other activities and have less time to search for the best strategic fit
3. **Reduces resistance to change**. It is strategic planner's job to inform the whole organization of strategic changes, company's plans, current situation implications and what changes are expected to be done. Thorough explanation of this information to managers in every level, reduces resistance to change as managers are less uncertain about the future
4. **Improves resource allocation**. New products, services, strategies, goals or objectives require resource allocation (moving people from one team to another or moving the facilities into another country), which is done more efficiently when aligned with strategic objectives

5. **Leads to sustainable competitive advantage**. Competitive advantage is often achieved without strategic planning but if the company wants to achieve sustainable competitive advantage it has to plan strategically.

Some other Benefits

- Defines a company’s vision, mission and future goals.
- Identifies the suitable strategies to achieve the goals.
- Improves awareness of the external and internal environments, and clearly identifies the competitive advantage.
- Increases managers’ commitment to achieving the company’s objectives.
- Improves coordination of the activities and more efficient allocation of company’s resources.
- Better communication between managers of the different levels and functional areas.
- Reduces resistance to change by informing the employees of the changes and the consequences of them.
- Strengthens the firm’s performance.
- On average, companies using strategic management are more successful than the companies that don’t.
- Strategic planning allows the organization to become more proactive than reactive.

Disadvantages

1. **Costly to perform for small and medium businesses**. Strategic planning, the same as marketing or proper human resource management, adds a lot of expenses to an organization. Managers or strategic planners have to be hired, additional efforts are

required towards analysis of external and internal environments and some tools have to be designed to properly implement strategic planning process. Although all of this is done to some extent by all organizations (who doesn't monitor firm performance or analyze competitors?), mainly the large enterprises are the ones capable to hire competent personnel to implement strategic plans.

2. **The process is very complex**. Strategic planning process consists of many steps that are connected to each other and must be constantly adjusted. Some unexpected factors also appear that may change the whole strategy and as a result, strategic planning process.
3. **Low rate of successful implementation**. Due to its complexity and heavy commitment to strategic goals, strategic planning is rarely implemented successfully. Often, the poor implementation is the reason for failure, although it is more often the case of misaligned operational and strategic goals.

Although strategic management brings many benefits to the company it also has some other limitations:

1. The costs of engaging in it are huge.
2. The process is complex.
3. Success is not guaranteed.

Above are the reasons why small and medium enterprises being usually reluctant to have their own strategic departments.

UNIT III

3.1.1 Environmental analysis:

An environmental analysis in strategic management has vital role in businesses by indicating current and potential opportunities or threats outside the company in its external environment. The external environment includes political, environmental, technological and sociological events or trends that can affect the business directly or indirectly. An environmental analysis is usually conducted as part of an analysis of strengths, weaknesses, opportunities, and threats (SWOT) when a strategic plan is being developed. Managers practicing strategic management must conduct an environmental analysis three-monthly, semi-annually, or annually, depending on the nature of the industry. Managers who identify events or conditions in the external environments can achieve competitive advantage and decrease its risk of not being ready when faced with threats.

In management studies, it has been shown that the intent of an environmental analysis is to help in strategy development by keeping decision-makers within an organization informed on the external environment. This may include changing of political parties, increasing regulations to decrease pollution, technological expansions, and shifting demographics. If a new technology is developed and is being used in a different industry, a strategic manager would understand how this technology could also be used to improve processes within his business. An analysis allows businesses to gain an outline of their environment to discover opportunities or intimidations. Environmental analysis facilitates strategic thinking in organization. It provides input for strategic decision. The analysis should provide an understanding of changes that occurs in environment.

3.1.2 Internal analysis:

Internal analysis is the methodical evaluation of the key internal features of an organization. Internal Analysis recognizes and assesses resources, capabilities, and core

competencies. Internal analysis has four elements such as the organization's Current vision, Mission, Strategic objectives and Strategies. Resources are the assets that an organization has for carrying out whatever work activities and processes relative to its business definition, business mission, and goals and objectives. These resources include financial resources, Physical assets, Human resources, Intangible resources and Structural-cultural resources. Core competencies are the organization's major value-creating skills and abilities that are shared across multiple product lines or multiple businesses. This internal sharing process is what differentiates core competencies from typical capabilities. Competitive advantage is the collection of factors that sets a company apart from its competitors and gives it a unique position in the market.

Internal Analysis is performed because it is the only way to identify an organization's strengths and weaknesses it's needed for making good strategic decisions. In order to start the strategic management process, managers are required to conduct an internal analysis. This involves ascertaining the business' strengths and weaknesses, by analyzing its competencies. It also involves managers emphasizing competitive advantage of the business. For effective strategies, the organization must exploit and expand on its strengths, as well as reduce its weaknesses; thus, promoting its competitive advantage to gain cost-effectiveness.

There are four major areas which needs to be considered for internal analysis:

1. The organization's resources, capabilities.
2. The way in which the organization configures and co-ordinates its key value-adding activities.
3. The structure of the organization and the features of its culture.
4. The performance of the organization as measured by the strength of its products.

To summarize, **environmental analysis is strategic device to distinguish external and internal elements, which can affect the performance of firms**. The analysis includes appraising threat level or opportunity the factors might present. These assessments are translated into the decision-making process. The analysis helps align strategies with the firm's environment. **Internal analysis is the process of identifying and assessing an organization's particular features that include Resources, Capabilities, and Core competencies. Core competencies** are the organization's major value-creating skills and capabilities that are shared across multiple product lines or multiple businesses. This internal sharing process is what distinguishes core competencies from distinctive capabilities.

3.2.1 GENERAL ENVIRONMENT SCANNING:

There are two parts or levels - Environmental analysis of the 'far' or; macro' environment affecting all firms, and the industry analysis of the 'near' or 'micros' environment which is much more specific.

Benefits of external analysis include

- Increasing managerial awareness of environmental changes.
- Increasing understanding of the context in which industries and markets function.
- Increasing understanding of multinational settings.
- Improving resource allocation decisions.
- Facilitating risk management.
- Focusing attention on the primary influences on strategic change.
- Acting as an early warning system

The macro-environment represents forces that affect all firms across all industries. There are various suggestions as to how to define parts of an environment so as to understand

them in depth. There are common issues such as the **Political, Economic Social and Technological influences, the PEST factors**. Sometimes these are extended:

- PESTEL separates out Legal from Political activity and adds Environmental.
- STEEPV adds Values
- SPENT adds Natural environment
- STEEPLE adds Ethics

The PEST classification is rather simple and we need to take account of the fact that when we refer to political factors we are including legislation arising from political activity as a key influence.

In more detail, the aspects of the macro-environment are as follows:

Political factors act at three levels Supranational National, and Sub-national or local level. Government active areas include

- Policies on healthcare, unemployment, exchange rates, inflation, economic growth
- Government employment and the public sector generally
- Fiscal policies on taxation
- Government Agencies regulating competition pollution and industrial relations
- Laws of various kinds such as those relating to protection of the environment or the safety of employees in the work place or those relating to Customer protection

Economic factors refer to all the key economic variables often related to Political action such as

- GDP (gross national product)
- growth,
- inflation,
- Central Bank lending rates
- Currency exchange rates

- Fiscal policy (tax on corporations and individuals)
- Regional issues like land process and labor rates
- Distribution of economic rewards in society Freedom to move monies
- Stock exchanges and money markets.

Social factors refer to

- Attitudes, values and beliefs tastes of held by people including ethnic minorities.
- Culture: Attitude to work, savings and investment, ethics, etc.
- Demography: Size and structure of the workforce, population shifts, aging
- Social structure: class and segmentation of the market-

These affect economic factors and increasingly it is necessary to take account of the above list of factors not only at the domestic/national level but also at the global level as companies internationalize their activities.

Technological factors: These can be internal and external. Organizations use technology – not hardware but software too such as Quality Control and produce products and services of varying complexity. They include

- Goods and services.
- Production processes.
- Information and communications.
- Transport and distribution.
- Information technology, computing and associated implications for production
- Biotechnology and new industries. How to use the analysis tools:
- Scan the macro-environment for actual or potential changes in the PEST factors.
- Assess the importance of the changes for the market, industry and business.
- Analyze each of the relevant changes in detail and the relationships between them.
- Assess the potential impact of the changes on the market, industry and business.

The 'near' environment

This is the 'Industry or competitive environment analyses of Porter. It is important to note that each industry will have its own unique interrelationship of the five forces and that the relative bargaining power of each of the five forces together determines the overall attractiveness or profitability in an industry

3.2.2 COMPETITIVE ENVIRONMENT ANALYSIS

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

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

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

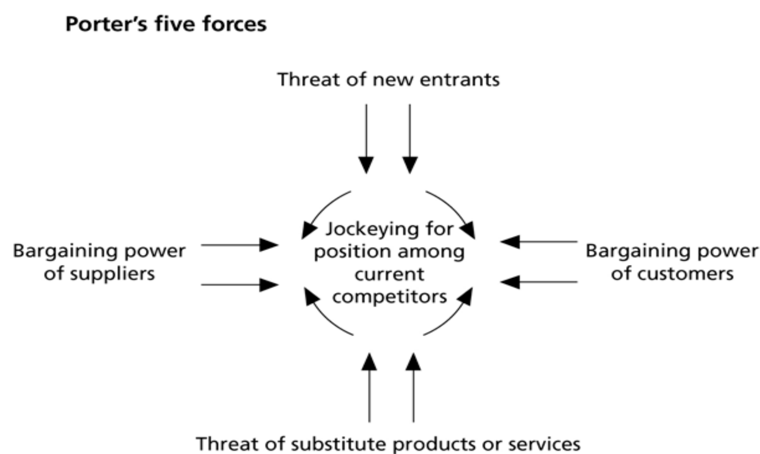
Remember that your analysis will be conducted at the industry level, not the organization level. The specific effect on the organization can be addressed later, but we are firstly, and primarily, concerned with the issue of expected future industry growth rates and the driving forces of that growth. How far into the future should we look? Since we are undertaking strategic analysis, our time frame of analysis should be consistent with our

definition of 'long term' for our particular industry which is probably three to five years in most cases.

Industry Competitiveness

Porters Five Competitive Forces

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



Based on M E Porter (1979).‘Howcompetitiveforcessape strategy’. Harvard Business Review, 57(2).

Fig No:6 Porter’s Five Forces

Barriers to entry: include such factors as capital requirements, economies of scale, product differentiation, switching costs, brand identity, access to distribution channels, and threat of retaliation. The higher the barriers to entry, the higher the potential profitability of the firms in the industry. Economies of scale.

- The capital requirement of entry.
- Access to distribution channels.
- Cost advantages independent of size.
- Expected retaliation.
- Legislation or government action.
- Differentiation.

Competitive rivalry: the intensity of competition depends on a number of factors whether or not a strong industry leader exists, the number of competitors (degree of concentration), the presence of exit barriers, the importance of fixed costs in determining capacity, degree of product differentiation and the growth rate of the industry. Usually, rivalry is more fierce and intense when there is:

- no industry leader,
- a large number of competitors,
- high fixed costs,
- high exit barriers,
- little opportunity to practice product differentiation and
- Slow rates of growth.
- Extra capacity.

Supplier power is determined by such factors as importance of product to buyer, switching costs, degree of supplier concentration to an industry and the supplier's ability to enter an industry. Supplier power is likely to be high when:

- there are few suppliers
- The cost of switching to another supplier is high.
- The brand of the supplier is powerful.
- There is a possibility of forward integration by the supplier.
- The supplier's customers are highly fragmented so their bargaining power is low.

Buyer power. The bargaining power of buyers depends on several factors, including buyer knowledge, purchase size, product function, degree of buyer concentration in an industry, degree of product differentiation and the buyers' ability to enter the industry. Buyer power is likely to be high when:

- There is concentration of buyers.
- There is a large number of small operators in the industry.
- There are alternative sources of supply.
- Material costs are high.
- The cost of switching to another supplier is low.
- There is a threat of backward integration by the buyer

Threat of substitutes is important because they can de-stabilize the current industry structure by offering customers better- valued or more useful products. Forms of substitution:

- Product-for-product substitution.
- Substitution of need.
- Generic substitution.
- Product not a necessity

The Five Forces Analysis provides insights on profitability. Thus, it supports decisions about entry to, or exit from, an industry or a market segment. It can also be used to compare the impact of competitive forces on your own organization, with the impact on competitors. Remember that competitors may have different options to react to changes in competitive forces from their different resources and competencies. This may influence the structure of the whole industry. When used in conjunction with a macro environmental analysis (external factors), which reveals drivers for change in an industry, Five Forces Analysis can reveal insights about the potential future attractiveness of the industry.

Competition Analysis

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

- description of key competitors and their market positioning
- size of key competitors in units/dollars
- market shares of key competitors
- sales trends of key competitors
- strengths and weaknesses of key competitors compared to your organizations’ goods or services
- perceived marketing strategies of key competitors and their probable impact on your organization

3.3 Introduction and Definition of the Value Chain

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

Explanation

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

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

Definition: Margin

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

The primary activities:

- inbound logistics:
- These deal with the delivery. movement and handling of raw materials from suppliers;
- Operations:
- transformational activities which create end products from raw materials, inputs and
- outbound logistics:
- refers to the processes which transfer products to distribution channels;
- marketing/sales:
- includes such activities as advertising, promotion, product mix, pricing, working with buyers and wholesalers, and sales force issues;
- service:
- Customer service issues include warranty, repair, installation, customer support, product adjustment and modification.

The support activities:

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

3.4 Critical success factor (CSF)

CSF is a management term for an element that is necessary for an organization or project to achieve its mission. Alternative terms are **key result area**(**KRA**) and **key success factor** (**KSF**).[1]

A CSF is a critical factor or activity required for ensuring the success of a company or an organization. The term was initially used in the world of data analysis and business analysis. For example, a CSF for a successful Information Technology project is user involvement.[2]

"*Critical success factors are those few things that must go well to ensure success for a manager or an organization and, therefore, they represent those managerial or enterprise areas that must be given special and continual attention to bring about high performance. CSFs include issues vital to an organization's current operating activities and to its future success*." [3]

Critical success factors should not be confused with success *criteria*. The latter are outcomes of a project or achievements of an organization necessary to consider the project a

success or the organization successful. Success criteria are defined with the objectives and may be quantified by key performance indicators (KPIs).

About CSFs

The idea of CSFs was first presented by D. Ronald Daniel in the 1960s. It was then built on and popularized a decade later by John F. Rockart, of MIT's Sloan School of Management, and has since been used extensively to help businesses implement their strategies and projects.

Inevitably, the CSF concept has evolved, and you may have seen it implemented in different ways. This article provides a simple definition and approach based on Rockart's original ideas.

Rockart defined CSFs as: **"The limited number of areas in which results, if they are satisfactory, will ensure successful competitive performance for the organization. They are the few key areas where things must go right for the business to flourish. If results in these areas are not adequate, the organization's efforts for the period will be less than desired."**

He also concluded that CSFs are **"areas of activity that should receive constant and careful attention from management."**

Critical Success Factors are strongly related to the mission and strategic goals of your business or project. Whereas the mission and goals focus on the aims and what is to be achieved, Critical Success Factors focus on the most important areas and get to the very heart of both what is to be achieved and how you will achieve it.

Using the Tool: An Example

CSFs are best understood by example. Consider a produce store "Farm Fresh Produce", whose mission is:

"To become the number one produce store in Main Street by selling the highest quality, freshest farm produce, from farm to customer in under 24 hours on 75% of our range and with 98% customer satisfaction." (For more on this example, and how to develop your mission statement, see our article on **Vision Statements and Mission Statements** .)

The strategic objectives of Farm Fresh are to:

- Gain market share locally of 25%.
- Achieve fresh supplies of "farm to customer" in 24 hours for 75% of products.
- Sustain a customer satisfaction rate of 98%.
- Expand product range to attract more customers.
- Have sufficient store space to accommodate the range of products that customers want.

In order to identify possible CSFs, we must examine the mission and objectives and see which areas of the business need attention so that they can be achieved. We can start by brainstorming what the Critical Success Factors might be (these are the "Candidate" CSFs.)

Objective	**Candidate Critical Success Factors**
Gain market share locally of 25%	Increase competitiveness versus other local stores Attract new customers
Achieve fresh supplies of "farm to customer" in 24 hours for 75% of products	Sustain successful relationships with local suppliers
Sustain a customer satisfaction rate of 98%	Retain staff and keep up customer-focused training
Expand product range to attract more customers	Source new products locally
Extend store space to accommodate new products and customers	Secure financing for expansion Manage building work and any disruption to the business

Once you have a list of Candidate CSFs, it's time to consider what is absolutely essential and so identify the truly Critical Success Factors.

And this is certainly the case for Farm Fresh Produce. The first CSF that we identify from the candidate list is relationships with local suppliers". This is absolutely essential to ensure freshness and to source new products.

Another CSF is to attract new customers. Without new customers, the store will be unable to expand to increase market share.

A third CSF is financing for expansion. The store's objectives cannot be met without the funds to invest in expanding the store space.

Figure 1: Critical Success Factors, Missions and Goals for "Farm Fresh Produce"

Identifying critical success factors to identify the strength & weakness

Critical success factors are those things that have a significant effect on the overall outcomes of an organization, or a project. They are usually few in number, say three to six. To achieve the intended organizational outcomes, carry out operations associated with these particular factors, at an above average level

CSFs are often crucial for a corporate strategy to be successful. A critical success factor underpins progress in executing the strategy. A CSF can make or break the achievement of the strategy, hence the label ‘critical’.

To bring about the desired level of performance, manage these particular ‘success factors ‘with close and regular attention. CSFs include issues essential in an organization's current operations, and to its future success.

Strategic planning and critical success factors

Certain techniques aid the strategic analysis usually called Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis. Finding the factors critical to success is a useful approach.

One way of proceeding with this, is for the planning support person or persons to ask each of a number of senior executives, the same few questions, such as these -

- 'Why would customers, patients, students, or other groups served by the particular organization choose us over any similar organization?’
- ‘What would make an investor, donor, or funding body increase or decrease their support for our organization?’
- ‘What are the CSFs for our enterprise, or in our industry or sector, and what might they be in say five years time?’
- ‘Where does our organization rank against comparable organizations in each CSF?’

The answers to these questions often flush out the CSFs for your particular area of activity.

You could also ask selected external people the same questions — academics, journalists specializing in the relevant industry, for example, or one’s customers, suppliers, and so on. This will probably firm up the definition of the CSFs for your operation.

Sample conclusions from such a study may include -

- ‘The planning department spoke to all our key executives about CSFs. The wide range of opinions is of concern; no consensus exists on what they are! Perhaps this is a pointer to some strategic issue around our management team!'
- ‘Two CSFs really stand out: a friendly, confidential customer service and real-time on-line financial data. Everyone seems agreed that these two are the critical ones. However, managers are seeing a shift in customer priorities. While the intimate, confidential style used to be important, what they are increasingly looking for is sharp, up-to-the-minute advice on a wider range of financial matters, and many younger clients are expecting to have direct access to the financial information they need to make decisions. Our major competitor, on the other hand, is excellent at the latter and now has a reliable real-time on-line ‘expert’ system, which we do not have'.

I hope you see how the process of unearthing such important success factors may well lead to valuable insight into the organization’s strategic situation.

Keep your strategic planning simple

Anything that drives a management to think systematically about their organization in its environment can be a good thing, especially if it also makes them study their competitors more closely. Searching for crucial success factors as suggested above can be helpful in this way.

However, if it is allowed to become a highly systematized technique, that is too detailed, and needing expert staff to administer and interpret, then it may become a barrier between the corporate managers who must develop the strategy and finding the strategic issues which must be addressed by them. Managers should not delegate the heavy lifting involved in strategic thinking, to specialist planning tools or experts.

The CSF method does have application in larger enterprises with particular areas of strategic concern

Critical Success factors to identify the weakness

3.5 SWOT Analysis

Definition

SWOT Analysis means the internal Strengths and Weaknesses and external Opportunities and Threats of an organization.

Explanation

The central purpose of the SWOT analysis is to identify strategies that align, fit or match an organization's resources and capabilities to the demands of the environment in which the organization competes.

To put it another way, the purpose of the strategic alternatives generated by a SWOT analysis should be to build on organization strengths in order to exploit opportunities and counter threats and to correct organizational weaknesses.

Strategic choice is the process of choosing among the alternatives generated by a SWOT analysis. The organization has to evaluate various alternatives against each other with respect to their ability to achieve major goals. The process of strategic choice requires the organization to identify the set of business-level, functional-level and corporate-level, strategies that would best enable it to survive and prosper in the fast-changing environment that is a feature of modern business.

	Opportunities (external, positive)	**Threats** (external, negative)
Strengths (internal, positive)	**Strength-Opportunity strategies** Which of the company's strengths can be used to maximize the opportunities you identified?	**Strength-Threats strategies** How can you use the company's strengths to minimize the threats you identified?
Weaknesses (internal, negative)	**Weakness-Opportunity strategies** What action(s) can you take to minimize the company's weaknesses using the opportunities you identified?	**Weakness-Threats strategies** How can you minimize the company's weaknesses to avoid the threats you identified?

Fig No:7 SWOT-Analysis

Strengths.

- Core competencies in key areas.
- Adequate financial resources.
- Well-thought-of by buyers.
- An acknowledged market leader.
- Well-conceived functional area strategies.
- Access to economies of scale.
- Insulated (at least somewhat) from strong competitive pressures.
- Proprietary technology.
- Cost advantages.
- Better advertising campaigns.
- Product innovation skills.
- Proven management.
- Ahead on experience curve.
- Better manufacturing capability.
- Superior technological skills.

Weaknesses

- No clear strategic direction.
- Obsolete facilities.
- Profitability issues because Lack of management depth and talent.
- Missing some key skills or competencies.
- Poor track record in implementing problems.
- Falling behind in R&D.
- Too narrow product line.
- Weak market image
- Weak distribution network.
- Below-average marketing skills.
- Unable to finance needed changes in strategy.
- Higher overall unit costs relative to key competitors

Opportunities

- Ability to serve additional customer groups or expand into new markets or segments.
- Ways to expand product line to meet broader range of customer needs.
- Ability to transfer skills or technological know-how to new products or businesses.
- Integrating forward or backward.
- Falling trade barriers in attractive foreign markets.
- Complacency among rival firms.
- Ability to grow rapidly because of strong increases in market demand.
- Emerging new technologies.

Threats

- Entry of lower-cost foreign competitors.
- Rising sales of substitute products.

- Slower market growth.
- Adverse shifts in foreign exchange rates and trade policies of foreign governments.
- Costly regulatory requirements.
- Vulnerability to recession and business cycle.
- Growing bargaining power of customers or suppliers.
- Changing buyer needs and tastes.
- Adverse demographic changes.

Some key points on SWOT

- Too much detail should be avoided. Keep each variable short.
- Many variables may be relative rather than absolute and therefore will require some judgement.
- Do not ignore 'soft' facts (e.g. organizational culture, leadership skills, etc.).
- Priorities and combine variables.
- Be realistic in its assessment.
- SWOT is not strategy. It only provides a platform for planning for the future.

3.5 SWOT AUDIT

A SWOT audit (strength, weakness, opportunities, threats) is a tool used to recognize growth options for an organization while helping to define the culture, mission, and vision. It may also be used to focus a team on key issues. Knowing your organizations, teams, and your strengths and weaknesses will help you guide your team in the most productive ways.22SWOT Analysis Form contains the following questions.

Strengths

- What do we do well?
- What advantages does our organization have?

- What resources do we have—money, equipment, creativity, customer base, etc.?
- What are our strengths, by individual, department, or companywide?
- What is outstanding about our business?
- What do we do well that with a little improvement could be a real strength?
- What are our most competitive products or services?

Weaknesses

- What are obvious areas for improvement?
- What do we do badly?
- What areas need immediate improvement?
- Based on our past mistakes, what should we avoid in the future? What else should be avoided?

Opportunities

- What are interesting trends?
- What has recently changed that is new in our industry or new to us?
- What strengths open up new opportunities?
- What weaknesses, through development, could lead to opportunities?
- What niches have our competitors missed?
- Are there new technologies that the company can use to innovate?
- What can we do that no one else does or does as well?
- Where can we find or create a competitive edge?

Threats

- What obstacles do we face?
- What and who is our competition?
- What internal or external processes are changing?
- Could one of our weaknesses be a serious threat? How can we neutralize that threat?

- What are our competitors doing better than we are?
- Are there negative political, economic, or technological trends that may hurt us?

Combinations

- How can we use our strengths to enable opportunities we have identified?
- How can we use our strengths to overcome threats?
- What do we need to do to overcome identified weaknesses in order to take advantage of opportunities?
- How can we minimize weaknesses to overcome threats?
- How can our strengths help overcome, reduce, or eliminate our weaknesses?
- What weaknesses expose the greatest threat and how do we improve the weakness?
- What threats could reduce our opportunities?
- What opportunities could overcome threats?

Facilitating a SWOT Audit

After all team members have completed the SWOT Analysis form, bring them together for a meeting. When the team is given expectations, this meeting can be conducted in an hour or a little more depending on the size of the team. • Prepare team members before the meeting by asking each to bring one strength, weakness, opportunity, and threat to discuss.

- Begin the discussion on strengths and then go around the room asking each team member the key they chose and why.
- List each on a whiteboard or have the team write each on a notepad.
- Proceed through the entire SWOT in this fashion.
- Ask what strengths need to be maintained, built upon, or leveraged?
- Ask what weaknesses need to be remedied, changed, or stopped?

- Ask what opportunities need to be prioritized, built on, and optimized?
- Ask what threats need to be countered, minimized?
- Have the team review their notes or look at the list on the whiteboard and ask them each of the combination questions. For example, "How can we use our strengths to enable opportunities we have identified?"
- Have the team choose an action to begin immediately, one to start in 30 days and another at 90 days.
- Set follow-up times on each initiative, which may include a follow-up meeting.

Why Conduct a SWOT Audit?

A SWOT audit can help any organization recognize and use their strengths, confront their weaknesses, realize opportunities, and understand threats to the organization.

3.6 SWOT Matrix

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

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

SWOT / TOWS Matrix

<table>
<tr><td colspan="2" rowspan="2">ENVIRONMENTAL FACTORS</td><td colspan="2">INTERNAL</td></tr>
<tr><td>Strengths</td><td>Weaknesses</td></tr>
<tr><td rowspan="2">EXTERNAL</td><td>Opportunities</td><td>S-O strategies</td><td>W-O strategies</td></tr>
<tr><td>Threats</td><td>S-T strategies</td><td>W-T strategies</td></tr>
</table>

Fig No: 8 SWOT-Matrix

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

UNIT IV

4.1 STRATEGY FORMULATION

INTRODUCTION

It is useful to consider strategy formulation as part of a strategic management process that comprises three phases: diagnosis, formulation, and implementation. Strategic management is an ongoing process to develop and revise future-oriented strategies that allow an organization to achieve its objectives, considering its capabilities, constraints, and the environment in which it operates.

Diagnosis includes: (a) performing a situation analysis (analysis of the internal environment of the organization), including identification and evaluation of current mission, strategic objectives, strategies, and results, plus major strengths and weaknesses; (b) analyzing the organization's external environment, including major opportunities and threats; and (c) identifying the major *critical issues*, which are a small set, typically two to five, of major problems, threats, weaknesses, and/or opportunities that require particularly high priority attention by management.

Formulation, the second phase in the strategic management process, produces a clear set of recommendations, with supporting justification, that revise as necessary the mission and objectives of the organization, and supply the strategies for accomplishing them. In formulation, we are trying to modify the current objectives and strategies in ways to make the organization more successful. This includes trying to create "sustainable" competitive advantages -- although most competitive advantages are eroded steadily by the efforts of competitors.

A good recommendation should be: effective in solving the stated problem(s), practical (can be implemented in this situation, with the resources available), feasible within a reasonable time frame, cost-effective, not overly disruptive, and acceptable to key

"stakeholders" in the organization. It is important to consider "fits" between resources plus competencies with opportunities, and also fits between risks and expectations.

There are four primary steps in this phase:

- Reviewing the current key objectives and strategies of the organization, which usually would have been identified and evaluated as part of the diagnosis
- Identifying a rich range of strategic alternatives to address the three levels of strategy formulation outlined below, including but not limited to dealing with the critical issues
- Doing a balanced evaluation of advantages and disadvantages of the alternatives relative to their feasibility plus expected effects on the issues and contributions to the success of the organization
- Deciding on the alternatives that should be implemented or recommended.

The remainder of this chapter focuses on strategy formulation, and is organized into six sections:

Three Aspects of Strategy Formulation, Corporate-Level Strategy, Competitive Strategy, Functional Strategy, Choosing Strategies, and Troublesome Strategies.

THREE ASPECTS OF STRATEGY FORMULATION

The following three aspects or levels of strategy formulation, each with a different focus, need to be dealt with in the formulation phase of strategic management. The three sets of recommendations must be internally consistent and fit together in a mutually supportive manner that forms an integrated hierarchy of strategy, in the order given.

Corporate Level Strategy: In this aspect of strategy, we are concerned with broad decisions about the total organization's scope and direction. Basically, we consider what changes should be made in our growth objective and strategy for achieving it, the lines of business we

are in, and how these lines of business fit together. It is useful to think of three components of corporate level strategy: (a) growth or directional strategy (what should be our growth objective, ranging from retrenchment through stability to varying degrees of growth - and how do we accomplish this), (b) portfolio strategy (what should be our portfolio of lines of business, which implicitly requires reconsidering how much concentration or diversification we should have), and (c) parenting strategy (how we allocate resources and manage capabilities and activities across the portfolio -- where do we put special emphasis, and how much do we integrate our various lines of business).

Competitive Strategy (often called Business Level Strategy): This involves deciding how the company will compete within each line of business (LOB) or strategic business unit (SBU).

Functional Strategy: These more localized and shorter-horizon strategies deal with how each functional area and unit will carry out its functional activities to be effective and maximize resource productivity.

4.2 GENERIC STRATEGY

Generic strategies as the name suggests are generic in nature and is a way for a company to pursue its competitive advantage across the market scope of choice. While the advantage can be in the form of low cost or product differentiation the scope can be broad (Industry-wide) or narrow (Market Segment). Keeping in mind these advantages and scope three generic strategies can be made: Cost Leadership, Differentiation Strategy and Focus Strategy (Low Cost or Differentiated)

Porter's Four Generic Competitive Strategies

He argues that a business needs to make two fundamental decisions in establishing its competitive advantage: (a) whether to compete primarily on price (he says "cost," which is necessary to sustain competitive prices, but price is what the customer responds to) or to compete through providing some distinctive points of differentiation that justify higher prices, and (b) how broad a market target it will aim at (its competitive scope). These two choices define the following four generic competitive strategies. Which he argues cover the fundamental range of choices. A fifth strategyalternative (best-cost provider) is added by some sources, although not by Porter, and is included

Fig No:9 Porter’s Generic Strategies

1. Overall Price (Cost) Leadership: appealing to a broad cross-section of the market by providing products or services at the lowest price. This requires being the overall low-cost provider of the products or services (e.g., Costco, among retail stores, and Hyundai, among automobile manufacturers). Implementing this strategy successfully requires continual, exceptional efforts to reduce costs -- without excluding product features and services that buyers consider essential. It also requires achieving cost advantages in ways that are hard for competitors to copy or match. Some conditions that tend to make this strategy an attractive choice is:

- The industry's product is much the same from seller to seller

- The marketplace is dominated by price competition, with highly price-sensitive buyers
- There are few ways to achieve product differentiation that have much value to buyers
- Most buyers use product in same ways -- common user requirements
- Switching costs for buyers are low
- Buyers are large and have significant bargaining power

2. Differentiation: appealing to a broad cross-section of the market through offering differentiating features that make customers willing to pay premium prices, e.g., superior technology, quality, prestige, special features, service, convenience (examples are Nordstrom and Lexus). Success with this type of strategy requires differentiation features that are hard or expensive for competitors to duplicate. Sustainable differentiation usually comes from advantages in core competencies, unique company resources or capabilities, and superior management of value chain activities. Some conditions that tend to favor differentiation strategies are:

- There are multiple ways to differentiate the product/service that buyers think have substantial value
- Buyers have different needs or uses of the product/service
- Product innovations and technological change are rapid and competition emphasizes the latest product features
- Not many rivals are following a similar differentiation strategy

3. Price (Cost) Focus: a market niche strategy, concentrating on a narrow customer segment and competing with lowest prices, which, again, requires having lower cost structure than competitors (e.g., a single, small shop on a side-street in a town, in which they will order electronic equipment at low prices, or the cheapest automobile made in the former Bulgaria). Some conditions that tend to favor focus (either price or differentiation focus) are:

- The business is new and/or has modest resources
- The company lacks the capability to go after a wider part of the total market
- Buyers' needs or uses of the item are diverse; there are many different niches and segments in the industry
- Buyer segments differ widely in size, growth rate, profitability, and intensity in the five competitive forces, making some segments more attractive than others
- Industry leaders don't see the niche as crucial to their own success
- Few or no other rivals are attempting to specialize in the same target segment

4. Differentiation Focus: a second market niche strategy, concentrating on a narrow customer segment and competing through differentiating features (e.g., a high-fashion women's clothing boutique in Paris, or Ferrari).

4.3 Grand Strategies

Grand Strategies are the corporate level strategies designed to identify the firm's choice with respect to the direction it follows to accomplish its set objectives. Simply, it involves the decision of choosing the long-term plans from the set of available alternatives.

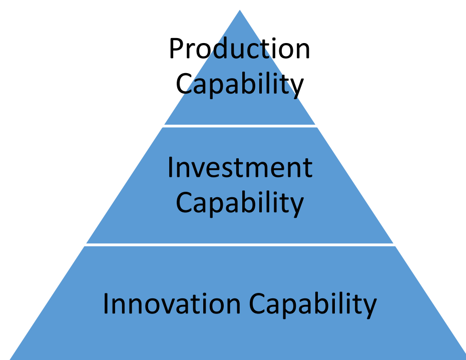
The grand strategies are concerned with the decisions about the allocation and transfer of resources from one business to the other and managing the business portfolio efficiently, such that the overall objective of the organization is achieved. In doing so, a set of alternatives are available to the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

Fig No:10 Grand Strategies

4.4 Strategies of leading Indian Companies

Competitiveness is

- the capacity of a firm
- under free and fair market conditions
- to produce goods and services
- that meet the test of international markets
- while, at the same time maintaining or expanding its real income



Motives for creating a multinational network

- ✓ Seek Markets
- ✓ Seek resources
- ✓ Seek efficiency
- ✓ Seek assets

Transition Path

- Local Path
- OEM Marketing
- Own Brand Reporting
- Foreign Production
- Globalization

Strategic Innovation

Creation of a globalnetwork of steel plants based on turnaround of poorly performing plants - Meet the needs of global customers, but at significantly lower cost than setting up greenfield facilities

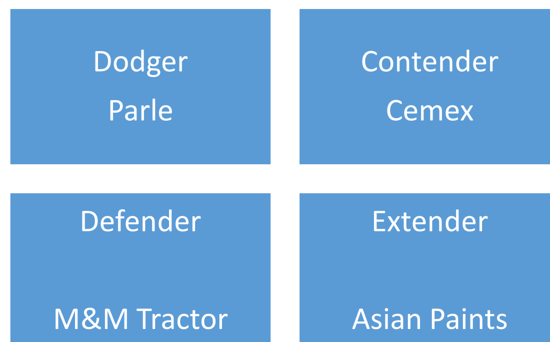
Organizational Innovation

Decentralized "client-server" network – expansion through partnerships with distributors in different regions

Indian Software Companies

- Learnt importance of process & quality from marquis clients like GE
- Built on this base, to establish global standards of quality and delivery, supported by certification
- Linkage, leverage & learning!

Survival Strategies



Winning companies

- Winning companies enjoyed global success because they learned how to learn from the constant flow of new demands, opportunities, and challenges that international competition brings
- They have the ability to see globalization as more than a path to new markets or resources

Internationalisation

Five Current Themes

- Cost optimisation of supply chain
  - – Judicious use of FTAs, Sourcing from China
- Acquisition of technology
  - – Tata Motors' acquisition of Daewoo HCV
- Use BoP strengths to address other markets
  - – Products developed for $5K income here maywork for $24K income in US!

CORPORATE LEVEL STRATEGY

This comprises the overall strategy elements for the corporation as a whole, the grand strategy, if you please. Corporate strategy involves four kinds of initiatives:

Making the necessary moves to establish positions in different businesses and achieve an appropriate amount and kind of diversification. A key part of corporate strategy is making decisions on how many, what types, and which specific lines of business the company should be in. This may involve deciding to increase or decrease the amount and breadth of diversification. It may involve closing out some LOB's (lines of business), adding others, and/or changing emphasis among LOB's.

Initiating actions to boost the combined performance of the businesses the company has diversified into: This may involve vigorously pursuing rapid-growth strategies in the most promising LOB's, keeping the other core businesses healthy, initiating turnaround efforts in weak-performing LOB's with promise, and dropping LOB's that are no longer attractive or don't fit into the corporation's overall plans. It also may involve supplying financial,

managerial, and other resources, or acquiring and/or merging other companies with an existing LOB.

Pursuing ways to capture valuable cross-business strategic fits and turn them into competitive advantages -- especially transferring and sharing related technology, procurement leverage, operating facilities, distribution channels, and/or customers.

Establishing investment priorities and moving more corporate resources into the most attractive LOB's.

It is useful to organize the corporate level strategy considerations and initiatives into a framework with the following three main strategy components: growth, portfolio, and parenting. These are discussed in the next three sections.

Fig No:11 Corporate Level Strategy

4.5 Growth / Expansion Strategies

All growth strategies can be classified into one of two fundamental categories: ***concentration*** within existing industries or ***diversification*** into other lines of business or industries. When a company's current industries are attractive, have good growth potential, and do not face serious threats, concentrating resources in the existing industries makes good

sense. Diversification tends to have greater risks, but is an appropriate option when a company's current industries have little growth potential or are unattractive in other ways. When an industry consolidates and becomes mature, unless there are other markets to seek (for example other international markets), a company may have no choice for growth but diversification.

There are two basic concentration strategies, ***vertical integration*** **and** ***horizontal growth***. Diversification strategies can be divided into *related* (or concentric) and *unrelated* (conglomerate) diversification. Each of the resulting four core categories of strategy alternatives can be achieved internally through investment and development, or externally through mergers, acquisitions, and/or strategic alliances -- thus producing eight major growth strategy categories.

Comments about each of the four core categories are outlined below, followed by some key points about mergers, acquisitions, and strategic alliances.

1. Vertical Integration: This type of strategy can be a good one if the company has a strong competitive position in a growing, attractive industry. A company can grow by taking over functions earlier in the value chain that were previously provided by suppliers or other organizations ("backward integration"). This strategy can have advantages, e.g., in cost, stability and quality of components, and making operations more difficult for competitors. However, it also reduces flexibility, raises exit barriers for the company to leave that industry, and prevents the company from seeking the best and latest components from suppliers competing for their business.

A company also can grow by taking over functions forward in the value chain previously provided by final manufacturers, distributors, or retailers ("forward integration"). This strategy provides more control over such things as final products/services and distribution, but may involve new critical success factors that the parent company may not be

able to master and deliver. For example, being a world-class manufacturer does not make a company an effective retailer.

Some writers claim that backward integration is usually more profitable than forward integration, although this does not have general support. In any case, many companies have moved toward less vertical integration (especially backward, but also forward) during the last decade or so, replacing significant amounts of previous vertical integration with outsourcing and various forms of strategic alliances.

2. Horizontal Growth: This strategy alternative category involves expanding the company's existing products into other locations and/or market segments, or increasing the range of products/services offered to current markets, or a combination of both. It amounts to expanding sideways at the point(s) in the value chain that the company is currently engaged in. One of the primary advantages of this alternative is being able to choose from a fairly continuous range of choices, from modest extensions of present products/markets to major expansions -- each with corresponding amounts of cost and risk.

3. Related Diversification (aka Concentric Diversification): In this alternative, a company expands into a related industry, one having synergy with the company's existing lines of business, creating a situation in which the existing and new lines of business share and gain special advantages from commonalities such as technology, customers, distribution, location, product or manufacturing similarities, and government access. This is often an appropriate corporate strategy when a company has a strong competitive position and distinctive competencies, but its existing industry is not very attractive.

4. Unrelated Diversification (aka Conglomerate Diversification): This fourth major category of corporate strategy alternatives for growth involves diversifying into a line of business unrelated to the current ones. The reasons to consider this alternative are primarily

seeking more attractive opportunities for growth in which to invest available funds (in contrast to rather unattractive opportunities in existing industries), risk reduction, and/or preparing to exit an existing line of business (for example, one in the decline stage of the product life cycle). Further, this may be an appropriate strategy when, not only the present industry is unattractive, but the company lacks outstanding competencies that it could transfer to related products or industries. However, because it is difficult to manage and excel in unrelated business units, it can be difficult to realize the hoped-for value added.

Mergers, Acquisitions, and Strategic Alliances: Each of the four growth strategy categories just discussed can be carried out internally or externally, through mergers, acquisitions, and/or strategic alliances. Of course, there also can be a mixture of internal and external actions.

Various forms of strategic alliances, mergers, and acquisitions have emerged and are used extensively in many industries today. They are used particularly to bridge resource and technology gaps, and to obtain expertise and market positions more quickly than could be done through internal development. They are particularly necessary and potentially useful when a company wishes to enter a new industry, new markets, and/or new parts of the world. Despite their extensive use, a large share of alliances, mergers, and acquisitions fall far short of expected benefits or are outright failures.

Many reasons for the problematic record have been cited, including paying too much, unrealistic expectations, inadequate due diligence, and conflicting corporate cultures; however, the most powerful contributor to success or failure is inadequate attention to the merger integration process. Although the lawyers and investment bankers may consider a deal done when the papers are signed and they receive their fees, this should be merely an incident in a multi-year process of integration that began before the signing and continues far beyond.

Stability Strategies

There are a number of circumstances in which the most appropriate growth stance for a company is stability, rather than growth. Often, this may be used for a relatively short period, after which further growth is planned. Such circumstances usually involve a reasonable successful company, combined with circumstances that either permit a period of comfortable coasting or suggest a pause or caution. Three alternatives are outlined below, in which the actual strategy actions are similar, but differing primarily in the circumstances motivating the choice of a stability strategy and in the intentions for future strategic actions.

1. Pause and Then Proceed: This stability strategy alternative (essentially a timeout) may be appropriate in either of two situations: (a) the need for an opportunity to rest, digest, and consolidate after growth or some turbulent events - before continuing a growth strategy, or (b) an uncertain or hostile environment in which it is prudent to stay in a "holding pattern" until there is change in or more clarity about the future in the environment.

2. No Change: This alternative could be a cop-out, representing indecision or timidity in making a choice for change. Alternatively, it may be a comfortable, even long-term strategy in a mature, rather stable environment, e.g., a small business in a small town with few competitors.

3. Profit strategy: This is a non-recommended strategy to try to mask a deteriorating situation by artificially supporting profits or their appearance, or otherwise trying to act as though the problems will go away. It is an unstable, temporary strategy in a worsening situation, usually chosen either to try to delay letting stakeholders know how bad things are or to extract personal gain before things collapse. Recent terrible examples in the USA are Enron and WorldCom.

Retrenchment Strategies

Turnaround: This strategy, dealing with a company in serious trouble, attempts to resuscitate or revive the company through a combination of contraction (general, major cutbacks in size and costs) and consolidation (creating and stabilizing a smaller, leaner company). Although difficult, when done very effectively it can succeed in both retaining enough key employees and revitalizing the company.

Contraction is the initial effort to quickly "stop the bleeding" with a general across the board cutback in size and costs.

Consolidation, implements a program to stabilize the now-leaner corporation. To streamline the company, plans are developed to reduce unnecessary overhead and to make functional activities cost justified. This is a crucial time for the organization. If the consolidation phase is not conducted in a positive manner, many of the best people leave the organization.

Captive Company Strategy: A company with a weak competitive position may not be able to engage in a full-blown turnaround strategy. The industry may not be sufficiently attractive to justify such an effort from either the current management or from investors. Nevertheless, a company in this situation faces poor sales and increasing losses unless it takes some action. Management desperately searches for an "angel" by offering to be a captive company to one of its larger customers in order to guarantee the company's continued existence with a long-term contract. In this way, the corporation may be able to reduce the scope of some of its functional activities, such as marketing, thus reducing costs significantly.

Divest: If a corporation with a weak competitive position in its industry is unable either to pull itself by its bootstraps or to find a customer to which it can become a captive company, it may have no choice to Sell Out. The sellout strategy makes sense if managements can still

obtain a good price for its shareholders and the employees can keep their jobs by selling the entire company to another firm.

Liquidation: When a company has been unsuccessful in or has none of the previous three strategic alternatives available, the only remaining alternative is liquidation, often involving a bankruptcy. There is a modest advantage of a voluntary liquidation over bankruptcy in that the board and top management make the decisions rather than turning them over to a court, which often ignores stockholders' interests.

Combination Strategies

It is the combination of stability, growth & retrenchment strategies adopted by an organization, either at the same time in its different businesses, or at different times in the same business with the aim of improving its performance. For example, it is certainly feasible for an organization to follow a retrenchment strategy for a short period of time due to general economic conditions and then pursue a growth strategy once the economy strengthens.

The obvious combination strategies include (a) retrench, then stability; (b) retrench, then growth; (c) stability, then retrench; (d) stability, then growth; (e) growth then retrench, and (f) growth, then stability.

Reasons for adopting combination strategies are given below

- Rapid Environment change
- Liquidate one unit, develop another
- Involves both divestment & acquisition (take over)

COMPETITIVE (BUSINESS LEVEL) STRATEGY

In this second aspect of a company's strategy, the focus is on how to compete successfully in each of the lines of business the company has chosen to engage in. The central thrust is how to build and improve the company's competitive position for each of its lines of business. A company has competitive advantage whenever it can attract customers

and defend against competitive forces better than its rivals. Companies want to develop competitive advantages that have some sustainability (although the typical term "sustainable competitive advantage" is usually only true dynamically, as a firm works to continue it). Successful competitive strategies usually involve building uniquely strong or distinctive competencies in one or several areas crucial to success and using them to maintain a competitive edge over rivals. Some examples of distinctive competencies are superior technology and/or product features, better manufacturing technology and skills, superior sales and distribution capabilities, and better customer service and convenience.

Best-Cost Provider Strategy: (although not one of Porter's basic four strategies, this strategy is mentioned by a number of other writers.) This is a strategy of trying to give customers the best cost/value combination, by incorporating key good-or-better product characteristics at a lower cost than competitors. This strategy is a mixture or hybrid of low-price and differentiation, and targets a segment of value-conscious buyers that is usually larger than a market niche, but smaller than a broad market. Successful implementation of this strategy requires the company to have the resources, skills, capabilities (and possibly luck) to incorporate up-scale features at lower cost than competitors.

This strategy could be attractive in markets that have both variety in buyer needs that make differentiation common and where large numbers of buyers are sensitive to both price and value.

Competitive Tactics

Although a choice of one of the generic competitive strategies discussed in the previous section provides the foundation for a business strategy, there are many variations and elaborations. Among these are various tactics that may be useful (in general, tactics are

shorter in time horizon and narrower in scope than strategies). This section deals with competitive tactics, while the following section discusses cooperative tactics.

Two categories of competitive tactics are those dealing with timing (when to enter a market) and market location (where and how to enter and/or defend).

Timing Tactics: When to make a strategic move is often as important as what move to make. We often speak of *first-movers* (i.e., the first to provide a product or service), *second-movers* or rapid followers, and *late movers* (wait-and-see). Each tactic can have advantages and disadvantages.

Being a first-mover can have major strategic advantages when: (a) doing so builds an important image and reputation with buyers; (b) early adoption of new technologies, different components, exclusive distribution channels, etc. can produce cost and/or other advantages over rivals; (c) first-time customers remain strongly loyal in making repeat purchases; and (d) moving first makes entry and imitation by competitors hard or unlikely.

However, being a second- or late-mover isn't necessarily a disadvantage. There are cases in which the first-mover's skills, technology, and strategies are easily copied or even surpassed by later-movers, allowing them to catch or pass the first-mover in a relatively short period, while having the advantage of minimizing risks by waiting until a new market is established. Sometimes, there are advantages to being a skillful follower rather than a first-mover, e.g., when: (a) being a first-mover is more costly than imitating and only modest experience curve benefits accrue to the leader (followers can end up with lower costs than the first-mover under some conditions); (b) the products of an innovator are somewhat primitive and do not live up to buyer expectations, thus allowing a clever follower to win buyers away from the leader with better performing products; (c) technology is advancing rapidly, giving fast followers the opening to leapfrog a first-mover's products with more attractive and full-

featured second- and third-generation products; and (d) the first-mover ignores market segments that can be picked up easily.

Market Location Tactics: These fall conveniently into offensive and defensive tactics. Offensive tactics are designed to take market share from a competitor, while defensive tactics attempt to keep a competitor from taking away some of our present market share, under the onslaught of offensive tactics by the competitor. Some offensive tactics are:

* *Frontal Assault:* going head-to-head with the competitor, matching each other in every way. To be successful, the attacker must have superior resources and be willing to continue longer than the company attacked.

* *Flanking Maneuver:* attacking a part of the market where the competitor is weak. To be successful, the attacker must be patient and willing to carefully expand out of the relatively undefended market niche or else face retaliation by an established competitor.

* *Encirclement:* usually evolving from the previous two, encirclement involves encircling and pushing over the competitor's position in terms of greater product variety and/or serving more markets. This requires a wide variety of abilities and resources necessary to attack multiple market segments.

* *Bypass Attack:* attempting to cut the market out from under the established defender by offering a new, superior type of produce that makes the competitor's product unnecessary or undesirable.

- *Guerrilla Warfare:* using a "hit and run" attack on a competitor, with small, intermittent assaults on different market segments. This offers the possibility for even a small firm to make some gains without seriously threatening a large, established competitor and evoking some form of retaliation.

Some Defensive Tactics are:

- *Raise Structural Barriers:* block avenues challengers can take in mounting an offensive
- *Increase Expected Retaliation:* signal challengers that there is threat of strong retaliation if they attack
- *Reduce Inducement for Attacks:* e.g., lower profits to make things less attractive (including use of accounting techniques to obscure true profitability). Keeping prices very low gives a new entrant little profit incentive to enter.

The general experience is that any competitive advantage currently held will eventually be eroded by the actions of competent, resourceful competitors. Therefore, to sustain its initial advantage, a firm must use both defensive and offensive strategies, in elaborating on its basic competitive strategy

Cooperative Strategies

Another group of "competitive" tactics involve cooperation among companies. These could be grouped under the heading of various types of strategic alliances, which have been discussed to some extent under Corporate Level growth strategies. These involve an agreement or alliance between two or more businesses formed to achieve strategically significant objectives that are mutually beneficial. Some are very short-term; others are longer-term and may be the first stage of an eventual merger between the companies.

Some of the reasons for strategic alliances are to: obtain/share technology, share manufacturing capabilities and facilities, share access to specific markets, reduce financial/political/market risks, and achieve other competitive advantages not otherwise available. There could be considered a continuum of types of strategic alliances, ranging from: (a) mutual service consortiums (e.g., similar companies in similar industries pool their resources to develop something that is too expensive alone), (b) licensing arrangements, (c)

joint ventures (an independent business entity formed by two or more companies to accomplish certain things, with allocated ownership, operational responsibilities, and financial risks and rewards), (d) value-chain partnerships (e.g., just-in-time supplier relationships, and out-sourcing of major value-chain functions).

A **Strategic Alliance** is a cooperative agreement between companies who are competitors from different companies. Strategic alliances are linkages between companies designed to achieve an objective faster or more efficiently than if either firm attempted to do so on its own. They serve a vital role in extending and renewing a firm's sources of competitive advantage because they allow companies to limit certain kinds of risk when entering new terrain.

Ex: In the beverage industry, Nestle works with Coca- Cola to gain access to the other's distribution channels.

In the computer hardware industry, Toshiba and Samsung have formed a strategic alliance for manufacturing advanced memory chips.

TYPES OF STRATEGIC ALLIANCES

a) Mutual Service Consortia: A Mutual Service Consortium is a partnership of similar companies in similar industries who pool their resources to gain a benefit that is too expensive to develop alone.

Eg: IBM offered Toshiba its expertise in chemical mechanical polishing to develop a new manufacturing process.

b) Joint Venture: A joint venture is a cooperative business activity, formed by two or more separate organizations for strategic purposes, that creates an independent business identity and allocates ownership, operational responsibilities and financial risks and rewards to each member, while preserving their separate identity or autonomy.

Eg: IOC and oil tanking GmbH formed a joint venture to build and operate terminating services for petroleum products.

c) Licensing Arrangement: A licensing agreement is an agreement in which the licensing firm grants rights to another firm in another country or market to produce and/ or sell a product.

Eg: P&G licensed the 'Old Spice' trademark and business to a Goa- based company, Menezes cosmetics (P) Ltd for a period of 10 years to manufacture, sell, distribute and market in India, Sri Lanka and Bangladesh.

d) Value-Chain Partnership: The value- chain partnership is a strong and close alliance in which one company or unit forms a long- term arrangement with a key supplier or distributor for mutual advantage.

Eg: Value- Chain partnership between Cisco Systems and its suppliers.

All forms of strategic alliances are filled with uncertainty. One thorny issue in any strategic alliance is how to cooperate without giving away the company or business unit's core competence. There are many other issues that need to be dealt with when the alliance is initially formed and others that emerge later.

Merger

A merger is a strategy of joining two businesses. Basically, a merger occurs when two companies join or merge to form one single company but with a new name.

Acquisition

Acquisition refers to a situation where one firm acquires another and the latter ceases to exist

FUNCTIONAL STRATEGIES

Functional strategies are relatively short-term activities that each functional area within a company will carry out to implement the broader, longer-term corporate level and business level strategies. Each functional area has a number of strategy choices that interact with and must be consistent with the overall company strategies.

Three basic characteristics distinguish functional strategies from corporate level and business level strategies: shorter time horizon, greater specificity, and primary involvement of operating managers.

A few examples follow of functional strategy topics for the major functional areas of marketing, finance, production/operations, research and development, and human resources management. Each area needs to deal with sourcing strategy, i.e., what should be done in-house and what should be outsourced?

Marketing strategy deals with product/service choices and features, pricing strategy, markets to be targeted, distribution, and promotion considerations. Financial strategies include decisions about capital acquisition, capital allocation, dividend policy, and investment and working capital management. The production or operations functional strategies address choices about how and where the products or services will be manufactured or delivered, technology to be used, management of resources, plus purchasing and relationships with suppliers. For firms in high-tech industries, R&D strategy may be so central that many of the decisions will be made at the business or even corporate level, for example the role of technology in the company's competitive strategy, including choices between being a technology leader or follower. However, there will remain more specific decisions that are part of R&D functional strategy, such as the relative emphasis between product and process R&D, how new technology will be obtained (internal development vs. external through purchasing, acquisition, licensing, alliances, etc.), and degree of centralization for R&D activities. Human resources functional strategy includes many topics, typically recommended by the human resources department, but many requiring top management approval. Examples are job categories and descriptions; pay and benefits; recruiting, selection, and orientation; career development and training; evaluation and incentive systems; policies and discipline; and management/executive selection processes.

Strategies of leading Indian companies

Growth

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

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

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

Merger

1. Absorption of Tata Fertilizers Ltd (TFL) by Tata Chemicals Ltd. (TCL). TCL, an acquiring company (a buyer), survived after merger while TFL, an acquired company (a seller), ceased to exist. TFL transferred its assets, liabilities and shares to TCL.
2. Merger of Hindustan Computers Ltd, Hindustan Instruments Ltd, Indian Software Company Ltd and Indian Reprographics Ltd into an entirely new company called HCL Ltd.
3. Indian telecom major Bharti Airtel is all set to merge with its South African counterpart MTN, with a deal worth USD 23 billion. According to the agreement Bharti Airtel would obtain 49% of stake in MTN and the South African telecom major would acquire 36% of stake in Bharti Airtel.
4. India's financial industry saw the merging of two prominent banks - HDFC Bank and Centurion Bank of Punjab. The deal took place in February 2008 for $2.4 billion.
5. Merger of Broke bond and Lipton

Acquisition

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

Stability

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

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

c. Bata also comes under stable strategy following company.

Retrenchment

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

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

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

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

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

Combination

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

b. L&T sold off its cement division to Kumar Mangalam Birla's Grasim industries. By selling off this division, L&T was better able to concentrate on its growth strategy of its core engineering business

Competitive Cost Leadership

a. Dell Computer initially achieved market share by keeping inventories low and only building computers to order.
b. Organizations such as Toyota are very good not only at producing high quality autos at a low price, but have the brand and marketing skills to use a premium pricing policy.
c. A leading cost strategy for McDonalds is the ability to purchase the land and buildings of its restaurants. McDonalds also developed a strong division of labor for its production processes, tight management control and product development strategy. Creating a strong top-down style of management is another leading cost strategy for McDonalds.

Focus

a. Examples of firm using a focus strategy include Southwest Airlines, which provides short-haul point-to-point flights in contrast to the hub-and-spoke model of mainstream carriers, and Family Dollar.
b. Chick King which focuses on non-vegetarian food.
c. Johnson and Johnson products mainly focuses on babies.

Differentiation

a. Mercedes-Benz automobile is an example of differentiation strategy. It differentiates other automobiles the quality it provides.
b. Apple also targets the mass market with its iPhone and iPod products, but combines this broad scope with a differentiation strategy based on design, branding and user experience that enables it to charge a price premium due to the perceived unavailability of close substitutes.
c. British Airways differentiates its service from other airlines.

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

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

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

4.7 STRATEGIC MANAGEMENT AT 3 LEVELS.

Organizations are complex entities. Every organization must address several levels, types, or areas of strategic management. Moreover, for firm competing in more than one business area or market, a strategy of integration and interrelationships between these areas must be developed.

Strategy can be formulated on three different levels:

- corporate level
- business unit level
- functional or departmental level

Fig No:12 Strategic Management-Levels

Corporate Level Strategy

Corporate level strategy fundamentally is concerned with the selection of businesses in which the company should compete and with the development and coordination of that portfolio of businesses.

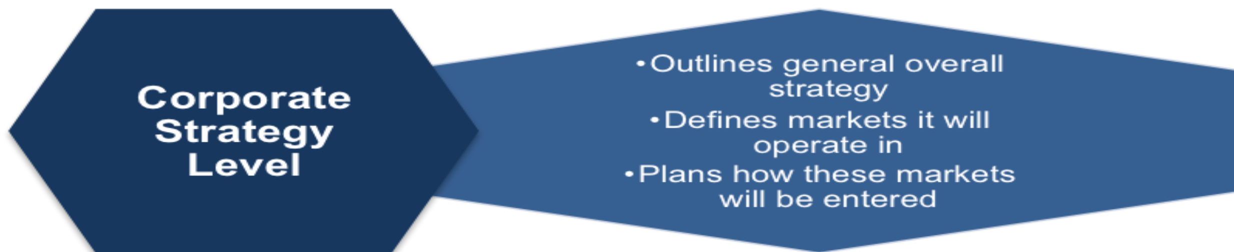


Fig No:13 Corporate Level Strategy

Corporate level strategy is concerned with:

Reach defining the issues that are corporate responsibilities; These might include identifying the overall goals of the corporation, the types of businesses in which the corporation should be involved, and the way in which businesses will be integrated and managed.

Competitive Contact defining where in the corporation competition is to be localized. Take the case of insurance:

Managing Activities and Business Interrelationships Corporate strategy seeks to develop synergies by sharing and coordinating staff and other resources across business units, investing financial resources across business units, and using business units to complement other corporate business activities.

Management Practices Corporations decide how business units are to be governed: through direct corporate intervention (centralization) or through more or less autonomous government (decentralization) that relies on persuasion and rewards.

Corporations are responsible for creating value through their businesses. They do so by managing their portfolio of businesses, ensuring that the businesses are successful over the long term, developing business units, and sometimes ensuring that each business is compatible with others in the portfolio.

Business Unit Level Strategy

A strategic business unit may be a division, product line, or other profit center that can be planned independently from the other business units of the firm.

At the business unit level, the strategic issues are less about the coordination of operating units and more about developing and sustaining a competitive advantage for the goods and services that are produced. At the business level, the strategy formulation phase deals with: positioning the business against rivals anticipating changes in demand and technologies and adjusting the strategy to accommodate them influencing the nature of competition through strategic actions such as vertical integration and through political actions such as lobbying.

Fig No:14 Business Level Strategy

Michael Porter identified three generic strategies (cost leadership, differentiation, and focus) that can be implemented at the business unit level to create a competitive advantage and defend against the adverse effects of the five forces.

Functional Level Strategy

The functional level of the organization is the level of the operating divisions and departments. The strategic issues at the functional level are related to business processes and the value chain. Functional level strategies in marketing, finance, operations, human resources, and R&D involve the development and coordination of resources through which business unit level strategies can be executed efficiently and effectively.

Fig No:15 Functional Strategy

Functional units of an organization are involved in higher level strategies by providing input into the business unit level and corporate level strategy, such as providing information on resources and capabilities on which the higher-level strategies can be based. Once the higher-level strategy is developed, the functional units translate it into discrete action plans that each department or division must accomplish for the strategy to succeed.

Some other examples:

1) **Stability Strategy**:

Steel Authority of India has adopted stability strategy because of overcapacity in steel sector. Instead it has concentrated on increasing operational efficiency of its various plants rather than going for expansion. Others industries are ‘heavy commercial vehicle’, ‘coal industry’

2) **Growth/Expansion**:

Growth strategy is much talked in the present Indian environments, if we look at the corporate performance in the recent years. We find out that various organizations have grown both in terms of sales and profit as well as assets. Some organizations have grown so fast. For Example: Nirma ltd., Reliance Industry Ltd., in fact, in the life of any organization, growth strategy is necessary at some point of time. James has identified those five stages emergence, growth maturity and decline.

TISCO establish in 1907 is still the leader in steel sector. It suggests that the strategies fooled by organizations will determine the application of various stages. "A strategy is one that an enterprise pursues when it increases its level of objectives upwards in significant increment, much higher than an exploration of its past achievement level. The most frequent increase indicating a growth strategy is to raise the market share and or sales objectives upwards significantly.

3) Retrenchment Strategy:

A Retrenchment grand strategy is followed when an organization aims at a contraction of its activities through substantial reduction or the elimination of the scope of one or more its businesses, in terms of their respective customer groups, customer functions or alternatives technologies either singly or jointly on order to improve its overall performance. Retrenchment involves a total or partial withdrawal from either a customer group or customer functions, or the use of an alternatives technology in one or more of firm's businesses, as can be seen from the situation as given below: For Example:

A pharmaceutical firm pulls out from retail selling to concentrate on institutional selling in order to reduce the size of its sales force and increase marketing efficiency. A corporate hospital decides to focus only on specialty treatment and realize higher revenues by reducing its commitment to general cases which are typically less profitable to deal with.

4) Combination Strategy:

Combination Strategies are a mixture of stability, expansion or retrenchment strategies applied either simultaneously (at the same time in different businesses) or sequentially (at different times in the same business). For Example:

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

UNIT V

INTRODUCTION

In today's fast changing economic situation, every company is trying to assess its performances regularly. In order to survive companies are taking steps to expand by accessing new markets; making product and price more attractive; satisfying customers; developing new strategies. Thus, managers and executives of the companies looking for a suitable tools and techniques in order to investigate the internal and external cost of the products/service, get market information, product costs, analyses customer needs and wishes, predict and assess organizational performance, as well to ensure competitive advantage in production activities

The process of identification and evaluation a wide range of possible strategies has generated a number of conceptual tools or techniques for these purposes. These tools and techniques are related but distinct. Managers must decide on the extent to which they will be involved in strategic and operational decision-making process.

5.1 Strategy Evaluation

Strategy can be neither formulated nor adjusted to changing circumstances without a process of strategy evaluation. Whether performed by an individual or as part of an organizational review procedure, strategy evaluation forms an essential step in the process of guiding an enterprise.

For many executives strategy evaluation is simply an appraisal of how well a business performs. Has it grown? Is the profit rate normal? If the answers to these questions are affirmative, it is argued that the firm's strategy must be sound. Despite its unassailable simplicity, this line of reasoning misses the whole point of strategy– that the critical factors determining the quality of current results are often not directly observable or simply measured, and that by the time strategic opportunities or threats do directly affect operating

results it may well be too late for an effective response. Thus, strategy evaluation is an attempt to look beyond the obvious facts regarding the short-term health of a business and appraise instead those more fundamental factors and trends that govern success in the chosen field of endeavor.

A strategy is a set of objectives a strategy is a set of objectives, policies and plans that, taken together, define the scope of the enterprise and its approach to business. Rumelt suggests that three questions are central to the challenge of strategy evaluation:

1. Are the objectives of the business appropriate?
2. Are the major policies and plans appropriate?
3. Do the results obtained to date confirm or refute critical assumptions on which the strategy rests?

He further suggests that strategy must satisfy four broad criteria:

- *Consistency.* The strategy must not present mutually inconsistent goals and policies.
- *Consonance.* The strategy must represent an adaptive response to the external environment and to the critical changes occurring within it.
- *Advantage.* Strategy must provide for the creation and/or maintenance of a competitive advantage in the selected area of activity.
- *Feasibility.* The strategy must neither overtax available resources nor create insoluble problems.

Strategic evaluation occurs as the final step in the final step in a strategic management cycle. Without it, a business has no way to gauge whether or not strategic management strategies and plans are fulfilling business objectives. Strategic management attempts to coordinate and bring business resources and actions in line with the mission and vision of the

business. Strategic plans outline the action steps necessary for achieving strategic business goals.

Significance

Strategic evaluations provide an objective method for testing the efficiency and effectiveness of business strategies, as well as a way to determine whether the strategy being implemented is moving the business toward its intended strategic objectives. Evaluations also can help identify when and what corrective actions are necessary to bring performance back in line with business objectives.

5.2 EXPERIENCE CURVE

The experience curve refers to the systematic lowering of the cost structure, and consequent unit cost reductions, that have been observed to occur over the life of a product. According to the experience-curve concept, unit manufacturing costs for a product typically decline by some characteristic amount each time accumulated output of the product is doubled (accumulated output is the total output of a product since its introduction). This relationship was first observed in the aircraft industry, in which it was found that each time the accumulated output of airframes was doubled, unit costs declined to 80% of their previous level

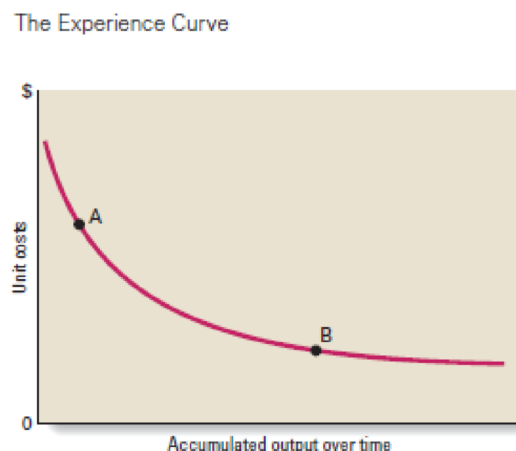


Fig No:16 Experience Curve

The strategic significance of the experience curve is clear: increasing a company's product volume and market share will lower its cost structure relative to its rivals. Thus, company B in Figure, because it is farther down the experience curve, has a cost advantage over company A because of its lower cost structure. The concept is very important in industries that mass produce a standardized output (for example, the manufacture of semiconductor chips). A company that wishes to become more efficient and lower its cost structure must try to ride down the experience curve as quickly as possible. This means constructing efficient scale manufacturing facilities even before it has generated demand for the product and aggressively pursuing cost reductions from learning effects. It might also need to adopt an aggressive marketing strategy—cutting prices to the bone, stressing heavy sales promotions and extensive advertising to build up demand, hence, accumulating volume as quickly as possible. Once down the experience curve because of its superior efficiency, the company is likely to have a significant cost advantage over its competitors. For example, it has been argued that Intel uses such tactics to ride down the experience curve and gain a competitive advantage over its rivals in the market for microprocessors.8However, there are three reasons why managers should not become complacent about efficiency-based cost advantages derived from experience effects.

First, because neither learning effects nor economies of scale go on forever, the experience curve is likely to bottom out at some point; indeed, it must do so by definition. When this occurs, further unit cost reductions from learning effects and economies of scale will be hard to come by. Thus, in time, other companies can lower their cost structures and match the cost leader. Once this happens, a number of low-cost companies can have cost parity with each other. In such circumstances, a sustainable competitive advantage must rely on strategic factors besides the minimization of production costs by using existing

technologies—factors such as better responsiveness to customers, product quality, or innovation.

Second, changes that are always taking place in the external environment disrupt a company's business model, so cost advantages gained from experience effects can be made obsolete by the development of new technologies. The price of television picture tubes followed the experience-curve pattern from the introduction of television in the late 1940s until 1963. The average unit price dropped from $34 to $8 (in 1958 dollars) in that time. However, the advent of color TV interrupted the experience curve. To make picture tubes for color TVs, a new manufacturing technology was required, and the price of color TV tubes shot up to$51 by 1966. Then, the experience curve reasserted itself. The price dropped to $48 in 1968, $37 in 1970, and $36 in 1972.9 In short, technological change can alter the rules of the game, requiring that former low-cost companies take steps to reestablish their competitive edge. A further reason for avoiding complacency is that producing a high volume of output does not necessarily give a company a lower cost structure. Different technologies have different cost structures. For example, the steel industry has two alternative manufacturing technologies: an integrated technology, which relies on the basic oxygen furnace, and a mini-mill technology, which depends on the electric arc furnace. Whereas the basic oxygen furnace requires high volumes to attain maximum efficiency, mini-mills are cost efficient at relative low volumes. Moreover, even when both technologies are producing at their most efficient output levels, steel companies with basic oxygen furnaces do not have a cost advantage over mini-mills.

Consequently, the pursuit of experience economies by an integrated company using basic oxygen technology may not bring the kind of cost advantages that a naive reading of the experience-curve phenomenon would lead the company to expect. Indeed, there have been significant periods of time when integrated companies have not been able to get enough

orders to run at optimum capacity. Hence, their production costs have been considerably higher than those of mini-mills. As we discuss, new flexible manufacturing technologies in many industries hold out the promise of allowing small manufacturers to produce at unit costs comparable to those of large assembly-line operations.

Implications for Strategy

The experience curve has important strategic implications. If a firm is able to gain market share over its competitors, it can develop a cost advantage. Penetration pricing strategies and a significant investment in advertising, sales personnel production capacity, etc. can be justified to increase market share and gain a competitive advantage.

When evaluating strategies based on the experience curve, a firm must consider the reaction of competitors who also understand the concept. Some potential pit falls include: The fallacy of composition holds: if all other firms equally pursue the strategy, then none will increase market share and will suffer losses from overcapacity and low prices. The more competitors that pursue the strategy, the higher the cost of gaining a given market share and the lower the return on investment. Competing firms may be able to discover the leading firm's proprietary methods and replicate the cost reductions without having made the large investment to gain experience. New technologies may create a new experience curve. Entrants building new plants may be able to take advantage of the latest technologies that offer a cost advantage over the older plants of the leading firm.

5.3 BCG growth-share matrix

BCG matrix (or growth-share matrix) is a corporate planning tool, which is used to portray firm’s brand portfolio or SBUs on a quadrant along relative market share axis (horizontal axis) and speed of market growth (vertical axis) axis.

One of the most popular business unit portfolio planning matrices is the so-called development component or the Boston matrix. This matrix was developed in 1967 by the Boston Consulting Group, BCG. It specializes in strategic planning in order to help the top management of organizations to define the cash flow conditions for strategic business units and to change the combination of business units within an organization. The matrix is derived from a simple proposition (a plan) including only two factors defining what benefits there are from offered market positions. The first is the rate of growth within a specific segment, and the second is the relative occupied market share . It is also illustrated in Figure no.17 where the horizontal axis represents the relative market share of the business unit analyzed, while the vertical axis – the relative rate of growth within the industry of operation of the strategic business unit.

Growth-share matrix is a business tool, which uses relative market share and industry growth rate factors to evaluate the potential of business brand portfolio and suggest further investment strategies.

BCG matrix is a framework created by Boston Consulting Group to evaluate the strategic position of the business brand portfolio and its potential. It classifies business portfolio into four categories based on industry attractiveness (growth rate of that industry) and competitive position (relative market share). These two dimensions reveal likely profitability of the business portfolio in terms of cash needed to support that unit and cash generated by it. The general purpose of the analysis is to help understand, which brands the firm should invest in and which ones should be divested.

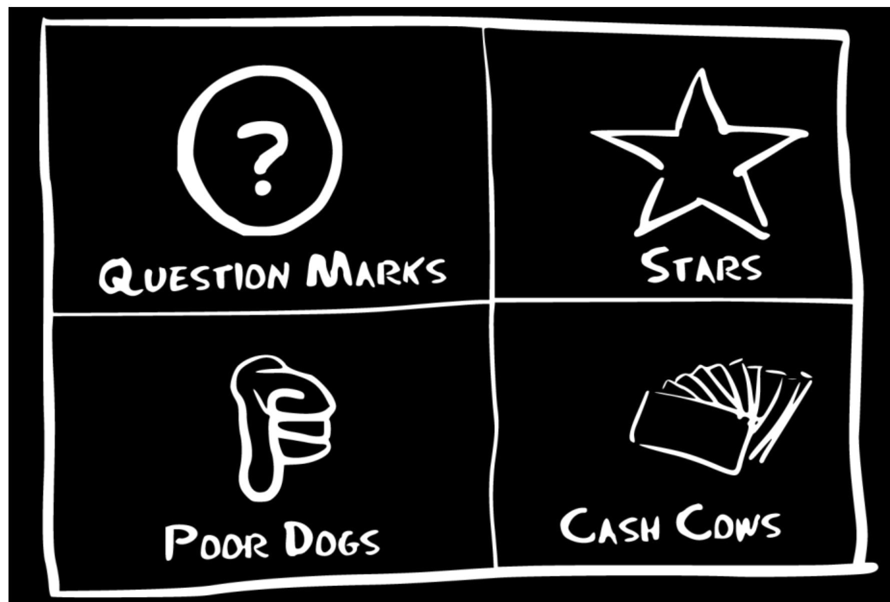


Fig No:17 BCG Matrix

Relative market share. One of the dimensions used to evaluate business portfolio is relative market share. Higher corporate's market share results in higher cash returns. This is because a firm that produces more, benefits from higher economies of scale and experience curve, which results in higher profits. Nonetheless, it is worth to note that some firms may experience the same benefits with lower production outputs and lower market share.

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 growth. Therefore, business units that operate in rapid growth industries are cash users and are worth investing in only when they are expected to grow or maintain market share in the future.

There are four quadrants into which firms brands are classified:

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. Some dogs may be profitable for long period of time, they may provide synergies for other brands or SBUs or simple act as a defense to counter competitors moves. Therefore, it is always important to perform deeper analysis of each

brand or SBU to make sure they are not worth investing in or have to be divested. Strategic choices: Retrenchment, divestiture, liquidation

Cash cows. Cash cows are the most profitable brands and should be "milked" to provide as much cash as possible. The cash gained from "cows" should be invested into stars to support their further growth. According to growth-share matrix, corporates should not invest into cash cows to induce growth but only to support them so they can maintain their current market share. Again, this is not always the truth. Cash cows are usually large corporations or SBUs that are capable of innovating new products or processes, which may become new stars. If there would be no support for cash cows, they would not be capable of such innovations. Strategic choices: Product development, diversification, divestiture, retrenchment

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. Yet, not all stars become cash flows. This is especially true in rapidly changing industries, where new innovative products can soon be outcompeted by new technological advancements, so a star instead of becoming a cash cow, becomes a dog. 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. Question marks do not always succeed and even after large amount of investments they struggle to gain market share and eventually become dogs. Therefore, they require very

close consideration to decide if they are worth investing in or not. Strategic choices: Market penetration, market development, product development, divestiture

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.
- Following are the main limitations of the analysis:
- Business can only be classified to four quadrants. It can be confusing to classify an SBU that falls right in the middle.
- It does not define what 'market' is. Businesses can be classified as cash cows, while they are actually dogs, or vice versa.
- Does not include other external factors that may change the situation completely.
- Market share and industry growth are not the only factors of profitability. Besides, high market share does not necessarily mean high profits.
- It denies that synergies between different units exist. Dogs can be as important as cash cows to businesses if it helps to achieve competitive advantage for the rest of the company.

Although BCG analysis has lost its importance due to many limitations, it can still be a useful tool if performed by following these steps:

- Step 1. Choose the unit
- Step 2. Define the market
- Step 3. Calculate relative market share
- Step 4. Find out market growth rate
- Step 5. Draw the circles on a matrix

5.4 McKinsey 7s Model

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

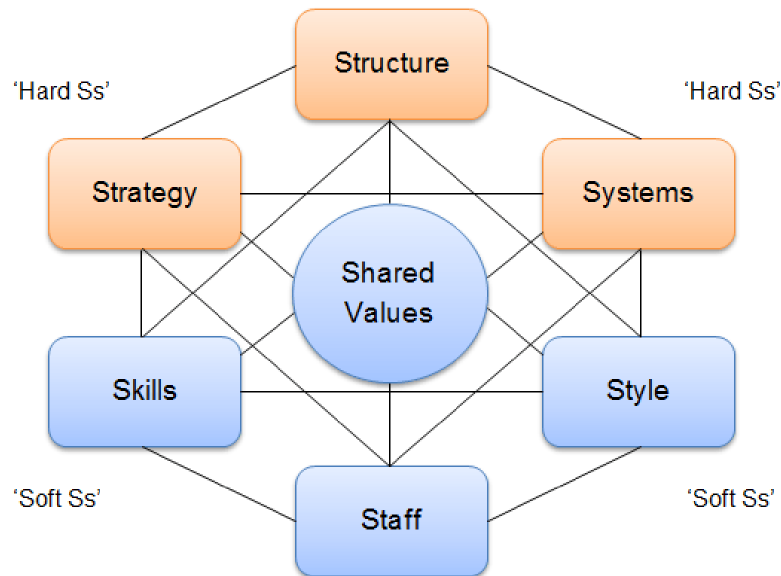


Fig No:17 McKinsey 7s Model

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

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

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

harder to manage, are the foundation of the organization and are more likely to create the sustained competitive advantage.

Strategy is a plan developed by a firm to achieve sustained competitive advantage and successfully compete in the market. In general, a sound strategy is the one that's clearly articulated, is long-term, helps to achieve competitive advantage and is reinforced by strong vision, mission and values. But it's hard to tell if such strategy is well-aligned with other elements when analyzed alone. So, the key in 7s model is not to look at your company to find the great strategy, structure, systems and etc. but to look if its aligned with other elements. For example, short-term strategy is usually a poor choice for a company but if its aligned with other 6 elements, then it may provide strong results.

Structure represents the way business divisions and units are organized and includes the information of who is accountable to whom. In other words, structure is the organizational chart of the firm. It is also one of the most visible and easy to change elements of the framework.

7s factors	
Hard S	Soft S
Strategy	Style
Structure	Staff
Systems	Skills
	Shared Values

Systems are the processes and procedures of the company, which reveal business' daily activities and how decisions are made. Systems are the area of the firm that determines how business is done and it should be the main focus for managers during organizational change.

Skills are the abilities that firm's employees perform very well. They also include capabilities and competences. During organizational change, the question often arises of what skills the company will really need to reinforce its new strategy or new structure.

Staff element is concerned with what type and how many employees an organization will need and how they will be recruited, trained, motivated and rewarded.

Style represents the way the company is managed by top-level managers, how they interact, what actions do they take and their symbolic value. In other words, it is the management style of company's leaders.

Shared Values are at the core of McKinsey 7s model. They are the norms and standards that guide employee behavior and company actions and thus, are the foundation of every organization.

The McKinsey 7s framework is often used when organizational design and effectiveness are at question. It is easy to understand the model but much harder to apply it for your organization due to a common misunderstanding of what should a well-aligned element be like.

- Step 1. Identify the areas that are not effectively aligned
- Step 2. Determine the optimal organization design
- Step 3. Decide where and what changes should be made
- Step 4. Make the necessary changes
- Step 5. Continuously review the 7s

	McKinsey 7s	Aligned?
Strategy	Market penetration	No
Structure	Bureaucratic machine	Yes
Systems	Order processing and control, customer support and personnel management systems.	No
Skills	Skills related to service offering and business support, but few managerial and analytical skills.	No
Staff	Many employees and appropriate motivation and reward systems.	Yes
Style	Democratic but often chaotic management style.	No
Shared Values	Enthusiasm and excellence	No

5.5 VRIO Framework

VRIO framework is the tool used to analyze firm's internal resources and capabilities to find out if they can be a source of sustained competitive advantage.One of such tools that analyze firm's internal resources is VRIO analysis. The tool was originally developed by Barney, J. B. (1991) in his work 'Firm Resources and Sustained Competitive Advantage'. According to him, the resources must be valuable, rare, imperfectly imitable and non-substitutable. His original framework was called VRIN. In 1995, in his later work 'Looking Inside for Competitive Advantage' Barney has introduced VRIO framework, which was the improvement of VRIN model. VRIO analysis stands for four questions that ask if a resource is: valuable. Rare? Costly to imitate? And is a firm organized to capture the value of the resources? A resource or capability that meets all four requirements can bring sustained competitive advantage for the company.

Valuable

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

Rare

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

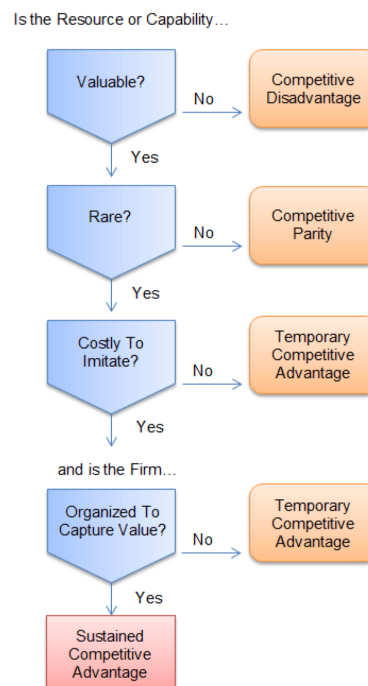


Fig No:18 VRIO Framework

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

Costly to imitate

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

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

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

Organized to capture values

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

Step 1. Identify valuable, rare and costly to imitate resources

Step 2. Find out if your company is organized to exploit these resources

Step 3. Protect the resources

Step 4. Constantly review VRIO resources and capabilities

Google's VRIO capability			
Excellent employee management			
Valuable?	Rare?	Costly to Imitate?	Is a company organized to exploit it?
Yes	Yes	Yes	Yes
Result: sustained competitive advantage			

Value Chain Analysis

Value chain analysis (VCA) is a process where a firm identifies its primary and support activities that add value to its final product and then analyze these activities to reduce costs or increase differentiation. **Value chain** represents the internal activities a firm engages in when transforming inputs into outputs. Value chain analysis is a strategy tool used to analyze internal firm activities. Its goal is to recognize, which activities are the most valuable (i.e. are the source of cost or differentiation advantage) to the firm and which ones could be improved to provide competitive advantage.

M. Porter introduced the generic value chain model in 1985. Value chain represents all the internal activities a firm engages in to produce goods and services. VC is formed of primary activities that add value to the final product directly and support activities that add value indirectly. There are two different approaches on how to perform the analysis, which depend on what type of competitive advantage a company wants to create (cost or

differentiation advantage). The table below lists all the steps needed to achieve cost or differentiation advantage using VCA.

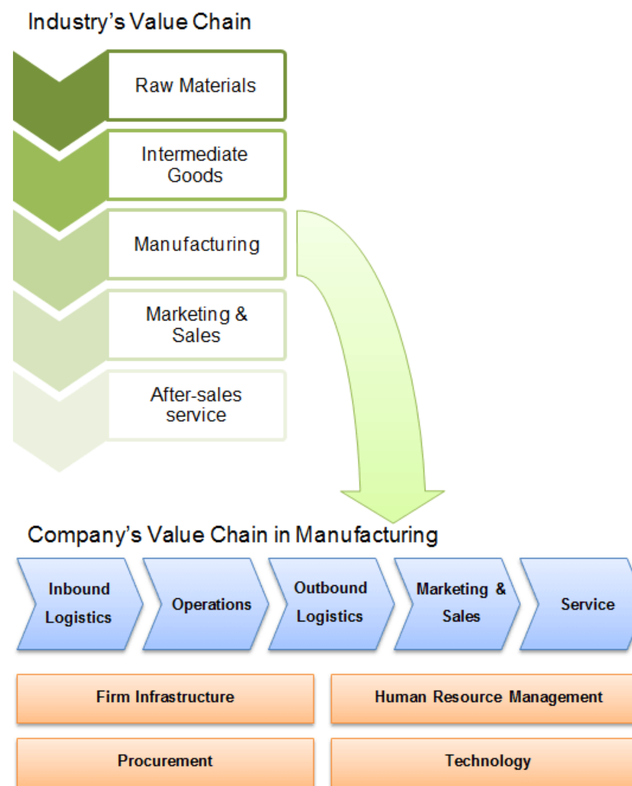


Fig No:19 Value Chain Analysis

Cost advantage

To gain cost advantage a firm has to go through 5 analysis steps:

- Step 1. Identify the firm's primary and support activities.
- Step 2. Establish the relative importance of each activity in the total cost of the product.
- Step 3. Identify cost drivers for each activity.
- Step 4. Identify links between activities.
- Step 5. Identify opportunities for reducing costs.

Differentiation advantage

VCA is done differently when a firm competes on differentiation rather than costs. This is because the source of differentiation advantage comes from creating superior products, adding more features and satisfying varying customer needs, which results in higher cost structure.

- Step 1. Identify the customers' value-creating activities.
- Step 2. Evaluate the differentiation strategies for improving customer value.
- Step 3. Identify the best sustainable differentiation.

Value Chain Analysis Example					
Step 1 - Firm's primary activities					
Design and engineering	Purchasing materials and components	Assembly	Testing and quality control	Sales and marketing	Distribution and dealer support
Step 2 - Total cost and importance					
$164 M less important	$410 M very important	$524 M very important	$10 M not important	$384 M important	$230 M less important
Step 3 - Cost drivers					
Number and frequency of new models Sales per model	• Order size Average value of purchases per supplier • Location of suppliers	• Scale of plants Capacity utilization • Location of plants	Level of quality targets Frequency of defects	Size of advertising budget Strength of existing reputation • Sales Volume	Number of dealers • Sales per dealer Frequency of defects requiring repair recalls
Step 4 - Links between activities					
1. High-quality assembling process reduces defects and costs in quality control and dealer support activities. 2. Locating plants near the cluster of suppliers or dealers reduces purchasing and					

distribution costs. 3. Fewer model designs reduce assembling costs. 4. Higher order sizes increase warehousing costs.
Step 5 - Opportunities for reducing costs
1. Create just one model design for different regions to cut costs in designing and engineering, to increase order sizes of the same materials, to simplify assembling and quality control processes and to lower marketing costs. 2. Manufacture components inside the company to eliminate transaction costs of buying them in the market and to optimize plant utilization. This would also lead to greater economies of scale.

5.6.1 PROFITABILITY MATRIX

Marakon Profitability Matrix is an instrument of controlling and is also used in other areas of business administration. The instrument developed by Marakon Associates for the presentation and analysis of the company portfolio is based on the Gordon model and the associated boundary conditions. The Marakon Profitability Matrix serves as an explanation grid for the financial positioning of strategic business units within Strategic Management.The Marakon Profitability Matrix is a graphical representation in a two-dimensional coordinate system based on the M / B ration determined in the Gordon model. On the abscissa, the growth g is deducted and the equity return RoE of the strategic business units is deducted on the ordinate.

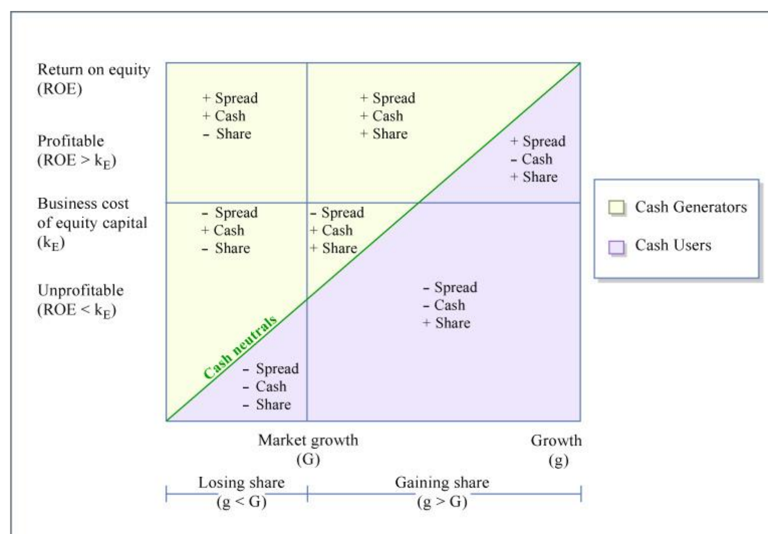


Fig No:20 Profitability Matrix

Strategic Implementation and control

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

Strategic Implementation Process

a) Determining how much the organization will have to change in order to implement the strategy under consideration, under consideration.
b) Analyzing the formal and informal structures of the organization.
c) Analyzing the "*culture*" of the organization.
d) Selecting an appropriate approach to implementing the strategy.
e) Implementing the strategy and evaluating the results.

The process is on-going and a continuous fine tuning, adjusting, and responding is needed as circumstance change.

5.6.2 DESIGNING STRATEGIC CONTROL SYSTEMS

Strategic control systems provide 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 importance of strategic control

- Achieving operational efficiency
- Maintaining focus on quality
- Fostering innovation
- Insuring responsiveness to customers

Strategic control process

The basic control process involves mainly these steps as shown in Figure

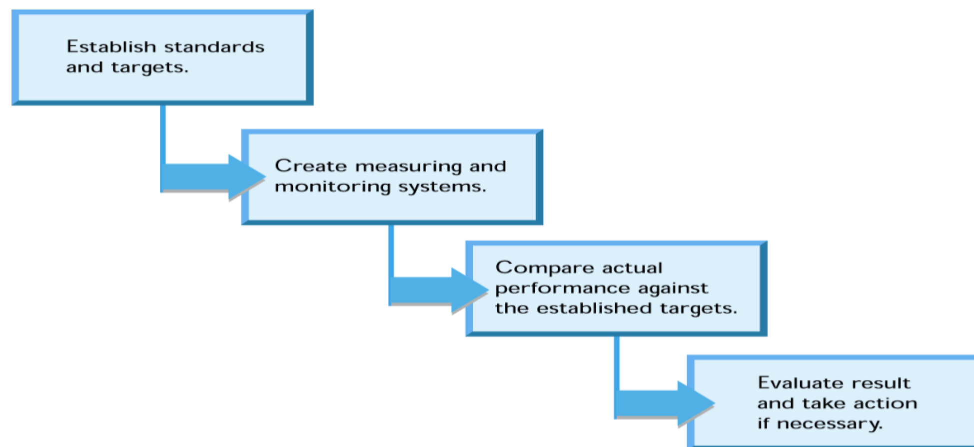


Fig No:21 Strategic Control Systems

a) The Establishment of Standards:

Because plans are the standards against which controls must be revised, it follows logically that the first step in the control process would be to accomplish plans. Plans can be considered as the criterion or the standards against which we compare the actual performance in order to figure out the deviations.

Examples for the standards

- Profitability standards: In general, these standards indicate how much the company would like to make as profit over a given time period- that is, its return on investment.
- Market position standards: These standards indicate the share of total sales in a particular market that the company would like to have relative to its competitors.
- Productivity standards: How much that various segments of the organization should produce is the focus of these standards.
- Product leadership standards: These indicate what must be done to attain such a position.

- Employee attitude standards: These standards indicate what types of attitudes the company managers should strive to indicate in the company's employees.
- Social responsibility standards: Such as making contribution to the society.
- Standards reflecting the relative balance between short and long-range goals.

b) Measurement of Performance:

The measurement of performance against standards should be on a forward-looking basis so that deviations may be detected in advance by appropriate actions. The degree of difficulty in measuring various types of organizational performance, of course, is determined primarily by the activity being measured. For example, it is far more difficult to measure the performance of highway maintenance worker than to measure the performance of a student enrolled in a college level management course.

c) Comparing Measured Performance to Stated Standards:

When managers have taken a measure of organizational performance, their next step in controlling is to compare this measure against some standard. A standard is the level of activity established to serve as a model for evaluating organizational performance. The performance evaluated can be for the organization as a whole or for some individuals working within the organization. In essence, standards are the yardsticks that determine whether organizational performance is adequate or inadequate.

d) Taking Corrective Actions:

After actual performance has been measured compared with established performance standards, the next step in the controlling process is to take corrective action, if necessary. Corrective action is managerial activity aimed at bringing organizational performance up to the level of performance standards. In other words, corrective action focuses on correcting organizational mistakes that hinder organizational performance. Before taking any corrective

action, however, managers should make sure that the standards they are using were properly established and that their measurements of organizational performance are valid and reliable. At first glance, it seems a fairly simple proposition that managers should take corrective action to eliminate problems - the factors within an organization that are barriers to organizational goal attainment. In practice, however, it is often difficult to pinpoint the problem causing some undesirable organizational effect.

Levels of strategic control

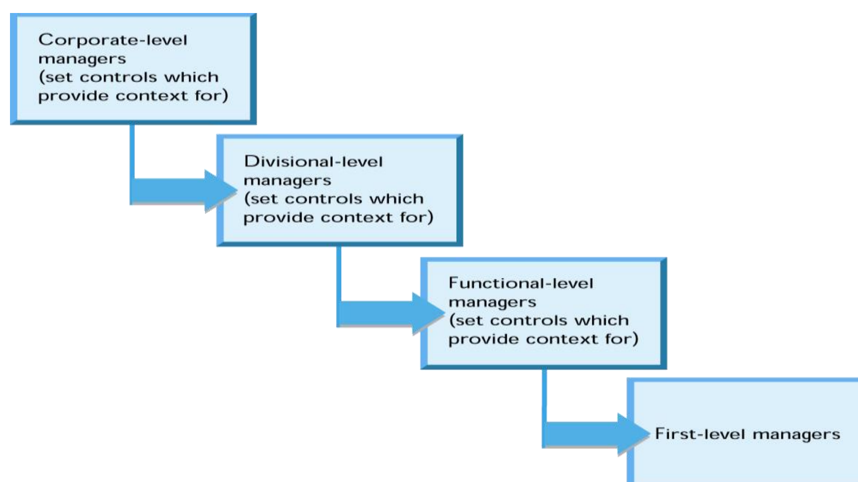


Fig No:22 Strategic Control Levels

Types of control systems

The various types of the control systems are

a) Financial Controls

Since one of the primary purposes of every business firm is to earn a profit, managers need financial controls. Two specific financial controls include budgets and financial ratio analysis.

- Budgets act as a planning tool and control tools as well. They provide managers with quantitative standards against which to measure and compare resource consumption.
- Financial ratios are calculated by taking numbers from the organization's primary financial statements the income statement and the balance sheet.

b) Operations Controls

Operations control techniques are designed to assess how efficiently and effectively an organization's transformation processes are working. Many of these techniques were covered in Chapter 19 as we discussed operations management. However, two operations control tools deserve elaboration: TQM control charts and EOQ model.

- Control charts show results of measurements over a period of time with statistically determined upper and lower limits. They provide a visual means of determining whether a specific process is staying within predefined limits
- The EOQ model helps managers know how much inventory to order and how often to order. The EOQ model seeks to balance four costs associated with ordering and carrying inventory.

c) Behavioral Controls

Managers accomplish organizational goals by working with other people. It's important for managers to ensure that employees are performing as they're supposed to. We'll be looking at three explicit ways that managers control employee behavior: direct supervision, performance appraisals, and discipline.

- Direct supervision is the daily overseeing of employees' work performance and correcting problems as they occur. It is also known as MBWA (management by walking around).
- Performance appraisal is the evaluation of an individual's work performance in order to arrive at objective personnel decisions.

Discipline includes actions taken by a manager to enforce the organization's standards and regulations. The most common types of discipline problems involve attendance, on-the-job behaviors, dishonesty, and outside activities.

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