Mukthagangotri, Mysuru-570 006

MBA

(FOURTH SEMESTER)

STRATEGIC MANAGEMENT

Department of Studies and Research in Management

Course : 21

Module : 1 to 5

KARNATAKA STATE OPEN UNIVERSITY

MUKTHAGANGOTHRI, MYSURU – 570006

DEPARTMENT OF STUDIES AND RESEARCH IN MANAGEMENT

M.B.A IV Semester

COURSE – 21

STRATEGIC MANAGEMENT

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Dear Learner,

It gives me immense pleasure to welcome you to the Department of management to study MBA Second Year (Fourth Semester) in our esteemed university.

I am Extremely happy in placing this study material in your hand. The Department of Studies and Research in Management, Karnataka State Open University is providing you Self Learning Materials (SLM) for all the courses developed by the team of experts drawn from various conventional universities, Open Universities, B-Schools Management institutions and professionals.

This study material explains even the most complicated topics in a very simple and user-friendly manner, it starts with the Objectives, explanation of concepts followed by Case study, Notes, Summary, Key Words, Self Assessment Questions and References. It provides more value added information on contemporary issues.

Department has focussed on conceptual learning and on avoiding bulky and prolonged description. Every concept has been explained in the simplest manner. Some complicated concepts have been simplified in the study material, so that the learner can learn easily.

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a) **Finance** – Finance is one of the most popular specializations of Master of Business Administration (MBA) program. MBA specialization in finance offers, benefits to working professionals in a variety of industries, including commercial and corporate banking, investment services and real estate. MBA in Finance gains you business and financial skills need to work in a number of enterprises. Finance Specialization balances mathematical rigor with management techniques. The finance papers offered by the department builds you as a stock market experts coupled with the knowledge of corporate finance and banking.

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Apparently, the curriculum designed by the board of studies helps you to prepare for UGC NET, various state commission examinations and UPSC examinations. With these words I welcome you for the wonderful learning experience of business education.

I wish all the best and good luck in your education and successful management career.

Dr. C. Mahadevamurthy
Chairman
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INTRODUCTION

Strategic Management is all about identification and description of the strategies that managers can carry so as to achieve better performance and a competitive advantage for their organization. An organization is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry. Strategic management can also be defined as a bundle of decisions and acts which a manager undertakes and which decides the result of the firm's performance. The manager must have a thorough knowledge and analysis of the general and competitive organizational environment so as to take right decisions. They should conduct a SWOT Analysis (Strengths, Weaknesses, Opportunities, and Threats), i.e., they should make best possible utilization of strengths, minimize the organizational weaknesses, make use of arising opportunities from the business environment and shouldn't ignore the threats.

Strategic management is nothing but planning for both predictable as well as unfeasible contingencies. It is applicable to both small as well as large organizations as even the smallest organization face competition and, by formulating and implementing appropriate strategies, they can attain sustainable competitive advantage. It is a way in which strategists set the objectives and proceed about attaining them. It deals with making and implementing decisions about future direction of an organization. It helps us to identify the direction in which an organization is moving. Strategic management is a continuous process that evaluates and controls the business and the industries in which an organization is involved; evaluates its competitors and sets goals and strategies to meet all existing and potential competitors; and then reevaluates strategies on a regular basis to determine how it has been implemented and whether it was successful or does it needs replacement.

Strategic Management gives a broader perspective to the employees of an organization and they can better understand how their job fits into the entire organizational plan and how it is co-related to other organizational members. It is nothing but the art of managing employees in a manner which maximizes the ability of achieving business objectives. The employees become more trustworthy, more committed and more satisfied as they can co-relate themselves very well with each organizational task. They can understand the reaction of environmental changes on the organization and the probable response of the organization with the help of strategic management. Thus the employees can judge the impact of such changes on their own job and can effectively face the changes. The managers and employees must do appropriate things in appropriate manner. They need to be both effective as well as efficient.

One of the major role of strategic management is to incorporate various functional areas of the organization completely, as well as, to ensure these functional areas harmonize and get together well. Another role of strategic management is to keep a continuous eye on the goals and objectives of the organization.

Module 1:- Gives information regarding basic concepts of strategic management which includes information regarding strategy, features, and levels of strategy etc in **unit-1**; **unit 2** includes information regarding characteristics of strategic management, importance and limitations and pitfalls of strategic management. Unit 3 encompasses information regarding porter's generic strategies, strategic decision making, etc. further **unit 4** includes information regarding strategic management process, strategic planning and strategic management.

Module 2:- Provides information regarding strategic formulation, which further provides information regarding developing a vision and mission for business, balance score card, types of objectives etc in **unit 5**. Next **unit 6** includes information regarding strategic intent, merging the strategic vision and objectives, pitfalls in strategic planning etc. **unit 7** includes information regarding environmental analysis such as evaluating the general environment, role of environmental analysis for an industry etc. the last unit, **unit 8** includes information relating to industry analysis such as competitive environment analysis, key success factors, industry driving forces etc.

Module 3:- Includes the information regarding environmental scanning, which further includes internal and external environment, micro, macro and mega environment, achieving synergy, staffing etc in **unit 9** . Further **unit 10** includes information relating to grand strategies, such as strategic alliances, joint ventures, strategic issues in joint venture, divestiture, concentric diversification etc. Further **unit 11** includes information such as BCG growth matrix, GE-nine cell matrix, industry attractiveness, force analysis/competitive analysis etc. The last unit in this module, **unit 12** includes information relating to PESTLE analysis, value chain analysis, three circle analyses etc.

Module 4:-Includes information relating to strategic implementation, such as nature of strategic management, issues involved in strategic implementation, project implementation etc in **unit 13**, **unit 14** includes information relating to procedural implementation and government regulations, resource allocation, budgets etc. next unit, **unit 15** includes information relating to leadership style, which further covers building a capable organisation, corporate culture, social responsibilities etc. The last unit of the module is **unit 16**, includes information relating to functional issues such as functional plans and policies, functional plans in operating area, marketing area, finance area and personnel area etc.

Module 5:- Includes the information relating to strategic evaluation, further encompasses features of strategic evaluation and control, guiding and evaluation of strategies, establishing strategic control etc in **unit 17**, **unit 18** includes information relating to operational control system, which further includes distinction between strategic and operational control, evaluation techniques of operational control etc. next unit, **unit 19** includes information about monitoring performance and evaluation, which further includes information regarding primary measures of corporate performance, strategy implementation, barriers to strategic evaluation and control etc. the last unit , **unit 20** in the module deals with role of corporate governance, principles, role etc and corporate governance models around the world etc.

SRATEGIC MANAGEMENT

Strategic management is a field that deals with the initiatives taken by general managers to enhance the performance of the firms. It entails specifying the organization's mission, vision and objectives, developing policies and plans, and then allocating resources to implement the policies. Strategic management depends upon the size of an organization, and the proclivity to change of its business environment. A course in Strategic Management covers courses in entrepreneurship, economics; leadership, business strategy, networking and business technology. There are three main career opportunities, which can be pursued in this field after the completion of the course, namely, planners, consultants and managers in various firms. The salary varies according to the individual's qualification and experience. In addition, there is immense scope for strategic managers abroad as well.

Most business owners want to make wise decisions, but they sometimes are at a loss of where to begin. This is where strategic management comes into play. An important concept for business owners and managers to grasp, strategic management entails evaluating business goals, objectives and plans in light of your company focus on effectiveness and efficiency.

MODULE – 1: BASICS OF STRATEGIC MANAGEMENT

MODULE – 2: STRATEGIC FORMULATION

MODULE – 3: ENVIRONMENTAL SCANNING AND COMPETITIVE ANALYSIS

MODULE – 4: STRATEGIC IMPLEMENTATION

MODULE – 5: STRATEGIC EVALUATION

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MODULE-I
BASICS OF STRATEGIC MANAGEMENT

UNIT-1 : INTRODUCTION TO STRATEGY

Structure:

1.0 Objectives

1.1 Introduction

1.2 Strategy and Tactics

1.3 Features of Strategy

1.4 Meaning and Definitions of Strategy

1.5 Mintzberg 5Ps of strategy

1.6 Levels of Strategy

1.7 Various Components of a Strategy Statement

1.8 Notes

1.9 Summary

1.10 Key words

1.11 Self Assessment Questions

1.12 References

1.0 OBJECTIVES

After studying this unit, you will be able to;

- Give the meaning and definition of strategy
- Explain Mintzberg 5Ps of strategy
- Describe the concept of strategy
- Identify various levels of strategy
- Highlight the Components of a Strategy Statement

1.1 INTRODUCTION

Concept of Strategy

The concept of strategy is central to the understanding of strategic management. Strategy is basically the long-term direction of an organization. The terms 'strategy' is derived from the Greek word 'strategos' which means 'the art of the general' or 'to command an army'. In other words, strategy involves the general who commands the army, and his or her art of winning in the battlefield (Clausewitz).The military concept of strategy is not unique to the Western world. In ancient China, Sun Tzu wrote a treatise "The Art of Wart", interpreting strategy as the ability to win the war without fighting, by being combat-ready. Similarly, in ancient India, Kautilya wrote a treatise "Arthasastra", where he addressed the concept of strategy from a military perspective.

The strategy of a business enterprise consists of what management decides about the future direction and scope of the business. It entails managerial choice among alternative action programmes, commitment to specific product markets, competitive moves and business approaches to achieve enterprise objectives. In short, it may be called the game plan of management.

According to **Thompson and Strickland,** 'a company's strategy consists of the combination of competitive moves and business approaches that managers employ to please customers, compete successfully, and achieve organizational objectives.

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

1.2 STRATEGY AND TACTICS

Strategy and tactics are often distinguished in terms of their dimensions. Strategy, for the most part, is concerned with deploying resources, and tactics is concerned with employing them. Strategy deals with wide space, long periods of time and large movement of forces; tactics deal with narrow space, short periods of time and small movement of forces. Strategy is a comprehensive plan designed to ensure that the basic objectives of an enterprise are achieved. Tactics are the action plans of specific, step-by-step methods by which strategies are executed. Tactics convert the philosophy of management into practice. The difference between strategy and tactics is summarized in the table as shown below.

	Strategy	**Tactics**
1	Comprehensive plan developed by top management to achieve organizational purposes and long-range objectives	Sub-strategies developed by lower levels of management to achieve short-range objectives.
2	Generally, the focus is on long-term gains	The focus is on short-term gains
3	Uncertainty level is quite high	Decisions are more certain and are taken within the framework of strategies.
4	Affects various parts of the organization in a significant way	The effect is limited to specific departments of the organization.

Exhibit 1.1

1.3 FEATURES OF STRATEGY

Some features of strategy are as detailed below:

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

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

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

4. Strategy relates the firm to its environment, particularly the external environment in all actions whether objective setting, or actions and resources required for its achievement. This definition emphasizes on the systems approach of management and treats an organization as part of the society consequently affected by it.

5. Strategy is the right combination of factors both external and internal. In relating an organization to its environment, the management must also consider the internal factors too, particularly its strengths and weaknesses, to take various courses of action.

6. Strategy is relative combination of actions. The combination is to meet a particular condition, to solve certain problems, or to attain a desirable objective. It may take any form; for every situation varies and, therefore, requires a somewhat different approach.

7. Strategy may even involve contradictory action. Since strategic action depends on environmental variables, a manager may take an action today and revise or reverse his steps tomorrow depending on the situations.

8. Strategy is forward looking. It has orientation towards the future. Strategic ac-tion is required in a new situation. Nothing-new requiring solutions can exist in the past, and so strategy is relevant only to the future.

1.4 MEANING AND DEFINITIONS OF STRATEGY

Strategy has been defined in several ways by several authors on the subject. So some of the important definitions on strategy given by different authors are mentioned below:

1. **Chandler:** Strategy is the determination of the basic long-term goals and objectives of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals (1962).

2. **Igor Ansoff:** Strategy is primarily concerned with external rather than internal problems of the firm and specifically with the selection of the product mix the firms will produce and the markets to which it will serve (1965).

3. **Learned:** Strategy is the pattern of objectives, purposes or goals and major policies or plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in and the kind of business it is to be (1969).
4. **Kenneth Andrews:** Strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes or goals; produces principal policies and plans for achieving those goals, and defines the range of business that it is to pursue (1971).
5. **William F. Glueck:** Strategy is a unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved (1972).
6. **Henry Mintberg:** Strategy is a consistent stream of decisions and actions to deal with the environment (1987).
7. **Prahlad and Hamel:** Strategy is more than just fit and allocation of resources. It is stretch and leveraging of resources (1993).
8. **Michael Porter:** Strategy means developing and communicating the company's unique position, making trade-off and forging fit among activities. 91996).
9. **Johnson and Scholes:** "The direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a changing environment and to fulfill stakeholder expectations (2002).

Thus, to Chandler, Andrews, Anthony and Learned strategy includes not only the goals and objectives, but also the courses of action adopted to achieve them, whereas to Ansoff, strategy refers to the ways by which a firm can achieve its objectives. According to Ansoff, product-market scope, growth vector, competitive advantage and synergy are the courses of action. To Glueck, strategy is "a unified, comprehensive and integrated plan". "Unified" means that it joins all the parts of an enterprise together; 'comprehensive' means it covers all the major aspects of the enterprise, and "integrated" means that all parts of the plan are compatible with each other.

1.5 MINTZBERG 5Ps OF STRATEGY

Mintzberg considers the strategy as a stream of decisions and actions to deal with the environment", because strategic management is not one short activity, but a continuous process.

By studying the above definitions of strategy, we can realize that the concepts of strategy are more complex than it might at first appear. Definitions of strategy tend to emphasize one or more of these aspects but cannot succinctly include all of them.

Thus, different schools of thought see strategy from different perspectives. Therefore, Mintzberg has identified 5Ps of strategy.Mintzberg first wrote about the 5 Ps of Strategy in 1987. Each of the 5 Ps is a different approach to strategy.

They are:

1. Plan. 2. Ploy. 3. Pattern. 4. Position. And 5. Perspective. As represented in the below diagram:

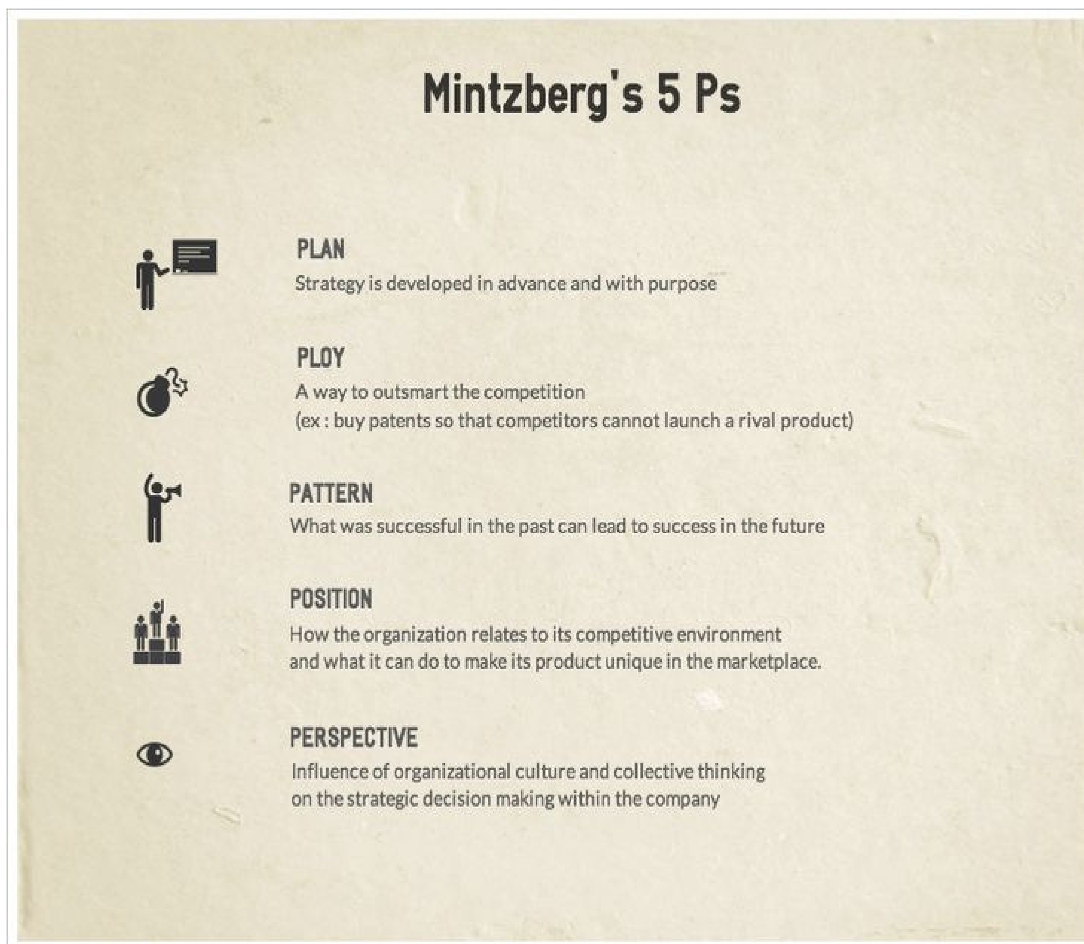

Exhibit 1.2

Plan: Strategy is a plan - some sort of consciously intended course of action, a guideline (or set of guidelines) to deal with a situation. By this definition strategies

have two essential characteristics: they are made in advance of the actions to which they apply, and they are developed consciously and purposefully.

Ploy: As plan, a strategy can be a ploy too, really just a specific manoeuvre intended to outwit an opponent or competitor.

Pattern: If strategies can be intended (whether as general plans or specific ploys), they can also be realised. In other words, defining strategy as plan is not sufficient; we also need a definition that encompasses the resulting behaviour: Strategy is a pattern - specifically, a pattern in a stream of actions. Strategy is consistency in behaviour, whether or not intended. The definitions of strategy as plan and pattern can be quite independent of one another: plans may go unrealised, while patterns may appear without preconception.

Plans are intended strategy, whereas patterns are realised strategy; from this we can distinguish deliberate strategies, where intentions that existed previously were realised and emergent strategies where patterns developed in the absence of intentions, or despite them.

Position: Strategy is a position - specifically a means of locating an organisation in an "environment". By this definition strategy becomes the mediating force, or "match", between organisation and environment, that is, between the internal and the external context.

Perspective: Strategy is a perspective - its content consisting not just of a chosen position, but of an ingrained way of perceiving the world. Strategy in this respect is to the organisation what personality is to the individual. What is of key importance is that strategy is a perspective shared by members of an organisation, through their intentions and / or by their actions. In effect, when we talk of strategy in this context, we are entering the realm of the collective mind - individuals united by common thinking and / or behaviour.

1.6 LEVELS OF STRATEGY

Strategies exist at a number of levels in an organization. There are basically four levels of strategy.

1. Corporate-level strategy
2. Business-level strategy
3. Functional strategy
4. Operational strategy

Exhibit 1.3

Corporate-level Strategy: Corporate level strategy is concerned with the overall direction and scope of an organization and how value will be added to the different business units of the organization. This could include issues of geographical coverage, diversity of products / service or business units, and how resources are to be allocated between the different units of the organization. The corporate headquarters plays a crucial role in determining how the organization should be structured, how targets are set and performance is reviewed and the ways in which they can add value to the separate business units within the company. Corporate-level strategy is also concerned with the expectations of owners, the shareholders and the stock market. Being clear about corporate-level strategy is important because it is the basis of other strategic decisions.

Business-level strategies: Business-level strategy can be thought of as a second-level strategy. It is about how to compete successfully in particular markets. The concerns are therefore about how advantage over competitors can be achieved; what new opportunities can be identified or created in markets; which products or services should be developed in which markets and how to meet customer needs in such a way as to achieve the objectives of the organization such as long-term profitability or market share growth. So, corporate strategy involves decisions about the organization as a whole, whereas business strategy involves decisions about the strategic business unit (SBU).

Functional Strategies: Functional strategies are detailed action plans or means that are undertaken in functional areas to achieve short-term objectives and establish competitive advantage.

Functional strategies identify the specific, immediate actions that must be undertaken in functional areas such as operations, finance, marketing, HR etc. to implement the business strategy. Within the general framework provided by the business and corporate-level strategies, each business function needs to identify and undertake activities unique to the function that help build a sustainable competitive advantage.

Some authors prefer to refer to these strategies as "functional tactics" rather than functional strategies because they are more in the nature of sub-strategies developed by lower levels of management to achieve short-range objectives limited to specific functional departments of the organization.

Operational Strategies: The fourth level of strategy is at the operating end of an organization. The operational strategies or tactics are concerned with how the component parts of an organization deliver effectively the corporate and business-level strategies in terms of resources, processes and people. For example, production scheduling, promotional initiatives, pricing, distribution strategies etc. at the operational level fall into this category. Indeed, in most businesses, successful business strategies depend to a large extent on decisions that are taken or activities that occur, at the operational level. The integration of operational decisions and strategic decisions is therefore of great importance.

1.7 VARIOUS COMPONENTS OF A STRATEGY STATEMENT

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

Strategic Intent:

Exhibit 1.4

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

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

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

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

Mission Statement:

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

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

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

Features of a Mission:

- Mission must be feasible and attainable. It should be possible to achieve it.
- Mission should be clear enough so that any action can be taken.
- It should be inspiring for the management, staff and society at large.
- It should be precise enough, i.e., it should be neither too broad nor too narrow.
- It should be unique and distinctive to leave an impact in everyone's mind.
- It should be analytical, i.e., it should analyze the key components of the strategy.
- It should be credible, i.e., all stakeholders should be able to believe it.

Vision Statement:

A vision statement identifies where the organization wants or intends to be in future or where it should be to best meet the needs of the stakeholders. It describes dreams and aspirations for future. For instance, Microsoft's vision is "to empower people through great software, any time, any place, or any device." Wal-Mart's vision is to become worldwide leader in retailing.

A vision is the potential to view things ahead of themselves. It answers the question "where we want to be". It gives us a reminder about what we attempt to develop. A vision statement is for the organization and its members, unlike the mission statement which is for the customers/clients. It contributes in effective decision making as well as effective business planning. It incorporates a shared understanding about the nature and aim of the organization and utilizes this understanding to direct and guide the organization towards a better purpose. It describes that on achieving the mission, how the organizational future would appear to be.

An effective vision statement must have following features:

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

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

Goals and Objectives:

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

- These are precise and measurable.
- These look after critical and significant issues.
- These are realistic and challenging.
- These must be achieved within a specific time frame.

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

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

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

1.8 NOTES

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1.9 SUMMARY

The term 'strategy' is now used in all areas where the horizon is long-term, there is a competition for the use of resources, and the objective is to realize some goals. With the evolving importance of strategy as theoretical base, business enterprises have also adopted the principles of strategy that have traditionally guided military strategists in war. Every organization competing in an industry must have a strategy. The strategy may have been developed explicitly through a planning process or it may have evolved implicitly through an emergent process. But an organization cannot operate successfully without a strategy. In business parlance, strategy is a long term plan or a course of action to achieve organizational objectives. It is a means to achieve goals.

1.10 KEY WORDS

- **Strategy:** is a well defined roadmap of an organization. It defines the overall mission, vision and direction of an organization. The objective of a strategy is to maximize an organization's strengths and to minimize the strengths of the competitors.
- **Strategy,** in short, bridges the gap between "where we are" and "where we want to be".
- **Strategic Intent:** It describes how the firm's energy and resources are channelled into a focused and unified overall goal (Daft et al., 2010; Hamel & Prahalad, 1989). It is the strategic direction and destiny to be pursued by the company (Landrum, 2008).

1.11 SELF ASSESSMENT QUESTIONS

1. Briefly explain various components of strategy statement.
2. Mention the different levels of strategy.
3. Briefly explain Mintzberg 5 P's of strategy.
4. Identify the difference between vision and mission statements.

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UNIT-2: INTRODUCTION TO STRATERGIC MANAGEMENT(SM)

Structure :

2.0 Objectives

2.1 Introduction

2.2 Meaning and Definitions of Strategic Management

2.3 Strategic Management and Operational Management

2.4 Characteristics of Strategic Management

2.5 Why Strategic Management?

2.6 Importance of Strategic Management

2.7 Reasons for Poor Strategic Planning

2.8 Limitations and Pitfalls of Strategic Management

2.9 Guidelines for Effective Strategic Management

2.10 Notes

2.11 Summary

2.12 Key words

2.13 Self Assessment Questions

2.14 References

2.0 OBJECTIVES

After studying this unit, you will be able to;

- Give the meaning and Definition of Strategic Management
- Describe the Guidelines for Effective Strategic Management
- Analyze the Limitations and Pitfalls of Strategic Management
- Identify the Importance of Strategic Management
- Highlight the Reasons for Poor Strategic Planning

2.1 INTRODUCTION

Strategic management involves recognizing opportunities and threats facing an organization, whether coming from within the organization or from competitors, and identifying how the organization stacks up compared to its competitors. This requires the ability to both look externally and internally. Strategic management is divided into several schools of thought. A prescriptive approach to strategic management outlines how strategies should be developed, while a descriptive approach focuses on how strategies are made in practice. These schools differ over whether strategies are developed through an analytic process in which all threats and opportunities are accounted for, or are more like general guiding principles that have to be applied.

Business culture, the skills and competencies of employees, and organizational structure are important factors that influence how an organization can achieve its stated objectives. Companies that are inflexible may find it difficult to succeed in a changing business environment. Creating a barrier between the development of strategies and their implementation can make it difficult for managers to determine whether objectives were efficiently met. While an organization's upper management is ultimately responsible for its strategy, many times the strategies themselves are sparked by actions and ideas from lower level managers and employees. An organization may have several employees devoted to strategy rather than relying on the CEO. Organization leaders focus on learning from past strategies and examining the environment at large. This knowledge is then used to develop future strategies and to guide the behavior of employees to ensure that the entire organization is moving forward.

Strategic Management is exciting and challenging. It makes fundamental decisions about the future direction of a firm-its purpose, its resources and how it interacts with the environment in which it operates. Every aspect of the organization plays a role in

strategy – its people, its finance, its production methods, and its customers and so on. Strategic Management is basically the systematic organisation and execution of major targets and initiatives that are taken by the top management on behalf of the owners, after going through careful study of all the available resources and assessment of all the internal and external paradigms to reap the best possible results for the business. It also works as a tool for ensuring the establishment of stable business machinery which conforms to all the vital factors that are essential for effective management. It is the study of various management techniques and procedures which are focused on the integration of cross functional decisions, which are formed after thorough examination and are implemented to facilitate the achievement of a business' objectives. To put it simply, strategic management is concerned with the application and formation of judicious decisions which are to strengthen a business' management, ultimately leading towards the achievement of its goals and objectives.

2.2 MEANING AND DEFINITIONS OF STRATEGIC MANAGEMENT

It is the management of an organization's resources in order to achieve its goals and objectives. Strategic management involves setting objectives, analyzing the competitive environment, analyzing the internal organization, evaluating strategies, and making sure that the strategies are rolled out across the organization.

"Strategic management is concerned with the determination of the basic long-term goals and the objectives of an enterprise and the adoption of courses of action and allocation of resources necessary for carrying out these goals"

- ***Alfred Chandler, 1962***

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

- ***Glueck and Jauch, 1984***

"Strategic management is a process of formulating, implementing and evaluating cross-functional decisions that enable an organization to achieve its objective".

- ***Fed R David, 1997***

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

- ***Pearce and Robinson, 1988***

"Strategic management includes understanding the strategic position of an organization, making strategic choices for the future and turning strategy into action."

\- ***Johnson and Sholes, 2002***

"Strategic management consists of the analysis, decisions, and actions an organization undertakes in order to create and sustain competitive advantages."

\- ***Dess, Lumpkin & Taylor, 2005.***

2.3 STRATEGIC MANAGEMENT AND OPERATIONAL MANAGEMENT

Strategic management is different in nature from other aspects of management. an individual manager is most often required to deal with problems of operational nature. He generally focuses on day-to-day problems such as the efficient production of goods, the management of a sales force, the monitoring of financial performance or the design of some new system that will improve the level of customer service. These are all very important tasks. But they are essentially concerned with effectively managing resources already deployed, within the context of an existing strategy: in other words, operational control is what managers are involved in most of their time. It is vital to the effective implementation of strategy, but it is not the same as strategic management.

The scope of strategic management is greater than that of any one area of management. Strategic management is concerned with complexity arising out of ambiguous and non-routine situations with organization-wide implications. This is a major challenge for managers because they need to develop a capability to take an overview, to conceive of the whole rather than just the parts of the situation facing an organization. Because strategic management is characterized by its complexity, it is also necessary to make decisions and judgments based on conceptualization of difficult tasks.

It is, however, not easy to manage strategically. Therefore are limits to the abilities of managers to forces the future, to understand the significance of change, to conceive strategies and implement them successfully. Managers need to be aware of these limits, but cannot avoid their responsibility for taking action. The objective of strategic management is, therefore, to prepare an enterprise for future success – to conceive and secure the future of the enterprise.

The table below summarizes important differences between strategic management and operational management.

Strategic Management		Operational Management	
1	Long range planning	1	Short range planning
2	Time frame (3 or more years)	2	Time frame (1 year or less)
3	Top management responsibility	3	Middle and lower level responsibility
4	Decisions are taken in ambiguous, uncertain and complex conditions.	4	Mostly routine decisions
5	Organization wide implications	5	Implications at functional or work unit level
6	The issues are long-term, abstract and may be unfamiliar	6	The issues are immediate, concrete and familiar
7	Diversification, mergers, joint ventures, differentiation etc.	7	Examples are: Production planning, sales planning, etc.

Exhibit 2.1

2.4 CHARACTERISTICS OF STRATEGIC MANAGEMENT

The following are the fundamental characteristics of strategic management. Readers may note that some of these characteristics may overlap with the characteristics of "strategic decisions" and "strategic approach" as these are all related concepts.

Long-term Direction: Strategic management is concerned with the long-term direction of an organization.

Recognizes change: Strategic management recognizes that environment will change and that organizations should continually monitor internal and external events and trends, so that timely action can be taken as needed.

Oriented Towards the Future: Strategic management is oriented towards the future. It is a long-range orientation, one that tries to anticipate events rather than simply react as they occur.

External Emphasis: Strategic management process takes into account several components of the external environment, including technological, political, economic and social dimension and their impact on business.

Concerned with Scope of the organization: Strategic management is concerned with the scope of an organization's activities. For example, should an organization concentrate on one area of activity or should it have many? This includes important decisions about range or geographical coverage and is concerned with the organization's boundaries.

Major impact on the Organization: Strategic management will have a major impact on the success or failure of a company.

Significant Risk: Strategic management involves major risks.

Major Financial or Other Resources Implications: Strategic management involves major risks.

"Matching" Resources with the Environment: Strategic management is concerned with matching the resources and activities of an organization to the environment in which it operates. This is often referred to as "strategic fit". The notion of strategic fit is developing strategy by identifying opportunities in the business environment and adapting resources and competencies to take advantage of t hose opportunities. Such a strategic fit is important to achieve the correct positioning of the firm to meet clearly identified market needs.

"Stretching" Resources and Competences: Stretch is the leverage of the resources and competences of an organization to create opportunities or to capitalize on them. Such a stretch provides an organization competitive advantage.

Influenced by Stakeholders: The strategic decisions of an organization are not only influenced by environmental forces and resource availability, but also by the values and expectations of the stakeholders of the organization.

Affect Operational Decisions: Strategic management affects operational decisions because it is at the operational level that real strategic advantage can be achieved. If the operational aspects of the organization are not in line with the strategy, then, no matter how well conceived the strategy is, it will not succeed.

Competitive Advantage: Strategic management aims at achieving some advantage for the organization over competitors.

So Strategic Management can be described as the identification of the purpose of the organization and the plans and actions to achieve that purpose. It is that set of managerial decisions and actions that determine the long-term performance of a business enterprise. It involves formulating and implementing strategies that will help in aligning the organization and its environment to achieve organizational goals. Strategies will help in aligning the organization and its environment to achieve organizational goals. Strategic management does not replace the traditional management activities such as planning, organizing, leading or controlling. Rather, it integrates them into a broader context taking into account the external environment and internal capabilities and the organization's overall purpose and direction. Thus, strategic management involves those management processes in organizations through which future impact of change is determined and current decisions are taken to reach a desired future. In short, strategic management is about envisioning the future and realizing it.

2.5 WHY STRATEGIC MANAGEMENT?

"We are tackling 20-year problems with five-year plans staffed with two-year personnel funded by one-year appropriations". **Harlan Cleveland**

The above quotation sums up why today's decision makers must plan and manage strategically. In developing as well as in industrialized countries, the increasingly rapid nature of change as well as a greater openness in the political and economic environments, requires a different set of perspective from the needed during more stable times.

When a certain degree of equilibrium existed in the environment, as during the 1950s, with constant positive economic growth, low debt, manageable budgets and relative environment stability, managers could concentrate almost exclusively on the internal dimensions of their organizations and assume constancy in the external environment. Forward calculations were simple, inputs were predictable, and planning was mostly an arithmetic exercise.

Now, systems are much more open, environment is characterized by increasingly unstable economic growth, budgets are constantly revised, inputs are thoroughly unpredictable, and planning in the traditional sense is no longer tenable.

Therefore, today's enterprises need strategic management to reap the benefits of business opportunities, overcome the threats and stay ahead in the race. The purpose of strategic management is to exploit and create new and different opportunities for tomorrow; while long-term planning, in contrast, tries to optimize for tomorrow the trend of today.

Today, all top companies are involved in strategic management. They are finding ways to respond to competitors, cope with difficult environmental changes, meet changing customer needs and effectively use available resources. At a time when the business environment is changing rapidly, even established firms are paying more attention to strategy because they may ace new competitors who threaten their core business. Should a firm compete in all areas or concentrate on one area. Should a company try to extend the brand to even more diverse areas of activity, or would it gain more by building profits in the existing areas and achieving more synergies across the group. Should the company continue the current strategy as it is now, or would it initiate a radical review of its strategy? These are just a few examples of the strategic part of the management tasks.

2.6 IMPORTANCE OF STRATEGIC MANAGEMENT

No business firm can afford to travel in a haphazard manner. It has to travel with the support of some route map. Strategic management provides the route map for the firm. It makes it possible for the firm to take decisions concerning the future with a greater awareness of their implications. It provides direction to the company; it indicates how growth could be achieved.

The external environment influences the management practices within any organization. Strategy links the organization to this external world. Changes in these external forces create both opportunities and threats to an organization's position – but above all, they create uncertainty. Strategic planning offers a systematic means of coping with uncertainty and adapting to change. It enables managers to consider how to grasp opportunities and avoid problems, to establish and coordinate appropriate courses of action and to set targets for achievement.

Thirdly, strategic management helps so formulate better strategies through the use of a more systematic, logical and rational approach. Through involvement in the

process, managers and employees become committed to supporting the organization. The process is learning, helping, educating and supporting activity.

An increasing number of firms are using strategic management for the following reasons:

1. It helps the firm to be more proactive than reactive in shaping its own future.
2. It provides the roadmap for the firm. It helps the firm utilize its resources in the best possible manner.
3. It allows the firm to anticipate change and be prepared to manage it.
4. It helps the firm to respond to environmental changes in a better way.
5. It minimizes the chances of mistakes and unpleasant surprises.
6. It provides clear objectives and direction for employees.

Further benefits are as mentioned below:

1. **It reduces uncertainty**: Planning forces managers to look ahead, anticipate changes and develop appropriate responses. It also encourages managers to consider the risks associated with alternative responses or options.
2. **It provides a link between long and short terms**: Planning establishes a means of coordination between strategic objectives and the operational activities that support the objectives.
3. **It facilitates control**: By setting out the organization's overall strategic objectives and ensuring that these are replicated at operational level, planning helps departments to move in the same direction towards the same set of goals.
4. **It facilitates measurement**: By setting out objectives and standards, planning provides a basis for measuring actual performance.

Strategic management has thus both financial and non-financial benefits:

Financial Benefits: Research indicates that organizations that engage in strategic management are more profitable and successful than those that do not. Businesses that followed strategic management concepts have shown significant improvements in sales, profitability and productivity compared to firms without systematic planning activities.

Non – financial benefits: Besides financial benefits, strategic management offers other intangible benefits to a firm. They are;

1. Enhanced awareness of external threats.
2. Improved understanding of competitors' strategies
3. Reduced resistance to change
4. Clearer understanding of performance-reward relationship
5. Enhanced problem-prevention capabilities of organization.
6. Increased interaction among managers at all divisional and functional levels.
7. Increased order and discipline.

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

1. It allows for identification, prioritization and exploitation of opportunities.
2. It provides objective view of management problems.
3. It provides a framework for improved coordination and control of activities.
4. It minimizes the effects of adverse conditions and changes.
5. It allows decision-making to support established objectives
6. It allows more effective allocation of time and resources to identified opportunities.
7. It allows fewer resources and less time to be devoted to correcting erroneous and ad hoc decisions.
8. It creates a framework for internal communication among personnel.
9. It helps integrate the behavior of individuals into a total effort.
10. It provides a basis for clarifying individual responsibilities.
11. It encourages forward thinking.
12. It provides a cooperative, integrated enthusiastic approach to tackling problems and opportunities.
13. It encourages a favourable attitude towards change.
14. It gives a degree of discipline and formality to the management of a business.

2.7 REASONS FOR POOR STRATEGIC PLANNING

Some firms do not engage in strategic planning or do poor strategic planning. As quoted by **Fred R. David**, the reasons for poor or no strategic planning are:

1. **Poor Reward Structures:** Some organizations do not reward success, but are ready to punish failures. In such situations, employees do not take risk and do not try to achieve something.
2. **Fire-Fighting:** Some organizations get so deeply involved in fire-fighting and crisis management, that they have no time for strategic planning.
3. **Waste of Time:** Some organizations considered planning as a waste of time, since no immediate results can be seen.
4. **Too Expensive:** Some organizations are culturally opposed to spending resources on planning.
5. **Laziness:** Some organizations do not want to put forth the effort needed to formulate a plan.
6. **Content with Success:** When a firm is successful, managers may feel that there is no need to plan because things are fine as they stand. But they do not realize that success today may not guarantee success tomorrow.
7. **Fear of Failure:** Some organizations may think that by not taking action, there is little risk of failure.
8. **Overconfidence:** As individual gain experience, they become overconfident and rely less on formalized planning.
9. **Prior Bad Experience:** People may have had a previous bad experience with planning as a long, cumbersome, impracticable or inflexible process. So, they avoid planning.
10. **Self-interest:** When someone has achieved status, privileges or self-esteem through effectively using the old system, he or she often sees a new plan as a threat.
11. **Fear of the Unknown:** People may be uncertain of their abilities to learn new skills, work with new systems or assume new roles for fear of the unknown.
12. **Honest Difference of Opinion:** People may sincerely believe that the plan is wrong, so they do not support the planning process.
13. **Suspicion:** Employees may not trust the management.

2.8 LIMITATIONS AND PITFALLS OF STRATEGIC MANAGEMENT

Strategic management is an intricate and complex process that takes an organization into unchartered territory. It does not provide a ready-to-use prescription for success. Instead, it takes the organization the rough a journey and offers a framework for addressing questions and solving problems.

Strategic management is not, therefore, a guarantee for success, it can bed dysfunctional if conducted haphazardly. The following are its limitations.

Limitations of Strategic Management

1. It is costly exercise in terms of the time that needs to be devoted to it by managers. The negative effect of managers spending time away from their normal tasks may be quite serious.
2. A negative effect may arise due to the non-fulfillment of the expectations of the participating managers, leading to frustration and disappointment.
3. Another negative effect of strategic management may arise if those associated with the formulation of strategy are not intimately involved in the implementation of strategies. The participants in formulations of the policy may shirk their responsibility for the decisions taken.

Pitfalls in Strategic Management

As quoted by **Fred R. David**, some pitfalls to watch for and avoid in strategic planning are:

1. Using strategic planning to control over decisions and resources.
2. Doing strategic planning only to satisfy accreditation or regulatory requirements
3. Moving too hastily from mission development to strategy formulation
4. Failing to communicate the strategic plan to the employees, who continue working in the dark.
5. Top managers making many intuitive decisions that conflict with the formal plan
6. Top managers not actively supporting the strategic planning process
7. Failing to use plans as a standard for measuring performance.

8. Delegating strategic planning to a consultant rather than involving all mangers.
9. Failing to involve key employees in all phases of planning
10. Failing to create a collaborative climate supportive of change
11. Viewing planning to be unnecessary or unimportant.
12. Becoming so engrossed in current problems that insufficient or no planning is done.
13. Being so formal in planning that flexibility and creativity are stifled.

2.9 GUIDELINES FOR EFFECTIVE STRATEGIC MANAGEMENT

The following are some guidelines for conducting strategic management effectively.

1. Even the most technically perfect strategic plan will serve little purpose if it is not implemented. Organizations should, therefore, take strategy seriously.
2. Strategic management must not become a self-perpetuating bureaucratic mechanism. Rather, it must be a self reflective learning process for all employees in the organization resolving strategic issues.
3. Keep the strategic management process as simple and non-routine as possible.
4. Eliminate jargon and arcane planning language.
5. The process should not be predictable and settings must be changed to stimulate creativity.
6. If a strategy is not working, managers need to know it.
7. Build a corporate culture in which the role of strategic management and its essential purposes are understood.
8. An important guideline for strategic management is that all organization members must share a spirit of inquiry and learning. This degree of discipline will promote understanding and learning.
9. No organization can pursue all the strategies that potentially could benefit the firm.
10. Strategic decisions require trade-offs such as long range versus short-range considerations.

2.10 NOTES

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2.11 SUMMARY

Strategic Management can be described as the identification of the purpose of the organization and the plans and actions to achieve that purpose. It is that set of managerial decisions and actions that determine the long-term performance of a business enterprise. It involves formulating and implementing strategies that will help in aligning the organization and its environment to achieve organizational goals. Strategies will help in aligning the organization and its environment to achieve organizational goals. Strategic management does not replace the traditional management activities such as planning, organizing, leading or controlling. Rather, it integrates them into a broader context taking into account the external environment and internal capabilities and the organization's overall purpose and direction. Thus, strategic management involves those management processes in organizations through which future impact of change is determined and current decisions are taken to reach a desired future. In short, strategic management is about envisioning the future and realizing it.

2.12 KEY WORDS

Resistance to Change: It is the act of opposing or struggling with modifications or transformations that alter the status quo in the workplace. Employees resist change when it is introduced to them poorly, when it affects how they do their work, and when they don't see the need for the changes.

Strategy: it is the direction and scope of an organisation over the long term, which achieves advantage for the organisation through its configuration of resources within a changing environment, to meet the needs of markets and fulfill stakeholder expectations.

2.13 SELF ASSESSMENT QUESTIONS

1. What do you mean by strategic management?
2. Define the characteristics of strategic management.
3. Identify requirement of Strategic Management?
4. Discuss the Guidelines for Effective Strategic Management.
5. Mention the Reasons for Poor Strategic Planning.

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UNIT-3 : STRATEGIC PLANNING, STRATEGIC DECISION MAKING AND COMPETITIVE ADVANTAGE

Structure :

3.0 Objectives

3.1 Introduction

3.2 Significance of Competitive Advantage

3.3 Porter's generic Strategies

3.4 Where to Implement Competitive Advantage?

3.5 Importance of Competitive Advantage in Turbulent Times

3.6 Performance is the Key

3.7 Strategic Planning and its Importance

3.8 Major Components of a Strategic Plan

3.9 Strategic Decision Making

3.10 Characteristics/Features of Strategic Decisions

3.11 Notes

3.12 Summary

3.13 Key words

3.14 Self Assessment Questions

3.15 References

3.0 OBJECTIVES

After studying this unit, you will be able to;

- Understand the meaning of competitive advantage
- Explain the Porter's generic Strategies
- Analyze the Strategic Planning
- Examine the Importance of strategic planning
- Identify Features of Strategic Decisions
- Highlight the Strategic Decision Making

3.1 INTRODUCTION

Definition: A competitive advantage is what makes you better than the competition in your customers' minds. Businesses were the first to adopt this method of success. But it is true for anyone, from an employee to a country. Before determining your competitive advantage, you've got to know these three determinants.

Competitive advantage is the favorable position an organization seeks in order to be more profitable than its competitors.

Competitive advantage involves communicating a greater perceived value to a target market than its competitors can provide. This can be achieved through many avenues including offering a better-quality product or service, lowering prices and increasing marketing efforts. Sustainable competitive advantage refers to maintaining a favorable position over the long term, which can help boost a company's image in the marketplace, its valuation and its future earning potential.

Why do you buy Coke over Pepsi? Why will you spend $80 on a pair of a certain brand of sneakers? The answer lies in the term **competitive advantage**. Competitive advantage is a set of unique features of a company and its products that are perceived by the target market as significant and superior to the competition. It is the reason behind brand loyalty, and why you prefer one product or service over another. There are three different types of competitive advantages that companies can actually use. They are cost, product/service differentiation, and niche strategies.

3.2 SIGNIFICANCE OF COMPETITIVE ADVANTAGE

The importance of a competitive advantage can neither be over-stated nor be under-estimated, for it is what it is. Experience and detailed analysis shows that good many companies have failed successfully by following a marketing strategy not giving it due weight-age.

Its importance can be well explained by the following points:

1. It is the heart of marketing strategy:

Successful companies normally bring into shape those strategies which revolve around an area of distinctive competence to the firm. The real need for acquiring the competitive advantage is as clear as crystal that the companies have failed to acquire competitive advantage needed to make the strategy to work in favour of the company. It is competitive advantage that takes the company to its preset objectives for objectives remain elusive and the strategies naturally hollow. Any successful strategy is fabric of competitive advantage.

2. It is the antidote for competitor's superiority:

Scoring over the competitors as well as defending against the competitors is founded on competitive advantage. It is the well thrashed out competitive strategy and the competitive advantage of the firm that is clearly understood by examining the various activities of the company by observing as to how differently and distinctively the firm performs these activities as compared to its open and hidden competitors.

3. It is the route to the long-term marketing success:

The opening up of borders has really shaken up the existing protected industries. Therefore, a time has come to have a look at what competitive marketing strategies one needs to follow to counteract the likely competition from global players of this global village. The competitive actions are bound to evoke a response from competition. Competitive strategy has to be one that is sure to give competitive advantage. Having given the competitive advantage, the strategy should also be able to sustain the advantage. Put in other words, competitive strategy should give sustainable competitive advantage.

This needs competitive analysis that consists of:

(a) The long-term profit opportunity and

(b) The company's competitive position – the strengths and weaknesses.

To grasp the implications of the phrase "profit opportunity" it is inescapable to have knowledge of the market, knowledge of the government policies and clear-cut idea about expected for projected growth rates in the markets; to understand the real meaning of phrase "competitive position', one should know the source or sources of competition. The source or sources can be intra-industry, inter-industry, globalisation, liberalisation, buyers and suppliers and even cheaper and substitute products.

4. It makes profit a secondary product:

Good many organisations are increasingly learning where to draw the line of difference. Those that did not learn the distinction had to experience the inevitable hard way through lost- customers and lost market share, finally leading to downing the shutters of business and business houses. Here profit means an advantage or a benefit or the excess of returns over the expenditures. Therefore, "profit" is no longer considered a bad word though "profiteering" is. Profits are important because they provide much needed basic energy Profit is something that an organisation generates in the process of transforming its resources into customer satisfaction; part of it is utilized for survival.

While the balance is ploughed back with increased importance on newer customer need identification and effective and efficient means of consumer satisfaction. Thus, profit is the "by-product" and not the "end product". Effective organizations do not exist and grow for making profits; they never work for maximization of profits. Instead, they continuously struggle to use the resources optimally towards consumer delight.

5. It makes the unit to remain competitive evergreen:

Every organisation wants to grow. As it grows, it is natural that its structure becomes more fragile, shape becomes less flexible, and the nerve system tends to be more rigid. Organizations' develop several restraining forces as they grow, and therefore, they need to be watchful and continuously manage themselves to remain competitive. Competitive means an attempt or a struggle to strive for the number one position in parameters of COST – QUALITY DESIGN and MARKETING – a multi-dimensional process, the management of which is difficult but not impossible.

3.3 PORTER'S GENERIC STRATEGIES

The main challenge for business strategy is to find a way of achieving a **sustainable competitive advantage** over the other competing products and firms in a market. A **competitive advantage** is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service

that justifies higher prices. Porter suggested four "generic" business strategies that could be adopted in order to gain competitive advantage. The strategies relate to the extent to which the **scope** of a business' activities are narrow versus broad and the extent to which a business seeks to differentiate its products.

The strategies that Porter suggested are appropriate to seek competitive advantage are summarized in the figure below:

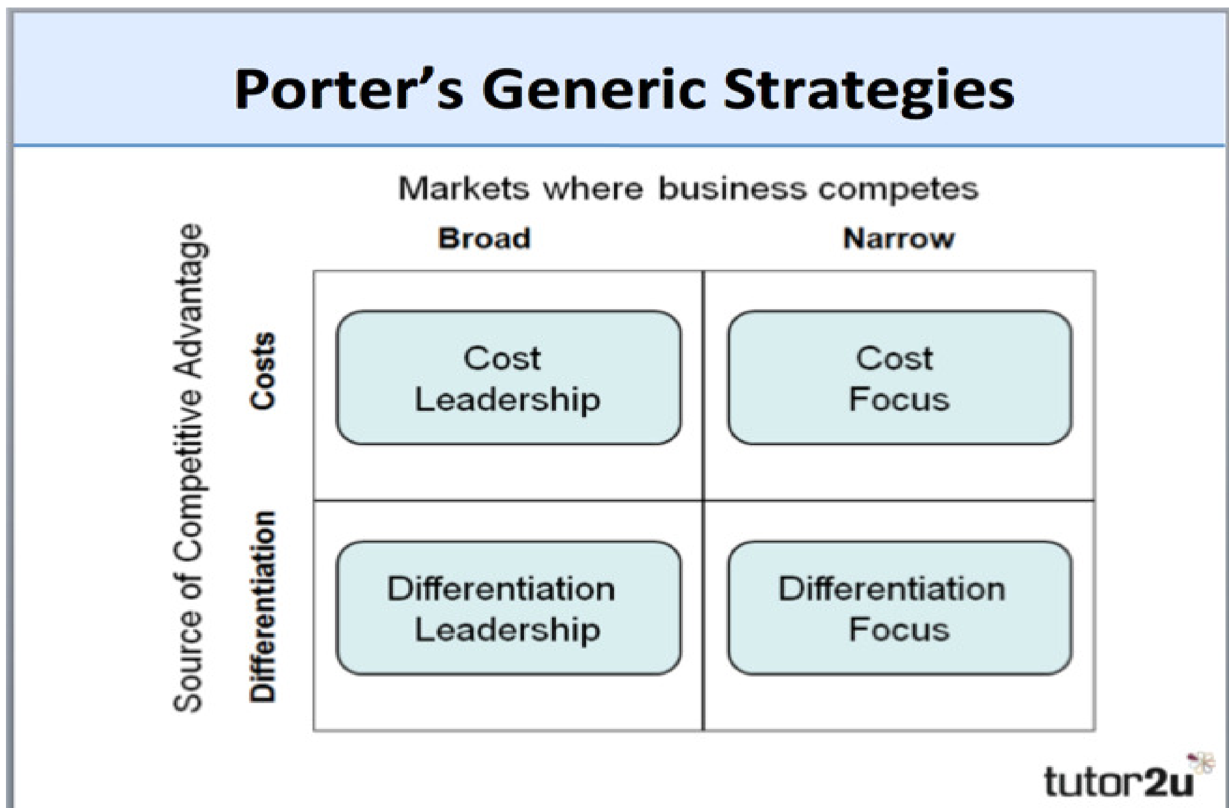

Exhibit 3.1

The differentiation and cost leadership strategies seek competitive advantage in a broad range of market or industry segments. By contrast, the differentiation focus and cost focus strategies are adopted in a narrow market or industry.

Cost Leadership :

With this strategy, the objective is to become the lowest-cost producer in the industry. The Traditional method to achieve this objective is to produce on a large scale which enables the business to exploit economies of scale. Why is cost leadership potentially so important? Many (peerhaps all) market segments in the industry are

supplied with the emplhasis placed on minimising costs. If the achieved selling price can at least equal (or near) the average for the market, they the lowest-cost producer will (in theory) enjoy the best profits. This strategy is usually associated with large-scale businesses offering “standard” products with relatively little differentiation that are readily acceptable to the majority of customers. Occasionally, a low-cost leader will also discount its product to maximise sales, particularly if it has a significant cost advantage over the competition and, in doing so, it can further increase its market share.

A strategy of cost leadership requires close cooperation between all the functional areas of a business. To be the lowest-cost producer, a firm is likely to achieve or use several of the following:

- High levels of productivity
- High capacity utilization
- Use of bargaining power to negotiate the lowest prices for production inputs
- Lean production methods (e.g. JIT)
- Effective use of technology in the production process
- Access to the most effective distribution channels

Differentiation focus

In the differentiation focus strategy, a business aims to differentiate within **just one or a small number of target market segments.** The special customer needs of the segment mean that there are opportunities to provide products that are clearly different from competitors who may be targeting a broader group of customers.

The important issue for any business adopting this strategy is to ensure that customers really do have different needs and wants - in other words that there is a valid basis for differentiation - and that existing competitor products are not meeting those needs and wants.

Differentiation focus is the classic niche marketing strategy. Many small businesses are able to establish themselves in a niche market segment using this strategy, achieving higher prices than un-differentiated products through specialist expertise or other ways to add value for customers.

Differentiation leadership:

With differentiation leadership, the business targets much larger markets and aims to achieve competitive advantage across the whole of an industry. This strategy involves

selecting one or more criteria used by buyers in a market - and then positioning the business uniquely to meet those criteria. This strategy is usually associated with charging a **premium price** for the product - often to reflect the higher production costs and extra value-added features provided for the consumer.

Differentiation is about charging a premium price that more than covers the additional production costs, and about giving customers clear reasons to prefer the product over other, less differentiated products.

There are several ways in which this can be achieved, though it is not easy and it requires substantial and sustained marketing investment. The methods include:

- Superior product quality (features, benefits, durability, reliability)
- Branding (strong customer recognition & desire; brand loyalty)
- Industry-wide distribution across all major channels (i.e. the product or brand is an essential item to be stocked by retailers)
- Consistent promotional support – often dominated by advertising, sponsorship etc

Great examples of a differentiation leadership include global brands like Nike and Mercedes. These brands achieve significant economies of scale, but they do not rely on a cost leadership strategy to compete. Their business and brands are built on persuading customers to become brand loyal and paying a premium for their products.

3.4 WHERE TO IMPLEMENT COMPETITIVE ADVANTAGE?

Competitive advantages don’t just come in one unique form, being possible for a firm to have many competitive advantages and in different areas. Let us illustrate with five areas where firms can stand out and ensure their long-term success: *market share,* brand management, networking, trademarks and patents, cost effectiveness, and high switching costs.

Market Share: Firms with significant market share create not only a problem for competitors but it’s also fine for the firm because meaning its products are well-known and well-received in the marketplace. Market share can be imposing but if the industry has significant profit potential for new entrants, market share can be eroded.

Strong Brand Management: Having a strong brand can ensure a company’s long-term success and it also allows firms to earn profits because their brand allows them to charge a price premium. Strong brands tend to create the longest-lasting competitive advantage.

Network Effect: The network effect occurs when a product creates demand from consumers, which then enhance the product. A firm can benefit from the network effect by attracting more sellers; it has in turn attracted more buyers, establishing a dominant market share (ex. EBay Company). The network effect is fairly uncommon but it can be extremely lucrative when it occurs.

Trademarks and Patents: Trademarks and patents can be sources of competitive advantage for some companies, although it's not too common.

Cost-effective Structure: Being a low-cost producer has some advantages, although they're often short-lived. A firm can "weaken" its competitors and offer compelling prices on its products, thus attracting many customers.

High Switching Costs: Another way to earn excess returns and extend a firm´s life is to install switching costs into the business model. For example, wireless telephone companies require clients to enter into contracts that restrict their capacity to change service providers. Some software companies also have high switching costs because the learning curve to become skilled at a new software program is often quick.

3.5 IMPORTANCE OF COMPETITIVE ADVANTAGE IN TURBULENT TIMES

Success for any business is tricky in the current economy. For your business to remain viable, it has to weather the storms of competition. You have to be able to beat the ferocious market forces and overcome volatility. In other words, you need competitive advantage and it must be sustainable and able to endure the test of time

Understanding your competitive advantage is critical to your survival. It is why you are in business. Keep in mind that what you do best is what draws customers to buy your product or service rather than those of your competitor's.

Gaining a sustainable competitive advantage is not as simple as just being different. Your competitive advantage is not a list of your strengths. Keep in mind that in today's market, too many companies:

- Have a competitive advantage but don't know what it is
- Know what their competitive advantage is but neglect to tell clients about it
- Don't have a competitive advantage but think they do
- Mistake "strengths" for competitive advantages
- Don't properly focus on their competitive advantages when making strategic and/ or operational decisions

3.6 PERFORMANCE IS THE KEY

Competitive advantage comes from what your people do (performance), not from what they know. How well does your company build and maintain a competitive edge? Five challenges most organizations face in gaining competitive advantage include:

- Recognizing and taking advantage of market opportunities
- Defining product and/or services that create value for customers
- Attracting, retaining and improving the best available resources for providing product and services
- Managing uncertainties in creating and realizing product and service opportunities
- Sharing the resulting benefits with your resources (employees and suppliers)

Attracting, retaining and improving the best available resources are perhaps the most difficult and often overlooked of these challenges.

Performance-based training is one way to meet this challenge. Performance-based training emphasizes proficiency in job tasks essential to your competitive advantage. It is based on clear definition of the tasks, skills and knowledge needed to competently perform each job in your organization. A performance based training program is a planned, organized sequence of activities designed to prepare persons to competently perform their jobs. Competitive advantage requires that every employee maintain their job performance at the highest levels possible, or improve to meet the need.

Training and Performance Improvement departments must be able to guarantee that every learner can demonstrate full competence on every skill taught. How do you know if the training you are providing is performance-based? True performance-based training applies scientific principles on how people, learn, think, and remember. It requires the application of an instructional system design model that provides for:

- Needs assessment
- Curriculum development
- Course design and pilot delivery
- Evaluation

There are four key characteristics of true performance-based training that will help you determine how your organizations training rates, and where you can potentially make improvements.

1. Does the training provide clearly stated performance objectives?
2. Is the training derived directly from the job?
3. Does the training use vocabulary and examples that learners will relate well to?
4. Does the training focus on providing learners with practice and immediate feedback on all the skills required to perform a job to contribute to competitive advantage?

Role of Management

Enhancing human performance requires a team of managers and supervisors that can perform as both a well organized management team and have an in-depth understanding of people's basic needs and behaviors. Managers must be able to make your business vision a reality by developing employee's abilities in team work, problem solving, and critical thinking. It is not enough to merely have a vision, your managers must be able apply corresponding actions to make it happen.

A vision without corresponding action is merely a dream

Action without vision is a waste of time

Vision and corresponding actions will take you to new heights!

– Joel Barker, Business of Paradigms

Corresponding action is derived from the organization's mission statement. The mission statement will only drive competitive advantage if it is properly designed and cuts across the entire organization (multilevel).

Managers must apply critical thinking to all aspects of the organization and build a strong business case for decisions. Effective critical thinking takes into account sustainable competitive advantages of every process and opportunity.

3.7 STRATEGIC PLANNING AND ITS IMPORTANCE

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...

A strategic plan is a document used to communicate with the organization the organizations goals, the actions needed to achieve those goals and all of the other critical elements developed during the planning exercise.

Importance of strategic planning

Requirement for sustained competitive advantage: Competitive advantage is what keeps great organizations ahead of their competitors. **Rothaermel** pointed out that the company, which has a competitive advantage, performs financially much better than other companies in the industry or better than the industry average. Some companies may achieve it without thorough strategic plan but for the most players out there it is vital to plan strategically, i.e. analyze, create, implement and monitor, and do this continuously. It is not guaranteed that companies will ever achieve competitive advantage conducting strategic planning but it is an essential process if the company wants sustain it.

Views things from broader perspective: The other reason why the organizations don't simply rely on their finances, marketing or operations functional areas to create competitive advantage is that managers of each area often view things only from their own specific angle, which is too narrow view for the whole organization to rely upon. Only the managers (e.g. CEOs or strategic planners) who see the whole picture of the company and its surrounding environments can make the decisions that bring the competitive advantage.

Facilitates collaboration: Nowadays, most companies involve middle managers of functional areas into the process of formulating strategic plan. Middle managers are the people who implement the strategies set out in a plan and if they aren't involved in making the plan, then they aren't so committed to support it.

Thus, strategic planning is used to achieve the competitive advantage and to integrate all the functional areas of the company by facilitating the communication between the managers of all levels.

Strategic planning serves a variety of purposes in organizations, some benefits and limitations of strategic planning are as mentioned below:

- 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.
- Clearly define the purpose of the organization and to establish realistic goals and objectives consistent with that mission in a defined time frame within the organization's capacity for implementation.
- Communicate those goals and objectives to the organization's constituents.

Develop a sense of ownership of the plan.

- Ensure the most effective use is made of the organization's resources by focusing the resources on the key priorities.
- Provide a base from which progress can be measured and establish a mechanism for informed change when needed.
- Listen to everyone's opinions in order to build consensus about where the organization is going.
- Provides clearer focus for the organization, thereby producing more efficiency and effectiveness.
- Bridges staff/employees and the board of directors (in the case of corporations).
- Builds strong teams in the board and in the staff/employees (in the case of corporations).
- Provides the glue that keeps the board members together (in the case of corporations).
- Produces great satisfaction and meaning among planners, especially around a common vision.
- Increases productivity from increased efficiency and effectiveness.

Solves major problems in the organization.

3.8 MAJOR COMPONENTS OF A STRATEGIC PLAN

Strategic plans can come in many different shapes and sizes, but they all have the following components. The list below describes each piece of a strategic plan in the order that they're typically developed.

- **Mission statement:** The mission statement is an overarching, timeless expression of your purpose and aspiration, addressing both what you seek to accomplish and the manner in which the organization seeks to accomplish it. It's a declaration of why you exist as an organization.
- **Vision statement:** This short, concise statement of the organization's future answers the question of what the company will look like in five or more years.
- **Values statement or guiding principles:** These statements are enduring, passionate, and distinctive core beliefs. They're guiding principles that never change and are part of your strategic foundation.
- **SWOT:** A SWOT is a summarized view of your current position, specifically your strengths, weaknesses, opportunities, and threats.
- **Competitive advantage:** Your competitive advantage includes what you're best at compared to the competition.
- **Long-term strategic objectives:** These long-term strategic focus areas span a three-year (or more) time horizon. They answer the question of what you must focus on to achieve your vision.
- **Strategies:** Strategies are the general, umbrella methods you intend to use to reach your vision.
- **Short-term goals/priorities/initiatives:** These items convert the strategic objectives into specific performance targets that fall within the one- to two-year time horizon. They state what, when, and who and are measurable.
- **Action items/plans:** These specific statements explain *how* a goal will be accomplished. They're the areas that move the strategy to operations and are generally executed by teams or individuals within one to two years.
- **Scorecard:** You use a scorecard to report the data of your key performance indicators (KPIs) and track your performance against the monthly targets.
- **Financial assessment:** Based on historical record and future projections, this assessment helps plan and predict the future, allowing you to gain much better control over your organization's financial performance.

3.9 STRATEGIC DECISION – MAKING

Strategic decisions are long term, complex **decisions** made by senior management. These **decisions** will affect the entire direction of the firm. An example may be to become the market leader in their field. Tactical **decisions** are medium term, less complex **decisions** made by middle managers. Strategic decisions are the decisions that are concerned with whole environment in which the firm operates the entire resources and the people who form the company and the interface between the two. Decision making is the most important function of any manager. To make a decision means to make a judgement regarding how to act in a certain situation after having considered alternative courses of action. **Herebert Simon** defines decision making as the process of selecting a course of action from among many alternatives.

Organizational decisions can be broadly classified into three categories: strategic, tactical and operational, according to the time horizon of the decisions. We have already distinguished between strategic and operational decisions in the previous unit. Strategic decisions deal with the long-run future of the entire organization. Tactical decisions are specific plans detailing how a strategy is to be implemented. Strategic decisions deal with the long-run future of the entire organization. Tactical decisions are specific plans detailing how a strategy is to be implemented. By their nature, tactical decisions are narrower in scope and shorter in time horizon than strategic decisions. Operational decisions, on the other hand, are focused on the day-to-day, real-time activities of an organization.

Though any decision-maker may undertake all the three types of decisions, strategic decision-making is the most important function of a top-level executive. Tactical decision making, on the other hand, is primarily a middle-manger function, while the frontline manager undertakes largely operational decision, making. The distinguishing characteristics of strategic management are its emphasis on strategic decision-making. As organizations grow larger and more complex with more uncertain environments, decisions become increasingly complicated and difficult to make, because of the very nature of strategic decisions.

3.10 CHARACTERISTICS/FEATURES OF STRATEGIC DECISIONS

a. Strategic decisions have major resource propositions for an organization. These decisions may be concerned with possessing new resources, organizing others or reallocating others.

b. Strategic decisions deal with harmonizing organizational resource capabilities with the threats and opportunities.

c. Strategic decisions deal with the range of organizational activities. It is all about what they want the organization to be like and to be about.

d. Strategic decisions involve a change of major kind since an organization operates in ever-changing environment.

e. Strategic decisions are complex in nature.

f. Strategic decisions are at the top most level, are uncertain as they deal with the future, and involve a lot of risk.

g. Strategic decisions are different from administrative and operational decisions. Administrative decisions are routine decisions which help or rather facilitate strategic decisions or operational decisions. Operational decisions are technical decisions which help execution of strategic decisions. To reduce cost is a strategic decision which is achieved through operational decision of reducing the number of employees and how we carry out these reductions will be administrative decision.

3.11 NOTES

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3.12 SUMMARY

Sustainable competitive advantage allows for the maintenance and improvement of your company's competitive position in the market. It is an advantage that enables your business to survive against its competition over a long period of time. The advantage comes from your company's unique skills and resources working together to implement strategies that competitors cannot implement as effectively. Keep in mind that most advantages can be duplicated within a period of time. Approximately 70 percent of all new products can be duplicated within one year and 60 to 90 percent of process improvements eventually spread to your competitors. Competitive advantage is a dynamic process that demands constant attention. It is NOT a once and done flavor of the month!

3.13 KEY WORDS

Competitive Advantage: are the conditions that allow a company or country to produce a good or service at a lower price or in a more desirable fashion for customers. These conditions allow the productive entity to generate more sales or superior margins than its ***competition***.

A superiority gained by an organization when it can provide the same value as its competitors but at a lower price, or can charge higher prices by providing greater value through differentiation. Competitive advantage results from matching core competencies to the opportunities.

Strategic Approach: "The strategy approach [to measuring organizational outcomes] assesses the extent to which work/life initiatives facilitate the company's ability to make progress on key business strategies.

Strategic Decisions usually mean managers must plan for change and risk. Many factors are unknown, since managers are planning for future changes. The changes are typically large in scope, such as introducing a new manufacturing process. Another **example** of a major change is the **decision** to modify the company's culture.

3.14 SELF ASSESSMENT QUESTIONS

1. Define different Features of Strategic Decisions.

2. Discuss the Strategic planning and its Importance.

3. Define the term competitive advantage.

4. Explain the strategic decision – making?

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UNIT-4 : STRATEGIC MANAGEMENT PROCESS

Structure :

4.0 Objectives

4.1 Introduction

4.2 Process and Elements of Strategic Management

4.3 Strategic Management Process

4.4 Strategic management Model

4.5 Strategic Planning and Strategic Management

4.6 Mintzberg's Models of Strategic Management

4.7 Case Study

4.8 Notes

4.9 Summary

4.10 Key words

4.11 Self Assessment Questions

4.12 References

4.0 OBJECTIVES

After studying this unit, you will be able to;

- Give the meaning of Strategic Management Process
- Explain the Strategic management Model
- Describe the Process and Elements of Strategic Management
- Bring out the Strategic management process

4.1 INTRODUCTION

Strategic Management Process is a method by which managers conceive of and implement a strategy that can lead to a sustainable competitive advantage. **Strategic Management Process** can also be defined as the way an organization defines its strategy. It is a continuous **process** in which the organization decides to implement a selected few **strategies**, details the implementation plan and keeps on appraising the progress & success of implementation through regular assessment. The strategic management process is concerned with a long-run perspective. The time horizon involved often is at least 3 years and normally may be 5 or 10 years into the future. However, in certain extremely dynamic industries, the strategic management process could be concerned with much shorter time frames. The strategic management process means defining the organization's strategy. It is also defined as the process by which managers make a choice of a set of strategies for the organization that will enable it to achieve better performance. Strategic management is a continuous process that appraises the business and industries in which the organization is involved; appraises its competitors; and fixes goals to meet all the present and future competitor's and then reassesses each strategy.

Strategic management process has following four steps:

1. Environmental Scanning:

Environmental scanning refers to a process of collecting, scrutinizing and providing information for strategic purposes. It helps in analyzing the internal and external factors influencing an organization. After executing the environmental analysis process, management should evaluate it on a continuous basis and strive to improve it.

2. Strategy Formulation:

Strategy formulation is the process of deciding best course of action for accomplishing organizational objectives and hence achieving organizational purpose.

After conducting environment scanning, managers formulate corporate, business and functional strategies.

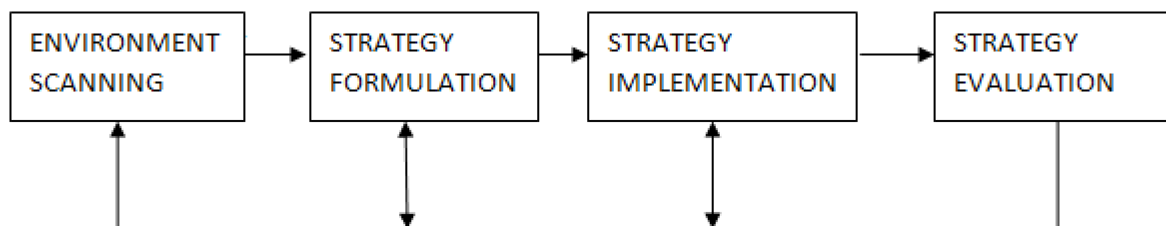
3. Strategy Implementation:

Strategy implementation implies making the strategy work as intended or putting the organization's chosen strategy into action. Strategy implementation includes designing the organization's structure, distributing resources, developing decision making process, and managing human resources.

4. Strategy Evaluation:

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

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



Components of Strategic Management Process

Exhibit 4.1

4.2 PROCESS AND ELEMENTS OF STRATEGIC MANAGEMENT

Developing an organizational strategy involves four main elements- strategic analysis, strategic choice, strategy implementation and strategy evaluation and control. Each of these contains further steps, corresponding to a series of decisions and actions, which form the basis of strategic management process.

Strategic Analysis: The foundation of strategy is a definition of organizational purpose. This defines the business of an organization and what type of organization it

wants to be. Many organizations develop broad statements of purpose, in the form of vision and mission statements. These form the spring- boards for the development of more specific objectives and the choice of strategies to achieve them.

Environmental analysis allows the organization to set more specific goals or objectives which might specify where people are expected to focus their efforts. With a more specific set of objectives in hand, managers can then plan how to achieve them.

Strategic Choice: The analysis stage provides the basis for strategic choice. It allows managers to consider what the organization could do given the mission, environment and capabilities – a choice which also reflects the value of managers and other stakeholders. Dobson et. al, 2004). These choices are about the overall scope and direction of the business.

Since managers usually face several strategic options, they often need to analyze these in terms of their feasibility, suitability and acceptability before finally deciding on their direction.

Strategy implementation: Implementation depends on ensuring that the organization has a suitable structure, the right resources and competences (skills, finance, technology etc.), right leadership and culture. Strategy implementation depends on operational factors being put into places.

Strategy Evaluation and Control: Organizations set up appropriate monitoring and control systems, develop standards and targets to judge performance.

Exhibit 4.1 summarizes the steps involved in each of the above elements of strategic management.

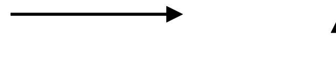
Elements in strategy process	Questions	Description
STRATEGY FORMULATION		
Strategic analysis		
Defining organizational purpose	What is our purpose? What kind of organization do we want to be?	Organizational purpose is generally articulated in vision and mission statements. The first task is, therefore, to identify vision mission of the organization. Environmental analysis involves the gathering and analysis of intelligence on the business environment. This encompasses the external environment (general and competitive forces), the internal environment (resources, competences, performance relative to competitors), and stakeholder expectations.
Strategic choice		
Objectives	Where do we want to be?	Objectives provide a more detailed articulation of purpose and a basis f or monitoring performance.
Options analysis	Are there alternative routes?	Alternative strategic options may be identified; options require to be appraised in order that the best can be selected.
Strategies	How are we going to get there?	Strategies are the means or courses of action to achieve the purpose of the organization.
Strategy implementation		
Actions	How do we turn plans into reality?	A specification of the operational activities and tasks required to enable strategies to be implemented.
Strategy evaluation and control		
Monitoring and control	How will we k now if we are getting there?	Monitoring performance and progress in meeting objectives, taking corrective action as necessary and reviewing strategy.

4.3 STRATEGIC MANAGEMENT PROCESS

The above steps can also be depicted as a series of processes involved in strategic management.

Exhibit 4.3 a General Framework of Strategic Management Process

Agreement on and initiation of the
Strategic management process



The organization determines vision, mission
Goals and objectives.

The organization analyzes both
External and internal environment.

The organization establishes long-term
Goals and objectives

The organization chooses from alternative
Courses of action.

The organization impalements the choices
To achieve strategic fit

The organization monitor the
Implementation activity.

Exhibit 4.3

The seven steps in the above model of strategy process fall into three broad phases formulation, implementation and evaluation – though in practice the three phases interact closely.

Good strategies know that formulation and implementation of strategy rarely proceed according to plan, partly because the constantly changing external environment brings new opportunities or threats, and partly because there may also be inadequate

internal competence. Since these may lead the management to change the plan, there will be frequent interaction between the activities of formulating and implementing strategy, and management may need to return and reformulate the plan.

4.4 STRATEGIC MANAGEMENT MODEL

The strategic management process can be better understood by using a model as shown in the below diagram.

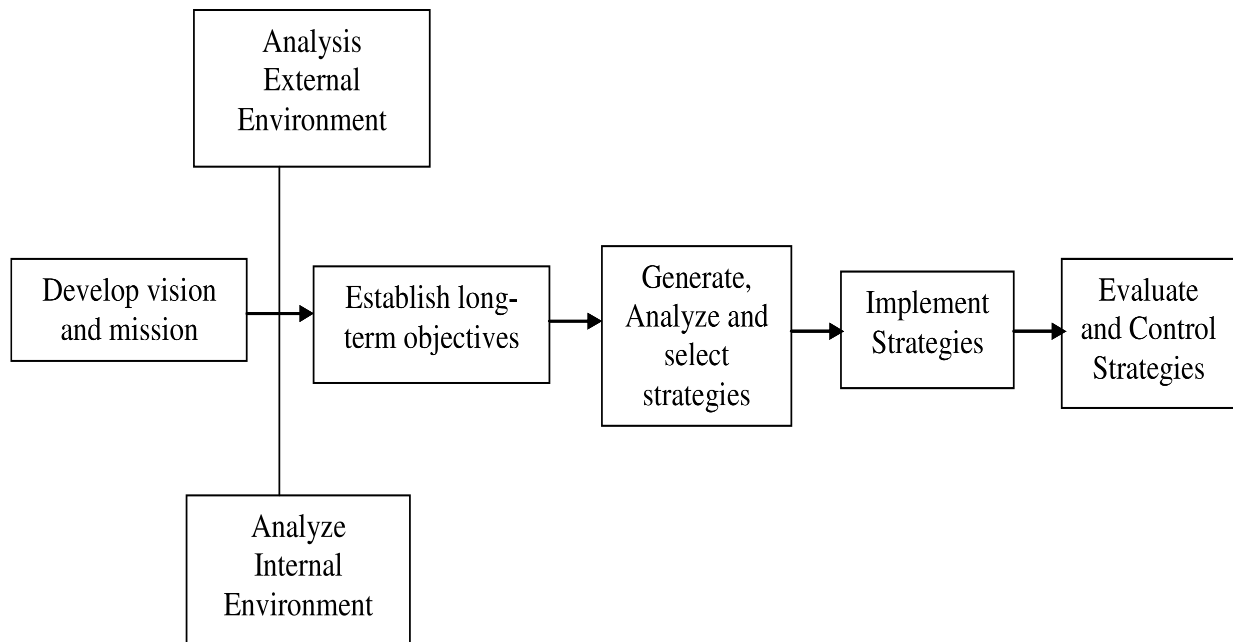


Exhibit 4.4 Strategic Management Model.

Every model represents some kind of process. The model in the above figure represents the strategic management process, which consists of seven interrelated managerial tasks.

The components of the model are:

1. Develop vision and mission statements
2. Analyze external environment
3. Analyze internal environment
4. Establish long-tem objectives
5. Generate, analyze and select strategies
6. Implement the chosen strategies

7. Evaluate and control implementation.

The above components are briefly explained below:

Develop Vision and Mission

This is the first step in the strategic management process. Every organization should have a vision and / or a mission statement. While the vision reflects the management's aspiration about what it wants to become in the long run, the mission statement defines a company's reason for existence. Thus, a company's vision and mission statements provide guidelines for setting objectives and generating alternative strategies.

Analyze External Environment

This is the second step in the strategic management process. It involves analysis of macro environment for assessing opportunities and threats in the environment. Macro-environment consists of such factors as political, economical, socio-cultural, demographic, technological and ecological factors, which affect the business. Some other factors that need to be analyzed are suppliers, customers, competitors, creditors etc., which directly affect the organization, and are referred to as 'operating environment'. In addition, industry and competitive environment should also be analyzed to get an in-depth understanding of the industry characteristics and competitive forces affecting the firm.

Analyze Internal Environment

After analyzing the external environment, the next step for the organization is to assess the internal environment. This involves identifying the strengths and weakness of the resources and functional areas of the organization. It involves analyzing the financial, physical, human and technological resources to build distinctive competencies and a competitive advantage.

Establish Long-term Objectives

Given the vision and mission statements and upon analyzing the external and internal environments, the firm has to set long-term objectives and goals. These must be specific, measurable and achievable.

Generate, Evaluate and Select Strategies

After analyzing external and internal environment and setting long-term objectives, the next step for the organization is to generate a number of strategic options at the corporate and business levels. The alternatives generated need to be analyzed through

techniques like portfolio analysis, industry life cycle etc. and appropriate strategies are selected for pursuing.

Implement the Chosen Strategies

The most curial and difficult part of strategic management process is the implementation of strategies. Unless the chosen strategies are put into action, even the best formulated strategies are of no value. But implementation of strategies involves a number of decisions and actions. Resources need to be allocated; functional and operational strategies and policies need to be formulated, and a number of adjustments need to be made in the organizational structure, culture and leadership etc. to make them supportive of the strategy. This basically involves change management within the organization.

Evaluate and Control the Strategy

This is the last step of strategic management process. It is concerned with tracking a strategy as it is being implemented, detecting problems or changes in its underlying assumptions, and making necessary adjustments. In contrast to post-action control, strategic control seeks to guide action on behalf of the strategies as they are taking place and when the end results are still several years away.

As the above diagram suggests, the various steps are inter-related. While it is convenient to discuss them as if they were a sequential step-by-step series of activities, in reality they are not as clearly divided and neatly performed as the strategic management model suggests.

4.5 STRATEGIC PLANNING AND STRATEGIC MANAGEMENT

There is a certain degree of confusion regarding these terms. Purposefully or inadvertently, the two terms are often used interchangeably. But sometimes, problems arise when these terms are used differently. The distinction between strategic planning and strategic management rests primarily on the emphasis one puts on particular parts of the process. As might be inferred, strategic planning places more emphasis on the development of the strategic plan and often "assumes" implementation, whereas strategic management specifically includes and emphasizes implementation, This, of course, does not mean that the implementation element is any less important. Rather, implementation is regarded just as important as formulation.

Following are the important clarifications offered by two authorities on the subject.

According to **Fred R. David**, the tem "strategic planning, is more often used in the business world, whereas the tem strategic management is often used in academia.

According to **Fred Niclos**, strategic planning is a planning of a strategic nature (i.e. long term), while strategic management is concerned with managing strategy (i.e. corporate, business, functional etc.)

In the literature, however, there is little interest in this distinction. Quite often, where the term strategic planning is used, it also implies the component of "implementation". Likewise, when the term strategic management is used, it also implies the "planning" component as well. We may, therefore, use both these terms synonymously.

4.6 MINTZBERG'S MODELS OF STRATEGIC MANAGEMENT

According to Mintzberg, managers generally use one of the following three major approaches in formulating and implementing strategies:

1. Entrepreneurial mode:

In this approach, mainly a strong visionary chief executive, who actively searches for new opportunities, heavily oriented towards growth and is willing to make bold decisions, develops a strategy. The entrepreneurial mode is generally found in organizations that are young or small, have strong leaders. Bold moves are their only hope. The vision and dynamism of the top leader, who enjoy absolute power, shape the future of the organization.

2. Adaptive mode:

This is an approach to strategy formulation that emphasizes taking small, incremental steps, reacting to problems rather than seeking opportunities and attempting to satisfy a number of power groups. Managers in established organizations that have several power blocks use this approach, and it is difficult to obtain agreement on clear strategic goals and long-term plans. Since power gets distributed, it is always not possible to develop major goals, take bold initiatives and get ahead in a unified way.

3. Planning mode:

This approach involves systematic, comprehensive analysis along with integration of various decisions and strategies. It is most commonly used in large organizations that have enough resources to conduct detailed analysis. It is easy to easy agreement on major goals as it is operating in an environment that has enough stability to enable the formulation and implementation of carefully conceived strategies.

4.7 CASE STUDY

XYZ Bank is one of the leading NBFC's (Non-Banking Finance Company) in India. It has been existent for the last two and half decade and based out of Bangalore, with Housing financing as its core business. XYZ Bank has been a consistent performer and has maintained a good financial position. Presently it operates only through 15 branches across India, mainly located in the metropolitan cities.

XYZ Bank, based on its capabilities and experience over the years, has a proposal to venture out into General Retail Banking and crop insurance. With this view, it has approached the Central Bank and the government for a General Banking Licence to expand its business. Approval to the proposed business has been accepted in principle however the government directed XYZ Bank to draw a road-map for the proposed crop insurance in the light of the recent failure of monsoon and a series of unnatural death of farmers across the country.

XYZ Bank has now to prepare the road-map for its proposed business of banking and crop insurance simultaneously. Its initial plan is to establish a minimum of 50 to 60 branches in the next 1 year in south Indian states namely Karnataka, Tamil Nadu, Andhra and Kerala, and to further expand to around 100 to 150 branches in the second year and so on. Considering that there are already public sector and private sector players in both the banking and crop insurance sector, it is going to be a challenging task for the management. However, the changing environmental issues and the government policies focussing on agricultural and rural development shows a ray of hope in the market. The vision of the promoters is to be number one assurer of finance and safety to both rural and urban entrepreneurs in industry and agriculture.

Questions:

1. What is your opinion on the proposed business plan of XYZ Bank?
2. Make the industry Analysis for the proposed banking and crop insurance business.
3. Draw a hierarchy of mission, objectives and targets along with an action plan to launch the proposed business.

4.8 NOTES

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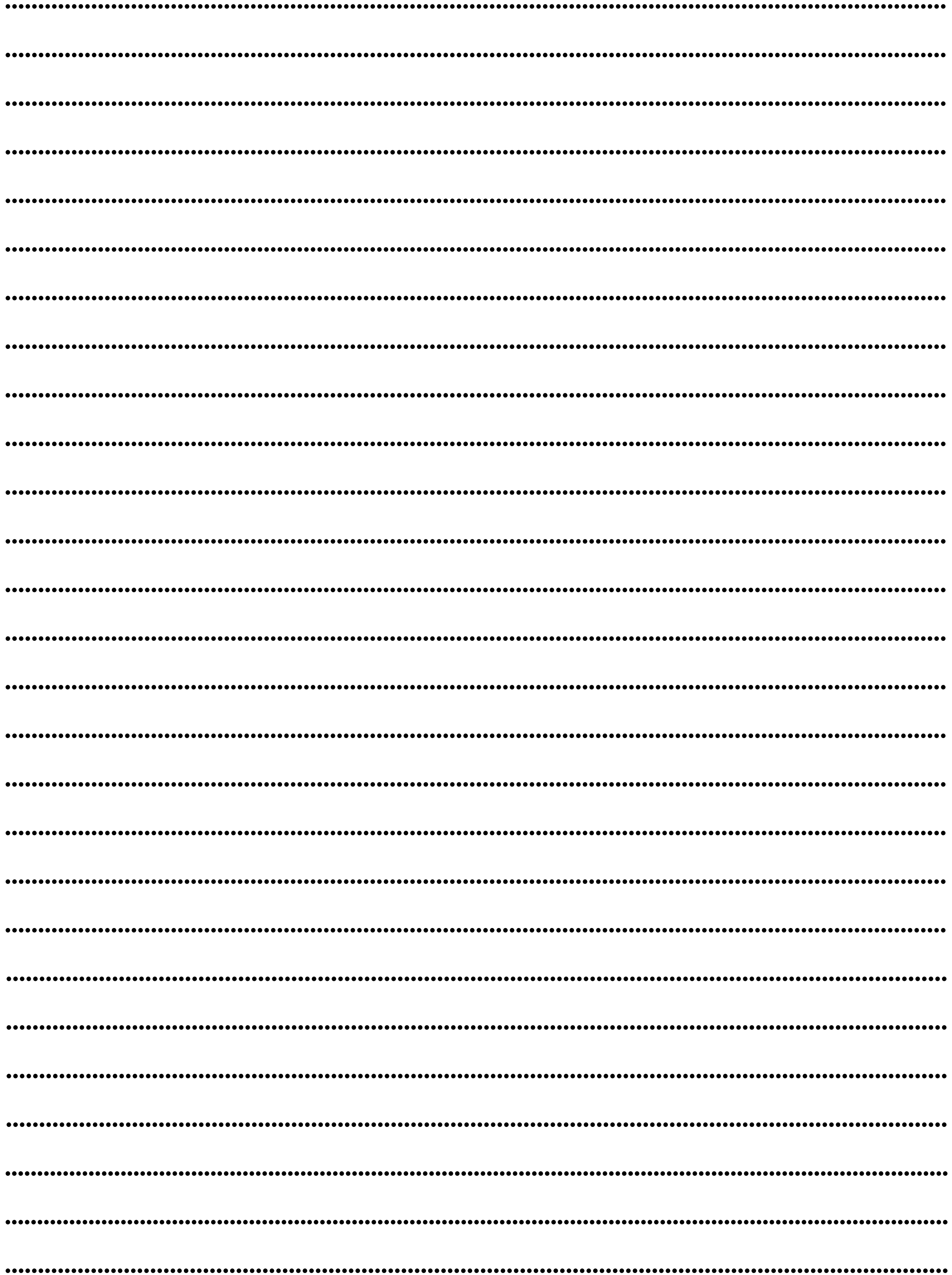

4.9 SUMMARY

Strategic Management Process is defined as the way an organization defines its strategy. It is a continuous process in which the organization decides to implement a selected few strategies, details the implementation plan and keeps on appraising the progress & success of implementation through regular assessment. The strategic management process is more than just a set of rules to follow. It is a philosophical approach to business. Upper management must think strategically first, then apply that thought to a process. The strategic management process is best implemented when everyone within the business understands the strategy. The five stages of the process are goal-setting, analysis, strategy formation, strategy implementation and strategy monitoring.

4.10 KEY WORDS

- **Strategic Management Process:**

It is defined as the way an organization defines its strategy. It is a continuous process in which the organization decides to implement a selected few strategies, details the implementation plan and keeps on appraising the progress & success of implementation through regular assessment.

- **Strategy Formulation:**

Once the analysis is done, the organization moves to the Strategy Formulation stage where the plan to acquire the required resources is designed, prioritization of the issues facing the business is done and finally the strategy is formulated accordingly.

- **Strategy Implementation:**

After formulation of the strategy, the employees of the organization are clearly made aware of their roles and responsibilities. It is ensured that funds would be available all the time. Then the implementation begins.

- **Strategy Evaluation:**

In this process, the strategies being implemented are evaluated regularly to check whether they are on track and are providing the desired results. In case of deviations, the corrective actions are taken.

4.11 SELF ASSESSMENT QUESTIONS

1. Mention the process of strategic management in detail.
2. Briefly explain the strategic management model.
3. Explain Minizberg's models of strategic management.
4. Explain strategic planning and strategic management.

4.12 REFERENCES

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MODULE – II
STRATEGIC FORMULATION

UNIT-5 : INTRODUCTION TO STRATEGIC FORMULATION

Structure :

5.0 Objectives

5.1 Strategy Formulation

5.2 Developing a vision and Mission for Business

5.3 Vision

5.4 Objectives

5.5 Types of Objectives

5.6 Balanced Score Card By Robert Kaplan and David Norton

5.7 Summary

5.8 Notes

5.9 Key Words

5.10 Self Assessment Questions

5.11 References

5.0 OBJECTIVES

After studying this unit, you will be able to;

- Describe the nature and role of vision and mission statements in strategic management.
- Identify the components of mission statements.
- Understand how vision and mission statements can benefit other strategic management functions.
- Evaluate mission statements of different organizations.
- To visualize vision and mission statements for a new organization
- Understand the importance of the Balanced Scorecard.
- Compare and contrast financial objectives with strategic objectives.

5.1 STRATEGY FORMULATION

Strategy formulationis the process by which an organization chooses the most appropriate courses of action to achieve its defined goals. This process is essential to an organization's success, because it provides a framework for the Strategy formulation. Strategy formulation includes four most important steps namely determination of mission, vision and objectives, analysis of the internal strength and weaknesses of the firm along with the opportunities and threats in the environment to the firm's business, generation of alternative strategies and selection of the most suitable course of action.

5.2 DEVELOPING A VISION AND MISSION FOR BUSINESS

Managers without having a future orientation of the business cannot make effective decisions. As a traveler should know the place of destination before starting the journey a manager should know the goal and the final purpose for which he and his firm is in business.to be achieved. they are doing.Though the expressions vision, mission, objectives, goals, purpose, aim and targets used interchangeably they are different from one another in their scope and significance in the decisions in which they are involved. The operations of a business firm are influenced by the way in which these expressions are distinguished from one another. Peter F .Drucker observed that the business purpose and business mission are so rarely given adequate thought is perhaps the most important single cause of business frustration and business failures. If we cannot differentiate our immediate and long term priorities we will in concentrating and justifying our actions.

Therefore there is a need to understand the significance ofvision and mission for a business. It has become a fad in the corporate world and in every organized activity to speak about vision and mission to articulate the long run in which they are doing business. What type of needs of the customers or the owners we are aiming to fulfill.What image or an identity we want to create for ourselves and for our business will influence the present and the future orientation of all the decisions we make in business.

What is Mission?

A mission is an enduring statement that reveals the purpose for which a firm is crated and distinguishes it's business from other similar firms. It describes the purpose, customers, products, markets, philosophy and the technology the firm is using. The mission statement communicates the firm's core ideology and visionary goals, generally consisting of the following three components:

1. Core values to which the firm is committed
2. Core purpose of the firm
3. Visionary goals the firm will pursue to fulfill its mission

The firm's core values and purpose constitute its core ideology and remain relatively constant. They are independent of industry structure and the product life cycle.

The core ideology is not created in a mission statement; rather, the mission statement is simply an expression of what already exists. The specific phrasing of the ideology may change with the times, but the underlying ideology remains constant.

Mission Statement:

- A mission statement is a brief description of a company's fundamental purpose. A mission statement answers the question, "Why does an organization exist?"
- A mission statement is a brief written statement of the purpose of a company or organization. Ideally, mission statement guides the actions of the organization, spells out its overall goal, provides a sense of direction, and guides decision making for all levels of management

Mission statements contain the following:

- Purpose and aim of the organization
- The organization's primary stakeholders: clients, stockholders, etc.
- Responsibilities of the organization toward these stakeholders
- Products and services offered

Characteristics of Mission Statements:

- An enduring statement of purpose
- Distinguishes a firm from others in the same business
- A declaration of a firm's reason and justification for existence

Elements of a good mission statement.

1. Clearly articulated. – Easy to understand the values and purpose.
2. Relevant – in terms of its history, culture and shared values.
3. Current – not outdated
4. Written in a Positive Tone – capable of inspiring and stimulating Commitment towards fulfilling the mission.
5. Unique – not copied from similar units.
6. Enduring – Should guide, inspire and challenging.
7. Adapted to the Target Audience – stock holders, consumers, employees through shared values and standards of behavior.

Mission is the purpose of or a reason for organization existence. Mission is a well convincible statement included fundamental and unique purpose which makes it different from other organization. It identifies scope of it operation in terms of product offered and market served. Mission also means what we are and what we do.

Mission Statements are also known as:

- Creed statement
- Statement of purpose
- Statement of philosophy
- Statement of business principles

- ***Importance:*** Mission Statements reveal what an organization wants to be and whom it wants to serve and how?
- Mission Statements are essential for effectively establishing objectives and formulating strategies.

Mission is divided into two categories:

- Narrow Mission
- Broad Mission

Narrow Mission:

Narrow mission also identifies the mission but it restrict in terms of:

1. Product and services offered
2. Technology used
3. Market served
4. Opportunity of growth

Broad Mission:

Broad mission widen our mission values in terms of product and services offered, market served, technology used and opportunity of growth. But main flow of this mission that it creates confusion among employee due to its wider sense.

Illustration: For example consider two different firms A & B. A deals in Rail Roads and B deals in Transportation i.e. we can say A co. has narrow mission and B co. has a wider mission.

Characteristics of good Mission Statements:

Mission statements can and do vary in length, content, format, and specificity. Most practitioners and academicians of strategic management consider an effective statement to exhibit nine characteristics or components. Because a mission statement is often the most visible and public part of the strategic management process, it is important that it includes all of these essential components.

Effective mission statements should be:

- Broad in scope
- Generate range of feasible strategic alternatives
- Not excessively specific
- Reconcile interests among diverse stakeholders
- Finely balanced between specificity & generality
- Arouse positive feelings and emotions
- Motivate readers to action
- Generate the impression that firm is successful, has direction, and is worthy of time, support, and investment
- Reflect judgments re: future growth

- Provide criteria for selecting strategies
- Basis for generating & screening strategic options
- Are dynamic in orientation

Components and corresponding questions that a mission statement should answer are given here.

Customer: Who are the firm's customers?

Products or services: What are the firm's major products or services?

Markets: Geographically, where does the firm compete?

Technology: Is the firm technologically current?

Concern for survival, growth, and profitability: Is the firm committed to growth and financial soundness?

Philosophy: What are the basic beliefs, values, aspirations, and ethical priorities of the firm?

Self-concept: What is the firm's distinctive competence or major competitive advantage?

Concern for public image: Is the firm responsive to social, community, and environmental concerns?

Concern for employees: Are employees a valuable asset of the firm?

Examples of Mission Statements of some Organizations:

Apple Computer (www.apple.com)

It is Apple's mission to help transform the way customers work, learn and communicate by providing exceptional personal computing products and innovative customer services.

We will pioneer new directions and approaches, finding innovative ways to use computing technology to extend the bounds of human potential. Apple will make a difference: our products, services and insights will help people around the world shape the ways business and education will be done in the 21st century.

McDonald's:

To offer the fast food customer food prepared in the same high-quality manner world-wide, tasty and reasonably priced, delivered in a consistent, low-key decor and friendly atmosphere. ***Key Market:*** To offer the fast food customer

Contribution: food prepared in the same high-quality manner world-wide, tasty and reasonably priced, ***Distinction*:** delivered in a consistent, low-key decor and friendly atmosphere.

5.3 VISION

"Vision is the art of seeing things invisible"

.. . . . Jonathan Swift

"The very essence of leadership is that you have vision. You can't blow an uncertain trumpet"

……...Theodore Hesburgh

Vision defines the desired or intended future state of a specific organization or enterprise in terms of its fundamental objective and/or strategic direction. Vision is the dream, articulated in terms of the future destination that the firm would like to reach. The difference between a mission statement and a vision statement is that a mission statement focuses on a company's present state try to justify its existence by connecting it's activities with the society inwhich it operates. Where as a vision statement focuses on a firm's future state of affairs as imagined and expressed as a desire by the firm.

Importance of Vision and Mission Statements

The following are the reasons for which vision and mission statements are important in formulating strategies for an organization:

Unanimity of purpose within the organization

Basis for allocating resources

Establish organizational climate

Focal point for direction

Translate objectives into work structure

Cost, time and performance parameters assessed and controlled

Most companies are now getting used to the idea of using mission statements.

Components of vision:

Generally vision statement of an organization is made up of three important components namely:

Core Values

The core values are a few values that are central to the firm. Core values reflect the deeply held values of the organization and are independent of the current industry environment and management fads. Core values will not change even if the industry in which the company operates changes. If the industry changes such that the core values are not appreciated, then the firm should seek new markets where its core values are viewed as an asset. For example, if innovation is a core value but then 10 years down the road innovation is no longer valued by the current customers, rather than change its values the firm should seek new markets where innovation is advantageous.

The following are a few examples of values that some firms have chosen to be in their core:

- Excellent customer service
- Pioneering technology
- Creativity
- Integrity
- Social responsibility

Core Purpose

The core purpose is the reason for which that the firm exists. This core purpose is expressed in a carefully formulated mission statement. Like the core values, the core purpose is relatively unchanging and for many firms endures for decades or even centuries. This purpose sets the firm apart from other firms in its industry and sets the direction in which the firm will proceed.

The core purpose is an idealistic reason for being. While firms exist to earn a profit, the profit motive should not be highlighted in the mission statement since it provides little direction to the firm's employees. What is more important is *how* the firm will earn its profit since the "how" is what defines the firm.

Initial attempts at stating a core purpose often result in too specific of a statement that focuses on a product or service. To isolate the core purpose, it is useful to ask "why" in response to first-pass, product-oriented mission statements. For example, if a market research firm initially states that its purpose is to provide market research data to its customers, asking "why" leads to the fact that the data is to help customers better understand their markets. Continuing to ask "why" may lead to the revelation that the

firm's core purpose is to assist its clients in reaching their objectives by helping them to better understand their markets.

The core purpose and values of the firm are not selected - they are discovered. The stated ideology should not be a goal or aspiration but rather, it should portray the firm as it really is. Any attempt to state a value that is not already held by the firm's employees is likely to not be taken seriously.

Visionary Goals

The visionary goals are the lofty objectives that the firm's management decides to pursue. This vision describes some milestone that the firm will reach in the future and may require a decade or more to achieve. In contrast to the core ideology that the firm discovers, visionary goals are selected. Visionary goals are longer term and more challenging than strategic or tactical goals. There may be only a 50% chance of realizing the vision, but the firm must believe that it can do so. *Collins and Porras*describe these lofty objectives as "Big, Hairy, Audacious Goals." These goals should be challenging enough so that people nearly gasp when they learn of them and realize the effort that will be required to reach them.

Most visionary goals fall into one of the following categories:

- **Target** - quantitative or qualitative goals such as a sales target or Ford's goal to "democratize the automobile."
- **Common enemy** - centered on overtaking a specific firm such as the 1950's goal of Philip-Morris to displace RJR.
- **Role model** - to become like another firm in a different industry or market.

For example: a cycling accessories firm might strive to become "the Nike of the cycling industry."

- **Internal transformation** –It is the desire of an organization to reach a future state of affairs where its products or services will become useful to all the segments of the market through the technology, products and services evolved over a period of time. For instance an automobile company may wish to develop production process and spare parts on its own by becoming independent from an existing joint venture or collaboration with a foreign company to make its cars affordable to the market with low income without compromising with the quality.

WHY A SHARED VISION MATTERS

- A strategic vision widely shared among all employees functions similar to how a magnet aligns iron filings
- When all employees are committed to firm's long-term direction, optimum choices on business decisions are more likely
- Individuals & teams know intent of firm's strategic vision
- Daily execution of strategy is improved

ITC:

To enhance the wealth generation capability of the enterprise in a globalizing environment, delivering a superior & sustainable stakeholder value.

Infosys:

"We will be a globally respected corporation."

General Electric:

We will become number one or number two in every market we serve, and revolutionize this company to have the speed and agility of a small enterprise**.**

Microsoft Corporation:"Empower people through great software—any time, any place, and on any device."

Communicating the Strategic Vision

An *exciting, inspirational* vision

- Contains memorable language
- Clearly maps company's future direction
- Challenges and motivates workforce
- Provokes emotion and enthusiasm

Winning *support* for the vision involves

– Putting "where we are going and why" in writing

– Distributing the statement organization-wide

– Having executives explain the vision to the workforce

Vision vs. Mission

- A *strategic vision* concerns a firm's *future* business path - *"where we are going"*
  - Markets to be pursued
  - Future technology-product-customer focus
  - Kind of company management is trying to create
- The *mission statement* of most companies focuses on *current* business activities - *"who we are and what we do"*
  - Current product and service offerings
  - Customer needs being served
  - Technological and business capabilities

Linking the Vision with Company Values

- A *statement of values* is often provided to guide the company's pursuit of its vision
- *Values* – Beliefs, business principles, and ways of doing things that are incorporated into
  - Company's operations
  - Behavior of workforce
- *Values statements*
  - Contain between four and eight values
  - Are ideally tightly connected to and reinforce company's vision, strategy, and operating practices

Example: Company Values

5.4 OBJECTIVES

Objectives are defined as goals that organization wants to achieve over a period of time. These are the foundation of planning. Policies are developed in an organization so as toachieve these objectives. Formulation of objectives is the task of top level management.Objectives are the end results of planned activity; they state what is to be accomplished by when and should be quantified if possible. The achievement of corporate objectives should result in fulfillment of the corporation's mission.

Objectives are the ends that state specifically how the goals shall be achieved. Objectives are concrete, specific and quantitative. Objectives play an important role in strategic management, they define the organization's relationship with its environment, they help the organization to pursue its vision and mission, provide the basis for strategic decision making and standard for performance appraisal. Objectives are the ends or the results that a firm seeks to achieve by its existences and operations of business. Objectives may be the basis for carrying out any activity.

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

Objectives are the ends that state specifically how the goals shall be achieved. Objectives are concrete, specific and quantitative. Objectives play an important role in strategic management, they define the organization's relationship with its environment, they help the organization to pursue its vision and mission, provide the basis for strategic decision making and standard for performance appraisal.Objectives are the ends or the results that a firm seeks to achieve by its existences and operations of business. Objectives may be the basis for carrying out any activity.

- ***Purpose of setting OBJECTIVES is to***
  - Convert mission into performance targets
  - Create yardsticks to track performance
  - Establish performance goals requiring stretch
  - Push firm to be inventive, intentional, focused
- **Objectives guards against**
  - Complacency
  - Drift
  - Internal confusion
  - Status quo performance

Consider the objectives of Madras Fertilizers Ltd. The following highlights the business objectives and the direction in which the company works:

- To produce and market fertilizers and bio-fertilizers and market agro-chemicals, efficiently and economically, in an environmentally sound manner;
- To take up and implement schemes for saving energy;
- To continuously upgrade the quality of human resources and promote organizational and management development.
- To continually improve plant and operational safety;
- To take up R&D schemes.

Objectives can be set at two levels namely,

(1) Corporate level

These are objectives that concern the business or organisation as a whole

Examples of "corporate objectives might include:

- We aim for a return on investment of at least 15%
- We aim to achieve an operating profit of over £10 million on sales of at least £100 million
- We aim to increase earnings per share by at least 10% every year for the foreseeable future

(2) Functional level

e.g. specific objectives for marketing activities

Examples of functional marketing objectives" might include:

- We aim to build customer database of at least 250,000 households within the next 12 months
- We aim to achieve a market share of 10%
- We aim to achieve 75% customer awareness of our brand in our target markets

*Both corporate and functional objectives need to conform to the commonly used **SMART** criteria.*

SMART:

S-specific, unambiguously

M-measurable

A-ambitious, acceptable, achievable

R-realistic, **Relevant,**

T-in a certain time

Specific - the objective should state exactly what is to be achieved.

Measurable - an objective should be capable of measurement – so that it is possible to determine whether (or how far) it has been achieved

Ambitious - the objective should be achievable given the circumstances in which it is set and the resources available to the business.

Relevant - objectives should be relevant to the people responsible for achieving them

Time Bound - objectives should be set with a time-frame in mind. These deadlines also need to be realistic.

Characteristics of Objectives

Objectives are expected to be both a plan of action and a measure of performance, hence they are expected to have the following characteristics.

- Objectives should be understandable
- Objectives should be concrete and specific
- Objectives should be Measurable and controllable
- Objectives should be Correlate with each other
- Objectives should be set with in constraints

5.5 TYPES OF OBJECTIVES

- **Strategic Objectives**

  Outcomes that will result in greater competitiveness & stronger long-term market position

- **Financial Objectives**

Outcomes that relate to improving firm's financial performance

Examples: Financial Objectives

- *X %* increase in annual revenues
- *X %* increase annually in after-tax profits
- *X %* increase annually in earnings per share
- Annual dividend increases of *X %*
- Profit margins of *X %*
- *X %* return on capital employed (ROCE)

Examples: Strategic Objectives

- Winning an *X %* market share
- Achieving lower overall costs than rivals
- Overtaking key competitors on product performance or quality or customer service
- Deriving *X %* of revenues from sale of new products introduced in past 5 years
- Achieving technological leadership

Unilever's Strategic and Financial Objectives

- Grow annual revenues by 5-6% annually
- Increase operating profit margins from 11% to 16% within 5 years
- Trim company's 1200 food, household, and personal care products down to 400 core brands
- Focus sales and marketing efforts on those brands with potential to become respected, market-leading global brands
- Streamline company's supply chain

Short-Term vs. Long-Term Objectives

- ***Short-term objectives***
  - Targets to be achieved soon
  - Milestones or stair steps for reaching long-range performance
- ***Long-term objectives***
  - Targets to be achieved within 3 to 5 years
  - Prompt actions now that will permit reaching targeted long-range performance later

Objectives Are Needed at All Levels

1. First, establish ***organization-wide*** objectives and performance targets
2. Next, set ***business*** and ***product line*** objectives
3. Then, establish ***functional*** and ***departmental*** objectives
4. ***Individual*** objectives are established last

Importance of Top-Down Objectives

- ***Guide*** objective-setting and strategy-making at lower levels
- ***Ensures*** financial and strategic ***performance targets*** for all business units, divisions, and departments are ***directly connected*** to achieving ***company-wide objectives***
- ***Integration*** of ***objectives*** has two advantages
- Helps ***produce cohesion*** among objectives and strategies of different parts of organization
- Helps ***unify internal efforts*** to move a company along the chosen strategic path

Goals vs. objectives:

Difference between goals and objectives

Goals	Objectives
Broad in scope	Narrow in scope
Are general intentions	Very precise.
Intangible	Tangible.
Abstract in nature	Concrete in nature
Can't be validated	Can be validated
Very short statement, few words	Longer statement, more descriptive
Directly relates to the Mission Statement	Indirectly relates to the Mission Statement

5.6 BALANCED SCORECARD-BY ROBERT KAPLAN & DAVID NORTON

Exhibit :5.1 by Robert Kaplan and David Morton

Introduction to the balanced scorecard

Balanced Scorecard was developed by Kaplan and Norton to provide a management system that was better at dealing with today's business pace and to provide business managers with the information they need to make better decisions.

The background

- Developed by Robert Kaplan and David Norton in 1992
- No single measures can give a broad picture of the organisation's health.
- So instead of a single measure why not one use a composite scorecard involving a number of different measures.
- Kaplan and Norton devised a framework based on four perspectives – financial, customer, internal and learning and growth.
- Theorganisation should select critical measures for each of these perspectives.

Balanced Scorecard:

History:

The Balanced Scorecard was developed in the early 1990s by two guys at the Harvard Business School: Robert Kaplan and David Norton. The key problem that Kaplan

and Norton identified in the business of the day was that many companies tended to manage their businesses based solely on financial measures. While that may have worked well in the past, the pace of business in today's world requires more comprehensive measures. Though financial measures are necessary, they can only report what has happened in the past — where a business has been, but not where it is headed. It's like driving a car by looking in the rearview mirror.

To provide a management system that was better at dealing with today's business pace and to provide business managers with the information they need to make better decisions, Kaplan and Norton developed the Balanced Scorecard.

- Balanced scorecard methodology is an analysis technique designed to translate an organization's mission statement and overall business strategy into specific, quantifiable goals and to monitor the organization's performance in terms of achieving these goals.
- A system of corporate appraisal which looks at financial and non-financial elements from a variety of perspectives.
- An approach to the provision of information to management to assist strategic policy formation and achievement.
- It provides the user with a set of information which addresses all relevant areas of performance in an objective and unbiased fashion.
- A set of measures that gives top managers a fast but comprehensive view of the business.

Importance of balanced scorecard…

- The Balanced Scorecard balances the financial perspective with the organisational, customer and innovation perspectives which are crucial for the future of an organisation
- The balanced scorecard methodology is a comprehensive approach that analyzes an organization's overall performance in four ways, based on the idea that assessing performance through financial returns only provides information about how well the organization did prior to the assessment, so that future performance can be predicted and proper actions taken to create the desired future.
- Allows managers to look at the business from four important perspectives.
- Provides a balanced picture of overall performance highlighting activities that need to be improved.

- Combines both qualitative and quantitative measures.
- Relates assessment of performance to the choice of strategy.
- Includes measures of efficiency and effectiveness.
- Assists business in clarifying their vision and strategies and provides a means to translate these into action.

Main benefits of using the balanced scorecard

- Helps companies focus on what has to be done in order to create a breakthrough performance
- Acts as an integrating device for a variety of corporate programmes
- Makes strategy operational by translating it into performance measures and targets
- Helps break down corporate level measures so that local managers and employees can see what they need to do well if they want to improve organisational effectiveness
- Provides a comprehensive view that overturns the traditional idea of the organisation as a collection of isolated, independent functions and departments

Balanced scorecard - four perspectives

The four perspectives are:

- **Financial perspective** - how does the firm look to shareholders?
- **Customer perspective** - how do customers see the firm?
- **Internal perspective** - how well does it manage its operational processes?
- **Innovation and learning perspective** – can the firm continue to improve and create value? This perspective also examines how an organisation learns and grows.

For each of four perspectives it is necessary to identify indicators to measure the performance of the organisations.

From the financial perspective

This is concerned with the shareholders view of performance. Shareholders are concerned with many aspects of financial performance: Amongst the measures of success are:

- Market share
- Revenue growth

- Profit ratio
- Return on investment
- Economic value added
- Return on capital employed
- Operating cost management
- Operating ratios and loss ratios
- Corporate goals
- Survival
- Profitability
- Growth
- Process cost savings
- Increased return on assets
- Profit growth
- Measures
- Cash flow
- Net profitability ratio
- Sales revenue
- Growth in sales revenue
- Cost reduction
- ROCE
- Share price
- Return on shareholder funds

From the customer perspective

How do customers perceive the firm? This focuses on the analysis of different types of customers, their degree of satisfaction and the processes used to deliver products and services to customers.

Particular areas of focus would include:

- Customer service

- New products
- New markets
- Customer retention
- Customer satisfaction
- What does the organisation need to do to remain that customer's valued supplier?

Potential goals for the customer perspective could include:

- Customer satisfaction
- New customer acquisition
- Customer retention
- Customer loyalty
- Fast response
- Responsiveness
- Efficiency
- Reliability
- Image

The following metrics could be used to measure success in relation to the customer perspective:

- Customer satisfaction index
- Repeat purchases
- Market share
- On time deliveries
- Number of complaints
- Average time to process orders
- Returned orders
- Response time
- Reliability
- New customer acquisitions
- Perceived value for money

From the internal perspective

This seeks to identify:

- How well the business is performing.
- Whether the products and services offered meet customer expectations.
- The critical processes for satisfying both customers and shareholders.
- Activities in which the firm excels?
- And in what must it excel in the future?
- The internal processes that the company must be improved if it is to achieve its objectives.

This perspective is concerned with assessing the quality of people and processes.

Potential goals for the internal perspective include:

- Improve core competencies
- Improvements in technology
- Streamline processes
- Manufacturing excellence
- Quality performance
- Inventory management
- Quality
- Motivated workforce

The following metrics could be used to measure success in relation to the internal perspective:

- Efficiency improvements
- Reduction in unit costs
- Reduced waste
- Improvements in morale
- Increase in capacity utilisation
- Increased productivity
- % defective output

- Amount of recycled waste
- Amount of reworking

The innovation and learning perspective

This perspective is concerned with issues such as:

- Can we continue to improve and create value?
- In which areas must the organisation improve?
- How can the company continue to improve and create value in the future?
- What should it be doing to make this happen?

Potential goals for the* innovation and learning *perspective include:

- New product development
- Continuous improvement
- Technological leadership
- HR development
- Product diversification

The following metrics could be used to measure success in relation to the* innovation and learning *perspective:

- Number of new products
- % sales from new products
- Amount of training
- Number of strategic skills learned.
- Value of new product in sales
- R&D as % of sales
- Number of employee suggestions.
- Extent of employee empowerment

Critical success factors:

– Success factors on which the company concentrates, to distinguish oneself for competition to build up an advantage in completion

Performance indicator

– Translation of critical success factors to measurable indicators.

5.7 SUMMARY

Strategy formulation is the process by which an organization chooses the most appropriate courses of action to achieve its defined goals. **Strategic** plans should be communicated to all employees so that they are aware of the organization's objectives, mission, and purpose. Strategy formulation is the development of long range plans for the effective management of environmental opportunities and threats in light of corporate strengths and weaknesses. It includes defining the corporate mission, specifying achievable objectives, developing strategies and setting policy guidelines. It begins with situational analysis. The simplest way is to analyze through is SWOT analysis. This is the method to analyze the strengths and weakness in order to utilize the threat and to overcome the threat. SWOT is the acronym for Strength, Weakness, Opportunities and Threats.

5.8 NOTES

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5.9 KEY WORDS

Balanced Score Card

Mission statement

Learning Perspective

Empowerment

5.10 SELF ASSESSMENT QUESTIONS

1. Write a vision and mission statement for an organization of your choice.
2. Conduct a search for different company's vision and mission statements, and evaluate the documents.
3. In your opinion, what are the three most important components that should be included whenwriting a mission statement? Why?
4. Under what circumstances you think a firm's vision and mission statements should be changed?
5. Compare and contrast vision, mission, objectives, purpose, aims, goals and targets.
6. Explain the principalvaluesand elements of a vision and a mission statement.
7. Develop a Balanced Scorecard for a local fast-food restaurant.

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UNIT – 6: STRATEGIC INTENT, VISION AND MISSION

Structure :

6.0 Objectives

6.1 Company Goals and Philosophy

6.2 How to Create a Company Philosophy

6.3 Strategic Intent

6.4 Merging the Strategic Vision, Objectives and Strategy into a Strategic Plan

6.5 Pitfalls in Strategic Planning

6.6 Notes

6.7 Summary

6.8 Key Words

6.9 Self Assessment Questions

6.10 References

6.0 OBJECTIVES

After studying this unit, you will be able to;

- Explain the importance of company goals
- Discuss the pitfalls in developing company goals
- How to create company philosophy
- Explain the relationship between company goals and company philosophy
- Discuss the strategic intent

6.1 COMPANY GOALS AND PHILOSOPHY

Goals denote what an organization hopes to achieve in a future period of time. They represent a future state or an outcome of the effort put in now. Part of the planning process, **business goals** describe what a company expects to accomplish over a specific period of time. Businesses usually outline their goals and objectives in their business plans. Goals might pertain to the company as a whole, departments, employees, customers, or any other area of the business. A broad category of financial and non-financial issues are addressed by the goals that a firm set for itself.

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

1. These are precise and measurable.
2. These look after critical and significant issues.
3. These are realistic and challenging.
4. These must be achieved within a specific time frame.
5. These include both financial as well as non-financial components.

The Importance of Company Goals

Businesses should not fear setting goals because there is absolutely no downside to the process. Goals give a business direction and help measure results. There are four detailed and important reasons why a business should have goals.

1. **Measure success** - Good organizations should always be trying to improve, grow, and become more efficient. Setting goals provides the clearest way to measure the success of the company.
2. **Leadership cohesion** - Setting goals ensures that everyone understands what the organization is trying to achieve. When the leadership team clearly understands what the business is trying to accomplish, it provides greater rationale for the decisions management might make regarding hiring, acquisitions, incentives, sales programs, etc.
3. **Knowledge is power** - If an employee knows and understands the goals, it becomes easier for him or her to make daily decisions based on the long- and short-term goals that were established.
4. **Reassess goals** - When goals are set, they can be monitored on a regular basis to verify the business is headed in the right direction. If the business is not achieving or moving towards accomplishing its goals, then changes or adjustments need to be made.

Pitfalls of Developing Company Goals

Setting business goals can go wrong if not done correctly. Seasoned business managers put a great deal of time and energy into developing and implementing business goals. There are two big pitfalls a business manager should try to avoid.

1. Setting unrealistically high goals :

When a goal is perceived to be unreachable, no effort will be made by the employees to achieve them. A businessperson needs to set realistic goals so that the employees can come together as a team to achieve them.

2. Setting vague and ambiguous goals :

Goals that are not specific enough do not lead to action and are useless. If achievements cannot be measured against the businesses expectations, then a manager cannot observe any progress towards the goal.

Measuring the Success of Company Goals

Establishing goals is only half the work in a business plan. Once the goals have been explained to the employees and a plan has been developed to achieve those goals, it is important to review those goals at certain times during the year. A business manager needs to take a ‘time-out’ every so often and ask him or herself the following questions:

- Is the business on target to achieve our goals?
- Is a course direction needed to get the business closer to achieving the goals?
- Are the goals still relevant with the ever-changing business world we live in?
- Are the employees still focused on helping the business achieve its goals?

The answers to these questions will help management decide if corrective action is needed. For example, if a business is not headed in the right direction, the manager might want to get all the employees together to review what is happening and make changes to help achieve the goals. Whether the management is good or bad, it still needs to keep the employees informed about how the business is performing and how the employees are doing with respect to the goals.

Company philosophy

It is in the form of a Slogan or Statement. It projects the ethical and value based concept(philosophy) a Company contributes to public. This is more related to the Social Responsibility& Public Good. The corporation is a creation of society whose purpose is the production and distribution of needed goods and services, for profit of society and itself. The Company in its own interest has to promote the public welfare in a positive way. Indeed, the corporate interest broadly defined by management can support involvement in helping to solve virtually any social problem, because people who have good environment, education and opportunity make better employees, customers and neighbors for business than those who are poor, ignorant and oppressed. Pollution control, contributing to public cause in the areas of health, education & poverty. Payment of taxes genuinely, fair wages to employees, quality products/services to consumers, all actions are based on legal and moral foundation etc.

Furthermore, any company can sell Product X or provide Service Y, but what differentiates you from everyone else in your field is your company philosophy. A company's philosophy is a distillation of its culture or ambience into a group of core values that inform all aspects of its business practices. Having a strong company philosophy is a good way to guide your employees at decision-making crossroads, but it can also be a strong branding tool, and generally make your workplace more congenial.

For example, Tony Hsieh, Zappos' CEO and a respected culture crafter, sometimes tells the story of a customer service representative who got a call from a woman whose husband had died in a car accident after she had ordered boots for him from Zappos. The day after the call, the widow received flowers that the rep had sent her on the company's

dime without consulting a supervisor. At the funeral the widow related the experience to her friends and family.

So by fostering a culture in which employees can make such a call—the first of Zappos' 10 core values exhorts employees to go "above and beyond the average level of service to create an emotional impact on the receiver"—Hsieh walks away with a hat trick. His staff was able to be decisive when it counted; his brand gained a powerful addition to its narrative, plus a devoted customer; and the call center rep felt empowered by being granted such license.

6.2 HOW TO CREATE A COMPANY PHILOSOPHY

Keep it in Context:

How does a company's philosophy relate to other values-oriented parts of your company such as your mission statement or your code of ethics? "In some ways these terms all overlap. They are attempting to create an identity for the company that distinguishes it in the marketplace," says David Ulrich, a business professor at the University of Michigan and co-founder of the RBL Group, a consultancy that advises businesses on human resources, leadership,and organization.

Not every company needs to have a mission statement, philosophy, and code of ethics but one example of a company that has all three is **Google.**

- ***Mission statement:*** A mission statement should succinctly summarize what you do or what your aims are. Google's stated mission is "to organize the world's information and make it universally accessible and useful."
- ***Philosophy*****:** A philosophy should flesh out the mission statement, which is pithy and almost sloganlike into core ideas or values that the company and its members hold dear and adhere to in their business dealings. Google's philosophy includes such principles as "fast is better than slow," democracy on the Web works," and "you can be serious without a suit."
- ***Code of ethics*****:** A code of ethics or code of conduct expands even further on the philosophy and the mission statement to deal with specific types of situations and behaviors. Google, for example, lays out its policies on, among other things, conflicts of interest, customer service, and confidentiality.

Ulrich continues, "There are dimensions of this identity: the philosophy being a set of principles that govern work, the mission statement about why we work, and code

of ethics about our values in doing work. But they all try to position a company's identity in the minds of those inside and outside the company."

Don't Put It Off

Understandably, many companies set their sights on becoming profitable and delay the task of thinking hard about what they stand for and building that into their business. But experts say that founders and owners ignore crafting a philosophy at their own peril.

"What typically happens is that business people will want to talk about their products, their delivery systems, their profitability models. They'll want to get right down to the nittygritty," says Alex Plinio, co-founder of the Institute for Ethical Leadership at Rutgers Business School. "But what tears businesses apart aren't necessarily those kinds of things. What tears them apart is people that don't get along with one another; they have different values."

Practice What You Preach

The principles in a company's philosophy have to come from, and be true to, the founder or CEO as a person. For example, "if you have a hard-driving, aggressive, Type A person [in charge of a business], having 'play nice with others' as part of your principles is not going to work," says Steve Priest, president of Ethical Leadership Group (ELG), a consulting firm specializing in ethics and corporate responsibility.

As the founder or owner of your company, you should extrapolate your values by running through a number of hypothetical scenarios. Create quandaries for yourself, in which there are tradeoffs between profits, customer experience, and ethically questionable practices. See how you think the company should behave in each of these circumstances and a picture of your values will begin to emerge. Other exercises can include brainstorming what words or concepts you want people to associate with you and your company, or perhaps more tellingly, seeking out your biggest critics and soliciting their input.

Two examples of CEOs whose values suffuse the products and strategies of their companies are Steve Jobs and Jason Fried. The former Apple CEO is notorious for his micromanagement style and the same need to control every detail manifests in the rigid control over the App Store. By contrast Fried, the head of 37signals, has created multiple open source tools such as Ruby on Rails, a programming framework, and Prototype, a JavaScript framework. This openness is mirrored in Fried's willingness to experiment with things like four-day work weeks and funding employees' passions.

Keep it Simple

For a philosophy to really be actionable, it should be succinct, something any employee can hold in mind when they come to a decision-making crossroads. Priest recommends keeping the number of tenets down to three, though he breaks his own rule. He summarizes ELG's values in four principles: serve clients, make money, have fun, and change the world. Still, if you go far above three or four, Priest says, the "retention rate, which is linked to actions, decreases considerably."

On the flip side, you don't want to oversimplify things. Your corporate philosophy should strike a balance. Ulrich warns that, "Only focusing on details makes [your philosophy] non-memorable and no one will wade through it; managing by slogan is superficial and does not lead to accountability or change." As mentioned earlier, the philosophy is at a level of specificity between that of the mission statement and the code of ethics. It should encapsulate your ideology in a memorable way without being reductive. One way to do this is to have a bullet point list of core values but expand upon each one in a brief paragraph.

Hire People Who Match the Culture

Understandably, many companies don't think about their principles until they start making hires. Priest put his company philosophy in place "as soon as I was hiring a full-time employee because I was hiring her from a much bigger company and her question was, 'what do you stand for,' so she challenged me."

Other experts suggest that a philosophy becomes essential when the number of employees starts to grow ungainly. "In small companies, the identity is shared like bumper cars where people talk, run into, and see each other daily. This identity does not need to be codified and disseminated; it is lived," Ulrich says. "Crafting a philosophy statement, or identity, becomes helpful when the 'bumper cars' no longer bump into each other" as may happen in larger firms.

Even when you have face time with all your employees, it's not enough just to talk about your values. You must assess them, say by kicking off a meeting with how recent accomplishments or setbacks fit into the framework of your different values or rewarding employees for behavior that is exemplary of the company philosophy. If you don't do these things, your employees will figure out what's really important to you and to the company, namely profits.

That's why, as the company grows, the human resources department is integral for showing new hires and current employees what company priorities are. Those priorities

should be reflected in all HR processes including recruiting, performance evaluations, promotions, and rewards.

For example, if you're only hiring based on the skills of the job candidates, you're only getting half the picture. As Ulrich puts it, "Technical fit without cultural fit is a misfit, and the employee will be competent, but not contributing to business success."

You can craft your interview questions to elicit the traits you value most in prospective hires. For example, Jim Sheward, the CEO of the Internet-consulting company Fiberlink wants a staff with integrity so he asks interviewees about their biggest career mistake to date and looks for reflective individuals who have learned from their errors.

Odder questions can often give you more insight into people's personalities. Robert Baden, the CEO and president of Rochester Software Associates asks potential hires, "If I stood you next to a skyscraper and gave you a barometer, how could you figure out how tall the building was?" There's no correct answer, Baden is simply trying to gauge the applicant's creativity and quick thinking.

School New Hires on Company History

Even if you ask some pointed or provocative questions in the interview and get the answers you're looking for, your newest recruit isn't going to be integrated into the company culture on day one. Zappos has a four-week course for new hires in which they learn about the company philosophy and history. At the end, they are offered $2,000 to quit, and clearly many decide to stay.

You don't necessarily need to spell out how the company ethos affects daily job responsibilities. Let new employees breathe in the culture and apply it creatively to their tasks and their attitude towards their work. Of course providing examples can help make nebulous and heady ideals seem much more concrete and give employees something to emulate. Of course there's any number of ways to introduce new hires to company history, and you don't want to get too didactic.

Recently, New Belgium Brewing sold over half a million barrels of beer, which makes it all the more remarkable that CEO Kim Jordan doesn't have any employees. Okay, she has employees, 345 of them to be precise, but she refers to them as co-workers. It seems like a minute distinction but it's part of New Belgium's larger culture of involving all its members in the decision making process.

New hires get introduced to the company's history, and to it's ecological commitment, on a bike ride that passes the three locations the brewery has held in its 20

year of existence. “I think one of my roles as a leader here is to keep the story of who we are—our creation story as well as our evolution—alive and vivid and active,” Jordan says.

Fixing a Broken Company Culture

As a company grows, it’s possible for the leadership or the employees to lose sight of the founding values. This can lead, among other things, to ethical lapses. When companies come to Priest for suggestions, he says “a third come to us because the blade of the guillotine is at their-neck”.

Evaluating the problem is easy. Priest and his colleagues use a focus group method to interview employees, clients, and suppliers and they readily apprehend what the company’s strengths and weaknesses are. Then comes the hard part: “holding the mirror up to the leadership,” Priest says. Management can often become dissociated from the way people on lower tiers of the corporate ladder experience daily life at the company. Often, though, when Priest presents them with the evidence they see the need for serious change.

6.3 STRATEGIC INTENT

Strategic Intent is the foundation for Strategic Management of any organization. It is a hierarchy of the **vision, values, mission, business definitions and objectives that are established**. Strategic intent can be described as “a big, hairy audacious goal” (Bhag= Bee-hag) that generally takes a long time to achieve. The strategic intent of a newly started company may be to overtake the existing market leaders, which may take relatively long time. Strategic intent can also be interpreted as the desire of a technologically innovative company to change the way people work and live through new products of the company. Ambitious companies begin their business with a strategic desire or intent that may not match with their present capabilities and market positions. But they set long term objectives and work relentlessly which sometimes appears to be impossible. For example: The strategic intent of U.S Government’s Apollo Space Program was to land a person on the moon ahead of the Soviet Union, During 1980’s WallMart’s strategic intent was to overtake SEARS, which was the U.S Largest retailer, Canon strategic intent was to beat Xerox, Nike strategic intent was to overtake Adidas. Thus, strategic intent is the indicator of a deep rooted commitment of winning, or defeating the existing leaders and becoming the future leader.

It is clear that strategic intent is concerned with: -

- what an organization stands for and
- what an organization wishes to achieve in the long run.

For any business (Small / Big or for any successful organization based on some specific ambitious or aim. This may be expressed in terms of a hierarchy or Strategic Intent in Strategic Management.

Broadly stated this could be:

- Strategic Intent is the foundation for Strategic Management of any organization. It is a hierarchy.
- In this hierarchy, the vision, mission, business definitions and objectives that are established.
- It makes clear what an organization stands for and what an organization wishes to achieve in the long run.
- In the form of Vision and mission statement for the organization as a corporate whole
- This could be expressed as the business definition at the business level of a firm.
- This may be the goals and objectives in a precise term.

Hamel and Prahalad explain the term strategic Intent:

On the one hand, Strategic Intent envisions a desired leadership position and establishes the criterion the organization will use to chart its progress ……… At the same time, Strategic Intent is more than simply unfettered ambition ………

The concept also encompasses an active management process that includes:

- Focusing the organization's attention on the essence of winning
- Motivating people by communicating the value of the target
- Leaving room for individual and team contributions (Team Participation)
- Sustaining enthusiasm by providing new operational definitions as circumstances changes and using intent consistently to guide resource allocations.

Therefore, overall, strategic intent points to what a firm should set out to achieve. The understanding of strategic intent we can see the living example in the following:

Indian Oil Corporation (IOC) is the only Indian company to feature in the fortune 500 lists. It owns 40% of India's total refining capacity, commands a 55% market share of all petroleum products sold in the country, and achieves revenue of Rs. 70,000 crore in 1998-99. Yet it is also a company that is apprehensive of the situation that will arise when the Indian oil sector is fully deregulated by 2002

Its major problem area is that it does not have any presence in oil exploration and production, as it is totally dependent on the ONGC for the supply of crude oil.

To prepare itself for surviving in the future, IOC has enunciated its strategic intent through – its vision – mission – objectives and strategies.

IOC'S Vision:

"Indian oil aims to achieve international standards of excellence in all aspects of energy and diversified business with focus on customer delight through quality products and services".

IOC'S Mission:

'Maintaining national leadership in oil refining, marketing, and pipeline transportation'.

IOC'S Objectives:

"Focusing on cost, quality, customer care, value addition and risk management".

IOC's Corporate Strategies:

"Expansion and diversification and integration through strategic alliance and joint ventures".

IOC's Business strategies:

Harnessing new business opportunities in petrochemicals, power and tube marketing.

IOC's Functional Strategies:

Focusing on R & D, training and consultancy, exploration and production, LNG and fuel management in India and abroad.

Source: I.Ghosh, 'Prescription: Paranoia", Business India, June 28-July 11, 1998,PP 68-77, and on the way to the top: An interview with M.A. Pathan Chairman IOC " The Financial express, 30/8/99.

The parameters which are the ladder of strategic intent includes the following elements.

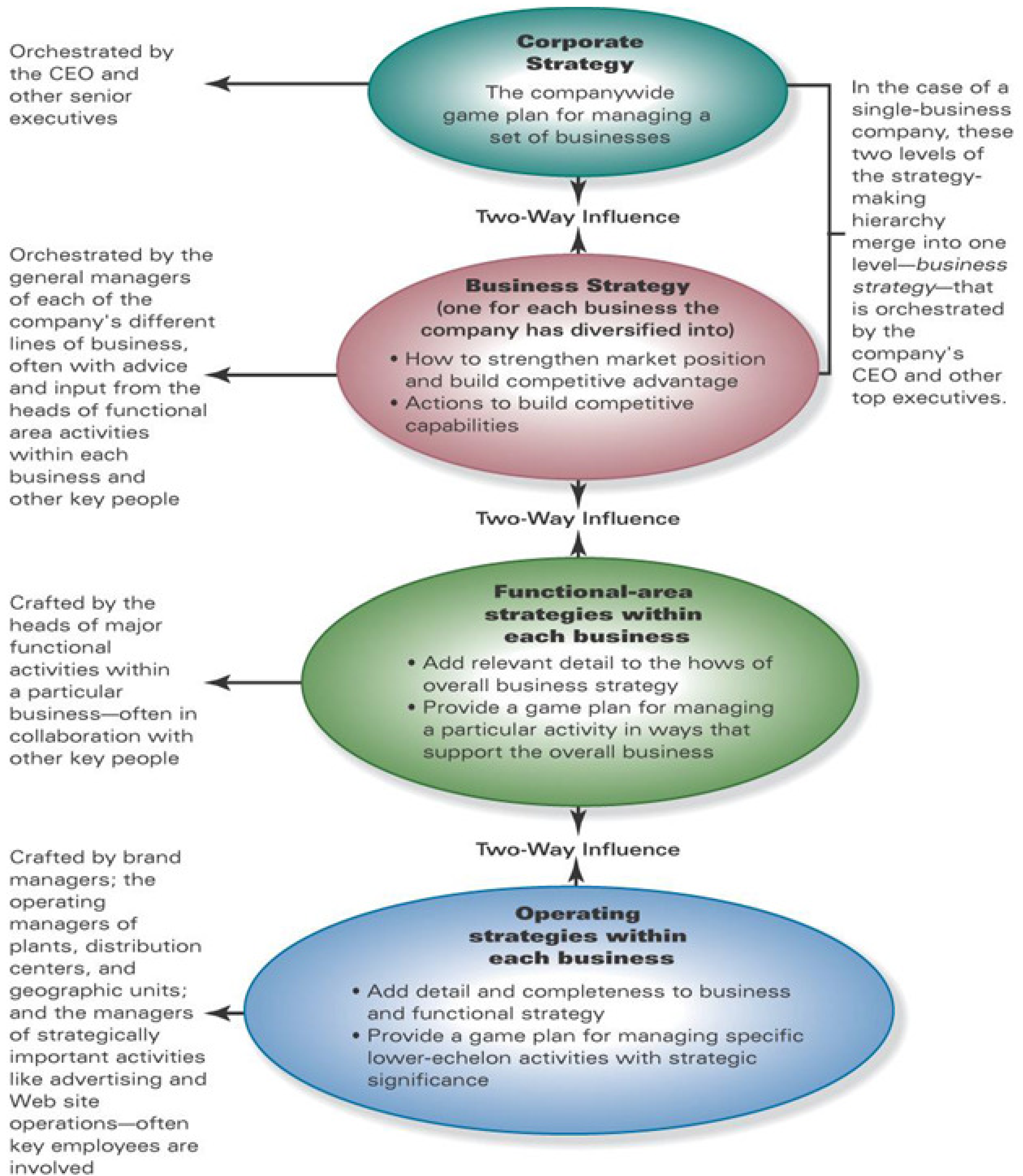
- A broad vision of what the organization should be.
- The organization's mission
- The strategic objectives and specific goals to be pursued relentlessly
- The plans that are developed to accomplish the intentions of management in a concrete way.

The terms vision, mission, objectives, goals and targets are used many a time interchangeably. However, in corporate literature they are often used distinctively.

Vision leads to mission, mission leads to objectives (Which are designed to achieve the mission), and objectives lead to goals (which are designed to achieve the objectives) and goals lead to targets (which are set to achieve the Goals).

Characteristics of Strategic Intent

- ♦ Indicates firm's intent to making quantum gains in competing against key rivals and to establishing itself as a winner in the marketplace, often against long odds
- ♦ Involves establishing a ***grandiose performance target*** that is out of proportion to its immediate capabilities and market position but then devoting the company's full resources and energies to achieving the target over time
- ♦ Signals relentless ***commitment*** to ***achieving*** a ***particular market position*** and ***competitive standing***


Orchestrated by the CEO and other senior executives
Corporate Strategy
The companywide game plan for managing a set of businesses
In the case of a single-business company, these two levels of the strategy-making hierarchy merge into one level—*business strategy*—that is orchestrated by the company's CEO and other top executives.
Two-Way Influence
Orchestrated by the general managers of each of the company's different lines of business, often with advice and input from the heads of functional area activities within each business and other key people
Business Strategy (one for each business the company has diversified into)
• How to strengthen market position and build competitive advantage
• Actions to build competitive capabilities
Two-Way Influence
Crafted by the heads of major functional activities within a particular business—often in collaboration with other key people
Functional-area strategies within each business
• Add relevant detail to the hows of overall business strategy
• Provide a game plan for managing a particular activity in ways that support the overall business
Two-Way Influence
Crafted by brand managers; the operating managers of plants, distribution centers, and geographic units; and the managers of strategically important activities like advertising and Web site operations—often key employees are involved
Operating strategies within each business
• Add detail and completeness to business and functional strategy
• Provide a game plan for managing specific lower-echelon activities with strategic significance

6.4 MERGING THE STRATEGIC VISION, OBJECTIVES AND STRATEGY INTO A STRATEGIC PLAN

Like the vision, the mission also tells everyone the organization's purpose—what does the organization exist to do? What are the objectives? It goes beyond the vision, however, by making a clearer delineation of company goals and how the vision will be accomplished.

In other words, the mission statement is a way to express the vision in practical terms. It should be concrete and include goal-oriented language. It should include measurable objectives. Every person within the organization can evaluate whether his or her own activities will serve to help the company achieve its mission.

Creating a company strategy is the final step in this process. Defining the vision and mission are critical before starting on strategic elements. After all, what is the strategy trying to achieve if not the company mission? And what is the mission if not an embodiment of the vision?

Some organizations put additional steps between forming the vision/mission and creating the strategy. For example, many choose to create an overall list of objectives or goals first, and then to use those as the basis for their company strategy.

A company strategy should include short- and long-term goals and should explain how those goals will be achieved. It is focused on present actions and outcomes needed to move closer to achieving the mission. Company strategies evolve and are updated over time to adjust for current factors such as local economic conditions and company needs.

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A company strategy should include short- and long-term goals and should explain how those goals will be achieved. It is focused on present actions and outcomes needed to move closer to achieving the mission. Company strategies evolve and are updated over time to adjust for current factors such as local economic conditions and company needs.

In today's highly competitive business environment, budget-oriented planning or forecast-based planning methods are insufficient for a large corporation to survive and prosper. The firm must engage in **strategic planning** that clearly defines objectives and assesses both the internal and external situation to formulate strategy, implement the strategy, evaluate the progress, and make adjustments as necessary to stay on track.

The strategic plan projects a prescriptive model based on predictive environment which is a roadmap for execution. Strategic plan is translated into the operations planning. Any deviation required is to be directed by strategic plan which takes care of the corporate objective and factors commanding the change.

The emergent strategy is "let us try this strategy and continue it or change it depending in our experience. The prescriptive strategy prescribed, "this is our strategy for the next five years, administer it. "The emergent approach holds that the long term being uncertain, it is unrealistic to prescribe in advance a strategy with long term perspective. The strategy should evolve responding to emerging developments, and therefore, to some extent, strategy development and implementation occur concurrently.

6.5 PITFALLS IN STRATEGIC PLANNING

Strategic planning is an involved, intricate, and complex process that takes an organizationinto uncharted territory. It does not provide a ready-to-use prescription for success; instead, it takes the organization through a journey and offers a framework for addressing questions and solving problems. Being aware of potential pitfalls and being prepared to address them is essential to success.

Some pitfalls to watch for and avoid in strategic planning are these:

- Using strategic planning to gain control over decisions and resources
- Doing strategic planning only to satisfy accreditation or regulatory requirements
- Too hastily moving from mission development to strategy formulation
- Failing to communicate the plan to employees, who continue working in the dark
- Top managers making many intuitive decisions that conflict with the formal plan
- Top managers not actively supporting the strategic-planning process
- Failing to use plans as a standard for measuring performance
- Delegating planning to a "planner" rather than involving all managers
- Failing to involve key employees in all phases of planning

- Failing to create a collaborative climate supportive of change
- Viewing planning as unnecessary or unimportant
- Becoming so engrossed in current problems that insufficient or no planning is done
- Being so formal in planning that flexibility and creativity are stifled

6.6 NOTES

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6.7 SUMMARY

Strategic management provides the route map for the firm. It lends a framework, which can ensure that decisions concerning the future are taken in a systematic and purposeful way. Strategic management also serves as a hedge against uncertainty, a hedge against totally unexpected developments on the business horizon. It lends a frame of reference for investment decisions. It aids the concentration of resources on vital areas of best potential. It offers a methodology by which the firm could anticipate and project the future and be internally equipped to face it. It helps to develop processes, systems, mechanisms and managerial attitude that are essential for this purpose.

6.8 KEY WORDS

Business Plan

Leadership Cotesion

Philosophy

Extrapolate

6.9 SELF ASSESSMENT QUESTIONS

1. Highlight the differences in company goals and company philosophy
2. Explain the process of creating company philosophy
3. Elucidate the hierarchy of Strategic Intent.
4. Discuss the benefits of merging the Strategic Vision, Objectives and Strategy into a Strategic Plan
5. What are the pitfalls in strategic planning, explain with examples.

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- Strategy and the business landscape- Pankaj Ghemawat

UNIT-7:ENVIRONMENTAL ANALYSIS

Structure :

7.0 Objectives

7.1 Introduction

7.2 The Relationship Between an Organization and its Environment

7.3 Evaluating the General Environment

7.4 The Strategically Relevant Components of A Company's External Environment

7.5 Role of Environmental Analysis for an Industry

7.6 Five Components of an Organization's External Environment

7.7 Notes

7.8 Summary

7.9 Key Words

7.10 Self Assessment Questions

7.11 References

7.0 OBJECTIVES

After studying this unit, you will be able to;

- Define the environment in the context of business.
- Understand how an organization and its environment affect each other.
- Learn the difference between the general environment and the industry.
- Explain how PESTEL analysis is useful to organizations.
- What is the general environment and why is it important to organizations?

7.1 INTRODUCTION

Strategically relevant components of a company's external environment

Strategy formulation is not just the creative thinking or opinions of strategists. It is an interpretation of the forces internal and external to an organization at a given point of time. All organizations operate in an environment that can be broadly classified as micro and macro. The micro environment includes the forces that are controllable to a greater extent and in the immediate reach of the organization. Whereas macro environment is made of factors that are beyond the organizations control and influences the overall environment in which the industry operates. It is the external environment which includes Socio-Cultural, Government, Legal, Demographic, Geo-Physical factors that are uncontrollable for a single business organization.

7.2 THE RELATIONSHIP BETWEEN AN ORGANIZATION AND ITS ENVIRONMENT

What Is the Environment?

For any organization, the environment consists of the set of external conditions and forces that have the potential to influence the organization. In the case of Subway, for example, the environment contains its customers, its rivals such as McDonald's and Kentucky Fried Chicken (KFC), social trends such as the shift in society toward healthier eating, political entities such as the US Congress, and many additional conditions and forces.

It is useful to break the concept of the environment down into two components. The general environment (or macroenvironment) includes overall trends and events in society such as social trends, technological trends, demographics, and economic conditions. The industry (or competitive environment) consists of multiple organizations that collectively compete with one another by providing similar goods, services, or both.

Every action that an organization takes, such as raising its prices or launching an advertising campaign, creates some degree of changes in the world around it. Most organizations are limited to influencing their industry. Subway's move to cut salt in its sandwiches, for example, may lead other fast-food firms to revisit the amount of salt contained in their products. A few organizations wield such power and influence that they can shape some elements of the general environment. While most organizations simply react to major technological trends, for example, the actions of firms such as Intel, Microsoft, and Apple help create these trends. Some aspects of the general environment, such as demographics, simply must be taken as a given by all organizations. Overall, the environment has a far greater influence on most organizations than most organizations have on the environment.

Why Does the Environment Matter?

Understanding the environment that surrounds an organization is important to the executives in charge of the organizations. There are several reasons for this. First, the environment provides resources that an organization needs in order to create goods and services. In the seventeenth century, British poet John Donne famously noted that "no man is an island." Similarly, it is accurate to say that no organization is self-sufficient. As the human body must consume oxygen, food, and water, an organization needs to take in resources such as labor, money, and raw materials from outside its boundaries. Subway, for example, simply would cease to exist without the contributions of the franchisees

that operate its stores, the suppliers that provide food and other necessary inputs, and the customers who provide Subway with money through purchasing its products. An organization cannot survive without the support of its environment.

Second, the environment is a source of opportunities and threats for an organization. Opportunities are events and trends that create chances to improve an organization's performance level. In the late 1990s, for example, Jared Fogle's growing fame created an opportunity for Subway to position itself as a healthy alternative to traditional fast-food restaurants. Threats are events and trends that may undermine an organization's performance. Subway faces a threat from some upstart restaurant chains. Saladworks, for example, offers a variety of salads that contain fewer than five hundred calories. Noodles and Company offers a variety of sandwiches, pasta dishes, and salads that contain fewer than four hundred calories. These two firms are much smaller than Subway, but they could grow to become substantial threats to Subway's positioning as a healthy eatery.

Executives must also realize that virtually any environmental trend or event is likely to create opportunities for some organizations and threats for others. This is true even in extreme cases. In addition to horrible human death and suffering, the March 2011 earthquake and tsunami in Japan devastated many organizations, ranging from small businesses that were simply wiped out to corporate giants such as Toyota whose manufacturing capabilities were undermined. As odd as it may seem, however, these tragic events also opened up significant opportunities for other organizations. The rebuilding of infrastructure and dwellings requires concrete, steel, and other materials. Japanese concrete manufacturers, steelmakers, and construction companies are likely to be very busy in the years ahead.

Third, the environment shapes the various strategic decisions that executives make as they attempt to lead their organizations to success. The environment often places important constraints on an organization's goals, for example. A firm that sets a goal of increasing annual sales by 50 percent might struggle to achieve this goal during an economic recession or if several new competitors enter its business. Environmental conditions also need to be taken into account when examining whether to start doing business in a new country, whether to acquire another company, and whether to launch an innovative product, to name just a few.

7.3 EVALUATING THE GENERAL ENVIRONMENT

The Elements of the General Environment: PESTEL Analysis

An organization's environment includes factors that it can readily affect as well as factors that largely lay beyond its influence. The latter set of factors are said to exist within the general environment. Because the general environment often has a substantial influence on an organization's level of success, executives must track trends and events as they evolve and try to anticipate the implications of these trends and events.

PESTEL analysis is one important tool that executives can rely on to organize factors within the general environment and to identify how these factors influence industries and the firms within them. PESTEL is an anagram, meaning it is a word that created by using parts of other words. In particular, PESTEL reflects the names of the six segments of the general environment: (1) political, (2) economic, (3) social, (4) technological, (5) environmental, and (6) legal. Wise executives carefully examine each of these six segments to identify major opportunities and threats and then adjust their firms' strategies accordingly.

P Is for "Political"

The political segment centers on the role of governments in shaping business. This segment includes elements such as tax policies, changes in trade restrictions and tariffs, and the stability of governments. Immigration policy is an aspect of the political segment of the general environment that offers important implications for many different organizations. What approach to take to illegal immigration into the United States from Mexico has been a hotly debated dilemma. Some hospital executives have noted that illegal immigrants put a strain on the health care system because immigrants seldom can pay for medical services and hospitals cannot by law turn them away from emergency rooms.

Proposals to provide support to businesses are often featured within political campaigns.

Meanwhile, farmers in U.S argue that a tightening of immigration policy would be harmful because farmers rely heavily on cheap labor provided by illegal immigrants. In particular, if farmers were forced to employ only legal workers, this would substantially increase the cost of vegetables. Restaurant chains such as Subway would then pay higher prices for lettuce, tomatoes, and other perishables. Subway would then have to decide whether to absorb these costs or pass them along to customers by charging

more for subs. Overall, any changes in immigration policy will have implications for hospitals, farmers, restaurants, and many other organizations.

E Is for "Economic"

The economic segment centers on the economic conditions within which organizations operate. It includes elements such as interest rates, inflation rates, gross domestic product, unemployment rates, levels of disposable income, and the general growth or decline of the economy. The economic crisis of the late 2000s has had a tremendous negative effect on a vast array of organizations. Rising unemployment discouraged consumers from purchasing expensive, nonessential goods such as automobiles and television sets. Bank failures during the economic crisis led to a dramatic tightening of credit markets. This dealt a huge blow to home builders, for example, who saw demand for new houses plummet because mortgages were extremely difficult to obtain.

Some businesses, however, actually prospered during the crisis. Retailers that offer deep discounts, such as Dollar General and Walmart, enjoyed an increase in their customer base as consumers sought to find ways to economize. Similarly, restaurants such as Subway that charge relatively low prices gained customers, while high-end restaurants such as Ruth's Chris Steak House worked hard to retain their clientele.

Decisions about interest rates made by the Federal Reserve create opportunities for some organizations and threats for others in the U.S

S Is for "Social"

A generation ago, ketchup was an essential element of every American pantry and salsa was a relatively unknown product. Today, however, food manufacturers sell more salsa than ketchup in the United States. This change reflects the social segment of the general environment. Social factors include trends in demographics such as population size, age, and ethnic mix, as well as cultural trends such as attitudes toward obesity and consumer activism. The exploding popularity of salsa reflects the increasing number of Latinos in the United States over time, as well as the growing acceptance of Latino food by other ethnic groups.

Sometimes changes in the social segment arise from unexpected sources. Before World War II, the American workforce was overwhelmingly male. When millions of men were sent to Europe and Asia to fight in the war, however, organizations had no choice but to rely heavily on female employees. At the time, the attitudes of many executives toward women were appalling. Consider, for example, some of the advice

provided to male supervisors of female workers in the July 1943 issue of *Transportation Magazine*:

- Older women who have never contacted the public have a hard time adapting themselves and are inclined to be cantankerous and fussy. It's always well to impress upon older women the importance of friendliness and courtesy.
- General experience indicates that "husky" girls—those who are just a little on the heavy side—are more even tempered and efficient than their underweight sisters.
- Give every girl an adequate number of rest periods during the day. You have to make some allowances for feminine psychology. A girl has more confidence and is more efficient if she can keep her hair tidied, apply fresh lipstick and wash her hands several times a day.

The tremendous contributions of female workers during the war contradicted these awful stereotypes. The main role of women who assembled airplanes, ships, and other war materials was to support the military, of course, but their efforts also changed a lot of male executives' minds about what females could accomplish within organizations if provided with opportunities. Inequities in the workplace still exist today, but modern attitudes among men toward women in the workplace are much more enlightened than they were in 1943.

Women's immense contributions to the war effort during World War II helped create positive social changes in the ensuing decades.

Beyond being a positive social change, the widespread acceptance of women into the workforce has created important opportunities for certain organizations. Retailers such as Talbot's and Dillard's sell business attire to women. Subway and other restaurants benefit when the scarceness of time lead dual income families to purchase take-out meals rather than cook at home.

A surprising demographic trend is that both China and India have more than twice as many English-speaking college graduates each year than does the United States.

T Is for "Technological"

The technological segment centers on improvements in products and services that are provided by science. Relevant factors include, for example, changes in the rate of new product development, increases in automation, and advancements in service industry delivery. One key feature of the modern era is the ever-increasing pace of

technological innovation. In 1965, Intel cofounder Gordon E. Moore offered an idea that has come to be known as Moore's law. Moore's law suggests that the performance of microcircuit technology roughly doubles every two years. This law has been very accurate in the decades since it was offered.

One implication of Moore's law is that over time electronic devices can become smaller but also more powerful. This creates important opportunities and threats in a variety of settings. Consider, for example, photography. Just a decade ago, digital cameras were relatively large and they produced mediocre images. With each passing year, however, digital cameras have become smaller, lighter, and better. Today, digital cameras are, in essence, minicomputers, and electronics firms such as Panasonic have been able to establish strong positions in the market. Meanwhile, film photography icon Kodak has been forced to abandon products that had been successful for decades. In 2005, the firm announced that it would stop producing black-and-white photographic paper. Four years later, Kodachrome color film was phased out.

Successful technologies are also being embraced at a much faster rate than in earlier generations. The Internet reached fifty million users in only four years. In contrast, television reached the same number of users in thirteen years while it took radio thirty-eight years. This trend creates great opportunities for organizations that depend on emerging technologies. Writers of applications for Apple's iPad and other tablet devices, for example, are able to target a fast-growing population of users. At the same time, organizations that depend on technologies that are being displaced must be aware that consumers could abandon them at a very rapid pace. As more and more Internet users rely on Wi-Fi service, for example, demand for cable modems may plummet.

Moore's law explains how today's iPhone can be one hundred times faster, one hundred times lighter, and ten times less expensive than a "portable" computer built in the 1980s.

Although the influence of the technological segment on technology-based companies such as Panasonic and Apple is readily apparent, technological trends and events help to shape low-tech businesses too. In 2009, Subway started a service called Subway Now. This service allows customers to place their orders in advance using text messages and avoid standing in line at the store. By offering customers this service, Subway is also responding to a trend in the general environment's social segment: the need to save time in today's fast-paced society.

E Is for "Environmental"

The environmental segment involves the physical conditions within which organizations operate. It includes factors such as natural disasters, pollution levels, and weather patterns. The threat of pollution, for example, has forced municipalities to treat water supplies with chemicals. These chemicals increase the safety of the water but detract from its taste. This has created opportunities for businesses that provide better-tasting water. Rather than consume cheap but bad-tasting tap water, many consumers purchase bottled water. Indeed, according to the Beverage Marketing Corporation, the amount of bottled water consumed by the average American increased from 1.6 gallons in 1976 to 28.3 gallons in 2006. At present, roughly one-third of Americans drink bottled water regularly.

As is the case for many companies, bottled water producers not only have benefited from the general environment but also have been threatened by it. Some estimates are that 80 percent of plastic bottles end up in landfills. This has led some socially conscious consumers to become hostile to bottled water. Meanwhile, water filtration systems offered by Brita and other companies are a cheaper way to obtain clean and tasty water. Such systems also hold considerable appeal for individuals who feel the need to cut personal expenses due to economic conditions. In sum, bottled water producers have been provided opportunities by the environmental segment of the general environment (specifically, the spread of poor-tasting water to combat pollution) but are faced with threats from the social segment (the social conscience of some consumers) and the economic segment (the financial concerns of other consumers).

A key trend within the environmental segment is an increasing emphasis on conserving fossil fuels.

L Is for "Legal"

The legal segment centers on how the courts influence business activity. Examples of important legal factors include employment laws, health and safety regulations, discrimination laws, and antitrust laws

Intellectual property rights are a particularly daunting aspect of the legal segment for many organizations. When a studio such as Pixar produces a movie, a software firm such as Adobe revises a program, or a video game company such as Activision devises a new game, these firms are creating intellectual property. Such firms attempt to make profits by selling copies of their movies, programs, and games to individuals. Piracy of intellectual property—a process wherein illegal copies are made and sold by others—

poses a serious threat to such profits. Law enforcement agencies and courts in many countries, including the United States, provide organizations with the necessary legal mechanisms to protect their intellectual property from piracy.

In other countries, such as China, piracy of intellectual property is quite common. Three other general environment segments play a role in making piracy a major concern. First, in terms of the social segment, China is the most populous country in the world. Second, in terms of the economic segment, China's affluence is growing rapidly. Third, in terms of the technological segment, rapid advances in computers and communication have made piracy easier over time. Taken together, these various general environment trends lead piracy to be a major source of angst for firms that rely on intellectual property to deliver profits.

A key legal trend in recent years is forcing executives to have greater accountability for corporate misdeeds via U.S laws such as the 2002 Sarbanes-Oxley Act.

7.4 THE STRATEGICALLY RELEVANT COMPONENTS OF A COMPANY'S EXTERNAL ENVIRONMENT

The performance of a company is affected by external factors like the economy, demographics, social values, and technological changes. The factors in a company's macro-environment which have the largest strategy impact relates to the company's environment, the industry, competition, buyer relations, and supplier relations. To do a company's analysis of its external environment, a company needs to do an industry analysis on dominant economic characteristics, an industry's competitive forces, the driving forces of the industry, the market positions of the industry's rivals, the strategic moves of rivals, key success factors, and the industry's outlook on future profitability.

Identification of the industry's dominant economic characteristics is important for analyzing a company's industry and preparing a proper competitive analysis of their environment.

Understanding the economic characteristics provides an overview of the industry and provides an understanding of the different kinds of strategic moves that the industry members are likely to use.

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The Industry's Dominant Economic Characteristics

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Examples of Economic Characteristics: Market size and growth rate

- Scope of competitive rivalry
- Number of buyers and rivals
- A competitive analysis of the geographic scope
- Degree of product differentiation
- Technological changes and innovations
- Economies of scale
- Capacity utilization
- Industry profitability
- Learning and experience curves

- Degrees of vertical integration
- Supply and Demand Conditions
- Product innovation and characteristics
- Ease of entry/exit in the industry

Environmental Scanning

The systematic collection and analysis of information about relevant macro environmental trends. It helps in increased general awareness of environmental changes, better strategic planning and decision-making, greater effectiveness in governmental matters and proper diversification and resource allocation decisions Environmental scanning also forecast future trends and changes. A number of forecasting techniques are available to strategic managers and they are:

- **Time series analysis** – an empirical forecasting procedure in which certain historical trends are used to predict such variables as a firm's sales or market share.
- **Delphi technique** – a forecasting procedure whereby experts are independently and repeatedly questioned about the probability of some event's occurrence until consensus is reached regarding the particular forecasted events.
- **Judgmental forecasting** - A procedure whereby employees, consumers, suppliers and /or trade associations serve as sources of qualitative information regarding future trends.
- **Multiple scenarios** - a forecasting procedure in which management formulates several plausible hypothetical descriptions of sequence of future events and trends.

7.5 ROLE OF ENVIRONMENTAL ANALYSIS FOR AN INDUSTRY

1. The environment changes so fast that new opportunities and threats are created which may result in disequilibrium into organization's existing equilibrium Strategists have to analyze the environment to determine what factors in the environment present opportunities for greater accomplishment of organizational objectives and that factors in the environment present threats to the organization's objective accomplishment so that suitable adjustment in stagiest can be made to derive maximum benefits.

2. Environmental analysis allows strategists time to anticipate opportunities and plan to take optional responses to threes opportunities. Similarly, it helps to develop an

early warning system to prevent the threats or to develop strategies which can turn the threats to the organization's advantages.

3. Environmental analysis helps strategists to narrow the range of available alternatives and eliminate options that are clearly inconsistent with forecast opportunities or threats. The analysis helps in eliminating unsuitable alternatives and to process most promising alternatives. Thus it helps strategists to reduce time pressure and to concentrate on those which are important.

7.6 FIVE COMPONENTS OF AN ORGANIZATION'S EXTERNAL ENVIRONMENT

The external environment of an organization are those factors outside the company that affect the company's ability to function. Some external elements can be manipulated by company marketing, while others require the organization to make adjustments. Monitor the basic components of your company's external environment, and keep a close watch at all times.

Customers

Your customers are among the external elements you can attempt to influence, via marketing and strategic release of corporate information. But ultimately, your relationship with your clients is based on finding ways to influence them to purchase your products. Market research is used to determine the effectiveness of your marketing messages, and to decide what changes can be made to future marketing programs to improve sales.

Government

Government regulations in product development, packaging and shipping play a significant role in the cost of doing business and your ability to expand into new markets. If the government places new regulations on how you must package your product for shipment, that can increase your unit costs and affect your profit margins. International laws create processes that your company must follow to get your product into foreign markets.

Economy

As with the majority of the elements of your organization's external environment, your company must be efficient at monitoring the economy and learning how to react to it, rather than trying to manipulate it. Economic factors affect how you market products, how much money you can spend on business growth, and the kind of target markets you will pursue.

Competition

Your competition has a significant effect on how you do business and how you address your target market. You can choose to find markets that the competition is not active in, or you can decide to take on the competition directly in the same target market. The success and failure of your various competitors also determines a portion of your marketing planning, as well. For example, if a long-time competitor in a particular market suddenly decides to drop out due to financial losses, then you will need to adjust your planning to take advantage of the situation.

Public Opinion

Any kind of company scandal can be damaging to your organization's image. The public perception of your organization can hurt sales it's negative, or it can boost sales with positive company news. Your firm can influence public opinion by using public relations professionals to release strategic information, but it is also important to monitor public opinion to try and defuse potential issues before they begin to spread.

Key External Forces

External forces can be divided into five broad categories:

Economic forces;

Social, cultural, demographic, and environmental forces;

Political, governmental, and legal forces;

Technological forces, and Competitive forces.

7.7 NOTES

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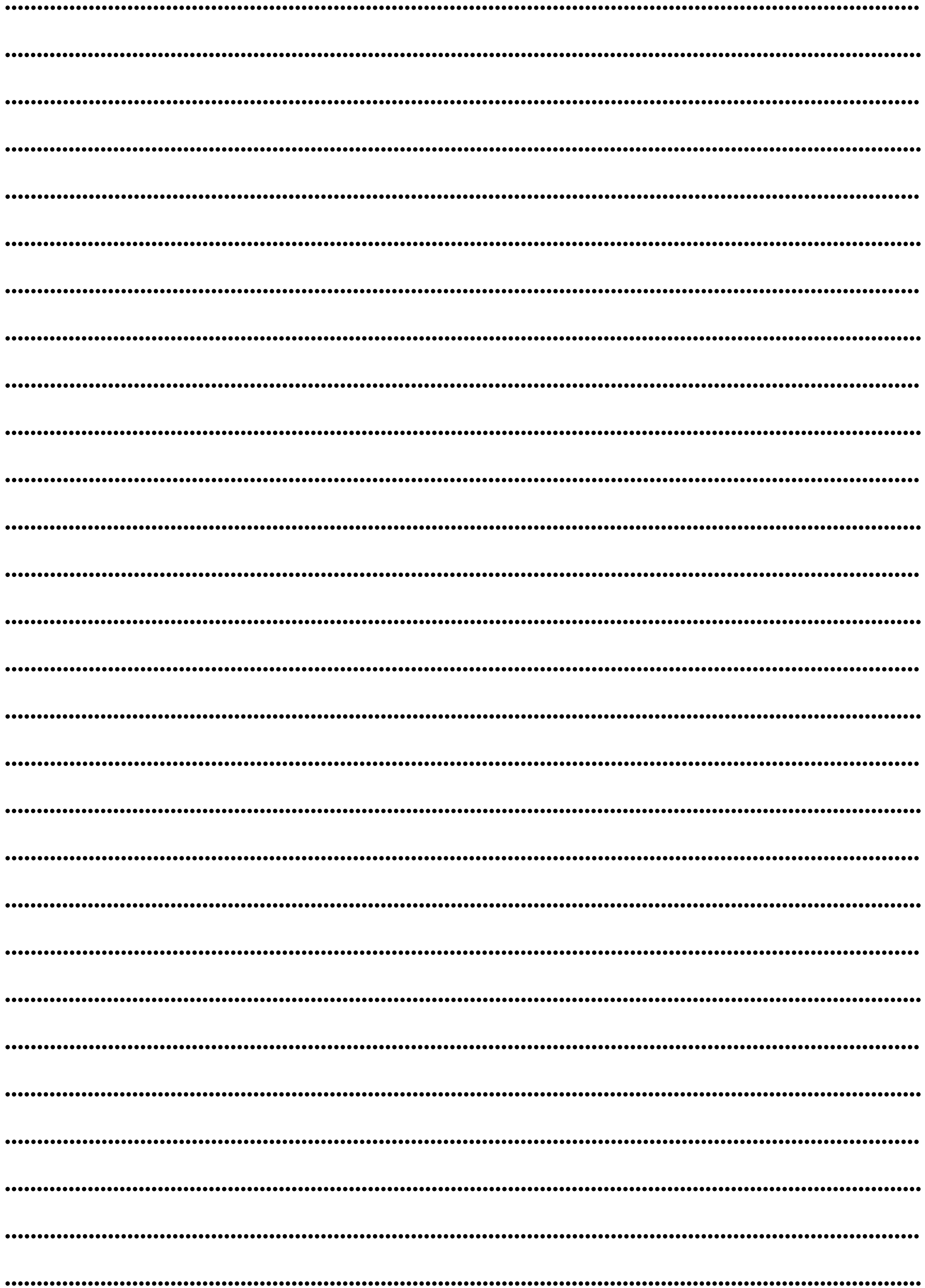

7.8 SUMMARY

Environment Analysis is the Study of the organizational environment to pinpoint environmental factors that can significantly influence organizational operations. Managers commonly perform environmental analysis to help them understand what is happening both inside and outside their organizations and to increase the probability that the organizational strategies they develop will approriately reflect the organizational environment. In order to perform environmental analysis efficiently and effectively, a manager must thoroughly understand how organizational environment are structured. For purposes of environmental analysis, the environment of an organization is generally divided into 3 distinct levels such as: General Environment, Operating Environment and Internal Environment. Managers must be well aware of these 3 organizational environmental levels to understand how each level affects organizational performance and then formulate organizational strategies in response to this understanding.

7.9 KEY WORDS

Immigration Policy

Demographic Trend

Technological Segment

Social Segment

7.10 SELF ASSESSMENT QUESTIONS

1. Explain the relationship between organization and its environment.
2. Are all six elements of PESTEL important to every organization? Why or why not?
3. Which are the five components of an organization's external environment?
4. Which are the industry dominant economic characteristics?
5. Using a recent news article, identify a trend that has a positive and negative implication for a particular industry.
6. Can you identify an environmental trend that no organization can influence?

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UNIT – 8: INDUSTRY ANALYSIS

Structure :

8.0 Objectives

8.1 Introduction

8.2 Competitive Environment Analysis

8.3 Industry Driving Forces

8.4 Identifying an Industry's Driving Forces

8.5 Key Success Factors

8.6 Case Study

8.7 Notes

8.8 Summary

8.9 Key Words

8.10 Self Assessment Question

8.11 References

8.0 OBJECTIVES

After studying this unit, you will be able to;

- Explain how five forces analysis is useful to organizations.
- Be able to offer an example of each of the five forces.
- Identify and explain the driving forces of an industry
- Discuss the key success factors for a strategy

8.1 INTRODUCTION

An **industry analysis** is a business function completed by business owners and other individuals to assess the current business environment. A market assessment tool designed to provide a business with an idea of the complexity of a particular industry. Industry analysis involves reviewing the economic, political and market factors that influence the way the industry develops. Major factors can include the power wielded by suppliers and buyers, the condition of competitors, and the likelihood of new market entrants.

8.2 COMPETITIVE ENVIRONMENT ANALYSIS

In a dynamic business environment a company's business prospects depends upon a number of inter connected factors. The ability and fair chances of a company to become successful in such a competitive environment depends upon its competitive advantage. Every industry is exposed to different economic and competitive situations to operate in pursuit of profit. Unless the managers understand the key factors that influences his industry and firms business cannot make effective strategies. The key factors vary from industry to industry for instance, the economic and competitive factors for Fast-food industry are different from that of banking industry and the key factors of Soft drinks may not be relevant for Textile industry. Though the factors are not the same the competitive forces works in common analytical framework in the same nature and intensity. Professor Michael.E.Porter has convincingly identified five competitive forces that influences the business strategies.

Porter's Five Forces model analysis:

Porter's Five-Forces Model of competitive analysis is a widely used approach for developing strategies in many industries. The intensity of competition among firms varies widely across industries. Intensity of competition is highest in lower return

industries. The collective impact of competitive forces is so brutal in some industries that the market is clearly "unattractive from a profit-making standpoint. Rivalry amongexisting firms is severe, new rivals can enter the industry with relative ease, and both suppliers and customers can exercise considerable bargaining leverage. According to Porter, the nature of competitiveness in a given industry can be viewed as a composite of five forces:

1. Rivalry among competing firms
2. Potential entry of new competitors
3. Potential development of substitute products
4. Bargaining power of suppliers
5. Bargaining power of consumers

Porter's Five Forces model of competition

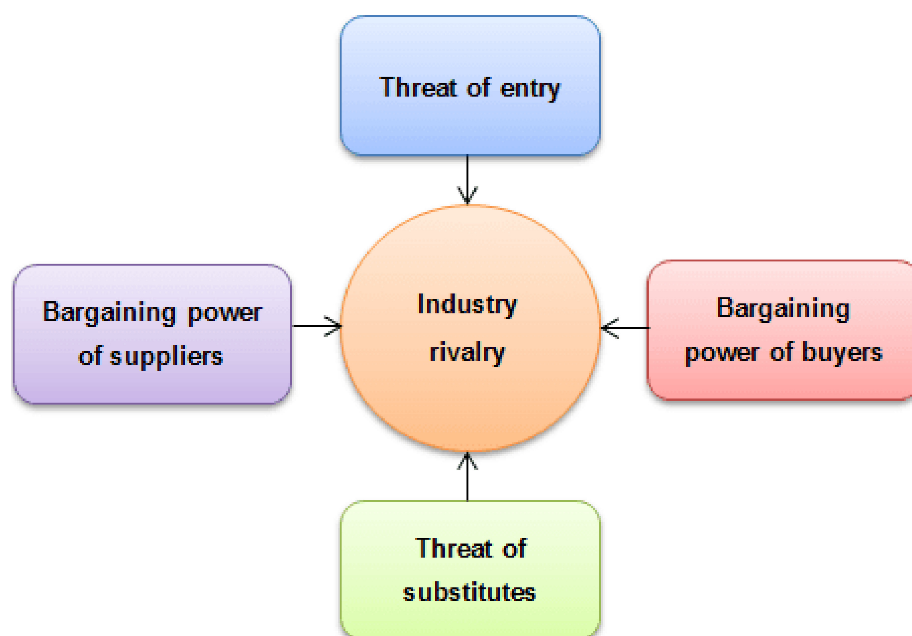

Exhibit 8.1

The following three steps for using Porter's Five-Forces Model can indicate whether competition in a given industry is such that the firm can make acceptable profit:

1. Identify key aspects or elements of each competitive force that impact the firm.
2. Evaluate how strong and important each element is for the firm.

3. Decide whether the collective strength of the elements is worth the firm entering or staying in the industry.

Rivalry Among Competing Firms

Rivalry among competing firms is usually the most powerful of the five competitive forces. The strategies pursued by one firm can be successful only to the extent that they provide competitive advantage over the strategies pursued by rival firms. Changes in strategy by one firm may be met with retaliatory countermoves, such as lowering prices,enhancing quality, adding features, providing services, extending warranties, and increasing advertising.

Free-flowing information on the Internet is driving down prices and inflation worldwide. The Internet, coupled with the common currency in Europe, enables consumers to make price comparisons easily across countries. Just for a moment, consider the implications for car dealers who used to know everything about a new car's pricing, while you, the consumer, knew very little. You could bargain, but being in the dark, you rarely could win. Now you can shop online in a few hours at every dealership within 500 miles to find the best price and terms. So you, the consumer, can win. This is true in many, if not most, business-to-consumer and business-to-business sales transactions today.

The intensity of rivalry among competing firms tends to increase as the number ofcompetitors increases, as competitors become more equal in size and capability, as demand for the industry's products declines, and as price cutting becomes common. Rivalry also increases when consumers can switch brands easily; when barriers to leaving the market are high; when fixed costs are high; when the product is perishable; when consumer demand is growing slowly or declines such that rivals have excess capacity and/or inventory; when the products being sold are commodities (not easily differentiated such as gasoline); when rival firms are diverse in strategies, origins, and culture; and when mergers and acquisitions are common in the industry. As rivalryamong competing firms intensifies, industry profits decline, in some cases to the point where an industry becomes inherently unattractive. When rival firms sense weakness, typically they will intensify both marketing and production efforts to capitalize on the "opportunity." summarizes conditions that cause high rivalry among competing firms.

Conditions That Cause High Rivalry Among Competing Firms

1. High number of competing firms
2. Similar size of firms competing

3. Similar capability of firms competing
4. Falling demand for the industry's products
5. Falling product/service prices in the industry
6. When consumers can switch brands easily
7. When barriers to leaving the market are high
8. When barriers to entering the market are low
9. When fixed costs are high among firms competing
10. When the product is perishable
11. When rivals have excess capacity
12. When consumer demand is falling
13. When rivals have excess inventory
14. When rivals sell similar products/services
15. When mergers are common in the industry

Potential Entry of New Competitors

Whenever new firms can easily enter a particular industry, the intensity of competitivenessamong firms increases. Barriers to entry, however, can include the need to gain economiesof scale quickly, the need to gain technology and specialized know-how, the lack of experience,strong customer loyalty, strong brand preferences, large capital requirements, lack of adequate distribution channels, government regulatory policies, tariffs, lack of access toraw materials, possession of patents, undesirable locations, counterattack by entrenched firms, and potential saturation of the market.

Despite numerous barriers to entry, new firms sometimes enter industries with higher-quality products, lower prices, and substantial marketing resources. The strategist's job, therefore, is to identify potential new firms entering the market, to monitor the new rival firms' strategies, to counterattack as needed, and to capitalize on existing strengths and opportunities. When the threat of new firms entering the market is strong, incumbent firms generally fortify their positions and take actions to deter new entrants, such as lowering prices, extending warranties, adding features, or offering financing specials.

There are several types of entry barriers to the new competitors that safeguard the existing players, namely:

1. Economies of Scale
2. Cost and resource disadvantages
3. Inability to match the technology and specialized know-how of the existing firms
4. The existing brand preference and customer loyalty
5. New capital requirements
6. Disadvantages of distribution channels and networks
7. Regulatory restriction of the government

Potential Development of Substitute Products

In many industries, firms are in close competition with producers of substitute products inother industries. Examples are plastic container producers competing with glass, paperboard, and aluminum can producers, and acetaminophen manufacturers competing with other manufacturers of pain and headache remedies. The presence of substitute products puts a ceiling on the price that can be charged before consumers will switch to the substitute product. Price ceilings equate to profit ceilings and more intense competition among rivals. Producers of eyeglasses and contact lenses, for example, face increasing competitive pressures from laser eye surgery. Producers of sugar face similar pressures from artificial sweeteners. Newspapers and magazines face substitute-product competitive pressures from the Internet and 24-hour cable television. The magnitude of competitive pressure derived from development of substitute products is generally evidenced by rivals' plans for expanding production capacity, as well as by their sales and profit growth numbers. Competitive pressures arising from substitute products increase as the relative price of substitute products declines and as consumers' switching costs decrease. The competitive strength of substitute products is best measured by the inroads into the market share those products obtain, as well as those firms' plans for increased capacity and market penetration.

The competitive pressures are from substitute products depends on three factors:

1. Whether attractive priced substitutes are available
2. Whether buyers view the substitutes as being satisfactory in terms of quality, performance, and other relevant attributes
3. Whether buyers can switch to substitutes easily

Bargaining Power of Suppliers

The bargaining power of suppliers affects the intensity of competition in an industry,especially when there is a large number of suppliers, when there are only a few good substitute raw materials, or when the cost of switching raw materials is especially costly.

It is often in the best interest of both suppliers and producers to assist each other with reasonable prices, improved quality, development of new services, just-in-time deliveries, and reduced inventory costs, thus enhancing long-term profitability for all concerned. Firms may pursue a backward integration strategy to gain control or ownership of suppliers. This strategy is especially effective when suppliers are unreliable, too costly, or not capable of meeting a firm's needs on a consistent basis. Firms generally can negotiate more favorable terms with suppliers when backward integration is a commonly used strategy among rival firms in an industry.

However, in many industries it is more economical to use outside suppliers of componentparts than to self-manufacture the items. This is true, for example, in the outdoor power equipment industry where producers of lawn mowers, rotary tillers, leaf blowers, and edgers such as Murray generally obtain their small engines from outside manufacturers such asBriggs & Stratton who specialize in such engines and have huge economies of scale.

In more and more industries, sellers are forging strategic partnerships with select suppliers in efforts to (1) reduce inventory and logistics costs (e.g., through just-in-time deliveries); (2) speed the availability of next-generation components; (3) enhance the quality of the parts and components being supplied and reduce defect rates; and (4) squeeze out important cost savings for both themselves and their suppliers.

The supplier and seller relationships represent a weak or strong competitive force depends on

1. Whether suppliers can exercise sufficient bargaining power to influence the terms and conditions or supply in their favor
2. The extent of supplier seller collaboration in the industry

Bargaining Power of Consumers

When customers are concentrated or large or buy in volume, their bargaining power represents a major force affecting the intensity of competition in an industry. Rival firms may offer extended warranties or special services to gain customer loyalty

whenever the bargaining power of consumers is substantial. Bargaining power of consumers also is higher when the products being purchased are standard or undifferentiated. When this is the case, consumers often can negotiate selling price, warranty coverage, and accessory packages to a greater extent.

The bargaining power of consumers can be the most important force affecting competitive advantage. Consumers gain increasing bargaining power under the following circumstances:

1. If buyer's cost of switching to competing brands or substitute are relatively low
2. If the number of buyers is small or if a customer is particularly important to a seller
3. If buyers are well- informed about sellers products, price and costs
4. If buyers pose a credible threat of integrating backward into the business of sellers
5. If buyers have discretion in whether and when they purchase the product.

8.3 INDUSTRY DRIVING FORCES

Key internal forces (such as knowledge and competence of management and workforce) and external forces (such as economy, competitors, technology) that shape the future of an organization.

All industries are characterized by trends and new development that gradually or speedily produce changes important enough to require a strategic response from participating firms.

Also Industries go thru a life cycle changes- its difference stages and hence the Industry change....but it is far from complete

There are more causes.....that need to be identified and their impact to be understood.

The Concept of Driving Force:

Industry conditions change because important forces are driving industry participants competitor, customer, or suppliers) to alter their actions; the driving forces in an industry are the major underlying causes of changing industry and competitive conditions- they have the biggest influence on how the industry landscape will be altered. Some originate in the outer ring of macro-environment and some originate from the inner ring.

Driving forces Analysis:

Identifying what the driving forces are

1. **Assessing** whether the drivers of change are, on the whole, acting to make the industry more or less attractive
2. **Determining what strategy changes are needed to prepare for the impact** of the driving forces.

8.4 IDENTIFYING AN INDUSTRY'S DRIVING FORCES

1) Emerging new internet Capabilities and Applications

- Got into every days biz operation and social fabric of life all across the world.
- Increasing internet usage & Speed, Growing internet shopping
- Companies using online technology
- Collaborate closely with suppliers and streamline their supply chain
- Revamp internal operations and squeeze our cost saving
- Manufacturer-> website->Direct customers.
- All Biz->Extend Geographical Reach

Low cost increases the no. of online rival and hence the competition of online v/s brick and mortar sellers.

Internet gives customer-> Power to research the product offering and shop the market for the best Value.

Ability of Consumer to download Music from internet has reshaped traditional music retailers

- Emails has eroded fax services and first class mail delivery revenues of Government postal services world wide
- Videoconferencing has eroded the demand of biz travels
- Onlinecourses offering have the potential of revolutionize higher education

Internet will feature faster speed, dazzling applications and over a billion connected gadgets performing an array of functions thus driving further industry and competitive changes. Internet related impacts vary from industry to industry

2) Increasing Globalization:

Competition has begun to shift from regional & national focus to an international or global focus Industry members begin seeking out customers in foreign market. Production activities begin to migrate to countries where costs are lowest. Global competition really starts when one or more ambitious Companies precipitate a race for worldwide market leadership.

Globalization happens:-

Blossoming of customer and demand in more and more countries

- Action of Government to reduce the trade barrier .Europe,Latin America and Asia
- Significant difference in labourcost ->locate plant Eg: China, India, Singapore, Mexico and Brazil ¼ of those in US, Germany and Japan

Eg:Industries :- Credit Card, Cellphone, Digital Camera, Golf and Ski Equipment, Motor Vehicles, Steel, Petroleum, Personal Computers, Video Games, Public Accounting and Text Publishing….

3) Changes in an Industry Long Term Growth Rate.

Shift in industry growth or are driving force for industry change, affecting the balance between industry supply and buyer demand, entry and exit of the firms

Increase in buyers demand triggers a race among established firms and new comers to capture the new sales opportunities, in turn will launch offensive strategies to broaden customer base and grow significantly

Decrease or slow down in rate at which demand is growing firms fight for their market share

If industry sales suddenly turns flat competition intensity, consolidation takes shapes by mergers and acquisitions,

Stagnating sales forces both weak and strong firms to sell their biz to those who elect to stick-> forces to close inefficient plants and retrench to small product base…

4) Changes in who buys the Product and how they use it:

Shift in buyer demographics-New ways of using product- firms broaden or narrow their product line-diff sales & promotion…Downloading Music From Internet-Storing Music Files on HD & PC, Burning CD-forced to reexamine the traditional music stores-also have stimulated the sales of Disc burners and blank discs.PC & Internet- Banks to

expand their electronic bill payment services and retailers to move more of their customer services online

5) Product Innovation:

Rivals racing to be first to introduce the new product or product enhancement after another.

Competition changes->attracting more 1st time buyers ->Rejuvenating industry growth, creating wider or narrow product differentiation.

Strong market position of Successful innovators at the cost of slow innovators

Eg:Digital Cameras, Golf Club Products, Video games, Toys and Prescription Drugs.

6) Technology Change & Manufacturing Process Innovation

Advances in the technology can dramatically alter an industry's landscape. It gives birth to new and better products at lower costs by opening up new industry frontier.

Identifying an Industry's Driving Forces: Technology change contd... Eg. Internet based phones are stealing large number of customers from using traditional telephone co worldwide, high cost technology, hard weird connections via overheads and underground telephone lines

- Flat screen technology are killing CRT monitors
- LCD and Plasma screen tech are driving CRT tech further
- Digital tech driving huge change in camera and film industry
- MP3and MP4 technology has transformed how people listen to music.

7) Marketing Innovation:

Successful in introducing new ways to MARKET their products:

- Spark a burst in buyer interest
- Widen industry demand
- Increase product differentiation
- Lower unit cost

Any or all of which can alter the competitive position of rival firm Eg: Online marketing of Electronics goods, Music artists making their own websites V/s contract with recording Studios….

8) Entry or Exit of Major Firms

Entry of one or more foreign co. into a geographic market once dominated by domestic firms shakes up the competitive scenario, Pushes the competition to new direction, Bring in new rules of competing.

Exit:- Reduces the no of market leaders, dominance of existing players and rush to capture existing firm's customers.

9) Diffusion of Technical Know-how across more companies and more countries.

As the knowledge spreads, the competitive advantage of existing firm originally possessing it erodes.

It happens thru Scientific Journals, Trade Publications, On site Plant tours, Word of mouth, Employees Migration, and internet sources

Technology knowledge license / Royalty fees

Cross border technology transfer has made the once domestic industries of automobile, tires, consumer electronics, telecommunication and computers truly global

10) Change in cost and efficiency

Widening or shrinking differences in the costs among key competitors tend to dramatically alter the state of competition

Low cost fax and e mail put mounting pressure on the inefficient and high cost operation of Postal Dept.

Shrinking cost of differences in producing multi-featured mobiles is turning the mobile phone market into commodity business and making more buyers to base Price as their Purchase decision

11) Growing buyer preferences for differentiated products instead of a commodity product

When buyers taste and preferences start to diverge, sellers can win a loyal following by providing different variants and taste then the competitors.

Eg: Beer, Automobile

12) Reduction in uncertainty and Business Risk.

An emerging industry is typically characterized by much uncertainty and risk in terms of time and efforts required to cover-up with the investments.Emerging industries tend to attract only risk-taking entrepreneurial companies. Over time however, if the

business model of industry pioneers proves profitable and market demand for the product appears durable, more conservative firms are usually enticed to enter the market. Often the later entrants are large & financially strong looking to invest into attractive growth industry.

Low biz risk and less industry uncertainty also affect competition in international market. In the early stage the co. enters foreign market with a conservative approach with less risky strategies like exporting, licensing, joint marketing agreement and JV with local companies.

As time goes and the co accumulates experience, it starts moving boldly and independently making acquisitions, constructing their own plants, putting their own sales and marketing capabilities to build strong competitive position...

13) Regulatory Influence and government Policy Changes.

Government regulatory actions can often forces significant changes in industry practices and strategic approaches.Deregulation has proved to be a potent pro-competitive force in the airline, banking, natural gas, telecommunications, and electric utility industries.Government efforts to reform MEDICARE and HEALT Insurance have become potent driving forces in the health care industry.

8.5 KEY SUCCESS FACTORS

Concept and Implementation:

Critical **success factor** vs. **key** performance indicator: Critical **success factors** are elements that are vital for a strategy to be **successful**. A critical **success factor** drives the strategy forward; it makes or breaks the **success** of the strategy (hence “critical”).

Kenichi Ohmae in his “The Mind of the Strategist” observes, “A good business strategy is oneby which a company can gain significant ground on its competitors at an acceptable cost to itself.

Finding a way of doing this is real task of the strategist. He suggests the following four ways ofstrengthening a Company’s position relative to that of its competitors.

1. **Strategy Based on KFS** - Key Factors for Success – to identify such critical factors in the areas like sourcing raw materials, production, marketing and concentrate resources on them to gain strategic advantage over the competitors.

2. **Strategy based on Relative Superiority** – Avoids head on competition and seeks to exploit competitor's weaknesses. Even when the competitors are very strong on the whole, there may be some critical factors or market segments where the company enjoys relative superiority which it can build into a strategic advantage. The relative superiority may be in respect of technology, cost, product quality, suitability of the product to market environment, distribution, after sales service, customer relations, cultural factors etc.

3. **Strategy Based On Aggressive Initiatives** – When competitors are so well established that it may be hard to dislodge. Sometimes the only answer is in unconventional strategy aimed at upsetting the key factors for success on which the competitor has built an advantage. Ask every point as "Why"? You will get a point.

4. **Strategy Based on SDF**– Strategic degrees of freedom (SDF). Superior competitive performance is to exploit the strategic degrees of freedom. This is relevant for consumer goods companies and cost-conscious industrial goods manufacture. Successful deployment of innovations is an alternative. These innovations may involve the opening up of new markets or the development of new products.

In the words of Ohmae, "in each of these, the principal concern is to avoid doing the same thing, on the same battle ground, as the competition. The aim is to attain a competitive situation in which your company can (1) gain a relative advantage through measures, which competitors will findhard to follow and (2) extend that advantage still further.

Industry conditions change because important forces driving industry participants (competitors,customers, suppliers) to alter their actions, the driving forces in an industry are the major underlying causes of changing industry and competitive conditions. Several factors can affect anindustry, powerful enough to act as driving forces-

1. Changes in the long-term industry growth rate
2. Changes in who buys the product and how they use it.
3. Product innovation.
4. Technological change.
5. Marketing innovations
6. Entry or exit of major firms.
7. Diffusion of technical know-how.

8. Increasing globalization of the industry.
9. Changes in cost and efficiency.
10. Emerging buyer prefers for a differentiated product
11. Regulatory influences and government policy changes.
12. Changing societal concerns, attitudes and life-style.
13. Reduction in uncertainty and business risk.

8.6 CASE STUDY

Indian Telecom War: Startup Reliance Takes on Leader Airtel in 4G Services

BhartiAirtel Limited being in the forefront in offering 2G and 3G telecom services in India and by enhancing its market share across the country, became the largest mobile phone operator in India by 2009-10. However, with intensifying competition and the resulting decline in average revenue per user (ARPU), the company was looking for opportunities to further consolidate its leadership position. In 2010, Airtel won spectrum for broadband wireless access (BWA) through an auction for four telecom circles, but it could not win in two important circles of Mumbai and Delhi. In 2012, it bought a 49% stake in Wireless Business Services Pvt. Ltd. to gain access to wireless broadband spectrum in the two crucial circles of Delhi and Mumbai.

Reliance Industries Limited (RIL), the largest private company in India, had forayed into the Indian telecom industry in 2010. In the division of family businesses in 2005, RIL signed a non-compete agreement with ADAG. As per the pact, RIL could not enter telecommunications. The two parties scraped the agreement in 2010, paving way for RIL to enter into the telecommunications industry. RIL bought a 95% stake in Infotel Broadband Services (Infotel), which won spectrum in all the circles. RIL renamed Infotel as Reliance JioInfocomm in January 2013 and in July started work on rolling out 4G services telecom services in eight states of Northeast India by April 2014.

Subsequent to its acquisitions, Airtel became the first company to launch 4G services in India in late 2012 and early 2013. RIL's Reliance JioInfocomm followed hard on the heels of Airtel spicing up the competition between two giants.

1. Discuss the relevant strategies to be followed by the leader, Airtel, and the challenger, RIL.
2. Debate if RIL is in a position to negate the first mover's advantage of Airtel in offering 4G services.
3. Deliberate the entry strategies of RIL

8.7 NOTES

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8.8 SUMMARY

Industry analysis is a tool that facilitates a company's understanding of its position relative to other companies that produce similar products or services. Understanding the forces at work in the overall industry is an important component of effective strategic planning. Industry analysis - also known as Porter's Five Forces Analysis- is a very useful tool for business strategists. It is baed on the observation that profit margins vary between industries, which can be explained by the structure of an industry. The Five Forces primary purpose is to determine the attractiveness of an industry. However, the anyalysis also provides a starting point for formulating stratergy and understanding the competitive landscape in which a company operates

8.9 KEY WORDS

Driving Force

Bargaining Power

Competitive Pressusres

Substitute Product

8.10 SELF ASSSESSMENT QUESTIONS

1. Explain Michel Porter's Five Force Model.
2. Is there any aspect of industry activity that the five forces seem to leave out?
3. Imagine you are the CEO of an organization, which of the five forces would be most important to you? Why?
4. Identify the key driving forces of any two industries of your choice

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MODULE: III
ENVIRONMENTAL SCANNING AND COMPETITIVE ANALYSIS

UNIT-9: INTRODUCTION TO ENVIRONMENTAL SCANNING

Structure :

9.0 Objectives

9.1 Introduction

9.2 Internal Environment and External Environment

9.3 Micro Environment and Macro and Mega Environment

9.4 Environmental Scanning -Factors and Approaches

9.5 Approaches to Environmental Scanning

9.6 Methods and Techniques Used for Environmental Scanning (ES)

9.7 Achieving Synergy

9.8 Staffing

9.9 Identifying Abilities and Potential

9.10 Notes

9.11 Summary

9.12 Keywords

9.13 Case Study

9.14 Self-Assessment Questions

9.15 References

9.0 OBJECTIVES

After studying this unit, you will be able to:;

- Analyse the Environmental Threat Opportunity Profile (ETOP)
- Explain the significance of ETOP
- Analyse the organisational strategies.

9.1 INTRODUCTION

Environmental Scanning

Environment literally means the surroundings external objects, influences or overall circumstances under which someone or something exists.

In Business the environment in which an organization exists could be broadly divided into two parts:

A. The Internal environment (Related the factors such as its personnel, physical facilities, organization and functional means, which are generally controllable.

B. The External environment (Related the factors such as economic, socio cultural, Government and legal, demographic, geo – physical – by and large beyond the control

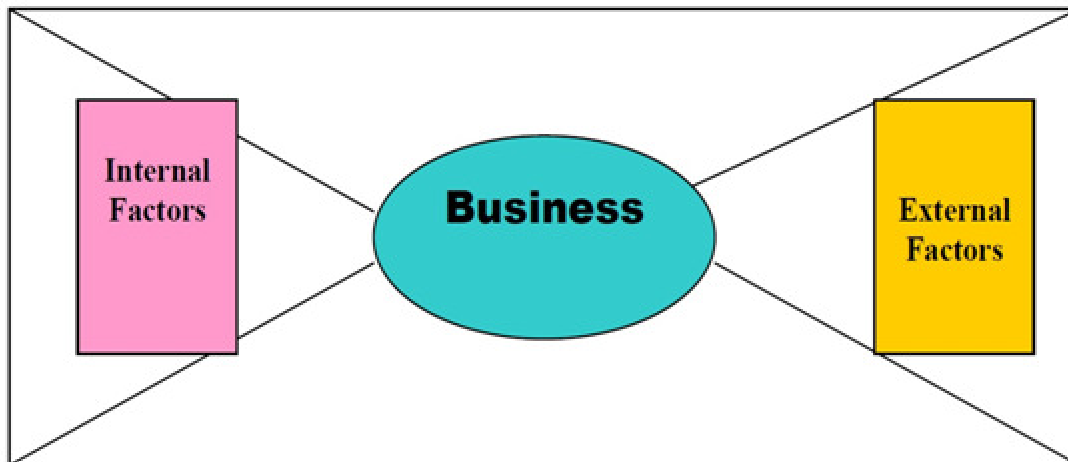

Exhibit 9.1

The External environment includes all the factors outside the organization, which provide opportunities or pose threats to the organization.

The internal environment refers to all the factors within an organization which imparts strengths or cause weaknesses of a strategic nature. The environment in which an organization exists can, therefore, be described in terms of the opportunities and threats operating in the external environment apart from the strength and weaknesses existing in the internal environment.

9.2 INTERNAL AND EXTERNAL ENVIRONMENT

There are a number of internal factors which influence the strategy and other decisions. An outline of the important internal factors is given below:

- **Value System**

The value system of the founders and those at the helm of affairs has important bearing on the choice of business, the mission and objectives of the organization, business policies and practices. It is a widely acknowledges fact that the extent to which the value system is shared by all in the organization is an important factor contributing to success.

- **Mission and Objectives**

The business domain of the company, priorities, direction of development, business philosophy, business policy etc. is guided by the mission and objectives of the company.

- **Management Structure and Nature**

The organizational structure, the composition of the board of directors, extent of professionalization of management etc. are important factors influencing business decisions.

- **Internal Powr Relationship**

Factors like the amount of support the top management enjoys from lower levels and workers, shareholders and board of directors have important influence on the decisions and their implementation. The relationship between the members of the Board of directors is also a critical factor.

- **Human Resources**

The characteristics of the human resources like skill, quality, morale, commitment, attitudes, etc. could contribute to the strength or weakness of an organization. Sometimes, organizations find it difficulties to carry out restructuring or modernization because of resistance by employees whereas they are smoothly one in some others.

The involvement, initiative etc. of people at different levels may vary from organization to organization. The organizational culture and overall environment have bearing on them. John Towers, MD, Rover group, observes that a Japanese company of 30,000 employees is 30,000 process improvers. In a western company, it is 2,000 process improvers and 28,000 workers.

♦ Company Image and Brand Equity

The image of the company matters while raising finance, forming joint ventures or other alliances, soliciting marketing intermediaries, entering purchase or sale contracts, launching new products etc. Brand equity is also relevant in several of these cases.

However, there are a number of other internal factors which contribute to business success/ failure or influences the decision making. These are:

- **Physical Assets and facilities** like the production Capacity, technology, and efficiency of the productive apparatus, logistics etc. are among the factors which influence the competitiveness
- **R & D and technological capabilities**, among other things, determine the ability to innovate and compete.
- **Marketing resources** like the organization for marketing, quality of the marketing men, brand equity; distribution network etc. has direct bearing on the marketing efficiency. They are important also for brand extension, new product introduction etc.
- **Financial Factors** like financial policies, financial position, and capital structure are also important internal environment affecting business performance, strategies and decisions.

External Environment

The external environment consists of two types of environment, viz micro environment and macro environment. Recently the International environment comes under mega environment.

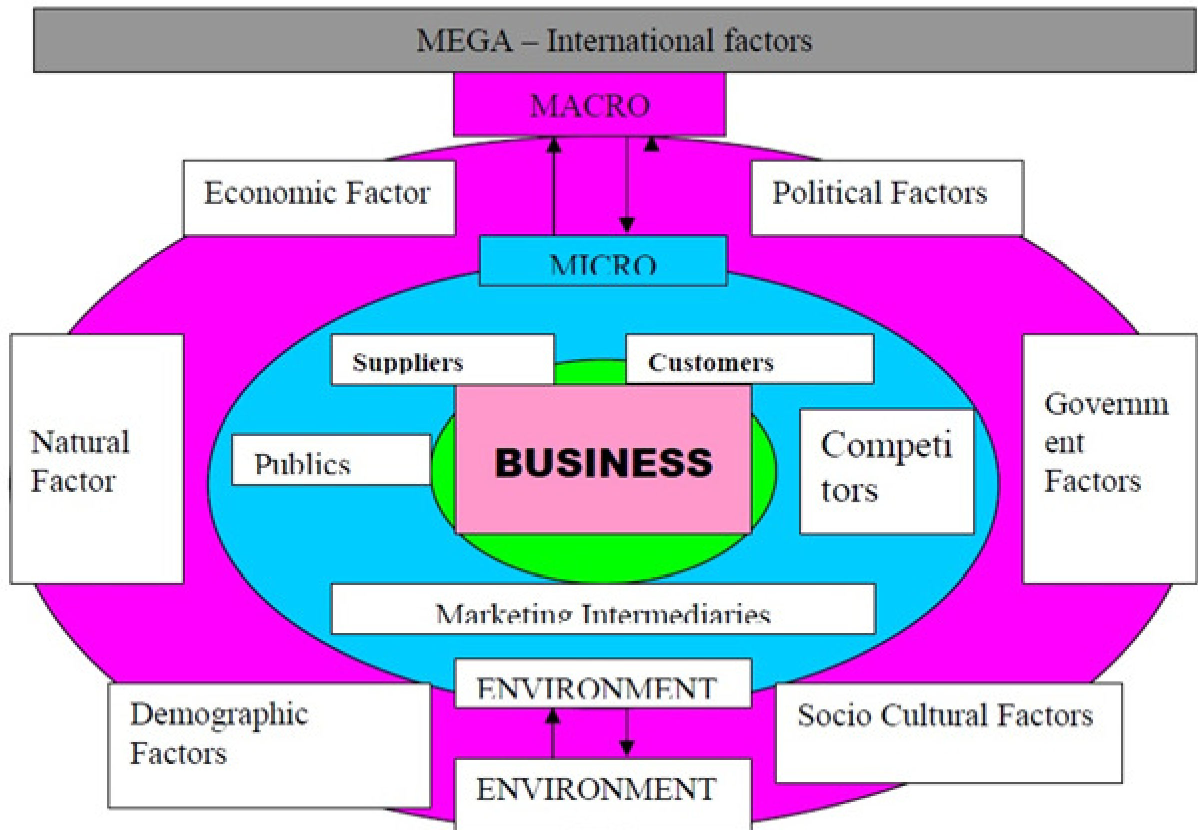

Exhibit 9.2

9.3 MICRO ENVIRONMENT, MEGA AND MACRO ENVIRONMENT

The Micro environment consists of the actors in the company's immediate environment, hat affect the performance of the company. These include –

- **Suppliers** – those who supply the inputs like raw materials
- **Marketing intermediaries** – which are 'firms that aid the company in promoting, selling and distributing its goods to final buyers'
- **Competitors** – not only other firms of similar products but also all those who compete for the discretionary income of the consumers.
- **Customers** – Business is a create of customer; therefore, monitoring the customer sensitivity is a prerequisite for the business success.

- **Publics** – is any group that has an actual or potential interest in or impact on an organization's ability to achieve its interests. Media publics, citizen's action publics and local publics are some examples.

Macro Environment

The Macro environment consists of the larger societal forces that affect all the actors in the company's micro environment – namely:

- **Demographic** – population growth rate, age composition, sex composition, education level, caste and creed, religion etc. All factors which relevant to business.
- **Economic**- economic condition, economic policies and the economic system are the important external factors that constitute the economic environment of a business
- **Natural** – geographical, and ecological factors, such as natural resources endowments, weather and climatic conditions, topographic factors, location aspects in the global context, ort facilities, etc., are all relevant to business
- **Technological** – the fast changing technologies also create problems for enterprises as they render plants and products obsolete quickly. Product – market – matrix generally has a much shorter life today than in the past. It is particularly so in the international marketing context.
- **Political –** Political and Government environment has close relationship with the economic system and economic policy. For example, the communist countries had a centrally planned economic system. In most countries, apart from those laws that control investment and related matters, there are a number of laws which regulate the conduct of business. These laws cover such matters as standards of product, packaging, promotions etc.
- **Socio – Cultural:** socio – cultural fabric is an important environment factor that should be analysed while formulating the business strategies. The cost of ignoring the customs, traditions, taboos, tastes and preferences etc. of a people could be very high. The buying and consumption habits of the people, their languages, beliefs, and values, customs and traditions, tastes and performances, education are all factors that affect business.

The micro environment is also known as **task environment** and **operating environment**.

Mega Environment

Mega environment mainly consists of **International Environment** which is very important from the point of certain categories of business.

A. Import and export dependency:

- Industries directly depends on Imports or exports
- Import – competing Industries.
- A boom in the export market or a relaxation of the protectionist policies may help the export oriented industries.
- A liberalization of imports may help some industries which use imported items, but may adversely affect important – competing industries.

B. World trade linkage:

- Oil price hikes have seriously affected a number of economics. These hikes have increased the cost of production and the prices of certain products like fertilizers, synthetic fabrics, etc. The high oil price has led to an increase in the demand for automobile models that economies energy consumption.
- The oil crisis led to a reorientation of the government of India's energy policy. Such development affects the demand, consumption and investment pattern.

9.4 ENVIRONMENTAL SCANNING – FACTORS AND APPROACHES

Before start the strategy formulation, in any organization, it must to do the scan the external environment to identify the possible opportunities and threats and its internal environment for strength and weaknesses.

In his book, "Essential of strategic management", J.David Hungerpointed out that Environmental scanning is the monitoring, evaluating and disseminating of information from the external and internal environments to key people within the corporation. It is a tool that a corporation uses to avoid strategic surprise and to ensure long – term health.

Azhar Kazmi, quoted in his book – "Business Policy and strategic management that – the process by which organizations monitor their relevant environment to identify opportunities and threats defecting their business is known as environmental scanning.

Factors to be consider for environmental scanning:

1. **Events** are important and specific occurrences taking place in different environmental sectors.

2. **Trends** are the general tendencies or the courses of action along which events take place.

3. **Issues** are the current concerns that arise in response to events and treats.

4. **Expectations** are the demands made by interested groups in the light of their concern for issues.

Example: Gas leakage accident at the Union Carbide Factory at Bhopal in Dec. 1984.

Event	The accident and the resulting holocaust
Trend	The authorities and Organizations to be conscious about safety from hazardous exposure to chemicals
Issue	A rising concern about environmental pollution
Expectation	To legislate changes in rules and regulations pertaining to safety measures and stricter enforcement through various mechanism

By monitoring the environment through environmental scanning, an organization can consider the impact of the different events, trends, issues, and expectations on its strategic management process. Since the environment facing any organization is complex and its scanning is absolutely essential, strategists (who, as individuals or in groups – internal or external; are concerned with and play a role in strategic management) have to deal cautiously with the process of environmental scanning.

Objectives:

- To make efforts to deal with it in such a manner that unnecessary time and effort is not expended, while important factors are not ignored.
- To enable this, it is important to devise an approach, or a combination of approaches to environmental scanning.

9.5 APPROACHES TO ENVIRONMENTAL SCANNING

Kubr has suggested three approaches, which could be adopted for sorting out information for environmental scanning

1. Systematic approach:

Gathering information for environmental scanning which have a direct impact on organizations activities, Govt. policy statements pertaining to an organization's business and industry to monitor changes and take the relevant factors into account. Continuously updating such information is necessary not only for strategic management but also for operational activities.

2. Ad Hoc approach:

Using this approach, an organization when undertake special projects, evaluate existing strategies, or devise new strategies; may conduct special survey and studies to deal with specific environmental issues periodically.

3. Processed – form approach:

When an organization uses information supplied by Govt. or private agencies, it uses secondary sources of data and the information gathered in a processed form.

Since environmental scanning is absolutely necessary for strategy formulation of any organization, whatever approaches is adapted, DATA Collection and Processing systematically is ultimate for Strategic Management Process.

Sources of information: Strategists use different information sources depending on their needs for environmental scanning.

1. External (like publications – newspaper, magazines, journals, books, trade and Industry association newsletter, Govt. Publications, annual reports of competitions etc. mass media such as Radio, Television and the Internet: External Agencies: like customers, marketing intermediaries, suppliers, trade associations, Govt. agencies and so on.

2. Internal – (company files and documents, MIS, databases, company employees. Formal studies conducted by employees, market research agencies, consultants and educational institutions on hire.

9.6 METHODS AND TECHNIQUES USED FOR ENVIRONMENTAL SCANNING (ES)

There are wide range of methods and techniques available for ES. Strategists may choose one which suit their needs in terms of the:

- Quantity
- Quality
- Availability
- Time lines
- Relevance
- Cost of environmental information

Various authors have mentioned the methods and tech. Used for ES. Le Bell and Krasner have outlined 9 groups of techniques:

1. Single – variable extrapolation
2. Theoretical – limit envelopes
3. Dynamic modes
4. mapping
5. multivariable interaction analysis
6. unstructured expert opinion
7. structured expert opinion
8. structured in expert opinion
9. unstructured in expert speculation

But the most popular of these are:

1. The **chaos theory** by Edward Lorenz and Michael Feigenbaum. Chaos theory uses mathematical models, known as chaotic models, to interpret the process of non – linear and dynamic system.

2. The phenomenon of Chaos is observed in a wide variety of processes – biological, sociological, economic, and meteorological. The applications of Chaos theory in management may range from predicting market behaviour, financial forecasting and anticipating competitive strategies.

Lesion: In a dynamic environment, it is suicidal for organizations to remain static. They have to forego keeping an internal orientation and attempt to change dynamically as the environment change.

3. The QUEST (Quick environmental scanning techniques) is a four step process which uses scenario – writing for scanning the environment and identify the strategic options. The Four steps involved in applying this technique are –

1. Internal strategists will observe and identify the major events and trends in the Industry

2. Speculate on a wide range of important ISSUES that might affect the future of their organization

3. Preparing a report summarizing the major issues and their implications and 3-5 scenarios incorporating the major themes of their discussion.

4. Report and scenarios are reviewed by a group of strategists who identify feasible strategic options to deal with the evolving environment.

After the environmental scanning process is complete, the strategists start to appraise the environment - called environmental appraisal. It is structured by the [illegible]), which involves [illegible] e impact of each sector on the organization.

9.7 ACHIEVING SYNERGY

[illegible] synergy between and among functions and business units. This is the reason corporations commonly reorganize after an acquisition. Synergy is said to exist for a divisional corporation if the return on investment (ROI) of each division is greater than what the return would be

if each division were an independent business. According to Good and Campbell, synergy can take place in one of six forms:

- **Shared know-how:** Combined units often benefit from sharing knowledge or skills. The is a leveraging of core competencies. One reason that Procter & Gamble purchased Gillette was to combine P&G's knowledge of the female consumer with Gillette's knowledge of the male consumer.
- **Coordinated strategies:** Aligning the business strategies of two or more business units may provide a corporation significant advantage by reducing inter-unit competition and developing a coordinated response to common competitors (horizontal strategy). The merger between Arcelor and Mittal Steel, for example, gave the combined company enhanced R&D capabilities and wider global coverage while presenting a common face to the market.
- **Shared tangible resources:** Combined units can sometimes save money by sharing resources, such as a common manufacturing facility or R&D lab. The alliance between Renault and Nissan allowed it to build new factories that would build both Nissan and Renault Vehicles.
- **Economies of scale or scope:** Coordinating the flow of products or services of one unit with that of another unit with that of another unit can reduce inventory, increase capacity utilization, and improve market access. This was a reason Delta Airlines bought northwest Airlines.
- **Pooled negotiating power:** Combined units can combine their purchasing to gain bargaining power over common suppliers to reduce costs and improve quality. The same can be done with common distributors.
- **New business creation:** Exchanging knowledge and skills can facilitate new products or services by extracting discrete activities from various units and combining them in new units or by establishing joint venture among internal business units. Oracle, for example, purchased a number of software companies in order to create a suite of software code-named "Project Fusion" to help corporations run everything from accounting and sales to customer relations and supply-chain management.

Before plans can lead to actual performance, a corporation should be appropriately organized programs should be adequately staffed, and activities should be directed toward achieving desired objectives.

Any Change in corporate strategy is very likely to require some sort of change in the way an organization is structured and in the kind of skills needed in particular positions. Managers must, therefore, closely examine the way their company is structured in order to decide what if any, changes should be made in the way work is accomplished. Should activities be grouped differently? Should the authority to make key decisions be centralized at headquarters or decentralized to managers in distant locations? Should the company be managed like a "tight ship" with many rules and controls, or "loosely" with few rules and controls" Should the corporation be organized in to a "tall" structure with many layers of managers, each having a narrow span of control (that is, few employees per supervisor) to better control his or her subordinate; or should it be organize into a "flat" structure with fewer layers of managers. Each having a wide span of control (that is, more employees per supervisor) to give more freedom to his or her subordinates.

In a classic study of large U.S. corporations such as DuPont, General Motors, Sears, and Standard Qil, Alfred Chandler concluded that structure that structure follows strategy-that is changes in corporate strategy lead to changes in organizational structure. He also concluded that organizations follow a pattern of development from one kind o0f structural arrangement to another as they expand. According to Chandler, these structural changes occur because the old structure, having been pushed too far, has caused inefficiencies that have become too obviously detrimental to bear. Chandler, therefore. Proposed the following as the sequence of what occurs:

1. New strategy is created.
2. New administrative problems emerge.
3. Economic performance declines.
4. New appropriate structure is invented.
5. Profit return to its previous level.

9.8 STAFFING

The implementation of new strategies and policies often calls for new human resource management priorities and a different use of personnel. Such staffing issues can involve hiring new people with new skills, firing people with inappropriate or substandard skills, and/or training existing employees to learn new skills. Research demonstrates that companies with enlightened talent-management policies and programs have higher returns on sales, investments, assets, and equity.

If growth strategies are to be implemented, new people may need to be hired and trained. Experienced people with the necessary skills need to be found for promotion to newly created managerial positions. When a corporation follows a growth through acquisition strategy, it may find that it needs to replace several managers in the acquired company.

It is one thing to lose excess employees after a merger, but it is something else to lose highly skilled people who are difficult to replace. In a study of 40 mergers, 90% of the acquiring companies in the 15 successful mergers identified key employees and targeted them for retain within 30 days after the announcement. In contrast, this task was carried out only in one-third of the unsuccessful acquisitions.

As in the case of structure, staffing requirements are likely to follow a change in strategy. For example, promotions should be based not only on current job performance but also on whether a person has the skills and abilities to do what is needed to implement the new strategy.

Selection and development are important not only to ensure that people with the right mix of skills and experience are initially hired but also to help them grow on the job so that they might be prepared for future promotions.

Some of the best practices for top management succession are encouraging boards to help the CEO create a succession plan, identifying succession candidates below the top layer, measuring internal candidates against outside candidates to ensure the development of a comprehensive set of skills, and providing appropriate financial incentives.

9.9 IDENTIFYING ABILITIES AND POTENTIAL

A company can identify and prepare its people for important positions in several ways. One approach is to establish a sound performance appraisal system to identify good performers with promotion potential. A survey of 34 corporate planners and human resource executives from 24 large U. S. Corporations revealed that approximately 80% made some attempt to identify managers' talents and behavioural tendencies so that they could place a manager with a likely fit to a given competitive strategy. Companies select those people with promotion potential to be in their executive development training program. Approximately 10,000 of GE's 276,000 employees take at least one class at the company's famous Leadership Development Centre in Croton Ville, New York. Doug Pelion, Chief talent officer at Xerox keeps a list of about 100 managers in middle management and at the vice presidential levels have been selected to receive special

training, leadership experience, and mentorship to become the next generation of top management. Aditya Birla Group, a U. S. $35 billion corporation, is an Indian company considered to be in the league of Fortune 500 companies. It has an extraordinary force of 133,000 employees, belonging to 42 different nationalities. The company has an exhaustive talent management program and processes facilitate and "omnipresent". The company's talent management program and processes facilitate and enable managers to plan career moves, which leverage their strengths. It helps managers focus on areas of development that would prepare them in the best possible way for leadership roles. The company uses combination of developmental assignments, classroom training, coaching, and participation in special project teams to enable employees to continuously learn and develop. Other companies such as Infosys and Wipro are all taking steps in the direction. In Industries such as pharma, too, companies are clearly looking at more stable methods of finding and retaining talent.

A company should examine its human resource system to endure not only that people are being hired without regard to their racial, ethnic. Or religious background, but also that they are being identified for training and promotion in the same manner. Management diversity could be a competitive advantage in a multi-ethnic world. With more women in the workplace, an increasing number are moving into top management, but are demanding more flexible career ladders to allow for family responsibilities.

Many large organizations are using assessment centers to evaluate a person's suitability for an advanced position. Corporations such as AT&T, Standard Oil, IBM. Sears, and GE have successfully used assessment centers. Because each is specifically tailored to its corporation, these assessment centers are unique. They use special interviews. Management games, in-basket exercises, leaderless group discussions, case analyses, decision-making exercises, and oral presentation to assess the potential of employees for specific positions. Promotions in to these positions are based on performance levels in the assessment centre. Assessment centers have generally been able to accurately predict subsequent job performance and career success.

Job rotation-moving people from one job to another – is also used in many large corporations to ensure that employees are gaining the appropriate mix of experiences to prepare them for future responsibilities. Rotating people among divisions is one way that a corporation can improve the level of organizational learning. General Electric, for example, routinely rotates its executives from one sector to a completely different one to learn the skills of managing in different industries, Jeffrey Immelt, who took over as CEO from jack Welch, had managed businesses in plastics, appliances, and medical

systems. Companies that pursue related diversification strategies through internal development make greater use of interdivisional transfers of people than do companies that grow through unrelated acquisitions. Apparently, the companies that grow internally attempt to transfer important knowledge and skills throughout the corporation in order to achieve some sort of synergy.

9.10 NOTES

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9.11 SUMMARY

Business environment is dynamic. Many elements in the environment undergo changes. Technological changes are frequent. Tastes and the preferences of the people change. The competitive situation changes.

- Demographic factors, including population size, change.
- Attitude and value systems also undergo changes.
- Economic factors like income, change continuously.
- Government policies and regulations also change to cope with the changing environment.
- All these factors indicate that a business policy should be dynamic enough to be successfully adaptable to the changing environment.

Therefore, the success of a business today, depends on its ability to foresee the environmental changes and to modify its strategies appropriately with internal and external environmental changes. Depending on how a corporation is organized, those who implement strategy will probably be a much more diverse set of people than those who formulate it. In most large, multi-industry corporations, the implementers are everyone in the organization. Vice presidents of functional areas and directors of divisions or strategic business units (SBU's) work with their subordinates to put together large-scale implementation plans. Plant managers, project managers, and unit heads put together plans for their specific plants, departments, and units. Therefore, every operational manger down to the first-line supervisor and every employee is involved in some way in the implementation of corporate, business, and functional strategies.

Many of the people in the organisation who are crucial to successful strategy implementation probably had little to do with the development of the corporate and even business strategy. Therefore, they might be entirely ignorant of the vast amount of data and work that went into the formulation process. Unless changes in mission, objectives, strategies, and policies and their importance to the company are communicated clearly to all operational managers, there can be a lot of resistance and foot-dragging. Managers might hope to influence top management into abandoning its new plans and returning to its old ways. This is one reason why involving people from all organisational levels in the formulation and implementation of strategy tends to results in better organizational performance.

The managers of divisions and functional areas work with their fellow managers to develop programs, budgets, and procedures for the implementation of strategy. They also work to archives synergy among the divisions and functional areas in order to establish and maintain a company's distinctive competence. Strategy implementation involves establishing programs to create a series of new organisational activities, budgets to allocate funds to the new activities, and procedures to handle the day-to-day details.

9.12 KEYWORDS

Internal Environment, External Environment, Environmental Scanning, Staffing and Techniques.

9.13 CASE STUDY

By the turn of the 20th century, the face of the Indian retailing industry had changed significantly. The retailing industry, which, until the early 1990s, was dominated by the

unorganized sector, witnessed a rapid growth in the organized sector with the entry of corporate groups such as Tata, RPG, ITC and Bennett Coleman & Company into the retailing market. With the liberalization and growth of the Indian economy since the early 1990s, the Indian customer witnessed an increasing exposure to new domestic and foreign products through different media, such as television and the Internet., mainly driven by the growth of organized retailing sector and increased personal consumption of customers on account of rising incomes, increased exposure to foreign goods and growth in nuclear families and double income families.

It discusses in detail the emerging trends in the retailing industry with help of examples such as Food World and Subiksha (food retailing), Shoppers Stop and Westside (lifestyle/apparel/accessories retailing), Landmark (books retailing), Health & Glow and Shahnaz Husain (drugs and pharmacy & beauty).The report observes the changing dynamics in the FMCG sector through the late 20th century, which forced the FMCG majors to revamp their product, marketing, distribution formats to meet the changing customer requirements or preferences. In the light of this, the report discusses some innovative customer-centric initiatives taken by companies such as HLL, CavinKare and TVS. It finally explores future threats and opportunities for the retailing and FMCG industry in India.

Questions:

- Understand the nature and changing dynamics of the Indian retailing business and the reasons behind the evolution of many organized sector players
- Explore the need for innovations and customer-centric strategies in the retailing & FMCG businesses
- Examine and appreciate the new innovative business formats emerging in the Indian retailing and FMCG industry in the early 21st century.

9.14 SELF-ASSESSMENT QUESTIONS

1. Analyse how internal environment plays an important role in strategic decision making
2. Distinguish between Micro and Macro environment factors
3. What are the factors and approaches of environmental scanning?
4. List out the techniques of environmental scanning.

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UNIT-10: GRAND STRATEGIES

Structure :

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10.2 Strategic Alliance

- 10.2.1 Types of Strategic Alliance
- 10.2.2 Stages of Alliance Operation
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- 10.8.14 Strategic Alliances

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10.11 Summary

10.12 Key Words

10.13 Self-Assessment Questions

10.14 References

10.0 OBJECTIVES

After studying this unit, you will be able to;

- Highlight the strategies adopted by the organisation
- Conduct corporate portfolio analysis
- Perform SWOT analysis

10.1 INTRODUCTION

Generic competitive strategy

Generic strategies describe how a company pursues competitive advantage across its chosen market scope. There are three generic strategies, either lower cost, differentiated or focus. A company chooses to pursue one of two types of competitive advantage, either via lower costs than its competition or by differentiating itself along dimensions valued by customers to command a higher price. A company also chooses one of two types of scope, either focus (offering its products to selected segments of the market) or industry-wide, offering its product across many market segments. The generic strategy reflects the choices made regarding both the type of competitive advantage and the scope

Low cost strategy

A pricing strategy in which a company offers a relatively low price to stimulate demand and gain market share. It is one of three generic marketing strategies (see differentiation strategy and focus strategy for the other two) that can be adopted by any company, and is usually employed where the product has few or no competitive advantage or where economies of scale are achievable with higher production volumes.

Best Cost Strategy

Best cost strategy means that the strategy involves focusing towards customers who are value-conscious and are willing to pay money in exchange of a good that has upscale features. Low-cost strategy focuses on niche customers.

Best-cost strategy creates competitive advantage as it looks at the broad market and there is much differentiation between products of their rivals whereas the low-cost strategy they compete with rivals cost effectively by trying to reduce the cost of production inside the company and there is very little differentiation between their products to that of their rivals.

An example of best-cost strategy would be Toyota's best-cost producer strategy for its Lexus line. They changed from making high quality Toyota models to premium quality Lexus models at a cost lower than other luxury car makers and they were able to do this because "Toyota's supply chain capabilities and low-cost assembly know-how allowed it to incorporate high-tech performance features and upscale quality into Lexus models".

Focused Strategy

A marketing strategy in which a company concentrates its resources on entering or expanding in a narrow market or industry segment.A focus strategy is usually employed where the company knows its segment and has products to competitively satisfy its needs. Focus strategy is one of three generic marketing strategies. See differentiation strategy and low cost strategy for the other two.

10.2 STRATEGIC ALLIANCE

A strategic alliance is a formal relationship between two or more parties to pursue a set of agreed upongoals or to meet a critical business need while remaining independent organization.

10.2.1 Types of Strategic Alliance

- Joint venture
- Equity Strategic alliance
- Non-equity Strategic alliance
- Global Strategic alliance

10.2.2 Stages of Alliance Operation

1. Strategy development
2. Partner Assessment
3. Contract Negotiation
4. Alliance operation
5. Alliance Termination

10.2.3 Advantages and Disadvantages of Strategic Alliance

Advantages

- Allowing each partner to concentrate on activities that best match their capabilities.
- Learning from partners developing competences that may be more widely exploited elsewhere.

Disadvantages

- Adequacy a suitability of the resources competencies of an organization for it to survive.
- Alliances are costly
- Alliance can create indirect costs by blocking the possibility of cooperating with competingcompanies, thus possibly even denying the company various financing options.

10.2.4 Forms and Objective of Strategic Alliance

Different Forms of Strategic Alliance is as shown below

- Competitive
- Pre-competitive
- Pro-competitive
- Non-competitive

Various Objectives of Strategic Alliance are mentioned below

- Development of a new product
- Development of a new technology
- Reducing manufacturing cost
- Entering new market
- Marketing and sales
- Distribution

10.3 MERGERS AND REASONS FOR MERGERS

A merger is a combination of two or more organizations, in which one acquires the assets and liabilitiesof other in exchange for shares or cash, or organizations are

dissolved, and a new company is formed,which takes over the assets and liabilities of the dissolved organizations and new shares are issued.

The reasons for the Buyers

- To increase value of the company's stock
- To make profitable investment and increase the growth rate
- To balance, complete or diversify product line
- To improve stability of sales and earnings
- To reduce or eliminate competition
- To acquire resource quickly
- To avail tax benefits
- To take advantage of synergy

The reasons for Sellers

- To increase the value of investment and stock
- To increase revenue and growth rate
- To acquire resources to stabilize operations
- To benefit from tax legislation
- To deal with top management succession problems
- To take advantage of synergy

10.3.1 Types of Mergers

a. Horizontal Mergers

b. Vertical Mergers

c. Concentric Mergers

d. Conglomerate Mergers

10.4 JOINT VENTURE AND CONDITIONS FOR JOINT VENTURE

A joint venture may be defined as a business venture in which two o more independent companies jointogether, contribute to equity capital in equal or agreed proportion and establish a new company.

1. The new business is uneconomical for a single organization to undertake

2. The risk of the business should be distributed, and there is need for more than one participatingcompany
3. The technology for the new business can be shared only through a joint venture
4. Competence or capabilities of two or more companies can be brought together to producesynergy for better market impact, competitiveness and success of business
5. A JOINT VENTURE is the only way to gain entry into a foreign market, particularly if the foreigngovernment requires that, for entry into market, a local partner has to be chosen.

10.4.1 Strategic Issues in Joint Venture

a. What are the costs to the company or what is the investment involved?
b. What are the benefits to the company in terms of returns?
c. What percentage of ownership should the company have?
d. Who are the potential partners and what have they to contribute?
e. Does the ownership pattern or distribution reflect what the company's partner or partners have to offer?
f. Will the contribution of each partner change over time?
g. Is change of equity over time reflected in the ownership structure?
h. How much control should the company have in the joint venture?
i. What restrictions or concessions does the local government impose or offer?

10.4.2 The Types and Forms of Joint Venture

1. Between two companies in the same country
2. Between two companies across the different industries
3. Between a local company and a foreign company with technological capability in the home country
4. Between a local company and a foreign company in the foreign country
5. Between a local company and foreign company in a third country

10.4.3 The Following Factors Should be Analysed before Deciding on a Particular JV

- Choice of partner
- Pattern of shareholding
- Management system or organizational structure

10.5 COLLABORATIVE PARTNERS

Collaborative partnerships are agreements and actions made by consenting organizations toshare resources to accomplish a mutual goal. Collaborative partnerships rely on participation by at leasttwo parties who agree to share resources, such as finances, knowledge, and people. Organizations in acollaborative partnership share common goals. The essence of collaborative partnership is for all partiesto mutually benefit from working together.

10.6 FORMULATING LONG TERM AND GRAND TERM STRATEGIES

Long term objectives of grand strategies:

1. Acceptable. Managers are most likely to pursue objectives that are consistent with their preferences.
2. Flexible. Objectives should be adaptable to unforeseen or extraordinary changes in the firm's competitive or environmental forecasts.
3. Measurable. Objectives must clearly and concretely state what will be achieved and when it will be achieved.
4. Motivating. Studies have shown that people are most productive when objectives are set at a motivating level—one high enough to challenge but not so high as to frustrate or so low to be easily attained.
5. Suitable. Objectives must be suited to the broad aims of the firm, which are expressed in its mission statement.
6. Understandable. Strategic managers at all levels must understand what is to be achieved.
7. Achievable. Finally, objectives must be possible to achieve.

10.7 THE SWOT ANALYSIS THROUGH SWOT MATRIX

SWOT, is an instrumental framework in value based management and strategy formulation to give in-depth information to strength, weakness, opportunity and threats for a particular company / organization.

Strength and Weaknesses (SW) – Internal value – creating or destroying factor like assets, skill, resources etc. which can have measured by using internal assessment or by external benchmarking.

Opportunity and Threats (OT) – External value – creating or destroying factors and a company cannot control, but emerge from either the competitive dynamistic of the Industry / market or from demographic, political, technical, social, and legal or cultural factors.

The relationships in a SWOT analysis are generally' represented by a 2x2 matrix. The 'Strength' and 'Opportunities' are both positive considerations. 'Weakness' and Threats are both negative considerations. The final results of an analysis could be listed in the matrix in given below:

	Positive	**Negative**
I N T E R N A L FACTORS	**Strength** ▪ Patents ▪ Strong brand names ▪ Good Reputation ▪ Cost advantages from proprietary know how ▪ Exclusive access to high grade natural resources ▪ Favourable access to distribution networks	**Weakness** ▪ Lack of potent protection ▪ A weak brand name ▪ Poor reputation among customers ▪ High cost structure ▪ Lack of access to the best natural resources ▪ Lack of access to key distribution channels
E X T E R N A L FACTORS	**Opportunities** ▪ An unfulfilled customer need ▪ Arrival of new technologies ▪ Loosening of regulations ▪ • Removal of international trade barriers	**Threats** ▪ Shifts in consumer tastes away from the firm's products ▪ Emergence of substitute products ▪ New regulations ▪ Increased trade business

The above matrix identifies the strength, weaknesses, threats and opportunities of a business firm. This formation can be used by the company in many ways in evolving its options for the future. In general, the company should attempt to:

- ♦ Build its strength
- ♦ Reverse its weakness
- ♦ Maximize its response to opportunities
- ♦ Overcome to its threats

10.7.1 Benefits of Swot Analysis

1. It helps to enhance competitiveness
2. Tool to analyse the extent of dealing with the changes in the business environment
3. Provides initial signals –positive or negative of launching of a project or product
4. Provides basis for re-examination of strengths and weaknesses
5. Provides possibility of converting some weakness in to strength by investing more resources and improving skills.

10.7.2 Swot Analysis : A Traditional Approach to Internal Analysis

SWOT is an acronym for the internal Strengths and Weakness of a firm and the environmental opportunities and threats facing that firm. SWOT analysis is a historically popular technique through which managers create a quick overview of a company's strategic situation. It is based on the assumption that an effective strategy derives from a sound "fit" between a firm's internal resources (strengths and weaknesses) and its external situation (opportunities and threats), A good fit maximizes a firm's strengths and opportunities and minimizes its weaknesses and threats. Accurately applied, this simple assumption has sound, insightful implications for the design of a successful strategy.

10.7.3 Opportunities

An opportunity is a major favourable situation in a firm's environment. Key trends are one source of opportunities. Identification of a previously overlooked market segment, changes in competitive or regulatory circumstances, technological changes, and improved buyer or supplier relationships could represent opportunities for the firm. Ashok Leyland saw an opportunity in customising buses for BEST (See Exhibit 6.2).

10.7.4 Threats

A threat is a major unfavourable situation in a firm's environment. Threats are key impediments to the firm's current or desired position. The entrance of new competitors, slow market growth, increased bargaining power of key buyers or suppliers, technological changes, and new or revised regulations could represent threats to a firm's success. The move by Nokia to bundle free, unlimited music downloads for one year with its new Nokia phones has created a major new development in the digital-music-service market-heretofore essentially legitimized and dominated by Apple's iTunes. Nokia is one of the few global companies with the device capability and the muscle to challenge iTunes'

domination of this global market. While Apple has a trinity-the iPhone, iPod, and iTunes-which most would say is a dominating strength, this move by Nokia must be considered a serious "threat" by Apple's management as they use a SWOT analysis to help them assess internal capabilities and craft a future iTunes' strategy.

10.7.5 Ashok Leyland Designs Best Buses

Ashok Leyland identified an opportunity in passenger surface transport. They estimated that about 5 million commuters travel by BEST (Brihan-Mumbai Electric Supply and Transport) buses. A large number of these are old, infirm or handicapped and had difficulty in entering and exiting the buses. Ashok Leyland designed low-slung buses that were more commuter-friendly. Through rear engine buses were the global norm, this did not suit Ashok Leyland's operational cost. Engineers of Ashok Leyland designed a proto-type with a front mounted engine and a floor height of 860mm. the driver's cabin had better ventilation and the buses had space to store crutches. The indigenously developed engines were BS III compliant and electronic systems improved fuel efficiency while giving greater speed. Understanding an opportunity and leveraging it not only made Ashok Leyland capture 98% of the BEST business, but also brought in an offer from Chennai transport for supply of similar buses.

Once managers agree on key opportunities and threats facing their firm, they have a frame of reference or context from which to evaluate their firm's ability to take advantage of opportunities and minimize the effect of key threats. And vice versa: one managers agree on their firm's core strengths and weakness, they can logically move to consider opportunities that leverage their firm's strengths while minimizing the effect certain weakness may present until remedied.

10.7.6 Strengths

A strength is a resource or capability controlled by or available to a firm that gives it an advantage relative to competitors in meeting the needs of the customers it serves. Strength arises from the resources and competencies available to the firm. Pantaloons was one of India's earliest leading retailers with presence across multiple formats and stores in large and medium cities across India with the hypermarket format introduced through Big Bazaar. The only other Indian player with similar stores was Trent, but it was limited to Ahmedabad only. It offered a wide range of merchandise including apparel, accessories, food products, home and kitchen products, dry and fresh groceries, consumer durables and non-durables with over 2,70,000 SKUs complemented by services offerings. Presence in both Lifestyle and Value retailing enabled them to cater to a large

segment of the population, besides leveraging the synergies which existed between the two segments.

The two other players, Shoppers Stop and Trent either did not cater to the entire consumer requirements or did not have geographic spread. A strong networked distribution and logistics network, with 13 scalable distribution centres covering 2,60,000Sq.ft, and working 24 hours a day and 7days a week was capable of delivering merchandise to the store within 24 hours of receipt / generation of auto-replenishment order, to optimise in store availability of merchandise. Efficiencies of supply chain helped in reducing inventory while ensuring availability of products at all stores as per customer needs, as well as reducing operational costs.

10.7.7 Weakness

A weakness is a limitation of deficiency in one or more of a firm's resources or capabilities relative to its competitors that create a disadvantage in effectively meeting customer's needs. Limited financial capacity was a weakness recognized by Southwest Airlines, which charted a selective route expansion strategy to build the best profit record in a deregulated airline industry.

10.7.8 Using SWOT Analysis in Strategic Analysis

The most common use of SWOT analysis is as a logical framework guiding discussion and reflection about a firm's situation and basic alternatives. This often takes place as a series managerial group discussions. What one manager sees as an opportunity, another may see as a potential threat. Likewise, a strength to one manager may be a weakness to another. The SWOT framework provides an organised basis for insightful discussion and information sharing, which may improve the quality of choices and decisions managers subsequently make. Consider what initial discussions among Apple Computer's management team might have been that led to the decision to pursue the rapid development and introduction of the iPod. A brief SWOT analysis of their situation have identified:

Weakness

- Economics of scale versus computer rivals
- Maturing computer markets
- Limited financial resources
- Limited music industry expertise

Opportunities

- Confused online music situation
- Emerging file-sharing restrictions
- Few core computer-related opportunities
- Digitalization of movies and music

Threats

- Growing global computer companies
- Major computer competitors

It is logical envision Apple manager's discussions involving to a consensus that the combination of Apple's storage and digitalisation strengths along with their strong brand franchise with "hip" consumers, when combined with the opportunity potentially arising out of the need for a simple way to legally buy and download music on the web would be the basis for a compelling strategy for Apple to become a first mover in the emerging downloadablemusic industry.

10.8 GRAND STRATEGIES

Sometimes called master or business strategies, provide basic direction for strategic actions. They are the basis of coordinated and sustained efforts directed toward achieving long-term business objectives. Grand strategies indicate the time period over which long-range objectives are to be achieved. Thus, a grand strategy can be defined as a comprehensive general approach that guides a firm's major actions. The 15 principal grand strategies are concentrated growth, market development, product development, innovation, horizontal integration, concentric diversification, conglomerate diversification, turnaround, divestiture, liquidation, bankruptcy, joint ventures, strategic alliances, and consortia.

10.8.1 Concentrated Growth

The strategy of the firm that directs its resources to the profitable growth of a dominate product, in a dominant market, with dominant technology. The main rationale for this approach, sometimes called a market penetration strategy, is that by thoroughly developing and exploiting its expertise in a narrowly defined competitive arena, the company achieves superiority over competitors that try to master a greater number of product and market combinations.

10.8.2 Market Development

Commonly ranks second only to concentration as the least costly and least risky of the 15 grand strategies. It consists of marketing present products, often with only cosmetic modifications, to customers in related market areas by adding channels of distribution or by changing the content of advertising of promotion. Market development allows firms to leverage some of their traditional strengths by identifying new uses for existing products and new demographically, psychographic ally, or geographically defined markets. Frequently changes in media selection, promotional appeals, and distribution signal the implementation of this strategy. Coca-Cola implemented advertising and public relations initiatives to develop its market share among the Hispanic population in North America.

10.8.3 Product Development

Involves the substantial modification of existing products or the creation of new but related products that can be marketed to current customers through established channels. The product development strategy often is adopted either to prolong the life cycle of current products or to take advantage of a favourite reputation or brand name. the idea is to attract satisfied customers to new products as a result of their positive experience with the firm's initial offering. A revised edition of a college textbook, an new car style, and a second formula of shampoo for oily hair are examples of the product development strategy.

10.8.4 Innovation

In many industries, it is has become increasingly risky not to innovate. Both consumer and industrial markets have come to expect periodic changes and improvements in the products offered. As result, some firms find it profitable to make **innovation** their grand strategy. They seek to reap the initially high profits associated with customer acceptance of a new or greatly improved product. Then, rather than face stiffening competition as the basis of profitability shifts from innovation to production or marketing competence, they, search for other original or novel ideas. The underlying rationale of the grand strategy of innovation is to create a new products life cycle and thereby make similar existing products obsolete. Thus, this strategy differs from the product development strategy of extending an existing products life cycle. For example, Intel, a leader in the semiconductor industry, pursues expansion through a strategic emphasis on innovation. Companies under pressure to innovate often supplement their own R&D efforts by partnering with other firms in their industry that have complementary needs.

10.8.5 Horizontal Integration

When a firm's long-term strategy is based on growth through the acquisition of one or more similar firms operating at the same stage of the production marketing chain, its grand strategy is called **horizontal integration**. Such acquisitions eliminate competitors and provide the acquiring firm with access to new markets. Another example is the long-range acquisition pattern of White Consolidated Industries, which expanded in the refrigerator and freezer market through a grand strategy of horizontal integration, by acquiring Kelvinator Appliance, the Refrigerator Products Division of Bendix Westinghouse Automotive Air Brake, and Frigidaire Appliance from General Motors. Nike's acquisition in the dress shoes business and N. V. Homes's purchase of Ryan Homes have vividly exemplified the success that horizontal integration strategic can bring.

10.8.6 Vertical Integration

When a firm's grand strategy is to acquire firms that supply it with inputs (such as raw materials) or are customers for its outputs (such as were houses for finished products), **vertical integration** is involved. To illustrate, if a shirt manufacturer acquires a textile producer –by purchasing its common stock, buying its assets, or exchanging ownership interests – the strategy is vertical integration. In this case, it is backward vertical integration, because the acquired firm operates at an earlier stage of the production marketing process. If the shirt manufacturer had merged with a clothing store, it would have been forward vertical integration – the acquisition of a firm nearer to the ultimate consumer.

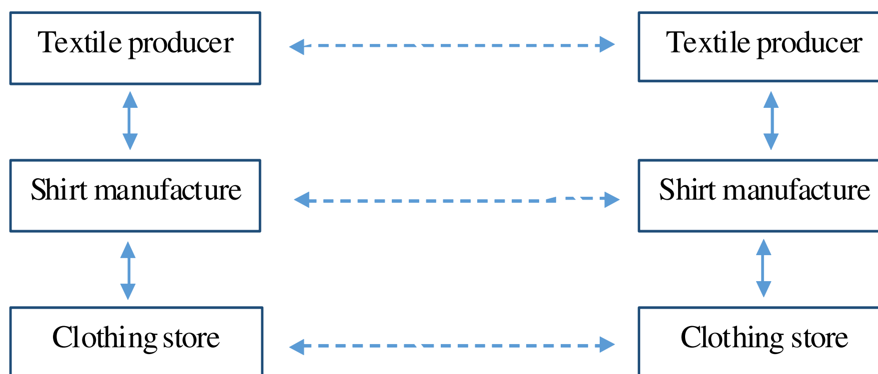

Exhibit: 10.1

↕ Acquisition or mergers of suppliers or customer business are vertical integrations.

↔ Acquisition or mergers of competing business are horizontal integrations.

10.8.7 Concentric Diversification

Involves the acquisition of business that are related to the acquiring firm in terms of technology, markets, or products. With this grand strategy, the selected new business possesses a high degree of compatibility with the firm's current business. The ideal concentric diversification occurs when the combined company profits increase the strengths and opportunities and decrease the weakness and exposure to risk. Thus, the acquiring firm searches for new businesses whose products, markets, distribution channels, technologies, and resource requirements are new business whose products, markets, distribution channels, technologies, and resource requirements are similar to but not identical with own, whose acquisition results in synergies but not complete interdependence.

10.8.8 Conglomerate Diversification

Occasionally a firm, particularly a very large one, plans to acquire a business because it represents the most promising investment opportunity available. This grand strategy is commonly known as conglomerate diversification. The principal concern, and often the sole concern, of the acquiring firm is the profit pattern of the venture. Unlike concentric diversification, conglomerate diversification gives little concern to creating product-market synergy with existing businesses. What such conglomerate diversifiers as ITT, Textron, American Brands, Litton, U.S Industries, Fuqua, and I.C Industries seek is financial synergy for example, they may seek a balance in their portfolios between current businesses with cyclical sales and acquired business with countercyclical sales, between high-cash/ flow opportunity and low-cash/high-opportunity businesses, or between debt-free and highly leveraged businesses.The principal differences between the two types of diversification emphasizes some commonality in markets, products, or technology, whereas conglomerate diversification is based principally on profit considerations.

10.8.9 Turnaround

For any one of a large number of reasons, a firm can find itself with declining profits. Among these reasons are economics recessions, inefficiencies, and innovative breakthroughs by competitors. In many cases, strategic managers believe that such a firm can survive and eventually recover if a concerted effort is made over a period of a

few years to fortify its distinctive competencies. This grand strategy is known as **turnaround.** It typically is begun through one of two forms of retrenchment, employed singly or in combination. Turnaround a grand strategy of cost reduction and asset reduction by a company to survive and recover from declining profits.

10.8.10 Divestiture

A divestiture strategy Involves the sale of a firm or a major component of a firm. Sara Lee Corp. (SLE) provides a good example. It sells everything from Wonderbra's and Kiwi shoe polish to Endust furniture polish and Chock Full o' Nuts coffee. The company used a conglomerate diversification strategy to build Sara Lee into a huge portfolio of disparate brands. A new president, C. Steven Mcmilan, faced stagnant revenues and earnings. So he consolidated, streamlined, and focused the company on its core categories-food, underwear, and household products. He divested 15 business, including Coach leather goods, which together equalled more than 20 percent of the company's revenue, and laid off 13,200 employees, nearly 10 percent of the workforce.

Mc.Millan used the cash from asset sales to snap up brands that enhanced Sara Lee's clout in key categories, like the $2.8 billion purchase of St. Louis-based bread maker Earthgrains Co. to quadruple Sara Lee's bakery operations. In another case of divestitures, Kraft Foods found that it could improve its overall operations by selling some of its best-known brands, including Cream of Wheat.

In 1998 Ballarpur Industries Ltd (Bilt), re-structured itself by divesting unrelated businesses. The company had diversified business interests-paper, chemicals, building materials and steel, edible oils, footwear and detergents. It was saddled with liabilities of over Rs. 1,000 crore. As part of the revamp move, Bilt invested 65percent of its stake in Bilt Chemicals to APR Ltd, and also divested its edible oil Brands-Gopal, Coronal, Sampoorn and Prime Life. It divested 49 percent of its stake in glass container venture to its foreign partner Owens Brockways Glass Containers to focus on paper and chemicals business.

10.8.11 Liquidation

When liquidation is the grand strategy, the firm typically is sold in parts, only occasionally as a whole-but for its tangible asset value and not as a going concern. I selecting liquidation, the owners and strategic managers of a firm are admitting failure and recognize that this action is likely to result in great hardships themselves and their employees. For these reasons, liquidation usually is seen as the least attractive of the grand strategies. As a long-term strategy, however, it minimizes the losses of all the

firm's stockholders. Faced with bankruptcy, the liquidating firm usually tries to develop a planned and orderly system that will result in the greatest possible return and cash conversion as the firm slowly relinquishes its market share.

10.8.12 Bankruptcy

Business failures are playing an increasingly important role in the American economy. In an average week, more than companies fail for bankruptcy, more than 75 percent of these financially desperate firms file for a liquidation bankruptcy- they agree to a complete distribution of their assets to creditors, most of whom receive a small fraction of the amount they are owned. Liquidation is what the layperson views as bankruptcy: the business cannot pay its debts, so it must close its doors. Invertors lose their money, employees lose their jobs, and managers lose their credibility. In owner managed firms, company and personal bankruptcy commonly go hand in hand.

The other 25 percent of these firms refuses to surrender until one final option is exhausted. Choosing a strategy to recapture its viability, such a company asks the courts for a recognition bankruptcy. The firm attempts to persuade its creditors to temporarily freeze their claims while it undertakes to reorganise and rebuild the company's operations more profitably. The appeal of a reorganisation bankruptcy is based on the company's ability to convince creditors that it can succeed in the market place by implementing a new strategic plan, and that when the plans produces profits, the firm will be able to repay its creditors, perhaps in full. In other words, the company offers its creditors a carefully designed alternative to forcing an immediate, but fractional, repayment of its financial obligations. The option of reorganisation bankruptcy offers maximum repayment of debt at some specified future time if a new strategic plan is successful.

10.8.13 Joint Ventures

Occasionally two or more capable firms lack a necessary component for success in a particular competitive environment. For example, no single petroleum firm controlled sufficient resources to construct the Alaskan pipeline. Nor was any single firm capable of processing and marketing all of the oil that would flow through the pipeline. The solution was a set of joint ventures, which are commercial companies (children) created and operated for the benefit of the co-owner (parents). These cooperative arrangements provided both the funds needed to build the pipeline and the processing and marketing capacities needed to profitably handle the oil flow.

10.8.14 Strategic Alliances

Are distinguished from joint ventures because the companies involved do not take an equity position in one another. In many instances, strategic alliances are partnerships that exist for a defined period during which partners contribute their skills and expertise to a cooperative project. For example, one partner provides manufacturing capabilities while a second partner provides marketing expertise. In other situations, a strategic alliance can enable similar companies to combine their capabilities to counter the threats of a much larger or new type of competitor.

Strategic alliances are sometimes undertaken because the partners want to delop in-houses capabilities to supplant the partner when the contractual arrangement between them reaches its termination date. Such relationship is tricky because, in a sense, the partners are attempting to "steal" each other's know-how.

Consortia, Keiretsus, and Chaebols

Consortia are defined as large interlocking relationship between business of an industry. In Japan such consortia are known as keiretsus; in South Korea as chaebols.

In Europe, consortia projects are increasing in number and in success rates. Examples include the Junior Engineers' and Scientists' Summer Institute, which underwrites cooperating learning and research; the European Strategic Program for Research and Development in Information Technologies, which seeks to enhance European competitiveness in fields related to computer electronics and component manufacturing; and EUREKA, which is a joint program involving scientists and engineers from several European countries to coordinate joint research projects.

A Japanese keiretsu is an undertaking involving up to 50 different firms that are joined around a large trading company or bank as are coordinated through interlocking directories and stock exchanges. It is designed to use industry coordination to minimize risks of competition, in part through cost sharing and increased economies of scale. Example include Sumitomo, Mitsubishi, Mitsui, and Sanwa.

A south Korean chaebol resembles a consortium or keiretsu except that it is typically financed through government banking groups and is largely run by professional managers trained by participating firms expressly for the job.

10.9 CASE STUDY

Plaza Cleaners is a family owned and operated dry cleaning and laundry drop-off, pick-up and delivery service with over 35 years of professional alteration and dry cleaning

experience. The business takes pride in being the first green cleaners in the city of Thousand Oaks and Ventura County.

Since 2006, the owners of Plaza Cleaners have used a professional wet cleaning process, using only biodegradable, environmentally friendly wet cleaning detergents and removing the use of a harmful toxic known as perchloroethylene from their cleaning procedures. The biodegradable detergents and new equipment result in cleaner garments with less wear, damage, and with no perchloroethylene residue left in the fabric. Committed to being an environmental leader among local cleaners, Plaza Cleaners shared their process with others by hosting a professional wet cleaning demonstration in collaboration with the UCLA Sustainable Technology & Policy Program.

In addition to their alternative method of dry cleaning, Plaza Cleaners has also made reductions in energy and water usage. With the encouraged use of reusable cloth garment covers/laundry bags, they have distributed over 1,000 reusable garment bags to their customers.

They recycle hangers, plastic and paper that cannot be reused. A discount coupon program is also offered to new customers who opt in for their reusable bag service. This reduction in plastic saves operational costs and reduces the public's contribution to landfill waste. As a result of their efforts, they have decreased the amount of plastic poly bags needed per week from 3 rolls to 1/2 roll, saving operational costs, as well as removing items from contributing to the waste stream. Other green efforts include utilizing daylight and natural air flow and refraining from using unnecessary light fixtures or air conditioning during operating hours. Plaza Cleaners has won a number of awards for being a green business through the city of Thousand Oaks GreenBiz Program and the Board of Supervisors of Ventura County.

Questions:

1. Identify the SWOT Analysis of Plaza Cleaners.
2. What are the challenges and opportunities of Plaza Cleaners?
3. What are the efforts made by the organisation to improve green business?

10.10 NOTES

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10.11 SUMMARY

Ground strategies are defined as comprehensive approaches guiding the major actions designed to achieve the long term objectives.

Generic strategies enable a company to choose the best strategy that is needed based on the chosen market focus. The strategic alliances are a formal relationship between two or more parties to pursue a set of agreed upon goals or to meet a critical business need white remaining independent organisation. The forms of strategic alliance have certain specific objectives, which depends on the new products, new technology and new market Managers archive greater objectivity based on the analysis of company's

internal resources and capabilities SWOT analysis is a traditional approach that has been in use for decades to help structure manager's pursuit to answer the vital questions such as current situation, future opportunity and threats perceived. SWOT analysis is a guiding tool to assess the organisational capabilities.

10.12 KEYWORDS

Generic strategy, Strategic alliance, Internal analysis, Strength, Weakness, Opportunity, Threat.

10.13 SELF-ASSESSMENT QUESTION

1. Define generic competitive strategy
2. What are the advantages and disadvantages of strategic alliance?
3. How can SWOT analysis be effectively used to improve a company strategy
4. How strategies help to conduct internal analysis
5. What is "Best Cost Strategy" – discuss with example.

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UNIT-11: COMPETITIVE ANALYSIS

Structure :

11.0 Objectives

11.1 Introduction

11.2 The BCG Growth-Share Matrix

11.3 The Synergy Approach : Leveraging Core Competencies

11.4 Two Elements are Critical in Meaningful Opportunities

11.5 GE-Nine Cell Matrix

11.6 Industry Attractiveness

11.7 Force Analysis / Competitive Analysis

11.8 Achieving Synergy

11.9 Case Study

11.10 Notes

11.11 Summary

11.12 Key Words

11.13 Self-Assessment Questions

11.14 References

11.0 OBJECTIVES

After studying this unit, you will be able to;

- To define the concept of synergy
- To discuss various matrix applied in strategic management
- To explain the importance of GAP analysis

11.1 INTRODUCTION

The past 30 years there has been a virtual explosion in the extent to which single-business companies seek to acquire other business to grow and to diversify. There are many reasons for this emergences of multi-business companies: companies can enter business with growth potential; enter business with different cyclical considerations; diversify inherent risks; increase vertical integration, and thereby reduce costs; capture value added; and instantly have a market presence rather than slower internal growth.As businesses jumped on the diversification bandwagon, their managers soon found a challenge in managing the resource needs of diverse business and their respective strategic missions, particularly in times of limited resources. Responding to this challenge, the Boston Consulting Group (BCG) pioneered an approach called portfolio techniques that attempted to help managers "balance" the flow of cash resources among their various business while also identifying their basic strategies purpose within the overall portfolio.

11.2 THE BCG GROWTH-SHARE MATRIX

Managers using the BCG matrix plotted each of the company's business according to market growth rate relative competitive position. Market growth rate is the projected rate of sales growth for the market being served by a particular business. Usually measured as the percentage increase in a market's sales or unit volume over the two most recent years, this rate serves as an indicator of the relative attractiveness of the markets served by each business in the firm's portfolio of business. Relative competitive position usually is expressed as the market share of a business divided by the market share of its largest competitors. Thus, relative competitive position provides a basis for comparing the relative strengths of the businesses in the firm's portfolio in terms of their positions in their respective markets.

The stars are business in rapidly growing markets with large market shares. These businesses represent the best long-run opportunities (growth and profitability) in the

firm's portfolio. They require substantial investment to maintain (and expand) their dominant position in a growing market. This investment requirement is often dominant position in a growing market. This investment requirement is often in excess of the funds that they can generate internally. Therefore, these businesses are often short-term, priority consumers of corporate resources.

Cash cows

Arebusinesses with a high market share in low-growth market or industries. Because of their strong competitive positions and their minimal reinvestment requirements, these businesses often generate cash in excess of their needs. Therefore, they are selectively "milked" as a source of corporate resources for deployment elsewhere (to stars and question marks). Cash cows are yesterday's stars and the current foundation of corporate portfolios. They proved the cash needed to pay corporate overhead and dividends and proved debt capacity. They are managed to maintain their strong market share while generating excess resources for corporate wide use.

Low market share and low market growth business are the dogs in the firm's portfolio. Facing mature markets with intense competition and low profit margins, they are managed for short-term cash flow (e.g., through ruthless cost cutting) to supplement corporate-level resource needs. According to the original BCG prescription, they are divested or liquidated once this short-term harvesting has been maximized.

Question marks

Are businesses whose high growth rate gives them considerable appeal but whose low market share makes their profit potential uncertain Question marks are cash guzzlers because their rapid growth results in high cash needs, while their small market share results in low cash generation. At the corporate level, the concern is to identify the question marks that would increase their market share and into the star group if extra corporate resources were devoted to them. Where this long-run shift from question mark to star is unlikely, the BCG matrix suggests divesting the question mark and repositioning its resources more effectively in the remainder of the corporate portfolio.

11.3 THE SYNERGY APPROACH: LEVERAGING CORE COMPETENCIES

Opportunities to build value via diversification, integration, or joint venture strategies are usually found in market-related, operations-related and management activities. Each business 'basic value chain activities or infrastructure become a source

of potential synergy and competitive advantage for another business in the corporate portfolio.

Strategic analysis is concerned with whether or not the potential competitive advantages expected to arises from each value opportunity have materialized. Where advantage has not materialized, corporate strategists must take care to scrutinize possible impediments to achieving the synergy or competitive advantage. We have identified in Exhibit 9.7 several impediments associated with each opportunity, which strategists are advised to examine. Good strategists assure themselves that their organisation has ways to avoid or minimize the effects of any impediments, or they recommend against further integration or diversification and consider divestiture options.

11.4 TWO ELEMENTS ARE CRITICAL IN MEANINGFUL OPPORTUNITIES

1. The shared opportunities must be a significant portion of the value chain of the businesses involved. Returning to Cyber Media, its perfect understanding of the IT and ICT industry along with well-entrenched readership and customer base gave them advantage in industries that found synergies. Examining the growth of Cyber Media across five dimensions illustrates how the firm moved ahead leveraging on its core competencies.

2. The business involved must truly have shared needs-need for the same activity-or there is no basis for synergy in the first place. Raymond was set up in 1925 at thane for making cheap and coarse woollen blankets and low priced woollen fabrics. The company forward integrated by setting up its first exclusive retail showroom at Bombay in 1958. In 1964, it backward integrated into a combing and processing of multi-fibres and blended fabrics. Four years later, Raymond forwarded integrated into manufacture of readymade garments. Leveraging its existing manufacturing facilities, the "Park Avenue" brand was launched in 1986 providing a complete wardrobe solution to men who liked to dress well and be current on styles and fashion. A decade later, the premium Renaissance Collection made of Merino wool was launched. "Parx", a premium casual wear brand was launched in 1999. By understanding the discerning male customer, Raymond turned its attention to women also with the launch of "Be" exclusive ready to wear designer clothing for men and women. In 2006, Raymond launched its design studio in Italy and in 2006, launched "Zapp" the kids wear brand. Thus, over more than eight decades, Raymond has been able to leverage its competencies and find synergies in technology, operation and marketing to fuel its growth.

Corporate strategies have repeatedly rushed into diversification only to find perceived opportunities for sharing were non-existent because the business did not really have shared needs.

The most compelling reason companies should diversify can be found in situations where core competencies –key value-building skills-can be leveraged with other products or into markets that are not a part of where they were created. Where this works well, extraordinary value can be built. Managers undertaking diversification strategies should dedicate a significant portion of their strategic analysis to this question.

General Cinema was a company that grew from drive-in theatres to eventually dominate the multi-cinema, movie exhibition industry. Next, they entered soft-drink bottling and become the largest bottle of soft drinks (Pepsi) in North America. Their stock value rose 2,000 percent in 10 years. They found that core competencies in movie exhibition-managing many small, localized businesses; dealing with a few large suppliers; applying central marketing skills locally; and acquiring or crafting a “franchise”-were virtually the same in soft-drink bottling. IBM CEO Sam Palmisano and his management team have done an extraordinary job of creating a virtually new IBM by adapting a multi-business strategy centred around finding, sharing, and leveraging core competencies across a seemingly diverse set of businesses and market. Not only have they done so with existing competencies, but their organisation has proven remarkably adept at leveraging newly found technologies and capabilities within each business across other businesses-enterprise focused business competencies deployed in consumer product offerings and vice versa.

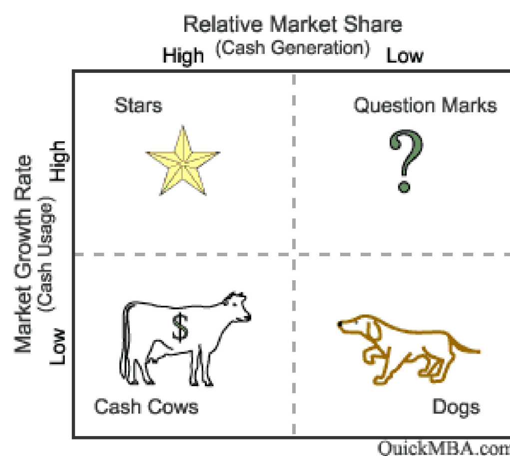


Fig. 11.1

BCG matrix (Boston consulting group)

1. Stars:

High market share/high market growth

Stars represent business unit having large market share in a slow growing industry. They may generate cash but because of fast growing market, stars require huge investments to maintain their lead.

2. Cash:

High market share / low market growth

Cash cows represent business units having a large market share in nature slow growing industry. Cash cows require little investment and generate cash that can be utilized for investment in other business unit. when the cash cows lose their appeal and move towards. Then the retrenchment policy may be pursued.

3. Question marks:

Low market share / high market growth

Questions marks represent business units having low relative market share and located in a high growth industry. The require huge amount of cash to maintain gain market share. They attention to determine if the venture can be viable. Question marks are generally new goods and services which have a good commercial prospective.

4. Dogs:

Low market share / low market growth

Dogs represent business having weak market share in low-growth markets. They neither generate cash not require huge amount of cash. Due to low market share, these business units face cost disadvantages. Generally, retrenchment strategies are adopted because these firms can gain market share only at the expense of competitor's rival firms.

Limitations of BCG matrix

1. BCG matrix classifies business as low and high, but generally business can be medium also. Thus the true nature of business may not be reflected.
2. Market is not clearly defined in this model.
3. High market share does not always leads to high profits. There are high costs also involved with high market share.

4. Growth rate and relative market share are not only indicators of profitability. This model ignores and overlooks other indicators of profitability.
5. At times,Dogs may helps others business in gaining competitive advantage. They can earn even more then cash cows sometimes.

11.5 GE- NINE CELL MATRIX

Industry Attractiveness

Table:11.1

The GE/ Mckinsey matrix was developed jointly by McKinsey and general electric in the early 1970's asderivation of the BCG matrix The GE/McKinsey matrix is 9 cell (3by3) matrix used to perform businessportfolio analysis on the strategic business unit (SBU) of a corporation a well balanced portfolio is one ofthe top priorities of a large organization.

11.6 INDUSTRY ATTRACTIVENESS

The horizontal axis of the GE/McKinsey matrix is industry attractiveness, which is determined by factorssuch as following:

- Matrix growth rate.
- Market size.
- Demand variability.
- Industry rivalry.
- Global opportunities.

- Macro environmental factor.

Each factor is assigned a weighting that is appropriate for the industry. The industry attractiveness then is calculated.

The vertical axis of the GE/McKinsey matrix is the strength of the business unit. some factorsthat can be used to determine business unit strength include.

- Market share.
- Growth in the market.
- Brand equity.
- Distribution channel access.
- Production capacity.
- Profit margin relative to competitors.

11.7 FORCE ANALYSIS/ COMPETITIVE ANALYSIS

Michael E. Porter the renowned author of competitive strategy, Competitive Advantage and Competitive Advantage of Nations, has provided a structural analysis of industries. According to this analysis, the state of competition in an industry depends on five basic competitive forces viz:

1. Rivalry among existing firms
2. Threat of new entrants
3. Threats of substitutes
4. Bargaining power of suppliers
5. Bargaining power of Buyers

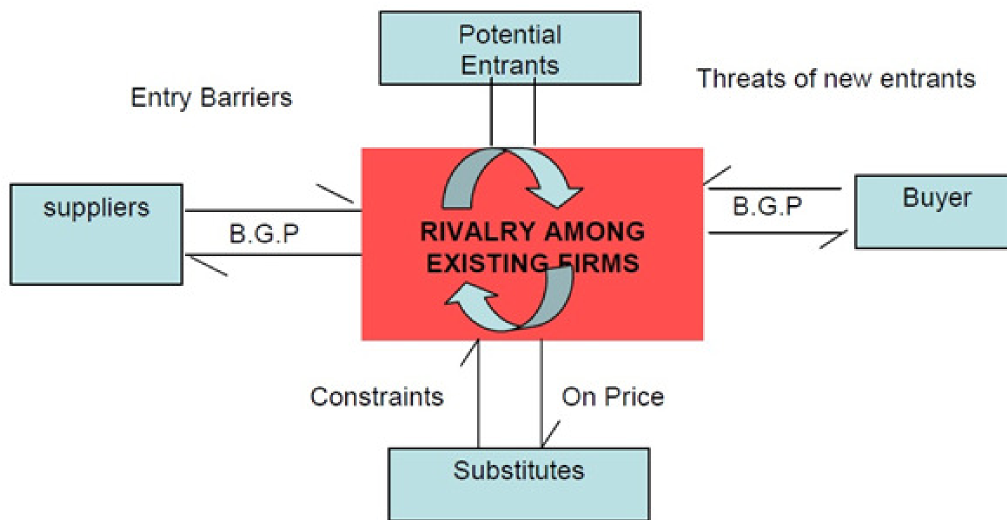


Exhibit. 11.2

Michael Porter's 5 Force analysis / competitive analysis

1. Rivalry among existing firms

There is competitive rivalry between firms on a continuing basis. The various players try to constantly jockey for position and try new product and process innovations in order to develop a strategic edge and hence a stronger position in the competitive space. Intense rivalry is related to a number of factors:

- competitors are large in number and of comparable sizes;
- industry growth is slow;
- the product or service has low switching costs;
- fixed costs are high;
- the product is perishable

As the competition grows, firms require to provide more variety of products. As a result of this, there are offerings of various consumer products, more than ever before.It has become a common practice for the same company to offer different products for different market segments.

For example, between 1998-99 Hindustan Lever introduced 64 product innovations. Forty-four of these were new launches and twenty were re-launches. 50 percent of its growth during this period came from these launches.

2. Threats of New Entrants

A prosperity industry often faces threat of new entrants which can alter the competitive environment. There are many entry barriers like – Government Policies, Economies of Scale, Product differentiation, Brand Identity or Monopoly elements, Capital Requirements and Cost disadvantages.

In many cases Government policy and regulation are important entry barriers. For example, prior to the economic liberalization in India, government – dictated entry barriers were rampant, like reservation of industries / industrial licensing, import restriction, restriction on foreign capital and technology etc.

3. Threats of substitutes

An important force of competition is the power of substitutes. "Substitutes limit the potential returns in an industry by placing a ceiling on the price firms in the industry can profitability charge. The more attractive the price performance alternative offered by substitutes, the firmer the lid on industry profits"

Porters explained the TOS are: Buyer propensity to substitutes, Relative Price

Performance and Switching Costs

- Equally, a firm that has a product that cannot be easily substituted, either because it is unique or because it has some form of protection (e.g. a patent), is in a strong position.

The key questions for this analysis are:

- Whether or not the substitute poses a threat to the organization's product or service or provides a higher perceived value or benefit.
- What is the ease with which buyers can switch to substitutes?
- Can the organization reduce the risk of substitution by building in switching costs?
- Each product idea is copied or improved by competition. It is not necessarily the best product idea that becomes dominant. However, improved and new product ideas have become an integral part of the game. For an example:

Hero Honda, at one stage found it difficult to get a foot hold in the Indian market for two-wheelers. However, when most motorcycles were giving a fuel economy of 45-45 kilometres per litter, Hero Honda came out with a self-designed motorcycle capable of giving 80 kilometres to a litter.

4. The bargaining power of Customers

For several industries, buyers/ customers are potential competitors – they may integrate backward. Besides, they have different degree of bargaining power. Important determinants of the buyer power, explained by Porter are:

Bargaining for higher Quality or more service, Profitability of the Buyer, Potential for backward Integration by buyer, Price sensitivity, switching costs, Extent of buyers' information.

5. Bargaining power of suppliers

The important determinants of supplier power are the following:

Switching Costs, Differentiation of inputs, Supplier concentration, Supplier Margins, Volume Sales, Firm's ability to forward integration.

- Suppliers can exert bargaining power in an industry by raising prices or by changing the quality of their goods and services.
- For example, if a major steel producer selling to a small metal fabricator, the firm has a weak position and its ability to compete will to a large extent depend on the steel producer. If, the supplier decided to raise prices, the firm would have high switching costs and little option but to accept the raise.
- The advantage is with the supplier when:
  - it is large and dominated by a few companies;
  - its product is unique or differentiated;
  - it does not have sufficient competition;
  - it has the ability to integrate forward into the industry;
  - the industry is not an important customer;
  - The buying industry has low barriers to entry.
  - the supplier is strong

11.8 ACHIEVING SYNERGY

One of the goals to be achieved in strategy implementation is synergy between and among functions and business units. This is the reason corporations commonly reorganize after an acquisition. Synergy is said to exist for a divisional corporation if the return on investment (ROI) of each division is greater than what the return would be if each division were an independent business. According to Good and Campbell, synergy can take place in one of six forms:

- **Shared know-how:** Combined units often benefit from sharing knowledge or skills. The is a leveraging of core competencies. One reason that proctor& Gamble purchased Gillette was to combine P&G's knowledge of the female consumer with Gillette's knowledge of the male consumer.
- **Coordinated strategies:** Aligning the business strategies of two or more business units may provide a corporation significant advantage by reducing inter-unit competition and developing a coordinated response to common competitors (horizontal strategy). The merger between Arcelor and Mittal Steel, for example, gave the combined company enhanced R&D capabilities and wider global coverage while presenting a common face to the market.
- **Shared tangible resources:** Combined units can sometimes save money by sharing resources, such as a common manufacturing facility or R&D lab. The alliance between Renault and Nissan allowed it to build new factories that would build both Nissan and Renault Vehicles.
- **Economies of scale or scope:** Coordinating the flow of products or services of one unit with that of another unit with that of another unit can reduce inventory, increase capacity utilization, and improve market access. This was a reason Delta Airlines bought northwest Airlines.
- **Pooled negotiating power:** Combined units can combine their purchasing to gain bargaining power over common suppliers to reduce costs and improve quality. The same can be done with common distributors.
- **New business creation:** Exchanging knowledge and skills can facilitate new products or services by extracting discrete activities from various units and combining them in new units or by establishing joint venture among internal business units. Oracle, for example, purchased a number of software companies in order to create a suite of software code-named "Project Fusion" to help corporations run everything from accounting and sales to customer relations and supply-chain management.

Before plans can lead to actual performance, a corporation should be appropriately organized programs should be adequately staffed, and activities should be directed toward achieving desired objectives.

Any Change in corporate strategy is very likely to require some sort of change in the way an organization is structured and in the kind of skills needed in particular positions. Managers must, therefore, closely examine the way their company is structured in order to decide what if any, changes should be made in the way work is accomplished. Should

activities be grouped differently? Should the authority to make key decisions be centralized at headquarters or decentralized to managers in distant locations? Should the company be managed like a "tight ship" with many rules and controls, or "loosely" with few rules and controls" Should the corporation be organized in to a "tall" structure with many layers of managers, each having a narrow span of control (that is, few employees per supervisor) to better control his or her subordinate; or should it be organize into a "flat" structure with fewer layers of managers. Each having a wide span of control (that is, more employees per supervisor) to give more freedom to his or her subordinates.

In a classic study of large U.S. corporations such as DuPont, General Motors, Sears, and Standard Qil, Alfred Chandler concluded that structure that structure follows strategy-that is changes in corporate strategy lead to changes in organizational structure. He also concluded that organizations follow a pattern of development from one kind o0f structural arrangement to another as they expand. According to Chandler, these structural changes occur because the old structure, having been pushed too far, has caused inefficiencies that have become too obviously detrimental to bear. Chandler, therefore. Proposed the following as the sequence of what occurs:

1. New strategy is created.
2. New administrative problems emerge.
3. Economic performance declines.
4. New appropriate structure is invented.
5. Profit return to its previous level.

11.9 CASE STUDY

Amazon.comprovides books, movies, music and games along with electronics, toys, apparel, sports, tools, groceries and general home and garden items. Amazon is a good example of an online business that tries to close the service gaps in order to thoroughly meet consumer expectations. From the time the consumer starts to shop at

Amazon's online store, Amazon will attempt to understand their expectations. From when a customer first makes a product selection Amazon creates a consumer profile and attempts to offer alternative goods and services that may delight the consumer. The longer the consumer shops at Amazon, the more the company attempts to identify their preferences and needs.

When a consumer buys a product from Amazon they select the mode of delivery and the company tells them the expected number of days it will take to receive their merchandise. For example: standard shipping is three to five days but shipping in one or two days is also available. The company has set standards for how quickly customers are informed when a product is unavailable (immediately), how quickly customers are notified whether an out of print book can be located (three weeks), how long customers are able to return items (30 days) and whether they pay return shipping costs. These standards exist for many activities at Amazon from delivery to communication to service recovery.

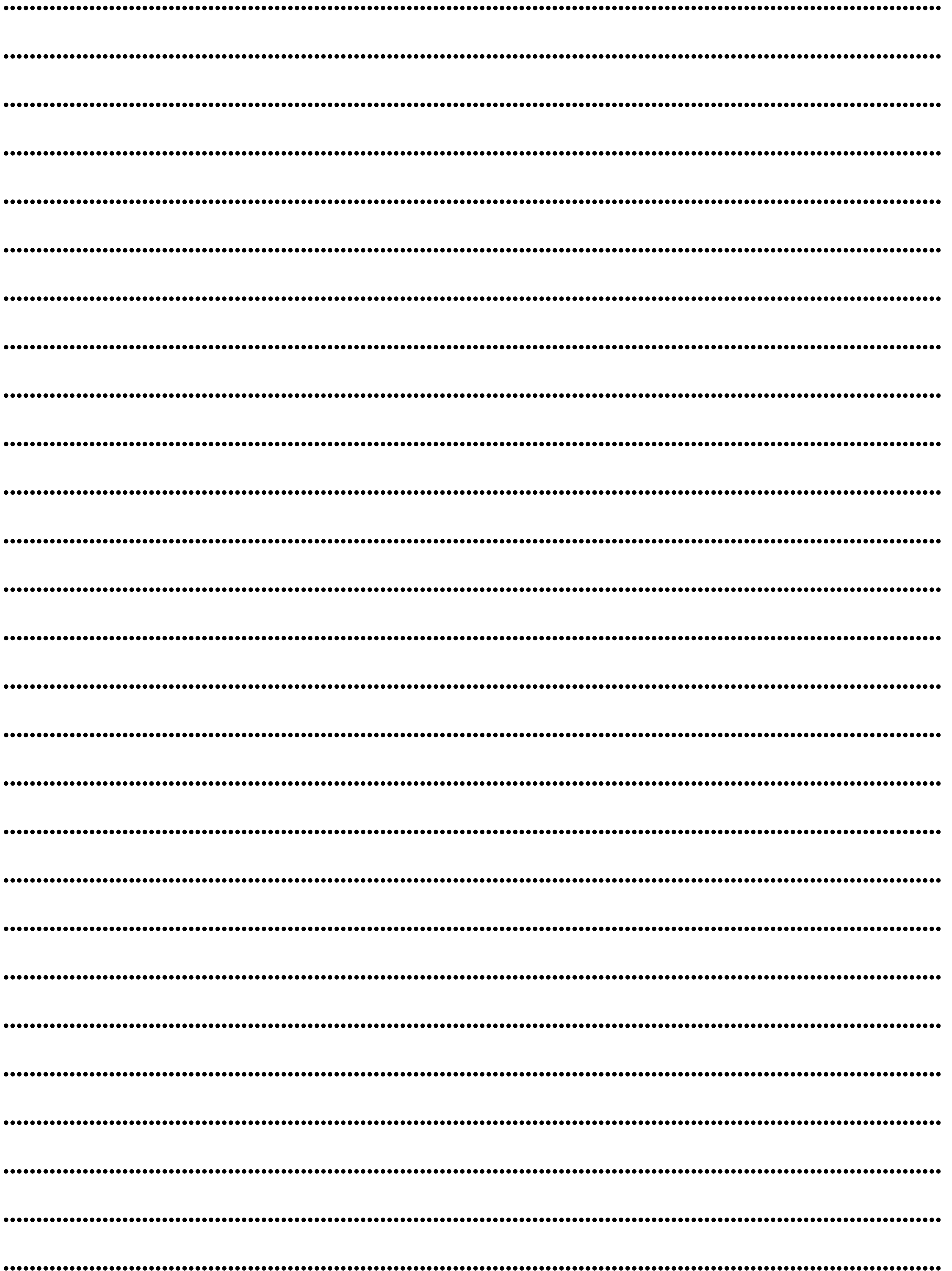
Apart from defining their service delivery, Amazon goes one step further and delivers on its promises. Amazon performs! Orders often arrive ahead of the promised dates; orders are accurate and are in excellent condition because of careful shipping practice. Customers can track packages and review previous orders at any time. Amazon also makes sure that all its partners who sell used and new books and other related items meet Amazon's high standards. The company verifies the performance of each purchase by surveying the customer and posting scores that are visible to other customers.

Managing promises is handled by clear and careful communication on the website. Every page is very easy to understand and to navigate. For example, the page dealing with returns eliminates customer misunderstanding by clearly spelling out what can be returned. The page describes how to repack items and when refunds are given. The customer account page shows all previous purchases and exactly where every ordered item is in the shipping process Amazon strategy has been well received by its customers and the Amazon brand is known worldwide.

Questions:

1. What is service gap? What are the gaps in services?
2. If you were the manager of a service org and wanted to apply the gaps model to improve service, which gap would you start with? Why? In what order would you proceed to close the gaps?
3. What are the different strategies need to apply for retention of customers?

11.10 NOTES



11.11 SUMMARY

Globalisation, rapid change, outsourcing and other major forces shaping today's economic landscape have ushered in multi-business strategic decision making that also focusses on the role and value added contributions. The notion of across business unit – sharing capabilities and leveraging care competencies has been another very widely adopted approach to making strategic decisions in multi business companies is very important. The portfolio based approach enables each business to understand the growth potential, market position and need for ability to generate cash. Based on the evaluation through various techniques such as BCG, McKinsey matrix, porters model, strategists allocated resources, divested and acquired businesses based on the balance across this portfolio of business or possible business.

11.12 KEY WORDS

Synergy,

Portfolio approach,

Matrix,

Competition,

Business.

11.13 SELF-ASSESSMENT QUESTIONS

1. Explain the concept of synergy
2. State the importance of Gap analysis
3. Explain the construction of GE matrix
4. Explain BCG matrix in detail with an example of any firm
5. Explain porter's five force model with an example

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UNIT-12: PESTLE ANALYSIS

Structure :

12.0 Objectives

12.1 PESTLE Analysis through PESTLE Matrix

12.2 External Environment

- 12.2.1 Remote Environment

12.3 Value Chain Analysis

- 12.3.1 Primary Activities
- 12.3.2 Support Activities

12.4 Global Strategy in Action

12.5 Competitive Advantage Via Customer Value : Three Circle Analysis

12.6 Case Study

12.7 Notes

12.8 Summary

12.9 Key Words

12.10 Self-Assessment Questions

12.11 References

12.0 OBJECTIVES

After studying this unit, you will be able to;

- To describe the concept of competitiveness
- To asses the application of PESTEL analysis
- To evaluate the PESTEL matrix

12.1 PESTLE ANALYSIS THROUGH PESTLE MATRIX

Environmental Scanning is an important component when the business is in Competition. PESTLE analysis involves identifying the political, economic, socio-cultural, technological, legal and environmental influences of an organization or policy in the past, and how they might do so in future.

- Like the SWOT analysis, the PESTLE analysis is also simple, quick, and uses four key perspectives. PESTLE analysis, has its origins in the PEST analysis, which involves identifying the political, economic, socio-cultural and technological influences on an organization.
- The PESTLE analysis used to provide a context for the organisation's / individual's role in relation to the external environment (mainly macro and mega environment).
- Depending on which elements are included it can also be referred to as STEP, STEEP, PESTEL, PESTLE or LEPEST.
- Recently it was even further extended to STEEPLE and STEEPLED, including education and demographics.
- PESTLE is useful before SWOT - not generally the other way round. It helps to identify SWOT factors.

The advantage of this tool is that it encourages management into proactive and structured thinking in its decision making.

The PESTLE Matrix:

Political	**Economic:**
• Current legislation • Future legislation • Regulatory bodies and processes • Government policies • Government term and changes • Trade policies	• Economic situation and trends • Taxations to products. • Market and Trade cycle • Specific Industry factor • Customer • Interest and exchange rates
Social:	**Technological:**
• Life style change • Demographic • Cons. Attitudes and opinion • Brand, competitive tech. Image • Consumer buying pattern • Ethnic / Religious factors	• Replacement • Tech. solutions • Maturity of Technique • Manufacturing maturity and capacity • Innovation potential • Technical access, licensing, patents
Legal:	**Environmental:**
• International Law • Employment law • Competition law • Health and safety law • Regional legislation law	• Ecological / Environmental issues • Environmental Impact • Environmental legislation • Energy consumption • Waste disposal

Exhibit: 12.1

		Competitive Advantage	
		Lower Cost	Differentiation
Competitive Scope	Broad target	Cost leadership	Differentiation
	Narrow target	Cost focus	Differentiation focus

Exhibit: 12.02

Generic strategy	Required skills and resources	Organization requirements
Overall cost leadership	▪ Substantial capital investment and access to capital ▪ Process engineering skills ▪ Intense supervision of labour ▪ Products designed for ease in manufacture ▪ Low-cost distribution system	▪ Tight cost control ▪ Frequent detailed cost-control reports ▪ Incentive based on meeting strict quantitative targets
Differentiation	▪ Strong marketing abilities ▪ Product engineering ▪ Creative flair ▪ Strong capability in basic research ▪ Corporate reputation for quality or technology leadership ▪ Long tradition in the industry or unique combination of skills drawn from other businesses ▪ Strong co-operation from channels	▪ Strong co-ordination among functions in R&D, product development and marketing ▪ Subjective measurement and incentives instead of quantitative measures ▪ Amenities to attract highly skilled labour, scientists, or creative people
Focus	Combination of the above policies directed at the particular strategic target	Combination of the above policies directed at the particular strategic target

Exhibit: 12.3

Way to Differentiate Company Offering

	Low cost	Quality	Speed	Service	Innovation
Distinction	Capability to sustain lowest overall cost or price	Capability to deliver highest quality products or service versus customer specifications	Capability to provide products/services to the customer faster	Capability to assist consumer use of the product/services or provide direct follow-up services	Capability to continually reinvent product/service and be first to market with new concepts or functionality
Characteristics	Can provide the product/ service at an overall lower cost Even during opportunities for high prices remains focused on having lowest cost Ability to reduce price lower than competitor Ability to price even with the competition and gain higher profit	Provides a measurable superior product/ service Evan during downturns, continues to differentiate the quality of the product/ service Business processes deliver highest "quality" in the market	Product/ service quality must be at parity (at least) with slower competitor offerings Collective competency around eliminating unnecessary processes queening	Understand customer needs and is more responsive and collaborative Very concerned that customer application of product/ service is delivered as promised Makes it very easy for customer to continue working with them	Most innovative product/ services First to market Moves out of product/ service once competition arrives (out-source) Higher prices while product/ service is new or has no competition Continually focuses on reinvention and innovation Spends more on R&D
(E.G	Southwest airlines Wal-Mart	Hallmark Toyota	H&R Block Domino's Pizza	Nordstrom American Express	Intel 3M

EXHIBIT: 12.4

12.2 EXTERNAL ENVIRONMENT

A host of external factors influence a firm's choice of direction and action and, ultimately, its organisational structure and internal processes. These factors, which constitute the external environment, can be divided into three inter-related subcategories: factors in the remote environment, factors in the industry environment, and factors in the operating environment. In combination, these factors form the basis of the opportunities and threats that a firm face in its competitive environment.

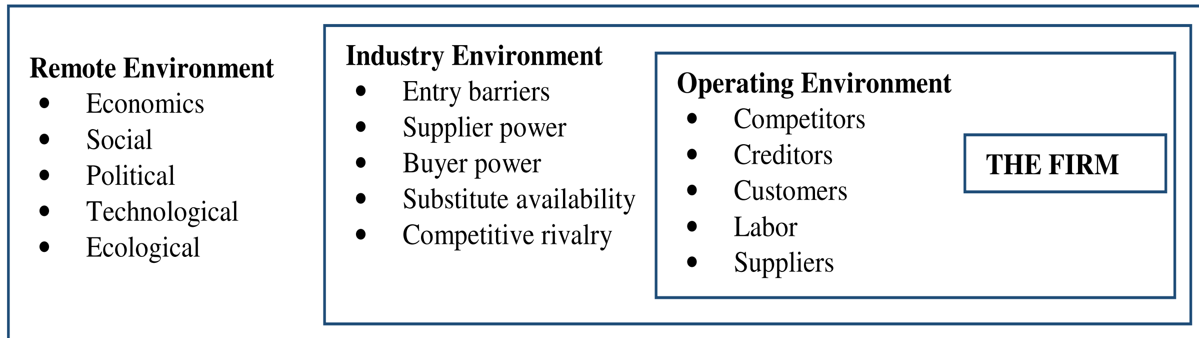

EXHIBIT: 12.5

12.2.1 Remote Environment

The remote environment comprises factors that originate beyond, and usually irrespective of, any single firm's operating situation: (1) economic, (2) social, (3) political, (4) technological, and (5) ecological factors. That environment presents firms with opportunities, threats, and constraints, but rarely does a single firm exert any meaningful reciprocal influence. For example, when the economy slows and construction starts to decrease, an individual contractor is likely to suffer a decline in business, but that contractor's efforts in stimulating local construction activities would be unable to reverse the overall decrease in construction starts.

ECONOMIC FACTORS

Economics factors concern the nature and direction of the economy in which a firm operates. Because consumption patterns are affected by the relative affluence of various market segments, each firm must consider economic trends in the segments that affect its industry. On both the national and international level, manager must consider the general availability of credit, the level of disposable income, and the propensity of people to spend. Prime interest rates, inflation rates, and trends in the growth of the gross national product are other economic factors they should monitor.

SOCIAL FACTORS

The social factors that affect a firm involve the beliefs, values, attitudes, opinions, and lifestyles of persons in the firm's external environment, as developed from cultural, ecological, demographic, religious, educational and ethic conditioning. As social attitudes change, so does the demand for various types of clothing, books, leisure activities, and so on. Like other forces in the remote external environment, social forces

are dynamic with constant change resulting from the efforts of individuals to satisfy their desires and needs by controlling and adapting to environmental factors. For example, in 1996, when Bengaluru was growing as the IT hub of India, Café Coffee Day (CCD) pioneered the café concept in India by opening its first café at Brigade Road in Bengaluru.

Till about the late 1990's coffee drinking in India was restricted to the intellectual, the South Indian traditionalist and the five-star coffee shop visitor. As the pure coffee café culture in neigh boring international market grew, the need for a relaxed and fun hangout for the emerging urban youth in the country was clearly seen. Recognising the potential that lay ahead on the horizon, CCD embarked on a dynamic journey to become a large organised retail café chain with distinct brand identity of its own. From a handful of out lets in six cities in the first five years, CCD become India's largest and premier retail chain of cafes with 552 outlets in 90 cities across the country. Enthuses by the success of offering world-class coffee experience, CCD opened a Café in Vienna, Austria and plans to open other Cafes across Middle East, Eastern Europe, Eurasia, North Africa and South East Asia.

One of the most profound social changes in recent years has been the entry of large numbers of women into the labor market. This has not only affected the hiring and compensation policies and the resource capabilities of their employers; it has also created or greatly expanded the demand for a wide range of products and services necessitated by their absence from the home. Firms that anticipated or reacted quickly to this social change offered such products and services as convenience foods, microwave ovens, and day care canter's.

For example, MTR Foods Private Limited, one of the top five processed food to global markets (including the USA, the UK, Australia, New Zealand, Malaysia, UAE, Japan and Oman), has started offering complete meal solutions. Their wide range of products include ready-to-eat curries and rice, ready-to-cook gravies, frozen foods, ice cream, instant snack and dessert mixes, spices and a variety of accompaniments like pickles and papads. They developed a deep understanding of culinary expectations and needs, which resulted in may new and innovative products. Alongside, they developed the potential to scale up through investments in infrastructure and technology to provide consumers across the globe wholesome and convenient food.

POLITICAL FACTORS

The direction and stability of political factors are a major consideration for managers on formulating company strategy. Political factors define the legal and regulatory parameters within which firms must operate. Political constraints are placed

on firms through fair-trade-decisions, antitrust laws, tax programs, minimum wage legislation, pollution and pricing policies, administrative jawboning, and many other actions aimed at protecting employees, consumers, the general public, and the environment. Because such laws and regulations are most commonly restrictive, they tend to reduce the potential profits of firms. However, some political actions are designed to benefit and protect firms. Such actions include patent laws, government subsidies, and product research grants. Often, different stakeholders take different sides on important issues that affect business operations. They then work to influence legislators to vote for the position that they favour.

TECHNOLOGICAL FACTORS

The fourth set of factors in the remote environment involves technological change. To avoid obsolescence and promote innovation, a firm must be aware of technological changes that might influence its industry. Creative technological adaptations can suggest possibilities for new products or for improvements in existing products or in manufacturing and marketing techniques.

A technological breakthrough can have a sudden and dramatic effect on a firm's environment. It may spawn sophisticated new markets and products or significantly shorten the anticipated life of a manufacturing facility. Thus, all firms, and most particularly those in turbulent growth industries, must strive for an understanding both of the existing technological advances and the probable future advances that can affect their products and services. This quasi-science of attempting to foresee advancements and estimate their impact on an organisations operations is known as technological forecasting.

ECOLOGICAL FACTORS

The most prominent factor in the remote environment is often the reciprocal relationship between business and the ecology. The term ecology refers to the relationship among human beings and other living things and the air, soil and water that support them. Threats to our life-supporting ecology caused principally by human activities in an industrial society are commonly referred to as pollution.

The global climate has been changing for ages; however, it is now evident that humanity's activities are accelerating this tremendously. A change in atmospheric radiation, due in part to ozone depletion, causes global warming. Solar radiation that is normally absorbed into the atmosphere reaches the earth's surface, heating the soil, water, and air.

Another area of great importance is the loss of habitat and biodiversity. Ecologists agree that the extinction of important flora and fauna is occurring at a rapid rate and, if this pace is continued, could constitute a global extinction on the scale of those found in fossil records. The earth's life-forms depend on a well-functioning ecosystem. In addition, immeasurable advances in disease treatment can be attributed to research involving substances found in plants. As species become extinct, the life support system is irreparably harmed. The primary cause of extinction on this scale is a disturbance of natural habitat. For example, current data suggest that the earth's primary tropical forests, a prime source of oxygen and potential plant "cure". Could be destroyed in only five decades.

12.3 VALUE CHAIN ANALYSIS

It is defined as activities that take place in a business and relates them to an analysis of the competitive strength of the business. At every level of the product manufacturing, each activity adds to its value and it is the reason that makes the customers to pay for the product. There is a chain of activities that at each level help making a product and to reach at its final shape and finished products. A firm is said to be earning profit or is profitable when the value it receives exceeds the cost that it put in making that product. In analysing the firm's competitive position, the key concept is creating the value for buyer's that exceeds the costs of production. Value chain analysis is an approach presented by Micheal Porter to understand its importance as a building block of competitive advantage. It describes two different types of activities;

1) Primary Activities

Activities that are directly concerned with creating and delivering a product (e.g. assembling the parts of a product or putting different components of a product together)

2) Support Activities

Activities that are not directly involved in production, but that may increase effectiveness or efficiency of a firm (e.g. human resource management, staffing, intellectual capital etc.).

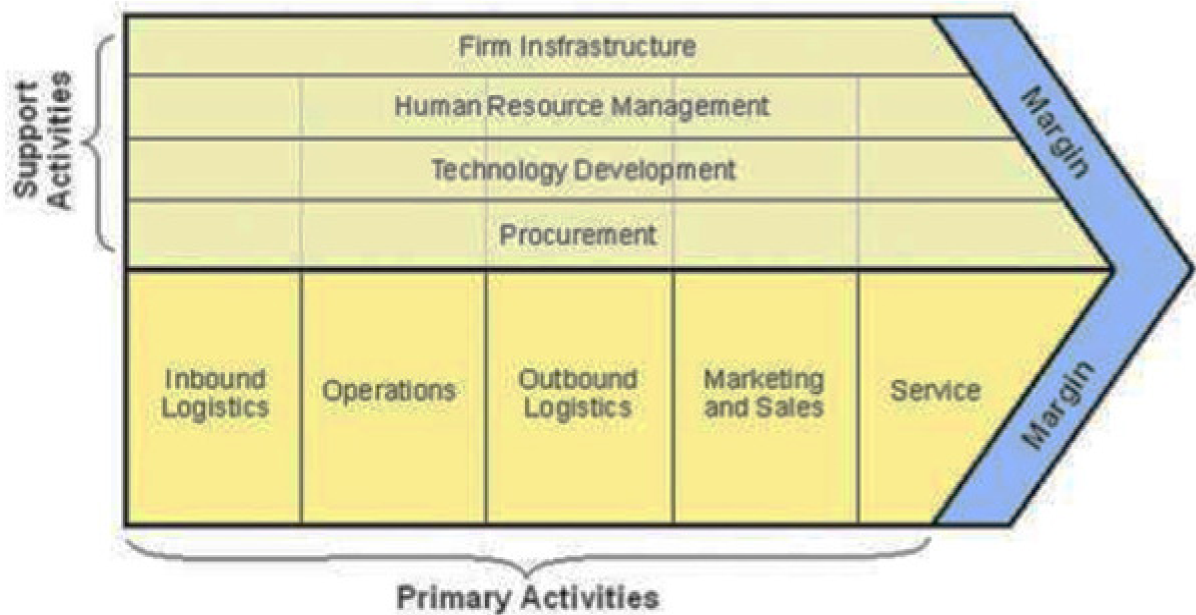

Fig: 12.6

12.3.1 Primary activities

Inbound Logistics

This is primarily associated with receiving, storing and distributing inputs to the product. It depicts how material is stored, retrieved and used for the production activity. How material is saved and kept and how it is stored to be used when needed. It also takes into account the availability of enough quantity available when needed to use. It deals with returns to suppliers, scheduling of vehicle, inventory control and material handling. It further deals with;

- Time to use the material
- Processing the material when requested
- Plant capacity
- Plant scheduling
- Location of distribution facilities
- Layout of warehouse
- Increasing efficiency by operations

Operations

- Efficient ways of operating the plant to minimize efficiency
- Maximizing and maintaining the product quality
- Fulfilling the order in given time
- Customer handling
- Customer satisfaction
- Effective way of handling and minimizing the customer complaints

Outbound logistics

- Order fulfilment
- On time delivery
- Dealing with emergencies (delivering the product where needed or supply is short)
- Managing the inventory
- Shipment and orders
- Audit
- Transaction management
- Accuracy
- Quick and in time response

Marketing and sales

- Pricing
- Total cost analysis
- Cost benefit comparison
- Understanding the product's value
- Innovative approaches to promote and advertise the product
- Identification of customer needs and targeted audience
- Understanding customer needs
- Capturing needs of the customers

Service

- Quick response to customer needs and emergencies
- Problem solutions
- Call centers
- 24/7 service availability
- Putting customer at the front line
- Customer survey
- Quality of service
- Personnel training and proper staffing

12.3.2 Support Activities

General Administration

- Firm's infrastructure
- Audit
- Accounts
- Staff
- Finance
- Communication systems
- Planning and strategies
- Flow of information
- Chain of command
- Relationships with stakeholders
- Effective information technology application
- Automated systems and value chain mechanism
- Planning systems to achieve goals and objectives

Human Resource Management

- ♦ Manpower development
- ♦ Employees training
- ♦ Labor skills

- Recruitment
- Reward and incentives
- Good relations with trade unions
- Motivating employees and workers by intrinsic and extrinsic rewards
- Appreciating the efforts of the employees

Technology development

- R&D
- Innovations and discoveries
- Positive collaboration between R&D and other departments
- Scanning the lifecycle of a product
- Improvement in products, process and quality
- Adopting new technologies
- Substituting labor with technology to reduce cost by one-time investment

Procurement

- Raw material procurement to reduce cost and optimize quality
- Procuring machinery
- Selecting and analysing the alternative sources of inputs to maintain bargaining power of a
- buyer and to minimize the dependence on one supplier
- Maintaining good relations with suppliers
- Supplies mechanism

12.4 GLOBAL STRATEGY IN ACTION

Used to assess the International Environment

Economic Environment

- Level of economic development
- Population
- Gross national product

- Per capita income
- Literacy level
- Social infrastructure
- Natural resources
- Climate
- Membership in regional economic blocs (EU, NAFTA, LAFTA)
- Monetary and fiscal policies
- Wage and salary levels
- Nature of competitions
- Currency convertibility
- Inflation
- Taxation system
- Interest rates

Legal Environment

- ♦ Legal tradition
- ♦ Effectiveness of legal system
- ♦ Treaties with foreign nations
- ♦ Patent trademark laws
- ♦ Laws affecting business firms

Political system

- Form of government
- Political ideology
- Stability of government
- Strength of opposition parties and groups
- Social unrest
- Political strife and insurgency
- Governmental attitude towards foreign firms
- Foreign policy

Cultural Environment

- Customs norms, values, beliefs
- Language
- Attitudes
- Motivations
- Social institutions
- Status symbols
- Religious beliefs

12.5 COMPETITIVE ADVANTAGE VIA CUSTOMER VALUE: THREE CIRCLE ANALYSIS

There is considerable appeal and anecdotal evidence that a company must build a distinct value chain-based competitive advantage to grow and be profitable over the long term. However, in using the value chain approach just described or the resource-based approach (described in the next section), it can remain difficult for many strategists to clearly articulate what their company's competitive advantage is and how it differs from those of competitors while in the midst of strategic analysis activities.

To begin the three circle analysis, the strategizing team of executives should begin their analysis by thinking deeply about what customers of their type of product or service value and why. For example, they might a just in time inventory system. Looking at findings from the value chain analysis, or from a resource-based view of the firm, but through the eyes of their key target customers, is a simple but often overlooked perspective from which to evaluate core competencies. It is a central part of this technique and logically hits the core of the reason for the firm's existence in the first place.

Next, the strategists should draw three circles as shown in Exhibit 12.7 The first circle (seen on the top right) is to represent the team's consensus of what the most important customers or customer segments need or want from the product or service.

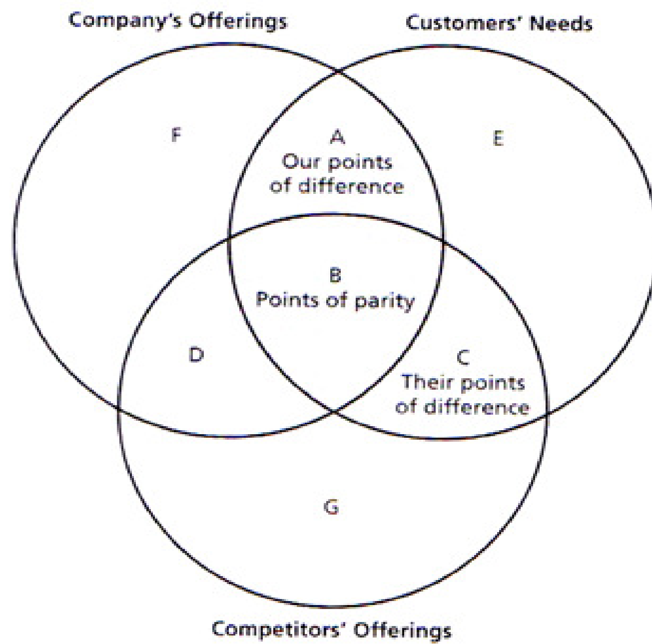

Fig: 12.7

Urbany and Davis observe that even in very mature industries, customers do not articulate all their wants in conversations with companies. For example, there was no consumer demand on Procter & Gamble to invent the Swiffer, whose category contributes significantly to the company's recent double-digit sales growth in home care products. Instead, the Swiffer emerged from P&G's careful observation of the challenges of household cleaning. Therefore, in conducting this initial phase of competitive advantage analysis, the consumers' unexpressed needs can often become growth opportunities.

The second circle represents the team's view of how customers perceive the company's offering (seen on the top left). The extent to which the two circles overlap how well company's offerings are fulfilling customers' needs.The third circle represents the strategies' view of how customers perceive the offering of the company's competitors.

Each area within the circles is important, but areas A, B, and C are critical to identifying and building a real value-based competitive advantage. The planning team should ask questions about each:

- Circle A: How big and sustainable are our advantages? Are they based on distinctive capabilities?
- Circle B: Are we delivering effectively in the area of parity?
- Circle C: How can we counter our competitors' advantages?

As Urbany and Davis explain, the team should form hypotheses about the company's competitive advantages and test them by asking customers. The process can yield surprising insights, such as how much opportunity for growth exists in the white space (E). Another insight might be what value the company or its competitors create that customers do not need (D, F or G). For example, Zeneca Ag Products discovered that one of its most important distributors would be willing to do more business with the firm only if Zeneca eliminated the time-consuming promotional programs that its managers thought were an essential part of their value proposition.

But the biggest surprise is often that area A, envisioned as by the company, turns out to be quite small in the eyes of the customer. One important contribution that the next internal analysis technique, the resource-based view of the firm, can make in this regards is to help provide an in-depth method to more thoroughly identify and examine a firm's existing or potential competitive advantages.

12.6 CASE STUDY

According to the National Association of Software and Services Companies (NASSCOM), from 1997 to 2002, the Indian Information Technology (IT) industry's revenues grew by 120% from $5 bn to $11 bn. During this period, several IT companies in India achieved global recognition as end-to-end IT solutions providers, ranging from basic software development to IT consultancy. Prominent names in the industry included Tata Consultancy Services (TCS), Infosys Technologies, Wipro, Satyam Computer Services and HCL Technologies. The industry also comprised relatively smaller IT companies such as i-flex Technologies and Ramco Systems (Ramco), which specialized in niche IT segments like banking and manufacturing software.

The importance of Indian IT companies in the global software services and BPO industry. It examines the competitiveness of Indian companies in various segments of the industry including enterprise software, embedded systems, engineering design services and Business Process Outsourcing (BPO).

It discusses how, within the industry, smaller focused players like I-flex and Ramco Systems have carved a niche for themselves by concentrating on key verticals such as Banking, Financial Services and Insurance (BFSI) segment and developing globally successful products.

The report explains how bigger IT companies in India like Infosys Technologies and TCS are strengthening relationship with their overseas customers. It also examines the challenges faced by the Indian IT companies and the BPO industry.

Questions:

1. Study the trends in the IT software services and BPO industry in India.
2. Examine the competitiveness of the leading and niche players in the IT industry.
3. Understand how smaller companies in a highly competitive software industry can grow by focusing on the niche segments of the industry.
4. Understand how large IT companies can use their expertise gained over the years to add value in their clients' businesses.

12.7 NOTES

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12.8 SUMMARY

A firm's external environment consists of three interrelated sets of factors that play a principal role in determining the opportunities, threats, and constrains that the firm faces. The remote environment comprises factors originating beyond, and usually irrespective of any single firm's operating situation – economic, social, political, technological, and ecological factors. Factors that more directly influence a firm's prospects originate in the environment of its industry, including entry barriers, competitor rivalry, the availability of substitutes, and the bargaining power of buyers and suppliers. The operating environment comprises factors that influence a firm's immediate competitive situation – competitive position, customer profiles, suppliers, creditors, and the labor market. These three sets of factors provide many of the challenges that a particular firm faces in its attempts to attract to attract or acquire needed resources and to profitably market its good and services.

12.9 KEY WORDS

Competitive, Political, Social, Ecological, Technological, Legal, Economical, Environment.

12.10 SELF-ASSESSMENT QUESTIONS

1. Define value chain analysis
2. Explain how competitive advantage can be achieved through value chain analysis
3. What are the support activities required for value chain analysis?
4. What are the factors to be considered during PESTLE analysis
5. What are the factors used to asses global strategy in action

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MODULE – IV
STRATEGIC IMPLEMENTATION

UNIT-13: ISSUES IN STRATEGIC IMPLEMENTATION

Structure :

13.0 Objectives

13.1 Introduction

13.2 Nature of Strategic Implementation

13.3 Issues involved in Implementation of Strategy

13.4 Project Implementation

13.5 Notes

13.6 Summary

13.7 Key Words

13.8 Self - Assessment Questions

13.9 References

13.0 OBJECTIVES

After studying this unit, you will be able to;

- understand about why strategy implementation is more difficult than formulation.
- examine the factors influencing organizing structure.
- understand the barriers to strategy implementation and
- different types of organizational structures and their suitability.

13.1 INTRODUCTION

The strategic-management process does not end when the firm decides what strategy or strategies to pursue. There must be a translation of strategic thought into strategic action. This translation is much easier if managers and employees of the firm understand the business, feel a part of the company, and through involvements in strategy formulation activities have become committed to helping the organization succeed. Without understanding and commitment, strategy implementation efforts face major problems. Implementation strategy affects an organization from top to bottom; it affects all the functional and divisional areas of business. Even the most technically perfect strategic plan will serve little purpose if it is not implemented. Many organizations tend to spend an inordinate amount of time money, and effort on developing the strategic plan, treating the means and circumstances under which it will be implemented as after thoughts! Change comes through implementation and evaluation, not through plan. A technically imperfect plan that is, implemented well will achieve more than the perfect plan that never gets off the paper on which it is typed.

13.2 NATURE OF STRATEGIC IMPLEMENTATION

Successful strategy formulation does not guarantee successful strategy implementation. It is always more difficult to do something (strategy implementation) than to say you are going to do it (strategy formulation)! Although inextricably linked, strategy implementation is fundamentally different from strategy formulation. Strategy formulation and implementation can be contrasted in the following ways:

- ♦ Strategy formulation is positioning force s before the action
- ♦ Strategy implementation is managing forces during the action
- ♦ Strategy formulation focuses on effectiveness

- Strategy implementation forces on efficiency
- Strategy formulation is primarily an intellectual process
- Strategy implementation is primarily an operational process
- Strategy formulation requires good intuitive and analytical skills
- Strategy implementation requires special motivation and leadership skill
- Strategy formulation requires coordination among a few individuals
- Strategy implementation requires coordination among many individuals.

13.3 ISSUES INVOLVED IN IMPLEMENTATION OF STRATEGY

Following are the important issues in of strategy implementation:

a) Annual Objectives

Establishing annual objectives is a decentralized activity that directly involves all managers in an organization. Active participation in establishing annual objectives can lead to acceptance and commitment. Annual objectives are essential for strategy implementation because they

(1) Represent the basis for allocating resources;

(2) Are a primary mechanism for evaluating managers?

(3) Are the major instrument for monitoring progress toward achieving long-term objectives;

(4) establish organizational, divisional and departmental priorities.

Considerable time and effort should be devoted to ensuring that annual objectives are well conceived, consistent with long -term objective, and supportive of strategies to be implemented.

b) Policies

Changes in a firm's strategic direction do not occur automatically, on a day-to-day basis, policies are needed to make a strategy work. Policies facilitate solving recurring problem and guide the implementation of strategy. Broadly defined, policy refers to specific guidelines, methods, procedures, rules, forms and administrative practices established to support and encourage work toward stated goals. Policies are instruments for strategy implementation. Policies set boundaries, constraints and limits on the kinds

of administrative actions that can be taken to reward and sanction the behaviour; they clarify what can and cannot be done in pursuit of an organization's objectives.

c) Resource Allocation

Resource allocation is a central management activity that allows for strategy execution. In organization that do not use a strategic management approach to decision making, resource allocation is often based on political or personal factors. Strategic management enables resources to be allocated accordingly to priorities established by annual objectives. Effective resource allocation does not guarantee successful strategy implementation because programs. Personnel, controls and commitment must breathe life into the resources provided. Strategic management itself is sometimes referred to as a' resource allocation process.

d) Managing Conflict

Interdependency of objectives and competition for limited resources often leads to conflict. Conflict can be defined as a disagreement between two or more parties on one or more issues. Establishing annual objectives can lead to conflict because individuals have different expectations and perceptions, schedule create pressure, personalities are incompatible, and misunderstanding between line managers and staff managers occur. For Example, a collection manager's objective of reducing bad debts by 50 percent in a given year may conflict with a divisional objective to increase sale by 20 percent. Conflict is unavoidable in organizations, so it is important that conflict be managed and resolved before it effects strategy implementation and organizational performance.

Various approaches for managing and resolving conflict can be classified into three categories avoidance, diffusion, and confrontation. Avoidance includes such actions as ignoring the problem in hopes that the conflict will resolve itself or physically separating the conflicting individuals (or groups). Diffusion can include playing down differences between conflicting parties while accentuating similarities and common interest, compromising so that there is neither a clear winner nor loser. Confrontation is exemplified by exchanging members of conflicting parties so that each can gain an appreciation of the other's point of view.

e) Matching Structure with Strategy

Change in strategy often requires changes in the way an organization is structured for two major reasons. First structure largely dictates how objectives and policies will be established. For example, objectives and policies established under geographic organizational structure are couched in geographic terms. The structural format for

developing objectives and policies can significantly impact all other strategy implementation activities and structures dictates how resources will be allocated. A more important concern is determining what types of structural changes are needed to implement new strategies and how these changes can best be accomplished.

f) Managing Resistance to Change

No organization or individual can escape change. But the thought of change raises anxieties because people feat of economic loss, inconvenience, uncertainty, and a break in normal social pattern. The strategic management process itself can impose major changes on individuals and processes. Resistance to change can be considered the single greatest threat to successful strategy implementation. People often resist strategy implementation because they do not understand what is happening or why changes are taking place. In that case, employees may simply need accurate information. Successful strategy implementation hinges upon manager's ability to develop an organizational climate conducive to change. Change must be viewed as an opportunity rather than as a threat by managers and employees.

g) Creating a Strategy-Supportive Culture

Strategists should strive to pressure, emphasize and build upon aspects of an existing culture that support proposed new strategies. Aspects of an existing culture that are antagonistic to a proposed strategy should be identified and changed, Substantial research indicates that new strategies are often market-driven and dictated by competitive forces. For this reason, changing a firm's culture to fit a new strategy is usually more effective than changing a strategy to fit an existing culture. Numerous techniques are available to alter an organization's culture, including recruitment, training, transfer, and promotion, restructure of an organization's design, role modelling, and positive reinforcement.

h) Production / Operations Concerns

Production / operations capabilities, limitations, and policies can significantly enhance or inhibit the attainment of objectives. A major part of the strategy implementation process takes place at production site. Production -related decisions on plant size, plant location, product design, choice of equipment, kind of tooling, inventory control, quality control, cost control, use of standards, job specialization , employee training, equipment and resource utilization, shipping and packaging, and technological innovation can have a dramatic impact on the success or failure of strategy implementation efforts.

i) Human Resource Concerns

The job of human resource manager is changing rapidly as companies continue to downsize and reorganize. Strategic responsibilities of the human resource manager include assessing the staffing needs and cost for strategies proposed during strategy formulation and developing a staffing plan for effectively implementing strategies. A well-designed strategic management system can fail if insufficient attention is given to the human resource dimension. Human resource problems that arise when business implement strategies can usually be traced to one of three causes:

(1) Disruption of social and political structures,

(2) Failure to match individual's aptitudes with implementing tasks, and

(3) Inadequate top management support for implementation activities.

The process of empowering managers and employees through their involvement in strategic management activities yields the greatest benefits when all organizational members understand clearly how they will benefit personally if the firm does well.

13.4 PROJECT IMPLEMENTATION

A project can be defined as a one-shot, time limited, goal directed, major undertaking requiring the commitment of varied skills and resources. Project implementation passes through various phases such as

a) Conception phase - The first phase of any project is the conceptual phase. This phase is an extension of the strategy formulation phase. In this case, project ideas are generated during the process of strategic alternatives and strategic choice, which may be implemented in future by the organization.

b) Project analysis phase - The project ideas have to be arranged according to priority for the purpose of development. Before selecting a project for development, a preliminary project analysis have to made in respect of marketing, technical, financial and other relevant aspects. Such analysis is required to find out whether the project would appeal to the investors, banks and financial institutions. After the preliminary project analysis, feasibility study of the project is conducted. Feasibility study consists of detailed analysis of the project covering areas like cost of the project, means of financing, marketing arrangements, etc. Feasibility study is conducted to find out whether a project is financially and technically sound and profitable or not.

c) Planning phase – The management must undertake detailed planning of the project. The detailed planning should cover different areas of the project such as production schedules, plant design and layout, technical arrangements, finance requirements, marketing arrangements, manpower requirements, and so on.

d) Organizing Phase - The management must organize for necessary resources such as manpower, finance, systems and procedures to implement the project The complete project has to be properly organized in a well structured manner to deals with man, machinery etc. to enable the successful implementation of the project.

e) Implementation Phase – During this phase, the management must undertake detailed engineering, order placement for equipments and material, etc., leading to the testing, trail and commissioning of the plant.

f) Operation Phase - The final phase involves handing over the plant to the operating personnel for operation purpose. At this stage, the production starts as per the planned strategy.

13.5 NOTES

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13.6 SUMMARY

Strategy formulation is not just the end in the successful strategic process of a corporation. Successful strategy formulation does not guarantee successful strategy implementation. It is easy to plan the things but the real task involves in executing the same. Implementation of strategy affects an organisation from top to bottom. It affects all the functional and divisional areas of business. Thus it has to cover all the issues of the business which are most important for successful running of business. The most important issues are annual objectives, policies, resource allocation, conflict management, matching the structure with the strategy, managing the resistance to change, creating a supportive culture. Likewise project implementation has to be done in a series of steps it passes through various phases such as conception phase, project analysis phase, planning phase, implementation phase and operation phase. These phases help in implementation of strategy in a successful manner.

13.7 KEY WORDS

Implementation

Positioning

incompatible

13.8 SELF-ASSESSMENT QUESTIONS

1. What do you mean by strategic implementation? What are the issues involved in it?
2. "Resource allocation is one of the important processes in an organisation". Justify.
3. What are the bases for resource allocation? Explain.
4. What are the phases of project implementatation? Explain in detail.
5. Elucidate the nature of strategy implementation process.

13.9 REFERENCES

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UNIT - 14: PROCEDURAL IMPLEMENTATION

Structure :

14.0 Objectives

14.1 Procedural Implementation and Government Regulations

14.2 Resource Allocation

14.3 Budgets

14.4 Different Types of Budget

14.5 Organisation Structure

14.6 Matching Structure and Strategy

14.7 Behavioural Issues in Implementation of Strategy

14.8 Notes

14.9 Summary

14.10 Self Assessment Questions

14.11 References

14.0 OBJECTIVES

After studying this unit, you will be able to;

- understand about the concept of procedural issues involved in strategy implementation.
- identify various problems in resource allocation.
- discuss the behavioural issues involved in implementation of strategy.

14.2 PROCEDURAL IMPLEMENTATION AND GOVERNMENT REGULATIONS

In India before implementing any new strategy the company must check whether the changes require for approval from state or central government. These government regulations affect strategy formulation and implementation in the company. Following are the various government regulations

- Licensing policy
- MRTP regulation
- FERA regulation
- Capital Issue Control regulation
- Import and Export regulation
- Foreign collaboration policy
- Incentive and facilities available

i) Licensing policy - The Industrial Policy Resolutions divide all industries into 3 categories,

- ♦ The first categories are those they are directly handled by the government exclusively.
- ♦ The second categories are those industries they are handled by the government along with the support of the private sector.
- ♦ The third categories are those industries they can be handled by the private sector exclusively.

The Industries (Development and Regulation) Act, 1951 provides a licensing system of the development and also the regulation of the scheduled industries. Scheduled industries are those industries listed in the First Schedule of the Act.

ii) MRTP Regulations

The Monopolies and Restrictive Trade Practices (MRTP) Act 1969 seeks to prevent monopolistic and restrictive trade practices conducted by a single company. This is done so as to prevent the concentration of the economic power. The MRTP Act also covers mergers, amalgamations, and turnovers.

iii) FERA Regulations

The Foreign Exchange Regulation Act (FERA) 1973 is with respect to the control of foreign companies holding on Indian companies. If a non-Indian residents equity holding in the company is 40 % and above, the prior permission of the Reserve Bank of India is required.

iv) Capital Issue Control Regulation

The issue of capital by companies is regulated through Capital Issues Control Act, 1956 and the Securities Contracts Regulations Act, 1956 mainly to ensure that investments are made in priority areas and for the promotion of capital markets and also for the protection of the company's shareholders. The Act will also be in force in case of mergers, amalgamation. Before the company issues any fresh shares whether public issue or right issue, even debentures, it has to be cleared by the Controller of Capital Issues (CCI) under the Department of Economies Affairs, Ministry of Finance. The clearance from CCI is required before any strategy can be implemented.

v) Import and Export Regulation

Imports of Capital Machinery or even Raw Material are necessary for some companies in order to be effective in case of modernization, expansion. Import substitution requires government clearance before the strategy is implemented. Before any strategy is implemented with respect to imports or exports the company should get the appropriate government sanctions under the Import and Export (Control) Act, 1947. The main aim of the government is to see that the balance of payments is not adversely affected by such a transaction of import and export through import substitution.

vi) Foreign Collaboration Regulation

In some cases the strategy in case of diversification etc. calls for a foreign collaboration. The government allows this up to a maximum limit of 51% in some areas on very selective basis. This foreign collaboration again requires prior government approval and sanction.

vii) Benefits from Incentives and Facilities

The government gives incentives, subsidies to the company for implementing certain strategies. By providing incentives the government does not play a regulatory or controlling but a promotional role. Certain other specific measures which are undertaken by the government relate to backward areas incentive, development of small-scale industries and export promotion.

14.2 RESOURCE ALLOCATION

Resource allocation is an important activity in strategy implementation. It requires procurement and commitment of financial, human and physical resources to the various activities required for the accomplishment of objectives. The success of the organization depends upon the quality and quantity of resources and their utilization. Resource allocation is a central management activity that allows for strategy execution. In organization that do not use a strategic-management approach to decision making, resource allocation is often based on political or personal factors.

Strategic management enables resources to be allocated accordingly to priorities established by annual objectives. All organizations have at least 4 types of resources that can be used to achieve desired objectives: financial, physical, human and technological resources. Allocating resources to particular divisions and departments does not mean that strategies will be successfully implemented. A number of factors commonly prohibit effective resource allocation, including an overprotection of resources, too great an emphasis on short-run financial criteria, organizational politics, vague strategy targets, a reluctance to take risks, and a lack of sufficient knowledge. The real value of any resource allocation program lies in the resulting accomplishment of an organization's objectives. Effective resource allocation does not guarantee successful strategy implementation because programs, personnel, controls, and commitment must breathe life into the resources provided. Strategic management itself is sometimes referred to as a resource allocation process.

Steps involved in Resource Allocation :-

The following are the important steps involved in resource allocation

a) Determining the Type and the Amount of Resources

The first step involved in resource allocation is to determine the type and amount of resources required to implement the strategy. A firm may require various types of resources such as human, financial, physical and informational or technological

resources. At times, a firm may require only the financial resources, as human and informational resources are already available with the firm, and that the physical resources such as machinery or equipments can be purchased with the financial resources. A firm should also decide the amount of resources required. For example modernization strategy would require more resources that the integration strategy.

b) Determining the Sources of Resources

The next step is to find out the sources of resources. The sources of resources depend upon the type of resources. The human resources can be obtained from both internal and external sources. For example mangers can be promoted from within the organization or can be selected from external sources for the purpose of strategy implementation. Financial resources can be obtained from internal or external sources. For example retained earnings can be used to finance strategy implementation or additional loan can be taken or capital can be issued to finance strategy implementation.

c) Mobilisation of Resources

After determining the amount and the type of resources, the next step is to make arrangement to obtain the resources. Necessary procedure is required to be followed to obtain the resources. For instance, if financial resources are to be obtained by way of issue of shares, the following steps have to be followed.

- Preparation of draft Prospectus
- Vetting of Prospectus
- Appointment of Intermediaries - Bankers Underwriters, Brokers, Advertising Agency etc.
- Filing of Prospectus with Registrar of Companies
- Printing and Dispatch of Prospectus and Application forms
- Filing of Initial Listing Application
- Establishing the liability of Underwriters
- Allotment of shares
- Listing

d) Resource Allocation

After obtaining the resources, the resources must be properly allocated for the purpose of strategy implementation. The required physical resources can be purchased

with the help of financial resources. If required, additional human resources can be selected for the purpose of strategy implementation. In any case, there must be proper allocation of all the resources.

e) Utilization of Resources

The allocated resources need to be utilized in respect of various activities. For example, the funds allocated for market development strategy need to be utilized for various activities in connection with market development activities such as marketing research, advertising, sales promotion, dealers incentives, etc. The funds must be utilized for productive activities, and care must be taken to see to it that the funds are not misused or poorly utilized.

f) Monitoring the Resources Allocation

The management should monitor the resource allocation to find out whether or not the allocated are properly utilized. The management should also find out whether the resources allocated are sufficient enough to undertake the various activities efficiently and effectively. If required, management may make necessary changes in resource allocation, i.e. , additional funds may be mobilized, if required or the resource allocation-mix can be modified depending upon the importance of activities.

Factors Affecting Resource Allocation:

There are several factors which affect resource allocation, they are as mentioned below

i) Objectives of the Organization

The aims and objectives of the organization affect resource allocation. An organization has various objectives to be accomplished - some are very important, some are least important to the organization. For example increasing market share is given more importance than other objectives. So accordingly, resources have to be allocated. Normally resources are allocated to accomplish important objectives.

ii) The Nature of Strategies

There are various types of strategies of a firm. Some strategies may require huge capital or some may require less capital. Some may require more human resources or some may require less human resources. Accordingly the strategies which require more capital or more human resources are allocated with more resources than other strategies. Therefore modernization strategy is allocated with more resources than product introduction strategy.

iii) Availability of Resources

The availability of funds affect resources allocation. When a firm has adequate funds or when a firm is in a position to obtain funds easily, then it can adequately allocate funds for various resources. But if the firm has a problem of obtaining additional funds, the certain activities may be dropped out or there may be distribution of resources according to the importance of activities.

iv) Internal Politics

Sometimes, internal politics in an organization can affect resource allocation. Some departmental heads are in a position to get more funds for their departments. This may be due to their power or influence they have over top management. For example, if HRD manager has good terms with the top management, his department may be allocated with more funds.

v) External factors

There are various external factors which influence resource allocation for example, financial institutions, local community, shareholders, government policies and others etc. For example, the financial institutions , which have provided long term loans may restrict allocation of resources in form of dividend to shareholder, organizational expenditure etc. Sometimes due to government policies, firm may have to allocate to employees welfare fund, environment protection fund etc.

Problems in Resource Allocation

There are several problems faced in resources allocation. Some problems cannot be avoided. Some problems can be avoided with the efforts on the part of management. Following are the important problems in resource allocation.

a) Scarcity of Resources

The major problem arises due to scarcity of resources. Due to scarcity of resources, it would be difficult for the management to obtain right type and right amount of resources. Sometimes due to scarcity, management may have to pay high price to obtain required resources.

b) Over-estimation of Resource need

The resource allocation problem may arise due to over-estimation of resource needs. Normally each department may try to obtain maximum amount of resources. This may be to avoid shortage of resources in future. Higher the demand of resources from

the entire department makes it difficult to allocate resources properly. Sometimes department gets used to overestimating resource needs.

c) Organization's past allocation of resources

Some units may be allocated with more resources in the past as their activities were more important than other activities. Sometimes same allocation is followed in the present situations, even though now their activities are not so important. On the other hand other department's activities may be more important at present, but they do not get required amount of resources due to past allocation. So top management should consider relative importance of the activities and allocate the resources.

d) Problem of internal politics

Some manager may involve the internal politics. They may try to influence top management and may try to get more funds than other departments. As a result those departments who actually deserve more funds do not get required amount of resources.

e) Poor financial climate

Due to financial climate, may investors do not invest in the shares issued by the company so company finds it difficult to raise additional finance? This affects the resource allocation for strategy implementation. Sometimes company may have to go for additional loans from financial institutions at higher cost.

f) Conflicts of interest

There may be problem of conflict of interest between management and various other parties for example, shareholders, trader unions, employees, government, society etc. For example trade union may insist to allocate resources to employee's welfare; management may like to allocate resources for modernization. This conflict can be solved with proper discussion between management and various parties and proper planning of resource allocation.

g) Problem of Resistance to Change

Sometimes management may resist changing its own resource allocation strategy. For example there may be some unprofitable products in the company, but management may continue to allocate more resources to that unprofitable product than the other promising products of the company. So management should try to review market success of each product and try to allocate the resources.

Sometimes the availability and use of resources is not readily apparent, but strategic planning can make them more visible. For example, when the organization establishes what is really important, it also makes explicit those actions or tasks which are not important. Eliminating redundancies in assignments or organizations can free up the use of resources, making them available for strategic actions.

Sometimes resources are not readily available. The following actions are often successful in obtaining needed resources:

- Redirect current resources
- Reprioritize implementation actions
- Partner with another division or organization to combine funding levels
- Ask the parent organization or sponsor for more resources

14.3 BUDGETS

A budget is 'A quantitative expression of a plan for a defined period of time. It may include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cash flows.'

CIMA Official Terminology, 2005

Budgeting practices are heavily influenced by the organisation's management style and can vary considerably, but the theory is common to all.

Budgeting is the process of expressing the predicted costs and resources for a planned course of action over a specified time period. Budgets can be drawn up for business units, departments, products, teams or the entire organisation (see master budget below). Another term for a budget is a financial plan, but budgets can refer to non-cash resources, such as staff or time.

Budgeting helps all types of organisation to plan and control their operations, and to support their managerial strategies. A budget sets out the benchmark against which performance will be measured. For example, this might be the minimum profit and loss performance expected by senior management. Performance against budget may be part of the organisation's appraisal system for individuals who are deemed accountable for such performance.

Therefore budgets are a management tool, expressed in quantitative terms because this is the easiest way to prioritise and co-ordinate complex competing decisions throughout the organisation.

However, budgets may be dismissed as a 'finance' tool because they usually originate from the finance department and involve numbers. An unenlightened manager might undervalue their contribution. Budgets are often unpopular because of the time and effort spent on preparing and negotiating them, or explaining variances.

One school of thought believes that budgeting contributes to information overload, restricts management action and generally drains rather than contributes to the organisation. This has led to the development of alternative approaches to traditional budgeting.

Purposes of Budgeting

The main purposes of budgeting relate to planning and control, and supporting the achievement of strategic plans by:

a) Translating the long-term plan into an annual work programme.

b) Co-ordinating the various departments of the organisation to ensure they are working in harmony. A budget requires managers to consider the relationship between their operations and those of other departments. Otherwise, managers might make decisions in their own interests, rather than the company's best interests.

c) Communicating plans to those who will be held accountable. Each department or individual should understand what role they play in helping the organisation achieve its plans. Key individuals are held accountable for the outcome of departments or teams, known as budget centres. A budget centre is: 'A section of an entity for which control may be exercised through prepared budgets. It is often a responsibility centre where the manager has authority over, and responsibility for, defined costs and (possibly) revenues.'

d) In addition to the allocation of resources, budgeting also provides the authority for expenditure. It may be used to motivate staff by including performance against budget in the organisation's remuneration scheme.

The Budgeting Process:

a) Prioritisation of objectives identified in the planning process.

b) Assessment and quantification of total available resources, both financial and non-financial

c) Identification and quantification of the inputs and processes required fulfilling the stated objectives and the associated financial resource required. The role of each

function and its significance in achieving the objectives should be taken into account. In setting budgets, consideration should be given to the inclusion of a non-allocated contingency element. This is so that reasonable allowance can be made for changes which cannot be reasonably anticipated in time or value.

d) Assignment of proportion(s) of the total resources necessary to acquire/manage inputs to achieve the stated objectives. Each dedicated proportion of the total resource constitutes a 'budget'.

14.4 DIFFERENT TYPES OF BUDGET

There are several different types of budget, depending on their purpose, and they fit together in a cascade.

Master Budget

At the top of the cascade is the master budget, a suite of statements with strong similarity to the published financial accounts. This budget consolidates all subsidiary budgets and usually comprises the budgeted profit and loss account, balance sheet and cash flow statement.

Senior management performance is often considered in relation to its effect on the balance sheet P&L or other financial information which is reported externally to investors and analysts.

Cash Budget

This is a detailed budget of estimated cash inflows and outflows incorporating both revenue and capital items.

Capital Budgeting

This is a process concerned with decision making in respect of specific investment project choices and the total amount of capital expenditure to commit.

Operating Budget

This is the budget of the revenue and expenses expected in a forthcoming period.

Zero Based Budgeting

This method of budgeting requires all costs to be specifically justified by the benefits expected. It is an alternative to incremental budgeting, where the budget is based on the previous period's budget or on actual results, and contains uplift for inflation or other known changes.

Rolling (or continuous) Budget

Here the budget is continuously updated by adding a further accounting period (month or quarter) when the earliest accounting period has expired. Its use is particularly beneficial where future costs and/or activities cannot be forecast accurately.

Budgets can include financial indicators such as cash, profit/loss, working capital and non-financial items such as staff numbers, orders and volumes of output. Progress is monitored regularly (typically monthly) by comparing actual performance against budget. Here budget holders explain significant favourable or unfavourable variances. Budget variance is described as: 'The difference, for each cost or revenue element in a budget, between the budgeted amount and the actual cost or revenue. Where flexible budgeting is employed, it is the difference between the flexed budget and the actual value.'

Drawbacks of budgeting

The drawbacks of budgeting have been identified as:

Inflexibility

- Budgets are time-consuming and costly to put together.
- Budgets constrain responsiveness and flexibility and are often a barrier to change.
- Budgets are rarely strategically focused and are often contradictory.
- Add little value, especially given the time required to prepare them.
- Concentrate on cost reduction and not on value creation.
- Strengthen vertical command and control.
- Do not reflect the emerging network structures that organisations are adopting.
- Encourage 'gaming' and perverse behaviours.
- Are developed and updated too infrequently, usually annually.
- Are based on unsupported assumptions and guesswork.
- Reinforce departmental barriers rather than encourage knowledge sharing.
- Make people feel undervalued.

14.5 ORGANISATION STRUCTURE

Any operating organization should have its own structure in order to operate efficiently. For an organization, the organizational structure is a hierarchy of people and its functions. The organizational structure of an organization tells you the character of an organization and the values it believes in. Therefore, when you do business with an organization or getting into a new job in an organization, it is always a great idea to get to know and understand their organizational structure.

Depending on the organizational values and the nature of the business, organizations tend to adopt one of the following structures for management purposes. Although the organization follows a particular structure, there can be departments and teams following some other organizational structure in exceptional cases. Sometimes, some organizations may follow a combination of the following organizational structures as well.

Organizational Structure Types

Following are the types of organizational structures that can be observed in the modern business Organizations.

Bureaucratic Structures

Bureaucratic structures maintain strict hierarchies when it comes to people management. There are three types of bureaucratic structures:

1 - Pre-bureaucratic Structures

This type of organizations lacks the standards. Usually this type of structure can be observed in small scale, start-up companies. Usually the structure is centralized and there is only one key decision maker. The communication is done in one-on-one conversations. This type of structures is quite helpful for small organizations due to the fact that the founder has the full control over all the decisions and operations.

2 - Bureaucratic Structures

These structures have a certain degree of standardization. When the organizations grow complex and large, bureaucratic structures are required for management. These structures are quite suitable for tall organizations.

3 - Post-bureaucratic Structures

He organizations that follow post-bureaucratic structures still inherit the strict hierarchies, but open to more modern ideas and methodologies. They follow techniques such as total quality management *TQM*, culture management, etc.

Functional Structure

The organization is divided into segments based on the functions when managing. This allows the organization to enhance the efficiencies of these functional groups. As an example, take a software company. Software engineers will only staff the entire software development department. This way, management of this functional group becomes easy and effective.

Functional structures appear to be successful in large organization that produces high volumes of products at low costs. The low cost can be achieved by such companies due to the efficiencies within functional groups. In addition to such advantages, there can be disadvantage from an organizational perspective if the communication between the functional groups is not effective. In this case, organization may find it difficult to achieve some organizational objectives at the end.

Divisional Structure

These types of organizations divide the functional areas of the organization to divisions. Each division is equipped with its own resources in order to function independently. There can be many bases to define divisions. Divisions can be defined based on the geographical basis, products/services basis, or any other measurement. As an example, take a company such as General Electric's. It can have microwave division, turbine division, etc., and these divisions have their own marketing teams, finance teams, etc. In that sense, each division can be considered as a micro-company with the main organization.

Matrix Structure

When it comes to matrix structure, the organization places the employees based on the function and the product. The matrix structure gives the best of the both worlds of functional and divisional structures. In this type of an organization, the company uses teams to complete tasks. The teams are formed based on the functions they belong to ex: software engineers and product they are involved in ex: Project A. This way, there are many teams in this organization such as software engineers of project A, software engineers of project B, QA engineers of project A, etc.

Every organization needs a structure in order to operate systematically. The organizational structures can be used by any organization if the structure fits into the nature and the maturity of the organization.

14.6 MATCHING STRUCTURE AND STRATEGY

An important question before the top management in a firm is, how to match the structure to the needs of the strategy? A company depending upon its size and objectives, may be pursuing several strategies simultaneously. There are no hard and fast rules to determine what kind of structure would be useful for which type of strategy. Each firm has its own history behind it and its managers have their own value systems and philosophies. The structure, therefore, is the consequences of these and several other variables. Moreover, each strategy rests on a set of key success factors or critical tasks. It is therefore desirable to design the organizational structure around the key success factors or critical tasks which are implied in the firm's strategy. This requires not only complete clarity on the key success factors (or critical tasks), but also requires making the units connected with the critical tasks or functions the main organizational building blocks. Further, the top management has to determine the degree of authority that has to be delegated to each unit, bearing in mind the benefits and costs of centralization vs. decentralization. It has to decide how the coordination among different units of the organization would be brought about. We shall now discuss these three aspects briefly.

Strategy

From the point of view of strategies, there are some activities which are critical to the success of those strategies while a large number of activities are of routine nature. The routine activities may be either maintenance or support type of activities e.g., handling pay rolls, accounting, complying with regulations, managing cash flows, controlling inventories and safe keeping of stores, training of manpower, public relations, market research etc. However, there are some critical tasks and functions which must be done exceedingly well for the strategy to be successful. For example, tight cost control is essential for a firm pursuing the strategy of low-cost leadership. This is particularly true if the margins are low and price cutting is widely used as a competitive weapon.

For a firm which has chalked out 'differentiation' as its strategy, distinctiveness or sophistication in the design of its products is necessary. This needs emphasis on quality and excellence in workmanship. Thus, the activities that are critical to the strategy and competitive requirements may differ from firm to firm. Two alternative questions should help to identify strategy—critical activities: (i) what functions have **to** be performed exceedingly well for the strategy to succeed? or (ii) what are the areas where less than satisfactory performance would seriously endanger the success of strategy?

After the critical tasks or functions for a particular strategy have been identified, the next step is to group the various critical activities, along with routine and support activities associated with the critical activities, into organizational units or blocks. This would require a close look into the relationships that prevail within the organization. The flow of material through the production process, types of customers served, distribution channels used, sequence of operations to be performed, geographic locations are some of the bases for scrutinising the relationships.

Degree of Authority (or Decentralization)

After the grouping of activities has been done and units have been constituted, the next question to tackle with is the degree of decision-making authority that has to be delegated in the managers of various units. Where the firm is engaged in several businesses, two alternative approaches can be followed. One is to centralize the strategic decision-making authority at the corporate level and delegate only operating decisions to the unit managers. The other is to substantially decentralize the strategic decisions to the unit managers, with the corporate staff providing necessary support to them. The corporate office in the latter case may limit its role to certain kinds of strategic decisions only. What should be the degree of authority given to the unit managers or how much autonomy should be given to them is essentially a question of managerial judgement and would depend upon a number of factors.

Providing for Co-ordination

Coordination among several units of the organization can be accomplished in several ways. The principal way is to position the various activities in the vertical hierarchy of authority. Managers higher up in the hierarchy generally have broader authority over several organizational units and this enables them to have more clout to coordinate, integrate or arrange for the coordination of the units under their supervision. So far as business units are concerned, general managers are the central points in coordination because of their position of authority over the whole unit. Apart from positioning organizational units along vertical scale of managerial authority, a general manager can also achieve coordination of strategic efforts through informal meetings, special task forces, standing committees, and six monthly or quarterly strategic planning, budgeting and review meetings. Further, while formulating the strategic plan itself, a general manager can solicit the cooperation/association of other general managers in the planning process and this would provide for inbuilt coordination bridges right from the very beginning.

14.7 BEHAVIOURAL ISSUES IN IMPLEMENTATION OF STRATEGY

The competitive environment is getting increasingly complex and unpredictable, demanding both flexibility and quick response to its challenges. As firms simultaneously downsize and face the need for increased coordination across organizational boundaries, a control system based primarily on rigid strategies and rules and regulations is dysfunctional. Thus, the use of rewards and culture to align individual and organizational goals becomes increasingly important.

Second, the implicit long-term contract between the organization and its key employees has been eroded. Today's younger managers have been conditioned to see themselves as 'free agents' and view their career as a series of opportunistic challenges. In today's competitive work environment, the importance of culture and rewards in building organizational loyalty has found greater importance.

14.8 NOTES

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14.8 SUMMARY

Procedural implementation is regarding the rules and regulations which have to be followed by the corporation before implementing the strategy. These are various government regulations which affect strategy formulation and implementation in the company. Optimum utilisation of the resources is the secret behind the successful organisation. Resource allocation is the most essential activity in strategy implementation. In general, all organisations have at least four types of resources such as financial, physical, human and technological resources. Resource allocation thus requires procurement and commitment of financial, human and physical resources to these various activities in order to accomplish the objectives.

14.9 SELF-ASSESSMENT QUESTIONS

1. What is the procedural implementation of strategy? List out any five government regulations which affects on strategy formulation and implementation.
2. How optimum allocation of resources does help in successful strategy implementation?
3. Analyse the suitability of matrix structures in complex organisations.
4. Explain different types of budgets based on its purposes.
5. How behavioural issues affect on the organisational environment? Explain.

14.10 REFERENCES

- Strategic management Text and Cases – V S P Rao and Hari Krishna
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UNIT – 15: LEADERSHIP STYLE

Structure :

15.0 Objectives

15.1 Leadership

15.2 Building a Capable Organisation

15.3 Corporate Culture

15.4 Ethics,Values ,Culture and Leadership

15.5 Social Responsibilities

15.6 Notes

15.7 Summary

15.8 Key Words

15.9 Questions for Self-Study

15.10 References

15.0 OBJECTIVES

After studying this unit, you will able to;

- Explain the role leadership style in the execution of strategy.
- Describe the concept of values, corporate culture and ethics.
- examine the social responsibilities of business.
- Explain the concept of leadership.
- Describe the attributes of a leader.

15.1 LEADERSHIP

Leadership is a necessary part of the social process. Any group, association, organization Or community functions the way its leader leads it. It is truer in the collectivistic cultures Like India where people follow the path shown by the great people.

Meaning:

Leadership is an integral part of work and social life. In fact in any given situation where a group of people want to accomplish a common goal, a leader may be required. Leadership behaviour occurs in almost all formal and informal social situations. Even in a non formal situation such as a group of friends some sort of a leadership behaviour occurs wherein one individual usually takes a lead in most of the group activities. You may have observed this is the group of your friends too. Sometimes you may have also seen how the change of situation leads to emergence of a new leader in a group. You also know leadership behaviour occurs in political and organizational set-up, wherein the leaders may or may not be having formal authority but may exhibit leadership behaviour by influencing people to work towards common goals.

Important Features of Leadership:

a) Adaptable of situations

b) Alert towards social situation

c) cooperative

d) Decisive

e) Dependable

f) Assertive

g) Confident and persistent

h) Knowledge

Various theories have been propounded to explain the phenomenon of leadership. They have attempted to define leadership in various ways and have tried to identify the attributes and qualities of a successful leader. Leadership is often considered as the ability to influence a group of people toward the achievement of goals. Thus it is an activity – an influence Process – in which an individual gains trust and commitment of others with or without Reliance on formal position or authority, moves the group to the accomplishment of one or more tasks.

Strategic Leadership:

The term strategic leader is used here to describe the managers who had the organisation and who are primarily responsible for creating and implementing strategic change. He gives proper direction to the organisation, the communications system and the structure. He ensures that the long-term objectives are translated into concrete plans of actions and understood and supported by people working at various levels these strategic plans are ultimately implemented through the organisation structure. The third major responsibility of the strategic leader is a system of communications which firstly enables managers throughout the organisation to be strategically aware, and secondly ensures that the leader stays informed of the changes that are taking place.

Leadership styles:

There are many ways in which leadership styles can be categorized. Accordingly there are many types of leaders as given below.

Visionary Leader

Visionary leader is the one who has a long-term perspective, who is externally oriented and has a broad interest in industry, economy, regulations, and politics. His tasks include forming a mission statement, vision and values. He is supposed to transform and structure the organization to ensure survival and growth. Example of visionary leader can be a director, senior executive, chair and head of school, senior partner etc.

Integration Leader

Integration leader is the one who has medium-term perspective. He has an inside out orientation where his main focus is on his own organization. His main function is to

develop organization's systems and processes. He reconciles conflicting interests. He develops and champions a strong culture. He ensures effective running of whole organization by using and innovating corporate knowledge and recruiting and retaining talent.

Fulfilment Leader

Fulfilment leader is the one who has a short-term perspective. He is a knowledge expert who is result oriented and who has customer service thinking. He pleases the customer by delivering results on time. He makes continuous improvement by unlocking individual potential and optimum usage of resources.

Transactional Leader

Transactional leaders are the ones who take the initiative in offering some form of need satisfaction in return for something valued by the employees, such as pay promotion, improved job satisfaction or recognition. The leader sets clear goals, and is adept at understanding the needs of employees and selects appropriate, motivating rewards.

Transformational Leaders

Transformational leadership is the process of engaging the commitment of the employees in the context of the shared values and the shared vision. It is particularly relevant in the context of managing change. It involves relationship of mutual trust between the leaders and the followers. Transformational leadership has following components.

1. **Idealized Influence:**

It involves having a clear vision and a sense of purpose. Such leaders are able to win the trust and respect of the followers. They build a base for future mission, which enables them to obtain extra efforts from the followers.

2. **Individual Consideration:**

It involves paying attention to the needs and potential for development of individual followers. It also involves delegating, coaching and giving constructive feedback.

3. **Intellectual Stimulation:**

It involves soliciting new ideas and new ways of doing things.

4. **Inspiration**:

It involves motivating people, generating enthusiasm, setting an example, being seen to share the load. An ideal example of transformational leadership would be what

Mrs. Kiran Bedi achieved with Tihar Jail inmates. She brought about a complete transformation in the followers as well as the institutional processes.

Charismatic Leader

Till now we have read about different types of leaders but some timesit happens that we are awed by a leader and follow him/her blindly. The personal charm of the person influences us. These types of leaders are known as charismatic leaders. Mahatma Gandhi was also an example of charismatic leader. The charismatic leaders have the ability to carry the masses the them. They have a great deal of emotional appeal. Swami Vivekananda was another charismatic leader. Some characteristic of charismatic leaders are –

- Followers accept the leader unquestioningly.
- Followers obey the leader willingly.
- Followers belief are similar to the leader's beliefs.
- Followers trust the correctness of the leader's belief.

Autocratic, Democratic and Laissez–Faire

Autocratic and democratic style of leadership is one of the classical distinctions made in Leadership behaviour. An autocratic leader takes decisions and imposes them on the group expecting group members to put them in to effect without questioning the reasons for Them. The democratic leader, on the other hand, encourages the members of his or her group to share the decision making process and sees himself as a coordinator of group effort, rather as the decision taker. A third type of leadership style has also been examined which is termed as the laissez-faire. This type of leader plays a passive role in group affairs, normally interacts with the group members only on their initiative.

The classification described above is not exhaustive in any way. There are various other leadership styles as diverse as the situation in which the leadership behaviour occurs. The classification is also not mutually exclusive where various categories may have similarities.

15.2 BUILDING A CAPABLE ORGANISATION

Organizational culture is a system of shared values and beliefs that shape company's people, organizational structures and control systems to produce behavioural norms. Over the years, numerous best-sellers have emphasized the powerful influence of culture on what goes on within organizations and how they perform.

Role of culture

Culture wears many different hats, each woven from the fabric of those values that sustain the organization's primary source of competitive advantage. Culture sets implicit boundaries, that is, unwritten standards of acceptable behaviour: in dress, ethical matters, and the way an organization conducts its business. By creating a framework of shared values, culture encourages individual identification with the organization and its objectives.

Sustaining an effective culture

Powerful organizational cultures just don't happen overnight, and they don't remain in place without a strong commitment: both in terms of words and deeds: by leaders throughout the organization. A viable and productive organizational culture can be strengthened and sustained. However, it cannot be built or assembled. Instead, it must be cultivated, encouraged and fertilized.

Motivating with rewards and incentives

Reward and incentive systems represent a powerful means of influencing an organization's culture, focussing efforts on high-priority tasks, and motivating individual and collective task performance. Just as culture deals with influencing beliefs, behaviours and attitudes of people within the organization, the reward system: specifying who gets rewarded and why: is an effective motivator and a control mechanism.

15.3 CORPORATE CULTURE

The phenomenon which often distinguishes good organisations from bad ones could be summed up as corporate culture.. The well-managed organisations apparently have distinctive cultures that are, in some way, responsible for their ability to successfully implement strategies. .It has been clearly demonstrated that every corporation has a culture (which often includes several subcultures) that exerts powerful influences on the behaviour of managers.. We shall see below what corporate culture is how it influences corporate life, and how it can be managed so that it becomes strategy supportive. .Organisational (or corporate) culture is the set of important assumptions-often unstated that members of an organisation share in common. There are two major assumptions in common: beliefs and values. Belief is assumption about reality ad are derived and reinforced by experience values are assumptions about ideals that are derived and worth striving for. When beliefs and values are shared in an organisation, they create a corporate culture.

The manifestation of corporate culture in an organisation is evident in:

- Shared things (e.g. the way people dress)
- Shared sayings (e.g. let's get down to work)
- Shared actions (e.g. a service-oriented approach)
- Shared feelings (e.g. hard work is not rewarded here)

These shared assumptions can help to decipher the composition of the corporate culture of any organisation.

Impact of Culture on Corporate Life

The fact that organisations may have a strong or weak culture affects their ability to perform strategic management. Culture affects not only the way managers behave within an organisation but also the decisions they make about the organisation's relationships with its environment and its strategy. Culture is a strength that can also be a weakness. As a strength, culture can facilitate communication, decision-making and control, and create cooperation and commitment. As a weakness, culture may obstruct the smooth implementation of strategy by creating resistance to change. An organisations culture could be characterised as weak when many subcultures exist, few values and behavioural norms are shared, and traditions are rare. In such organisations, employees do not have a sense of commitment, loyalty, and a sense of identity. Rather than being members of organisation these are wage-earners.

There are several traits exhibited by organisations that have a weak or unhealthy culture. Some of these are: politicised organisational environment, hostility to change, promoting bureaucracy in preference to creativity and entrepreneurship, and unwillingness to look outside the organisation for best practices.

An organisations culture could be strong and cohesive when it conducts its business according to a clear and explicit set of principles and values, which the management devotes considerable time to communicating to employees, and which values are shared widely across the organisation. There are three factors that seem to contribute to the building up of a strong culture.

These are:

(a) A founder or an influential leader, who established desirable values,

(b) A sincere and dedicated commitment to operate the business of the organisation according to these desirable values, and

(c) A genuine concern for the well-being of the organisation according to stake holders.

15.4 ETHICS, VALUES, CULTURE, AND LEADERSHIP

Ethics

A significant change has become evident in corporate attitude to business ethics since the eighties. Prior to the eighties business ethics tended to be reflected in the desire to do good work. That is showing benevolent intentions cost effectively. This form of corporate Paternalism was no longer considered sufficient in the eighties. Rather, the attitude on Business ethics centred on the personal behaviour of the individual rather than just the Image of the organization. It implied not only those relationships between organizations are governed by implicit or explicit codes of behaviour but that the constituents of business extend beyond customers and shareholders to encompass all those who work for the organizations, communities and, in effect, everyone directly affected by the Organization's activities. But what would these codes of ethics, that in effect are a quantification of business ethics, contain? This is where differences arise. The cause for this difference is not difficult to locate.

To quote Michael Hoffman, professor of philosophy and business ethics: Our present century has been weaned away on relativism (denial of ethical absolutes), on pragmatism (the belief that some things is right if it works), on positivism (equating knowledge with observable experience), and on behaviourism (interpreting human actions as totally determined and predictable). The unifying thread of all this is the reduction of everything considered true and meaningful to material reality or physical experience. Science and materialism have flourished and ethics and values have been relegated to matters of emotion, attitude and feeling. Such ideology permits no significant development of the non-material non-measurable aspects of our lives, such as freedom, morality and divinity: However, there is something about the human spirit which resists this sterile picture and cries out for a different ideology, which will preserve our humanity and provide our life with a value system.

Expressed differently, Morgan McCall points out those creative (and thus effective) leaders are often inconsistent, devious, and two-faced. His implication is that the direction of commerce has little to do with social morality. This view is shared by F.G. Bailey (Humbuggery and Manipulation: The Art of Leadership). After considering the role of leaders in society, he concludes: Leaders are often Villains and it is very

difficult to be an effective leader and at the same time a good person. One does better to look dispassionately at the institution (of leadership) itself and admit that it has no place for those who practice nothing but the right and the good. The logic behind this attitude is not hard to seek when one looks at the historic perspective. Although the Christian belief amongst some intellectuals in the last century was replaced by doubt, these great Victorian agnostics believed that all people of goodwill wished to maintain a framework of Christian ethics, governing both individual and public actions. They thought it would be possible to retain Christian ethics while sidelining or even rejecting Christian doctrine. For a time the agnostic lobby appeared to be successful although now, with hindsight, the record appears rather different.

For a considerable time commonly shared Christian ethic survived on what can be described as an ever-diminishing bank deposit of Christian belief. It has now come to a position where the basis of belief on which the ethics was constructed has all but disappeared. At one time opponents of Christianity were confident that an alternative source of civic morality would evolve. That theory has not proved successful. Neither has the belief that the urge to do good is so deep-rooted that no commonly agreed morality is required to control private and corporate activity.

Reactions are logically expected. Thus Sir Geoffrey Chandler says: The trouble is that too many businesses leaders proclaim simplistically that they are in business to make money. But so are burglars and brothel keepers. You cannot approach on ethics or social responsibility to business behaviour like an unrelated musical cadenza. They must be inherent in all that a business does.

Values

Values are those which are considered to be desirable by individuals. A value is a view of life and a judgement of what is desirable which is a part of a person's personality and a group's morale. So benign attitude to labour, service mindedness are values. While J. R. D. Tata describing Tata Group of concerns points out "I would call it a group of individually managed companies united by two factors. First, a feeling that they are part of a larger group which carries name and prestige of Tata's and public recognition of honesty, reliability and trust worthiness. The other reason is more metaphysical. There is an innate loyalty, a sharing of certain beliefs; we all feel a certain pride that we are somewhat different from others.

So the responsibility of strategists is to inculcate the right sense of values, reconciling divergent values and modifying values that are inconsistent with strategy. Some of the areas where values are needed are:

1. Recruitment and selection to ensure compatibility of the character traits of potential employees with the system.
2. Incorporating values, ethics in employee training.
3. Top management serving as a role model.
4. Top management and superiors compliance with ethical standards and
5. Monitoring areas where unethical activities could happen such as purchase, supplier, government, external agencies etc.

Power

Another, widely pervasive element, influencing the decision-making process in an organization is the exercise of power. For the purpose of strategic analysis, power is best understood as the extent to which individuals or group are able to persuade, induce or coerce others into following certain courses of action. This is the mechanism by which one set of expectations will dominate policy-making or seek compromise with others.

Sources of power within organizations:

The normally recognized sources of power are summarized:

Within Organization

1. Hierarchy (formal Power), e.g. autocratic decision-making
2. Influence (informal power), e.g. charismatic leadership
3. Control of strategic resources, e.g. strategic products (steel, oil).
4. Possession of knowledge/skills, e.g. computer specialists
5. Control of environments, e.g. negotiating skills.
6. Involvement in strategic implementation, e.g. by exercising discretion.

For External Stakeholders

1. Control of strategic resources, e.g. materials, labour, money
2. Involvement in strategic implementation, e.g distribution outlets, agents.
3. Possession of knowledge (skills), e.g. subcontractors

4. Through internal links, e.g. informal influences..

Hierarchy provides people with formal power over others and is one method by which senior managers influence policy. It is, however, important to remember that this type of power has very limited effect if used in isolation .Influence can be an important source of power and may arise from personal qualities (the charismatic leader) or because a high level of consensus exists within the group or company (i.e. people are willing to support the prevailing viewpoint). Indeed, there is strong support for the view that the most important task of managers is to shape the culture of the organization to suit its strategy. However, the extent to which an individual or group can use his/its influence is determined by a number of other factors. In many situations, prior commitments to principles may be quite central to the organization's mission. Thus a number redundancy policy may be interpreted to counter actions proposed by senior management (such as productivity levels).Control of strategic resources is a major source of power within companies. However, the relative importance of different resources will change over time and power derived in this way can show dramatic changes. Within any one company, the extent to which various department are seen as powerful will vary with the company's circumstances.

Design or R & D departments may be powerful in companies developing new products or processes. Whereas marketing people may dominate those that are primarily concerned with developing new markets.

Knowledge/skills:

Individual can derive power from their specialist knowledge or skills. Certain individuals may be viewed as irreplaceable to the company, and some would jealously guard this privileged position by creating a mystique around their jobs. This can be a risky personal strategy, since others within the organization may be either spurred to acquire the skills or to devise methods of bypassing them. The powers of many organizations computer specialists were threatened by the advent of minicomputers which provided others the means of bypassing those specialists.

Control of the Environment:

It is well known that events in the company's environment are likely to influence its performance. Therefore the more uncertain the environment, the more likely the company to be dependent upon individuals within the organization.

15.5 SOCIAL RESPONSIBILITIES

Corporate social responsibility has become an integral part of corporate strategy. It means open and transparent business practices that are based on ethical values and respect for employees, community and the natural environment. It is designed to deliver sustainable value to society at large as well as to shareholders. Some of the benefits of being socially responsible is that they can attract good employees who prefer working for a responsible firm (Procter and gamble).

Social responsibility theories:

The corporate social responsibility theories and related approaches are classified into four groups:

1. The instrumentation theories, in which the corporation is seen as only an instrument for wealth creation and its social activities are only a means to achieve economic results.
2. Political theories, which concern themselves with the power of corporations in society and a responsible use of this power in the political arena.
3. Integrative theory, in which the corporation is focused on the satisfaction of social demands and
4. Ethical theories, based on ethical responsibilities of corporations to society.

Keith Devis's point of view provides another perspective to social responsibility. In his opinion:

1. Social responsibility arises from social power enjoyed by the firm.
2. The firm should disclose its activities to the public through social audit.
3. The social cost and benefit of social responsibility activities and services should be calculated for decision making.
4. The social cost should be included in the price.
5. The firms should solve societal problems by improving education.

Thus the areas of social responsibility are:

- Pollution control
- Health and hygiene
- Training self-help
- Philanthropic activity

15.6 NOTES

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15.7 SUMMARY

Leadership is an integral part of work and social life. In fact in any given situation where a group of people want to accomplish a common goal, a leader may be required. Leadership behaviour occurs in almost all formal and informal social situations. The phenomenon which often distinguishes good organisations from bad ones could be summed up as corporate culture. The well-managed organisations apparently have distinctive cultures that are, in some way, responsible for their ability to successfully implement strategies.

15.8 KEY WORDS

Corporate Culture

Visionary Leader

Constructive Feedback

15.9 SELF-ASSESSMENT QUESTIONS

1. Define leadership and discuss the functions of leadership.
2. Discuss the role of leadership in implementing the strategies of an organisation.
3. How strategy does affect structure? Explain.
4. Write a note on:

(A) Power (B) Values (C) Ethics (D) Social Responsibilities of a Firm

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- Strategic management concept and Cases – Fred R. DAVID and FOREST R. DAVID.

UNIT - 16 : FUNCTIONAL ISSUES

Structure :

16.0 Objectives

16.1 Introduction to Functional Issues

16.2 Functional Plans ansd Policies :

- 16.2.1 Functional Plans and Policies Marketing Area
- 16.2.2 Functional Plans and Policies Financial Area
- 16.2.3 Functional Plans and Policies production / Operation Area
- 16.2.4 Functional Plans and Policies Personnel Area

16.3 Case Study

16.4 Notes

16.5 Summary

16.6 Key Words

16.7 Self Assessment Questions

16.8 References

16.0 OBJECTIVES

After studying this module, you will able to;

- Outline the functional issues involved in implementation of strategy.
- Examine the various functional policies affecting on strategy execution.
- identify the functional plans and policies in marketing area.
- Understand the functional plans and policies in personnel area.

16.1 INTRODUCTION TO FUNCTIONAL ISSUES

A functional strategy is the short-term game plane for a key functional area within a company. Such strategies clarify grand strategy by providing more specific details about how key functional areas are to be managed in the near future. Functional strategies must be developed in the key areas of marketing, finance, production/ operations, R&D, and personnel. They must be consistent with long-term objectives and grand strategy. Functional strategies help in implementation of grand strategy by organizing and activating specific subunits of the company (marketing, finance, production, etc.) to pursue the business strategy in daily activities. In a sense, functional strategies translate thought (grand strategy) into action designed to accomplish specific annual objectives. For every major subunit of a company, functional strategies identify and coordinate actions that support the grand strategy and improve the likelihood of accomplishing annual objectives.

To define functional strategies in terms of their capability to contribute to the creation of a strategic advantage for the organisation. Looked at this way, we have primarily be a function of the R & D department, but an organisation may structure it in such a way, we have the following types of functional strategies.

Strategic marketing management means focussing on the alignment of marketing management within an organisation with its corporate and business strategies to gain a strategic advantage.

Strategic financial management means focussing on the alignments of financial management within an organisation with its corporate and business strategies to a gain a strategic advantage.

Strategic operations management implies focussing on the alignment of operations management within organisation with its corporate and business strategies to gain a strategic advantage.

Strategic human resource management means focussing on the alignment of human resource management within an organisation with its corporate and business strategies to gain a strategic advantage.

Strategic information management means focussing on the alignment of information management within an organisation with its corporate and business strategies to gain a strategic advantage.

16.2 FUNCTIONAL PLANS AND POLICIES

For effective implementation, strategists have to provide directions to functional managers regarding the plans and policies to be adopted. In fact, the effectiveness of strategic management depends critically on the manner in which strategies are implemented. In this section, we look at the nature of functional plans and policies, why they are needed, and how they are developed.

As we already know that functional strategies operate on a level below the business strategies. There might be several sub functional areas within functional strategies. For instance, a company might have a textile division among its several business areas. Within the textile division there might be functional areas, such as, marketing, operations, R & D, and so on. Further and functional area of marketing may have sub functions such as, product development, advertising and sales promotion, and market research and so on. Functional strategies, defined in terms of functional plans and policies-plans or tactics to implement business strategies, are made within the guidelines which have been set at higher levels. Plans are formulated to select a course of action, while policies are required to act as guidelines to those actions. Functional plans and policies are therefore, in the nature of the tactics which make a strategy work. Functional managers need guidance from the corporate and business strategies in order to make decisions. In simple terms, functional plans tell the functional managers what has to be done, while functional policies state how the plans are to be implemented.

Glueck has suggested five reasons to show why functional plans and policies are needed.

Functional plans and policies are developed to ensure that:

1. The strategic decisions are implemented by all the parts of an organisation.
2. There is a basis available for controlling activities in the different functional areas of a business.

3. The time spent by functional managers on decision-making may be reduced as the plans lay down clearly what has to be done and the policies provide the discretion framework within which decisions need to be taken.
4. Similar situations occurring in different functional areas are handled by the functional mangers in a consistent manner.
5. Co-ordination across the different functions takes place where necessary.

The development of functional plans and policies is aimed at making the strategies formulated at the top management level practically feasible at the functional level. Strategies need to be segregated into viable functional plans and policies that are compatible with each other, thereby augmenting the horizontal fit. In this way, strategies can be implemented by the functional managers. The process of development of functional plans and policies may range from the formal to the informal. Larger and more complex organisations may have several hundred policies related to every major aspect. Many of these policies could have been formulated through a formal process and published in many manuals and documents. Smaller organisations with simpler businesses may operate with fewer policies, most of which could be informal and understood rather than written down the process of developing functional plans and policies-formal or informal is similar to that of strategy formulation. Environmental factors relevant to each functional area will have an impact on the choice of plans and policies. Organisational plans and policies shall affect the choice of functional plans and policies. Finally, the actual process of choice will be influenced by objective as well as subjective factors. Then functional plans and policies will affect, and are affected by, the resource allocation decisions.

But before we move on the next section, two points have to be noted. First, functional areas have been traditionally segregated into finance, marketing, production and personnel. Information management has emerged as a significant function within organisations. But not all organisations divide functional areas traditionally-they do it on the basis of what they actually need. For instance, service organisations will have a different of functional areas. Second, the discussion of functional plans and policies that follows is only indicative and not exhaustive. This is understandable because functional managers in each area would formulate plans and policies in much greater detail than we can possibly do here. Creating plans and policies leads to conditions where subordinate managers will know what they are supposed to do and willingly implement the decision.

The amount of planning and policymaking in the formal sense will vary with the size and complexity of the firm. If the firm is small, or if it is a simple business, a few policies and plans will suffice. The plans and policies are generally understood and verbal. Larger and more complex firms find that policies and plans on every major aspect of the firm marketing, finance production and operations, personnel, and so forth-are necessary, for the competitive advantage of the large firm is its power, not its speed. That is where the smaller firm or decentralized division excels. The processes involved in establishing plans and policies are quite similar to those influencing strategy formation and choice. That is, environmental factors can influence the choice: internal polices and the power of subunits jockeying for position play a role etc. Hence, resistance to change, conflict resolution techniques, and coalition building will all is at play in the development of plans and policies.

Without good plans and policies managers would make the same decisions over and over again. And different managers might choose different directions, and this could create problems. On the other hand, plans and policies should never be as inflexible as to prevent exceptions for good reasons. So criteria for judging the adequacy of plans and policies developed would include the following:

- Do they reflect present or desired company practices and behaviour?
- Are they practical, given existing or expected situations?
- Do they exist in areas critical to the firm's success?
- Are they consistent with one another, and do they reflect the timing needed to accomplish goals?

As a result, policies and plans will:

1. Specify more precisely how the strategic choice will come to be, what is to be done, who is to do it, how it is to be done, and when it should be finished.
2. Establish a follow-up mechanism to make sure the strategic choice, plans, and policy decisions will take place.
3. Lead to new strengths which can be used for strategy in the future.

16.2.1 Functional Plans and Policies Marketing Area:

The role of the marketing function is to profitably bring about the role of products/ service in target markets for the purpose of achieving the business goals. Functional strategies in the marketing area should guide this endeavour in a manner consistent with

the grand strategy and other functional strategies. Effective marketing strategies guide marketing managers in determining who will sell what, where, when, to whom, in what quantity, and how. Marketing strategies must therefore entail four components: product, price, place and promotion.

A functional strategy for the product component of the marketing function should clearly identify the customer needs the firm seeks to meet with its product and/or service. An effective functional strategy for this component should guide marketing managers in decisions regarding features, product lines, packaging, accessories, warranty, quality, and new product development. This strategy should provide a comprehensive statement of the product/service concept and the target market(s) the firm is seeking to serve this, in turn, fosters consistency and continuity in the daily activity of the marketing area.

A product or service is not much good to a customer if it is not available when and where it is wanted. So, the functional strategy for the place component identifies where, when, and by whom the product/services are to be offered for sale. The primary concern here is the channel(s) of distribution. The combination of marketing institutions through which the products/services flow to the final user. This component of a marketing strategy guides decisions regarding channels (for example, single versus multiple channels) to ensure consistency with the total marketing effort. The promotion component of marketing strategy defines how the firm will communicate with the target market. Functional strategy for the promotion component should provide marketing managers with basic guides for the use and mix of advertising, personal selling, sales promotion, and media selection. It must be consistent with other marketing strategy components and, due to cost requirements, closely integrated with financial strategy. Functional strategy regarding the price component is perhaps the single most important consideration in marketing. It directly influences demand and supply, profitability, consumer perception, and regulatory response.

The approach to pricing strategy maybe cost oriented, market oriented, or competition (industry) oriented. With a cost oriented approach, pricing decisions centre on total cost and usually involve an acceptable mark up or target price ranges. Pricing is based on consumer demand (e.g., gasoline pricing in a deregulated oil industry) when the approach is market oriented. With the third approach, pricing decisions centre around those of the firm's competitors. Pricing and other marketing policies become particularly critical at various stages of product development and the firm's strategy. Price has become a primary weapon in tactical battles to secure a market share. For example, if rapid expansion is desired early in the development of a product, pricing may be below cost.

(Of course, a desire to attract customers through loss leaders may be another reason for selling below cost.) Being a price leader or follower is a policy which managers need to address. Here in particular you can see how the development of plans can be affected by managerial values. Offensive versus defensive strategists will view a particular pricing question differently.

During periods of stable demand we would expect prices to remain relatively fixed (perhaps adjusted for inflation). If the strategy is retrenchment, price Increases and a reduction in promotion and distribution costs would be expected if not outright abandonment. If the firm is retrenching out of certain areas as opposed to Liquidating, an orderly withdrawal through various .demarcating. Mechanisms would be necessary. Packaging can be an alternative competitive weapon in the strategy of the firm. If product stability is the strategy, packing changes (e.g., toothpaste in a pump, or shaving cream in a brush) can help expand the pace of market penetration. Policies and plans must be made which inter relate several aspects of the strategy. For instance, a policy of different prices for different customers (or a one-price policy) is one which can have an impact on the product and market strategy. As you will see later, plans and policies must also be set in relation to other aspects of the business- for instance, price is particularly critical in relation to volume-cost-profit conditions, which affect production and the financial condition.

16.2.2 Functional plans and policies financial area:

While most operating strategies guide implementation in the immediate future, the time frame for financial functional strategies varies because strategies in this area direct the use of financial resource in support of the business strategy, long-term goals, and annual objectives. Financial operating strategies with longer time perspectives guide financial managers in long-term capital.

Key functional strategies typical questions that should be answered by the functional strategy

- **Capital Acquisition**
  - o What is an acceptable cost of capital?
  - o What is the desired proportion of short-and long-term debt; preferred and common equity?
  - o What balance is between internal and external funding?
  - o What risk and ownership restrictions are appropriate?
  - o What level and forms of leasing should be used in providing assets?

- **Capital allocation**
  - o What are the priorities for capital allocation projects?
  - o On what basis is final selection of projects to be made?
  - o What level of capital allocation can be made by operating managers without higher approval?
- **Dividend and working capital management**
  - o What portion of earnings should be paid out as dividends?
  - o How important is dividend stability?
  - o Are things other than cash appropriate as dividends?
  - o What are the cash flow requirements; minimum and maximum cash balances?
  - o How liberal/conservative should credit policies be?
  - o What limits, payment terms, and collection procedures are necessary?
  - o What payment timing and procedure should be followed?

16.2.3 Functional Plans and Policies in Production / Operation Area:

Production/operations management (POM) is the core function in the business firm. POM is the process of converting input (raw material, supplies, people, and machines) Into value-enhanced output. This function is most easily associated with manufacturing Firms. However, it applies equally to all other types of business (including service and Retail firms, for example). Functional strategies in POM must guide decisions regarding:

(1) The basic nature of the firm's POM system, seeking an optimum balance between investment input and Production/operations output and

(2) Location, facilities design, and process planning on a short-term basis.

The facilities and equipment component of POM strategy involves decisions regarding plant location, size, equipment replacement, and facilities utilization that should be consistent with grand strategy and other operating strategies. The purchasing function is another area that should be addressed in the POM strategy.

- From a cost perspective, are a new suppliers an advantage or risky because of over dependence?
- What criteria (for example, payment requirements) should be used in selection vendors?

- How should purchases be made in terms of volume and delivery requirements to support operations?

If such questions are critical to the success of a grand strategy, functional strategy guidelines improve implementation. Functional strategies for the planning and control component of POM provide guidelines for ongoing production operations. They are meant to encourage efficient organization of production / operations resources to match long-range, overall demand. Often this component dictates whether production / operations will be demand oriented, inventory oriented, or subcontracting oriented. If demand is cyclical or seasonal, then POM strategy must ensure that production / operations processes are efficiently geared to this pattern. A bathing suit manufacturer would prefer inventories to be at their highest in the early spring, for example, not the early fall. If demand is less cyclical, a firm might emphasize producing to inventory, wanting a steady level of production and inventories. When demand fluctuations are less predictable, many firms subcontract to handle sudden increases in demand while avoiding idle capacity and excess capital investment.

Key operating strategies typical questions that should be answered by the Functional strategy:

Facilities and equipment

- How centralized should the facilities be? (One big facility or several small facilities?)
- How integrated should the separate processes be?
- To what extent will further mechanization or automation be pursued?
- Should size and capacity be oriented toward peak or normal operating levels?

Purchasing

- How many sources are needed?
- How do we select suppliers and manage relationships overtime?
- What level of forward buying (hedging) is appropriate?

Operations planning and control

- Should work be scheduled to order or to stock “What level of inventory is appropriate?
- How should inventory be used (FIFO/LIFO). Controlled, and replenished?

- ♦ What are the key foci for control efforts (quality, labour cost? Downtime, product usage, other)?
- ♦ Should maintenance efforts be preventive or breakdown oriented?
- ♦ What emphasis should be placed on job specialization? Plant safety? Use of standards?

16.2.4 Functional Plans and Policies in Personnel Area:

The strategic importance of functional strategies in the personnel area has become more widely accepted in recent years. Personnel management aids in accomplishing grand strategy by ensuring the development of managerial talent, the presence of systems to manage compensation and regulatory concerns, and the development of competent, well-motivated employees. Functional strategies in personnel should guide the effective utilization of human resources to achieve both the annual objectives of the firm and the satisfaction and development of employees. These strategies involve the following areas:

- ♦ Employee recruitment, selection, and orientation Career development and counselling,
- ♦ Performance evaluation, and Training and development. Compensation.
- ♦ Labour/union relations and Equal Employment Opportunity Commission (EEPC) requirements.
- ♦ Discipline; control, and evaluation.

Operating strategy for recruitment, selection, and orientation guides personnel management decisions for attracting and retaining motivated, productive employees. This involves such questions as:

- o What are the key human resources needs to support a chosen strategy?
- o How do we recruit for these needs?
- o How sophisticated should the selection process be?
- o How should new employees be introduced to the organisation?

The recruitment, selection, and orientation component of personnel strategy should provide basic parameters for answering these questions. The development and training component should guide personnel actions taken to meet future human resource needs of the grand strategy. Merrill Lynch, a major brokerage firm, has a long-term corporate strategy of becoming a diversified financial service institution. In addition to

handling stock transactions, Merrill Lynch is actively moving into such areas as investment banking, consumer credit, and venture capital. In support of these far-reaching, long-term objectives, Merrill Lynch has incorporated extensive early-career training and ongoing career development programs to meet its expanding need for personnel with multiple competencies.

Functional strategies in the personnel area are needed to guide decisions regarding compensation, labour relations, EEOC requirements, discipline, and control to enhance the productivity and motivation of the work force. Involved are such concerns as:

- What are the standards for promotion?
- How should payment, incentive plans benefits, and seniority policies be interpreted?
- Should there be hiring preference?
- What are appropriate disciplinary steps?

These are specific personnel decisions that operating managers frequently encounter. Functional strategies in the personnel area should guide such decisions in a way that is compatible with business strategy, strategies for other functional areas, and the achievement of annual objectives.

Perhaps one of the most difficult decisions regarding personnel occurs when a firm is pursuing a retrenchment strategy. At these times, questions usually include whether or not to lay-off or terminate employees, how many, and who. Again, union contracts may establish some kind of policy here (resulting from earlier negotiations where a previous policy was laid down). But a firm may also attempt to protect labour and seek a shortened workweek or maintain the level of production for a time. Such policies relate to those in production and finance. A related matter is the relative proportion of managers and workers in the line and staff functions. Several writers have suggested that the policies of many firms have stressed placing the brightest and best people in staff functions at the expense of the line, which does the basic work. This has been blamed for declining productivity, inadequate plant investment, marginal quality standards, and the like. As a result, many firms have begun a streamlining program by cutting the corporate level and other staff levels. Their goal is to pare overhead costs and gain some control over unwieldy, top-heavy structures. Of course, such trade-offs must be made with other objectives and considerations in mind.

16.3 CASE STUDY

Strategic Plan Development & Implementation

America's oldest direct-mail catalogue marketing company, after years of enviable growth, the company encounters a business down turn and withstands the first layoffs in its history. Impact on company morale is significant, and though the imperative to resolve on a future course is clear, consensus on future direction remains to be achieved. This will also be the first time the company has developed a comprehensive plan for the entire enterprise vs. managing its separate business channels independently. Orvis engages Gagnon Associates to lead the executive team and a select group of additional senior managers through a comprehensive team-based **Strategic Planning Process**. Extensive, confidential interviews of the Executive Team provide, in the words of the CEO, a "needed and welcomed opportunity to 'go to confession,'" while a consolidated reporting of key interview themes provides them with "new and valuable insights" critical to moving forward. Guided by Gagnon Associates, executives conduct a comprehensive Scan of the Orvis operating environment and an assessment of the company's strengths, weaknesses, opportunities and threats to serve as a context for planning. Next, over a two-to-three month period Gagnon Associates leads Orvis senior executives through the rigorous planning process itself. Executives achieve consensus on company direction and, for the first time, develop concrete, *corporate-wide* goals, strategies, initiatives, timetables and accountability structures to achieve their common vision.

Within little more than a year, the CEO reports that, due to the "heightened focus" on growth and profitability resulting from the plan, a key distribution channel experiences an 80% increase in sales. A second channel is forecast to grow by 20%. A comprehensive brand-building initiative is completed along with the complete revitalization of the human resource function and associated programs. A reengineering initiative in the company's merchandise operations/sourcing function transforms the new product development process and achieves 70% of the resulting cost-savings targeted for the *next* year by year end of the *current* year.

The CEO credits the Strategic Planning Process with providing "valuable insights that encouraged me to change my style and approach to leading the Company." He asserts, "The Planning Conferences themselves provided the leadership group some valuable benefits, especially in the area of clarifying and improving the effectiveness of how we make high-level decisions. . . . We do a better job of ensuring clear disposition of issues and avoiding 'drift' than we did before." The plan results in a strategic refocusing of

company direction, a revitalized organization, and improved business results described by the client as nothing less than "a turnaround."

Discussion Questions:

a) How the company implemented the comprehensive strategy by managing the present situation?

b) Elucidate the issues involved in implementing the strategy in the case.

16.4 NOTES

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16. 5 SUMMARY

A functional strategy is the short-term game plane for a key functional area within a company. Such strategies clarify grand strategy by providing more specific details about how key functional areas are to be managed in the near future. Functional strategies must be developed in the key areas of marketing, finance, production/ operations, R&D, and personnel.

16.6 KEY WORDS

Functional Plans

Business

Capital Acovisition

Cost of Capital

16.6 SELF- ASSESSMENT QUESTIONS

1. Discuss various functional issues involved in strategy implementation?
2. What are functional plans and polices in production / operations area? Explain.
3. How functional plans and policies in marketing area are formulated? Discuss.
4. Elucidate the functional plans and policies in personnel area.

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MODULE : 5
STRATEGIC EVALUATION

UNIT-17 : GUIDING AND EVALUATION OF STRATEGIES. AND ESTABLISHING STRATEGIC CONTROLS

Structure :

17.1 Objectives

17.2 Introduction

17.3 Definition and Meaning of Strategic Evaluation and Control

17.4 Features of Strategic Evaluation and Control

17.5 Significance of Strategy Evaluation and Control

17.6 The participants of Strategic Evaluation and control

17.7 Guiding and Evaluation of Strategies

17.8 Establishing Strategic Control

17.9 Important System for Strategic Evaluation and Control

17.10 Techniques of Strategic Evaluation and Control

17.11 Notes

17.12 Case Study

17.13 Summary

17.14 Key words

17.15 Self Assessment Questions

17.16 References

17.1 OBJECTIVES

After studying this unit, you will be able to;

- Define the strategic evaluation and control and understand its features.
- Evaluate the significance of strategic evaluation and control
- Discuss the technique of strategic evaluation and control.
- Understand important system and techniques of strategic evaluation and control.

17.2 INTRODUCTION TO STRATEGIC EVALUATION AND CONTROL

Strategy evaluation and control is the final phase of strategic management. The basic purpose of strategy evaluation and control is to determine the effectiveness of a given strategy in achieving the organizational objectives and taking appropriate corrective action whenever required. This chapter focuses on the various aspects of strategy evaluation and control.

Strategy evaluation is necessary for all sizes and kinds of organizations. Strategy evaluation should initiate managerial questioning of expectations and assumptions, should trigger a review of objectives and values, and should stimulate creativity in generating alternatives and formulating criteria of evaluation. Strategy evaluation activities should be performed on a continuing basis, rather than at the end of specified periods of time or just after problems occur. Evaluating strategies on a continuous rather than on a periodic basis allows benchmarks of progress to be established and more effectively monitored.

Strategic control is the process by which managers monitors the ongoing activities of an organization and its members to evaluate whether activities are being performed efficiently and effectively and to take corrective action to improve performance. Strategic control does not just mean reacting to events after they have occurred, it also means keeping an organization on track, anticipating events that might occur, and responding swiftly to new opportunities that present themselves.

This chapter presents a strategy evaluation and control framework that can facilitate accomplishment of organizational objectives.

17.3 DEFINITION AND MEANING OF STRATEGIC EVALUATION AND CONTROL

Strategic evaluation and control may be defined as the process of determining the effectiveness of the chosen strategy in achieving the organization's objectives and taking corrective actions wherever necessary.

Strategy evaluation is that phase of the strategic management process in which manager tries to assure that the strategic choice is properly implemented and is meeting the objective of the enterprise. Strategy evaluation includes three basic activities

- Examining the underlying bases of a firm's strategy
- Comparing expected results with actual results
- Taking corrective actions to ensure that performance confirms to plans.

Strategic control is the process of judging whether the chosen strategy is progressing in the right direction and producing the desired results and taking corrective actions whenever necessary.

17.4 FEATURES OF STRATEGIC EVALUATION AND CONTROL

Key features of strategic evaluation and control are as follows:

- Strategic evaluation and control has two major aspects-judging the effectiveness of strategy in terms of its results and taking necessary corrective actions.
- Strategic evaluation and control is an ongoing process
- The basic purpose of strategic evaluation and control is to evaluate the success of strategy formulation and implementation in achieving organizational objectives.

17.5 SIGNIFICANCE OF STRATEGIC EVALUATION AND CONTROL

The strategic evaluation and control helps to improve the efficiency of the manager, quality of goods and services, raise the level of innovation in an organization, and it helps the managers to make the organization more responsive to customers.

The need for strategic evaluation and control arises due to the following reasons:-

a) The strategies formulated and implemented are to be evaluated continually so that ineffective strategies may be replaced by really result oriented strategies.

b) It helps in developing right reward system. It helps in designing tools for motivating employees

c) It helps to keep check on the validity of the strategic choice.

d) Strategic evaluation helps to assess whether the decisions match the intended strategy requirements.

17.6 THE PARTICIPANTS OF STRATEGIC EVALUATION AND CONTROL

The participants of Strategic evaluation and control are:

- **Chief executives:** they are held responsible for the administrative issues of strategic evaluation.
- **Board of directors:** BOD formally reviews and screens executive decision in the light of their environmental, business and organization implications.
- **Shareholders:** Depending on the shareholding in an organization they can exercise any influence on strategic evaluation.
- **Financial controllers:** Financial controllers, company secretaries, and internal and external auditors also participate in strategic evaluation.

17.7 GUIDING AND EVALUATION OF STRATEGIES

Evaluation is simply putting a value on something. In order to put a value on a strategy, you need to understand and describe what will happen if you decide to pursue it.

For each strategy, you need to assess the:

1. **Competitiveness of a strategy:** you need to identify how exclusively you are able to deliver this strategy when compared with your potential competitors.
2. **Compatibility of strategy:** you will need to weigh up the team's skills, knowledge and motivation, to ensure that the strategy fits with the organization's resources and morale. Technical and professional skills and knowledge may be needed, in addition to skills and knowledge of how to work together as a team.
3. **Controllability that an organization has over a strategy:** you will need to assess the balance between the amount of control the organization normally requires, and the extent to which the contribution of the strategy to the mission could really be controlled.

The strategy evaluation and assessment includes self examination by top management of whether the major changes that have taken place across internal and external strategy have occurred as envisaged.

Strategy evaluation must meet several basic requirements to be effective.

First, strategy evaluation activities must be economical; too much information can be just as bad as too little information; and too many controls can do more harm than good.

Strategy evaluation activities also should be meaningful; they should specifically relate to a firm's objectives. They should provide managers with useful information about tasks over which they have control and influence. Strategy evaluation activities should provide timely information on occasion and in some areas managers may daily need information. Strategy evaluation should be designed to provide a true picture of what is happening. For example, in a severe economic downturn, productivity and profitability ratios may drop alarmingly, although employees and managers are actually working harder.

Strategy evaluation should be simple, not too cumbersome and not too restrictive.

17.8 ESTABLISHING STRATEGIC CONTROL

Strategic control is the process of judging whether the chosen strategy is progressing in the right direction and producing the desired results and taking corrective actions whenever necessary.

According to **Julian and Scifres,**"Strategic control involves the monitoring and evaluating of plans, activities and results with a view towards future action, providing a warning signal through diagnosis of data, and triggering appropriate interventions, be they either tactical adjustment or strategic reorientation."

Strategic control is the process of tracking the strategy as it is being implemented, detecting any problem areas and making necessary adjustments.

The function of Strategic control:

The primary function of strategic control systems is to provide management with the information it needs to control its strategy and structure. For example to achieve superior efficiency, a company pursuing low cost strategy needs information on the level of its costs relative to its competitors, on what its competitors are doing, on the way its production costs have changed over time, on the price of the inputs, and so forth. A company has to collect this information and then use it to plan future strategic moves. For instance, to introduce new labour saving machinery or to expand globally, H.J Heinz, a cost leader found in 1993 that along with a record increase in sales its costs had risen so much that it needed to reduce its work force of Rs. 36,000 people by 8%. Heinz used the information provided by its control systems to make this strategic decision.

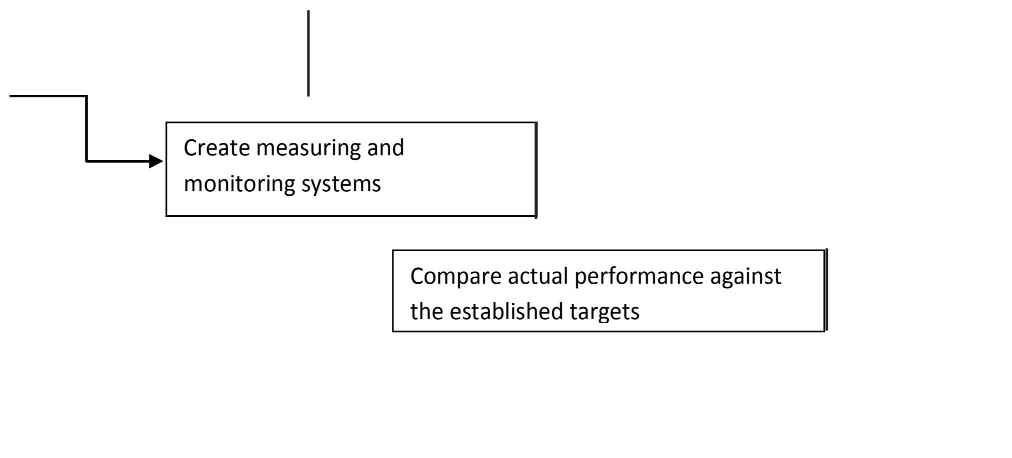
A company has to collect the information that allows it to evaluate its performance and take corrective action. Similarly, a company has to collect information to evaluate the way its structure is working. Suppose that a company operating with a functional structure finds its costs rising and its quality falling and that manager trace this problem to a lack of

cooperation among functions. Having this information, managers can decide that the company must change to a product structure and use cross-functional teams to increase cooperation and speed product development. Again, the information produced by an organization control systems has provided managers with feedback on the operation of their structures so that they can take corrective action.

Strategic control systems are the formal target setting, monitoring, evaluation, and feedback systems that provide management with information about whether the organization's strategy and structure are meeting strategic performance objectives. An effective control system should have three characteristics; it should be flexible enough to allow managers to respond as necessary to unexpected events, it should allow mangers to respond as necessary to unexpected events it should provide accurate information, giving a true picture of organizational performance, and it should supply managers with the information in a timely manner because making decisions on the basis of outdated information is a recipe for failure.

Steps in designing an effective control system

Designing effective control system **includes following steps as shoun below :**



1. **Establish standards or target against which performance is to be evaluated:** The standards or targets that managers select are the ways in which a company chooses to evaluate its performance. General performance standards often derive from the goal of achieving superior efficiency, quality innovation or customer responsiveness. Specific performance targets are derived from the strategy pursued by the company. For example if a company is pursuing a low cost strategy, then "reducing costs by 7 percent a year"

might be a target. If the company is a service organization like McDonald's , its standards might include time targets for serving customers or guidelines for good quality.

2. **Create the measuring or monitoring systems that indicate whether the targets are being reached:** The company establishes procedures for assessing whether work goals at all levels in the organization are being achieved. In many cases, measuring performance is a difficult task because the organization is engaged in many complex activities.

For example: managers can measure quite easily how many customers their employees serve; they can count the number of receipts from the cash register. Yet how can they judge how well their research and development department is doing when it may take five years for products to be developed or how can they measure the company's performance when the company is entering new markets and serving new customers?

3. **Compare actual performance against the established targets:** Managers evaluate whether-and to what extent-performance deviates from the targets developed. If performance is higher, management may decide that it had set the standards too low and may raise them from the next time period. The Japanese are renowned for the way they use targets on the production line to control costs. They are constantly trying to raise performance, and they constantly raise the standards to provide a goal for managers to work toward.

4. **Initiate corrective action when it is decided that the target is not being achieved:** The final stage in the control process is to take the corrective action that will allow the organization to meet its goals. Such corrective action may involve changing any aspect of strategy or structure.

For example, managers may invest more resources in improving research and development or decide to diversify, or even decide to change their organizational structure. The goal is to continually enhance an organization's competitive advantage.

Types of strategic control

Strategic control are of following types:

1. Premise control
2. Implementation control
3. Strategic surveillance
4. Special alert control

1. Premise control:

Strategy are often based on premises or assumptions about the internal and external environment of the organization. The premise control is designed to check systematically and continuously whether or not the premises set during the planning and implementation process are still valid. For example; Lafarge of France dropped the idea of setting up of green field project for manufacturing cement in India when it found overcapacity in the industry. It opted for takeover strategy to enter India. Similarly, Tata Motors acquired land to manufacture its Nano car in West Bengal but it shifted the factory to Gujarat when the West Bengal government opposed the project.

2. Implementation control:

Evaluating whether the plans, projects and programmes developed to implement strategy are actually guiding the organization towards its predetermined objectives or not is called implementation control.

The two basic types of implementation control are:

1) Implementation and monitoring of strategic thrusts, and

2) Milestone review

Implementation control may be exercised through identification and monitoring and strategic thrusts such as assessment of the marketing success of a new product after test marketing. Milestone review identifies critical points in strategy implementation in terms of evens, major resources, or time. A milestone review involves a full scale assessment of the strategy and the advisability of continuing or refocusing the direction of the company.

3. Strategic surveillance:

Where premise control and implementation control are focused on nature strategic surveillance aims at a more generalized and overarching control. Strategic surveillance can be exercised through a broad based vigilance to uncover events that may affect a firm's strategy. For example, the success of Arvind mills Ruf and Tuf brand encouraged rampant sale of spurious products under the same brand name forcing the company to constitute vigilance squads to crack down on the unscrupulous businesswoman.

4. Special Alert control:

The special alert control is based on a trigger mechanism for quick response and urgent reassessment of the strategy in the light of the sudden and unexpected events. Special alert control can be exercised through the formulation of contingency plans and assigning

the responsibility of handling unforeseen events to teams constituted for the purposes of crisis management.

17.9 IMPORTANT SYSTEM FOR STRATEGIC EVALUATION AND CONTROL

1. **Planned system:** It is a centralized function performed by staff specialists. The packaged plans are passed on the line mangers for implementation.
2. **Development system:** The development system comprises various stages covering recruitment of personnel, education and training of managers to impact required knowledge, skills and attitudes, career planning and grooming of managers for top positions and the development of organization through planned intervention to make it more responsive and adaptive.
3. **Motivation system:** This system aims to stimulate positive behavior so that firm's employees will be encouraged to achieve its strategic objectives.
4. **Appraisal system:** The appraisal system makes use of quantitative and subjective factors to assess performance of units as well as their managers.
5. **Control system:** The control system plays a significant role in enforcing strategic behavior so that the firm moves towards achieving its declared objectives.
6. **Information system:** The performance of employees at different level is measured on the basis of reports generated through the information system.
7. **Reward systems:** Organization attempt to control employees behavior by linking reward systems to their control systems. Motivating and controlling individual efforts, particularly those of managerial personnel, in execution of strategy is accomplished through a firm's reward-sanction mechanisms, compensation, raises, bonuses, stock option, incentives, benefits, promotions, recognitions, praise etc.

17.10 TECHNIQUES OF STRATEGIC EVALUATION AND CONTROL

Strategic evaluation and control involves assessment of the changing environment and their impact on the organization. Based on the types or nature of environment on which an organization works strategic evaluation and control techniques are classified as a) Strategic momentum control b) Strategic leap control

a) Strategic momentum control

Strategic momentum control technique encourages maintaining the exiting tempo of strategic momentum. It if further divided into:

a) **Responsibility control centre:** It is a sub unit of an organization which is called responsibility centre whose head is called responsibility centre manager and is held responsible for all the activities and events that come under his purview. These responsibility centers are built around revenue, expense, profit and investment. Each of these centers is designed on the basis of measurement of inputs and outputs.

b) **Key success factors:** In this technique, the organization focuses on the factors that contribute to the success of strategies. On the basis of these factors, the strategists can judge whether or not the strategies are leading to the achievements of organizational objectives. These factors help the organization to focus only on key success factors which are most important and unavoidable to achieve the goals behind the chosen strategy.

c) **Generic strategies approach:** This technique is based on the assumption that the organizations strategies are comparable to those of similar organizations. On the basis of such a comparison, the organization can judge why and how other organizations are implementing particular strategies.

d) **Strategic leap control**: In a turbulent environment, an organization has to make strategic leap. Strategic leap control helps the organization to identify the strategic changes needed to cope with the changing environment. The techniques used for strategic leap control are as follows:

a) Strategic issue management: It involves identification of strategic issues and assessing their impact on the organization. A strategic issue is any development, either inside or outside the organization to achieve the objectives.

b) Strategic field analysis: It means examining the nature and extent of synergies that exist or can be developed between different parts of the organization. The organization can move towards its objectives by taking advantage of existing and possible synergies.

c) Systems modeling: Under this the essential features of the organization and its environment are stimulated through computer based models. On the basis of such simulation the organization can assess the impact of changing environment and can take preemptive strategic actions.

d) Scenarious: These are perceptions about the environment which the organization is likely to face in future. Such scenarios enable the organizations to focus its strategies on forthcoming developments.

Important requirement for effective evaluation and control

1. Control should monitor only relevant activities and results

2. Control system should generate minimum information because too much information creates clutter and confusion

3. Both performance evaluation and corrective actions should be done at the most appropriate time.

4. Control system should focus on exceptional outcomes.

5. There should be balanced focus on long term and short term performance.

6. Those achieving or exceeding performance standards should be properly rewarded.

Good strategist move their organization forward with purpose and direction, continually evaluating and improving the firm's external and internal strategic positions. Strategy evaluation allows an organization to shape its future rather than allowing it to constantly shaped by remote.

17.11 NOTES

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17.12 CASE STUDY

The Dabbawallas-Homemade wonders of Mumbai

Mumbai, the commercial capital of India, is a crowded city with a unique geography. Thousands commute from their homes uptown in the suburbs to offices and schools downtown. They leave home early because of the long commute averaging 70-80 kilometers, lasting upto 2-3 hours. The dabbawalla, translated as tiffin carrier, provides a unique service here. At their clients homes, the mothers, wives, or personal chefs prepare fresh home meal. Dabbawallas collect the tiffin boxes from homes and using an efficient relay system, pass them down a network of hands, sorting and delivering them to the offices, factories and schools across the city. The empty tiffin boxes are returned the same day to homes and in, some cases, caterers, ready to be cleaned before the client returns home the late evening.

The service proposition

The clients get several benefits such as :-

1) freshly same-day prepared home cooked meals, with its properties of being healthy, nutritious, and personal touch;

2) Food of own choice, including special dietary needs and preferences, based on health, regional or religious factors;

3) Food of assured taste which they are accustomed to, such as rice, curry, bread, yogurt, garnishes, salads, and vegetables;

4) do not need to carry weight and volume of the tiffin while commuting in crowded trains; and

5) guaranteed delivery on time, will near-zero errors rates, and a delivered cost less than the cost of eating out.

The delivery model

The dabbawallas work like a post office with hub and spoke operations, and an efficient relay system. After travelling up to four hours from outlying villages, a dabbawalla starts work at 9 a.m. The dabbawalla network is divided into cooperative units of about 15 to 40 men, with two units assigned to each of the local station. One unit of dabbawallas collects the tiffins from the home, and takes them to the nearest train station on bikes. There, the different tiffins are sorted out for specific central sorting/destination stations, and loaded on to large, rectangular wooden trays. These trays, carrying up to 40 tiffins and up to 100 kilograms, then travel in local trains down to various stations. At each station, another unit of

dabbawallas exchange the tiffins meant to be distributed in that area with tiffins destined for other stations. Some routes involve chains of upto five dabbawallas at set sorting points, who sort tiffins according to the station they have to be carried to for the next leg of their journey. AT the destination, the tiffins on the trays are re-sorted for localities and offices. The trays are then carried on heads, hand wagons and cycles, delivered to the clients by 12.20 p.m picked up by 2.30 p.m and returned where they come from. The process is reversed, ending at 5.00 p.m

The speed

A Mumbai local halts at a station for about 20 seconds or less: thus, the dabbawallas work with clock-like precision and speed. They battle crowds in stations, heavy monsoon rains, and nasty taxi driver, to carry tier heavy trays. Still, the lunch boxes reach offices between 11.45 and 12.30 p.m. As noted by a housewife; 'for these dabbawallas, 10'o clock means 10 'o clock…they don't stand around for two minutes. A dabbawalla elaborated, 'Once you have the boxes with you, you can't even stop to go to the toilet because if you're late by even five or 10 minutes, the chain gets disrupted.'. Their corporate code of conduct;' No customer should go without food.' A satisfied client affirmed;; 'What's amazing is in the past three years, they've never missed a single day…My lunch has never arrived late in all these years.'

The knowledge

A majority of the dabbawallas running thes ystem are illiterate, and may not be able to read the addresses. The dabbawallas therefore 'use colors and code markings to ensure faultless delivery'. Each tiffin has, painted on its top, a number of symbols which identify where it was picked up, the originating and destination stations, and the building and the floor to which it is to be delivered; though there are e no addresses, mistake never occurs. For example, I IM11 code means that dabbawalls I to deliver the tiffin to the 11th floor of maker towers(a well known building in downtown Mumbai). The system uses the cognitive and memory structure of the dabbawalls-during the sorting process, each dabbawalla will locate the tiffins that he is responsible for, usually 10-20 at a time.

The quality

The dabbawallas deliver up to 200,000 tiffins every working, day, or 4 million per month. Each delivery involves an average of 20 partner transactions; a total of 800 million transactions per month. As dabbawalls note, 'We make a mistake perhaps once in two months. Our livelihood depends on delivering efficiently.' Thus, the system error rate is 1 per 1.6 trillion transactions. In contrast, the best in the world practices allow an error rate of up to 3.4 defects per million-or what is termed as 6-sigma.

The economics

The dabbawalla system works on the power of human creativity and sincerity, with low capital, without any technology. The 5,000 dabbawallas deliver between 175000 and 200000 lunchboxes every working day, for about Rs. 200 per month for each lunchbox. This amounts to monthly revenues of about Rs. 35 million. An average dabbawalla earns about Rs. 7000 per month, spending less than 5% on association dues, crate, railway pass, and bike maintenance.

The organization

The Dabbawalla system-dating back to 1890-is run by a cooperative body, the Nutan trust, with about 5000 members. The Nutan trust has a flat structure with only three tiers; the governing council, the mukadams(mentors) and the dabbawallas.They operate in cooperative units of 15 to 40 dabbawallas each, supervised by four mukadams. The mukadam is responsible for sorting tiffins, and also for settling disputes, maintaining records of payments, getting new clients, initiating new dabbawallas, helping with substitutes when a dabbawalla needs leave, and ensuring that no dabbawallas, undercuts another. Each group pools in the collections, distributes and equally shares the monthly revenues. The governing council meets with all the members on the 15th of each month, to discuss issues facing the dabbawallas. Besides legal issues, customer service is given the top priority. The rules state, 'if 25 customers complain, the group is thrown out of the organization.' The council uses the membership and healthcare, give credit, and offer subsidized facilities for marriage and other occasions. Each dabbawalla is an independent entrepreneur, and a shareholder in the Nutan trust. Everyone feels that they are equal participants in the food service business, not merely an employee. They work six days a week, taking only five days off during march for their annual village festival, the Bhairavnath Maharaj Utsav.They are a tight-knit community, hailing from the same region-Pune district, and sharing similar customs. They all wear a distinctive regional uniform; long white shirt, white dhoti, and white oval cap.

The future

The rise in double income families, with women also working out; trend in many offices to offer free cafeteria meals, and a change in customer preferences towards local and global food chains, has limited the growth of dabbawallas over the last one decade. In fact, a recent McDonald's ad called upon the local people to 'revolt against the dabbawallas'! However, customer satisfaction rates and loyalty for the dabbawalla service is high; 'Because of pollution, various diseases, and concerns about figure and weight gain, clients prefer to eat homemade food. In the meantime, the corporate and educational institutes around India

are lining up to invite the dabbawallas for lectures and tips on supply chain management and planning. The dabbawallas are also looking to replicate the supply chain in Delhi and Bangalore, as well as in smaller cities such as Nashik. Indian marketers have already begun employing them to deliver free samples and circulars along with meals. An advertiser observed, 'Its an excellent route to get your message across…You could advertise any product using this services.

QUESTIONS :

1. What control systems allow dabbawallas to have such high quality levels?
2. What can the corporations learn from the control systems of dabbawallas?
3. What challenges one might expect while transferring dabbawalla system in other cities?

17.13 SUMMARY

Strategy evaluation and control is the process of determining the effectiveness of the chosen strategy in achieving the desired objectives. In this chapter we have discussed the nature and significance of strategic evaluation and control. For effective strategic evaluation adequate and timely feedback is the cornerstone. Strategy evaluation can be a complex and sensitive undertaking. Important types of strategic control are Premise control, Implementation control, Strategic surveillance and Special alert control. The important systems and techniques of strategic evaluation and controls are discussed in the chapter.

17.14 KEY WORDS

Strategic evaluation and control: Strategic evaluation and control may be defined as the process of determining the effectiveness of the chosen strategy in achieving the organization's objectives and taking corrective actions wherever necessary. Strategy evaluation is that phase of the strategic management process in which manager tries to assure that the strategic choice is properly implemented and is meeting the objective of the enterprise.

Strategic control: is the process of judging whether the chosen strategy is progressing in the right direction and producing the desired results and taking corrective actions whenever necessary.

Premise control: The premise control is designed to check systematically and continuously whether or not the premises set during the planning and implementation process are still valid.

Implementation control: Evaluating whether the plans, projects and programmes developed to implement strategy are actually guiding the organization towards its predetermined objectives or not is called implementation control.

The special alert control: It is based on a trigger mechanism for quick response and urgent reassessment of the strategy in the light of the sudden and unexpected events.

17.15 SELF ASSESSMENT QUESTIONS

1. Explain the nature and importance of strategy evaluation and control.
2. Describe the steps in designing an effective control system.
3. Discuss the important system for strategic evaluation and control.
4. What are the different types of strategic control? Explain.
5. Explain important techniques of Strategic evaluation and control.

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UNIT - 18 : OPERATIONAL CONTROL SYSTEM

Structure :

18.1 Objectives

18.2 Introduction

18.3 Definition of Operational Control

18.4 Distinction Between Strategic and Operational Control

18.5 The Operational Control Process

18.6 Characteristics of an Effective Control System

18.7 Evaluation Techniques of Operational Control

18.8 Notes

18.9 Summary

18.10 Key words

18.11 Self assessment question

18.12 References

18.1 OBJECTIVES

After studying this unit, you will be able to;

- Define the operational control system
- Distinguish between strategic and operational control
- Explain the techniques of operational control system
- Highlight the characteristics of effective control system.

18.2 INTRODUCTION

Operational controls provide post-action evaluation and control over short period. They require systematic evaluation of performance against predetermined standards. Operational control aims at the allocation and use of organization resources. Operational control is to be done with action performance of not only individual but the organization as a whole. Post action control measures the results after an action is completed. The best example of this kind is the measurement of organizational performance in terms of return on investment or improvement in market share as compared to last year.

An important issue here is identification and evaluation of performance deviations, with careful attention paid to find the underlying causes for strategic implications of observed deviations before management reacts. Operational control aims at allocation and use of organizational resources.

18.3 DEFINITION OF OPERATIONAL CONTROL

Operational control is the process of evaluating the performance of strategic business units, divisions etc and their contribution to the achievement of organizational objectives.

Operational control system guide, monitor and evaluate progress in meeting annual objectives.

18.4 DISTINCTION BETWEEN STRATEGIC AND OPERATIONAL CONTROL

The important difference between Strategic and operational control are mentioned in the below

Exhibit 8.1

Source : Strategy formulation and implementation, Homeland III published by Richard D Irwin 1988, pp 404 and 419

18.5 THE OPERATIONAL CONTROL PROCESS

Operational control is exercised through a process consisting of four steps;

1. Establishing of standards:

The first step in the control process is establishing standards. Standards are the targets against which subsequent performance will be compared. They are, by definition, simple criteria of performance. They serve as the benchmarks because they specify acceptable levels of performance. Control standards are broadly divided into two categories. Quantitative standards and Qualitative standards.

Quantitative standards: There are generally expressed in physical or monetary terms. It is further divided into time standards, Cost standards, Productivity standards and Reverse standards.

Time standards: It states the length of time it should take to make a certain good or performance a certain service. An airline pilot has a standard time span in which to make a certain trip.

Cost standards: Cost standards are based on the cost of producing the goods or services. For example, the material cost might be Rs. 10 per unit. Cost standards specify the cost limits within which results should be achieved.

Productivity standards: Standards of productivity are based on the output of goods or services during a set time period. For instance, a productivity standard might be to complete 10 units or serve 150 customers per hour.

Reverse standards: they arise from attaching monetary values to sales. They may include such standards as revenue per passenger; mile, average sale per customer or sale per capita in a given market area.

Qualitative standards: Standards of quality are based on the level of perfection desired in respect of certain intangible items such as goodwill, employee morale, industrial relations, etc., tests, surveys and sampling techniques are used to prove human attitudes and drives in respect of above items before specifying a limit.

How to set the standards: Setting standards for every operation is an inescapable task of management.

I) Before setting standards, an executive must study the characteristics of the work

(ii) Executives must consider ordinarily flexible and generally acceptable levels of good performance in terms of work characteristics.

(iii) As nature of work differs with every operation (unit) the characteristics are different and so are the standards.

(iv) Standards are set, thus depending on the characteristics of the task.

2. Measurement of actual performance:

The second step in control process is the measurement of actual performance. Performance is measured usually at periodic intervals (weekly, quarterly or yearly) without upsetting the routine work. To make checking process effective, the manger has to concentrate on three key aspects of measurement, viz completeness, objectivity and responsiveness.

Completeness measures provide an opportunity for the manager to concentrate on all aspects of the job instead of neglecting unmeasured tasks in favour of measured ones.

Objectivity; Objectivity measures avoid the risks of bias and resentment, inherent in subjective assessment of task and people.

Responsiveness: Responsiveness measures support the belief that effort and performance lead to improvement in the systems of control.

3. Comparison of actual performance with standard:

The comparing step determines the degree of variation between actual performance and the standard. Some variation in performance can be expected in all activities. Deviations in excess of this range become significant and receive manager's attention. Only major or exceptional deviations are communicated to top management in the form of reports which is known as management by exception.

4. Taking corrective action:

Corrective steps are initiated by managers with a view to rectify the defects in actual performance. A corrective action may involve a change in methods, rules, procedures etc. Corrective action includes the change in strategy, structure, compensation practices, training programmes, redesign of jobs, replacement of personnel, reestablishment of budgets or standards etc., Corrective action may be immediate or basic. Immediate corrective action corrects something right now but gets things back on track. Basic corrective action however is concerned with permanent solution to the problem or serious deviations.

18.6 CHARACTERISTICS OF AN EFFECTIVE CONTROL SYSTEM

The important characteristics of effective control system are;

a) **Suitable:** The control system must be suitable to the needs of the organization

b) **Simple:** The control system should be easy to understand and operate.

c) **Selective:** The control system must focus attention on key, strategic and important factors which are critical to performance.

d) **Sound and economical**: The system of control should be economical and easy to maintain.

e) **Flexible:** Control should be necessarily flexible to adjust to adverse changes or to take advantage of new opportunities.

f) **Forward looking:** An effective control system should be forward looking. It must provide timely information on deviations.

g) **Reasonable:** Control system must be attainable and reasonable. They should challenge and stretch people to reach higher performance without being demotivating.

h) **Objective:** A control system would be effective when it is objective and impersonal.

i) **Responsibility for failure:** An effective control system must indicate responsibility for failures.

j) **Acceptable**: Control will not work unless people want them to. They should be acceptable to those to whom they apply.

18.7 EVALUATION TECHNIQUES OF OPERATIONAL CONTROL

Operational control uses techniques of organizational appraisal such as internal analysis, comprehensive analysis, and comparative analysis

a) Internal analysis: -

Consists of value chain analysis, quantitative analysis and qualitative analysis. It identifies strengths and weakness of a firm in absolute terms.

Value chain analysis: It is useful for operational evaluation as it divides the total tasks of a firm into identifiable activities that can be evaluated for effectiveness.

Quantitative analysis: It measures the performance using the financial and non financial quantitative parameters. The quantitative assessment bears the advantage that it is easy to evaluate and verify which includes ratio analysis, economic value added, activity based costing.

Non financial quantitative techniques include market ranking, total cycle time of production, number of patents registered per period etc.,

Qualitative analysis: It includes survey and experimentation that apply intuition, judgment and informed opinion.

B) Comparative analysis;

Historical analysis: Strategists evaluates internal factors on the basis of historical experience of the firm.

Industry norms : Helps to evaluate firm's capacity for success and to help devise future strategy.

Benchmarking : the process of benchmarking is aimed at finding the best practices within and outside the industry to which an organizational belongs. It helps to find the best performance.

C) Comprehensive analysis includes balanced score card, key factor rating, management by objectives, management of understanding, network techniques.

Balance score card: Strategic control entails developing performance measures that allow managers both to evaluate how well they have utilized organizational resources to create value and to sense new opportunities for creating value in the future. According to the balanced scorecard model, traditionally strategic managers have primarily used financial measures of performance such s profit and return on investment to measure and evaluate organizational performance. It tries to do away with the bias in performance measures towards financial tools and tries to build a comprehensive, holistic objective system of measurement. The score card takes into account for a key performance measure. (i) Customer perspective; How do customers see us?(ii) Internal business perspective; What must we excel at? (iii) Innovation and learning perspective; Can we continue to improve and create value? (iv)Financial perspective; How do we reward shareholders?

Key factor rating: It is based on close examination of key factors affecting performance(financial, marketing, operations and human resource capabilities) and assessing overall organizational capability based on the collected information.

Network techniques: Programme evaluation and Review technique (PERT) and Critical Path Method(CPM) are two widely used network techniques. Both technique use network diagram wherein activities and events are shown with their logical relationships. These techniques are used for control of time schedules and costs in projects.

Management by objectives: Management by objectives is a system of evaluating managers by their ability to achieve specific organizational goals or performance standards and meet their operating budgets. Peter drucker developed the system of MBO. Under this system, superior and subordinates jointly decide the objectives through mutual consultation. Performance is continuously evaluated against these objectives. MBO system operates on the basis of commitment and self control.

Memorandum of understanding: It denotes an agreement between a public enterprise and the government, represented by the administrative ministry in which both parties clearly specify their commitments and responsibilities.

Other Important Operational control techniques are:

1.Activity-Based Costing:

Activity based costing is a system of assigning costs to activities involved in producing products or services. Activity based costing helps in allocating resources to those activities

that create more value. It helps in understanding the behavior of overhead costs and their relationship to products or services, customers etc.

2. Budgetary control:

Budgetary control is the process of using budgets to control activities and performance of an organization. Budgets are prepared to establish performance standards and actual performance is compared with budgetary standards. Budgetary control helps in making judicious use of scarce resources. It provides quantitative standards of performance and it involves people at all levels which facilitate mutual cooperation and coordination between different functions.

Zero based budgeting: It is modern management tool for planning and controlling expenditure. ZBB required each manager to justify his or her entire budget request in detail from scratch zero base.

3. Financial analysis:

Financial analysis helps to analysis the profitability, liquidity, solvency and leverage position of a firm. It can be comparative analysis or trend analysis over the period of time.

Return on investment: The amount of profit in relation of total investment is known as return on investment. Thus

ROI=Net profit/Total investment

ROI reflects the efficiency in the use of new resources. It helps in rational allocation of resources and facilitates decentralization of authority which can be used as a total control technique.

7. Key success factors:

Monitoring of key success factors helps in judging strategy implementation. Product quality, customer service, productivity, employee motivation and morale, market share are examples of key success factors.

8. Social Audit:

Corporate social audit means a systematic assessment of the social impact of an organization's activities. On the basis of social audit, a social report is prepared to indicate the organization's role in serving the society and in discharging its social responsibilities.

18.8 NOTES

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18.9 SUMMARY

Operational control system is used invariably in all the organizations in one way or the other. The focus of operational control is on the allocation and use of organizational resources. Several techniques are used to judge financial and non-financial performance of an organization. Important evaluation techniques are discussed in the chapter.

18.10 KEY WORDS

Operational control is the process of evaluating the performance of strategic business units, divisions etc and their contribution to the achievement of organizational objectives.

Budgetary control: Budgetary control is the process of using budgets to control activities and performance of an organization.

Management by objectives: Management by objectives is a system of evaluating managers by their ability to achieve specific organizational goals or performance standards and meet their operating budgets.

18.11 SELF ASSESSMENT QUESTIONS

1. Distinguish strategic control from operating control.
2. Explain the difference between premise control, implementation control, strategic surveillance and special alert control.
3. Explain the process of operational control.
4. Describe evaluation techniques of operational control.

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UNIT-19 : MONITORING PERFORMANCE AND EVALUATING DEVIATION AND CHALLENGES OF STRATEGY IMPLEMENTATION

Structure :

19.1 Objective

19.2 Introduction

19.3 Primary measures of Corporate Performance

19.4 Monitoring Performance and Evaluating Deviations

19.5 Strategy Implementation

19.6 Challenges in Strategy Implementation

19.7 Strategy Implementation and Change

19.8 Barriers to Strategy Implementation

19.9 Barriers to Strategic Evaluation and Control

19.10 Notes

19.11 Summary

19.12 Keywords

19.13 Self Assessment Questions

19.14 References

19.1 OBJECTIVE

After studying this unit, you will be able to

- Evaluate primary measures of corporate performance.
- Discuss about monitoring performance and evaluating deviations.
- Understand the challenges in strategy implementation.
- Evaluate the barriers to strategy implementation.
- Understand barriers to strategic evaluation and control.

19.2 INTRODUCTION

Strategic control system are the formal target setting, monitoring, evaluation that provide management with information about whether the organization's strategy and structure are meeting strategic performance objectives. An important strategy evaluation activity is measuring organizational performance. This activity includes comparing expected results to actual results, investigating deviations from plan, evaluating performance and examining progress being made toward meeting stated objectives.

Strategy implementation is a crucial issue because any strategy is as good as the effort behind it to move it forward. The successful implementation of strategy requires support, discipline, motivation and hard work from all managers and employees. Above all, it demands a suitable organization structure to translate ideas into concrete action plans. This chapter focuses on monitoring performance and evaluating deviation and challenges of strategic implementation. The implementation of formulated strategy at various levels of an organization requires not only monitoring but also creating a system whereby any deviation from the control standard is detected, measured and fed back into the control loop for regulating further activities.

19.3 PRIMARY MEASURES OF CORPORATE PERFORMANCE

The most commonly used measures of corporate performance are:

ROI-The most commonly used measure of corporate performance in terms of profits is ROI. Return on investment is calculated by dividing net income before taxed by total assets.

ROE-Return on Equity divides net income by total equity.

EPS-Earnings per share: EPS is calculated by dividing net earnings by the amount of common stock, also has the advantage of being used as one overall measure of corporate performance.

Shareholder value: can be defined as the present value of the anticipated future stream of cash flows from the business plus the value of the company if liquidated.

EVA-Economic Value added is after tax operating profit minus the total annual cost of capital. It measures the difference between the pre strategy and post strategy value of its business. If the difference, discounted by the cost of capital, is positive, the strategy is generating value for the shareholders.

MVA-Market value added is the difference between the market value of a corporation and the capital contributed by the shareholders and lenders. It measures the stock market's estimate of the net present value of a firm's past and expected capital investment projects.

Problem in measuring performance:

The very act of monitoring performance can cause side effects that interfere with overall corporate performance. Among the most frequent negative side effects are a short term orientation and goal displacement.

Short term orientation: Top executives report that in many situations they analyze neither the long term implications of present operations on the strategy they have adopted not the operational impact of a strategy on the corporate mission.

Goal displacement:

Monitoring and measuring performance if not carefully done can actually result in a decline in overall corporate performance. Goal displacement is the confusion of means and ends and occurs when activities originally intended to help managers attain corporate objectives because ends in themselves or are adapted to meet ends other than those for which they are intended.

Two types of goal displacement are behavior substitution and sub optimization.

Behaviour substitution:

Behaviour substitution refers to a phenomenon when people substitute activities that do not lead to goal accomplishment for activities that do lead to goal accomplishment because the wrong activities are being rewarded.

Suboptimization:

Suboptimization refers to the phenomenon when a unit optimizes its goal accomplishments to the detriment of the organization as a whole. One divisions' attempt to optimize the accomplishment of its goals can cause other divisions to fall behind and thus negatively affect overall corporate performance. One common example of suboptimization occurs when a marketing department approves an early shipment date to a customer as a means of getting an order and forces the manufacturing department into overtime production for this one order. Production costs are raised which reduces the manufacturing department's overall efficiency. The end result might be that, although marketing achieves its sales goal, the corporation as a whole fails to achieve its expected profitability.

9.4 MONITORING PERFORMANCE AND EVALUATING DEVIATIONS

Performance is the end result of activity. Companies use a variety of techniques to evaluate and control performance in divisions, Strategic business units, and functional areas. If a corporation is composed of strategic business unit or divisions, it will use many of the same performance measures(ROI, EVA etc) that it uses to assess overall corporate performance.

Monitoring is the act of reviewing the appropriateness of a strategy and overseeing the way in which it is implemented. Monitoring is a process whereby strategists review the appropriateness of a strategy to changing circumstances and incorporate within it any improvements and mechanisms for improvement which are newly discovered. Monitoring generates learning, which in turn results in greater effectiveness in strategy making.

Performance is measured at four levels in the organization; the corporate, divisional, functional, and individual levels. Managers at the corporate level are most concerned with overall and abstract measures of organizational performance such as profit, return on investment, or total labour force turnover. The aim is to choose performance standards that measure overall corporate performance. Similarly, managers at the other levels are most concerned with developing a set of standards to evaluate business or functional level performance. These measured should be tied as closely as possible to task activities needed to achieve superior efficiency, quality, innovativeness, and customer responsiveness at each level. Care must be taken, however to ensure that the standards used at each level do not cause problems at the other levels.

The very act of monitoring and measuring performance can cause side effects interfere with overall corporate performance. The measurement of performance is a crucial part of evaluation and control. The lack of quantifiable objectives or performance standards and the inability of the information system to provide timely and valid information are two obvious control problems.

The organization needs to ask if the deviations are due to internal shortcomings or external changes beyond the control of the organization. Failure to make satisfactory progress toward accomplishing long term or annual objectives signals a need for corrective actions.

The strategic plan document should specify who is responsible for the overall implementation of the plan, and also who is responsible for achieving each goal and objective. The document should also specify who is responsible to monitor the implementation of the plan and made decisions based on the results. For example, the board might expect the chief executive to regularly report to the full board about the status of implementation, including progress toward each of the overall strategic goals. In turn, the chief executive might expect regular status reports from middle managers regarding the status toward their achieving the goals and objectives assigned to them.

The frequency of reviews depends on the nature of the organization and the environment in which it's operating. Organizations experiencing rapid change from inside and/or outside the organization may want to monitor implementation of the plan at least on a monthly basis.

Boards of directors should see status of implementation at least on a quarterly basis. Chief executives should see status at least on a monthly basis.

19.5 STRATEGY IMPLEMENTATION

Strategy implementation is the sum total of the activities and choices required for the execution of a strategic plan. It is the process by which strategies and policies are put into action through the development of programs, budgets and procedures. Although implementation is usually considered after strategy has been formulated, implementation is a key part of strategic management.

According to **Steiner, Miner, Gray** "Implementation of strategies is concerned with the design and management of systems to achieve the best integration of people, structures, processes and resources in reaching organizational purposes.

Strategic implementation is necessarily concerned with:

1. **Determining the right organizational structure:** Organizational structure in one of the important means for implementing strategy. It is a way of organizing a company's

activities or business that facilitates achievement of short, medium and long term objectives of the corporation. Whenever a firm wishes to change its strategy, or accelerate the rate of growth, or come down heavily on competition, there may be need to alter the structural arrangement.

2. Designing appropriate management system for planning and control, capital expenditure, information and reporting, review and follow-up, training and development, rewards and punishment, career progression, delegation of power, procedures, rules etc.,
3. Choosing a right mix of employees.
4. Choosing a right mix of skills and competencies.
5. Adopting a right style of management in both strategic and operating areas.
6. Inculcating right values and culture within the organization.

19.6 CHALLENGES IN STRATEGY IMPLEMENTATION

The successful implementation of strategy requires an effective organization. People working within a firm should know how their actions interrelate with the actions of others to support and execute the firm's strategy. Without a structural framework, the roles of management and employees can't be drawn up clearly-leading to confusion, duplication of efforts and chaos at various levels.

Apart from a sound organization structure, the services of talented and capable leader's area also required to translate corporate vision into a concrete reality. The principal task of leaders then would be to see that the various elements of an organization fit together and make logical sense. In the race to get ahead, of course they should not sacrifice ethical and social values.

Functional plans and policies need to be formulated carefully and implemented with active support from employees at various levels. These should help employees find solutions to several operational issues that need to be resolved on a day to day basis.

The political factors that come in the way of effective implementation of strategies should also be understood properly. Every attempt should be made to remove the irritants first before minor problems turn into major emergencies at a later date.

Behavioral issues in strategy implementation:

Strategy implementation requires support, discipline, motivation and hard work from all managers and employees. Managers should pay careful attention to a number of key issues

while executing the strategies. Chief among them are how the organization should be structured to put its strategy into effect and how such variables as leadership, power and organizational culture should be managed to enable employees to work together while implementing the firm's strategic plans.

Resource allocation:

While implementing strategies, the scarce resources of a firm(financial, physical, human, technological) need to be allocated carefully, according to a plan. The challenge in strategy implementation is resource allocation. Resource allocation, in actual practice is not an easy job. Strategies should prioritize tasks that require maximum attention initially taking political relations, overall objections, external influences etc into account.

Suitable organizational structure:

The term organization structure describes the framework of an organization in which individual effort is coordinated. Structure is a means to an end and not an end in itself. Without a proper fit between strategy and structure, there will be chaos and confusion in the organization.

There is no particular type of organization structure that is best suited for all enterprises.

Even two firms, competing in the same industry with a similar set of products, technologies and markets, may find that works for one firm need some modification in another. The issue depends on several contingency factors such as size, technology, environment, people etc.,

A suitable organizational structure is essential to implement strategies and achieve stated goals. No single structure is appropriate for implementing all strategies. Each firm, therefore, has to choose a suitable structure that best fits and accommodates its own strategy. Structural choices have to be made carefully because switching from one structure to another is a time consuming and costly exercise.

Strategy implementation directly affects the lives of plant managers, division mangers, department managers, sales managers, product mangers, personnel managers, and all employees. Successful implementation of strategies demands cooperation from all functional and divisional managers in an organization. Strategy implementation requires support, discipline, motivation and hard work from all managers and employees. Managers should pay careful attention to a number of key issues while executing the strategies. One of the challenges in strategy implementation is to achieve synergy between and among functions and business units.

Synergy can take place in one of six forms:

Shared know-how: Combined units often benefit from sharing knowledge or skills.

Coordinating strategies: Aligning the business strategies of two or more business units may provide a corporation significant advantage by reducing inter unit completion and developing a coordinated response to common competitors.

Shared tangible resources: Combined units sometimes save money by sharing resources such as common manufacturing facility or R&D lab.

Economies of scale or scope: Coordinating the flow of products or services of one unit with that of another unit can reduce inventory, increase capacity utilization and improve market access.

Pooled negotiating power: Combined units can combine their purchasing to gain bargaining power over common suppliers to reduce costs and improve quality. The same can be done with common distributors.

New business creation: Exchanging knowledge and skills can facilitate new products or services by extracting discrete activities from various units and combining them in a new unit or by establishing joint ventures among internal business units.

Feedback control system:

Feedback control loop is an automatic control mechanism to detect deviation, measure deviation, matches against controls and standards, set up and initiate regulatory methods.

It includes:

a) **Laying down control standard for monitoring purposes:** Responsibility accounting assumes adherence to targets or standards that are laid down on the basis of consensus of mutual agreement. These standards are applicable to a particular period as well as to a situation, say a year, under a resource allocation budget citing objectives/sub objectives and identifying responsibility centers.

b) **Detection of deviation from standards:** This is possible due to the difference in the specification of inputs from the accepted standards or due to the difference in actual parameters form accepted parameters from the processes or due to the inefficiency in performance of men, machinery and material. Deviation takes place in the results. These can be identified either post facto or in real time. With the necessity for concurrent corrections, real time applications have come into existence.

c) **Measure deviation from standards:** The deviations which take place are only good as they are measured. The enormity of the impact due to deviation cannot be understood without actual measurement. The measurement of deviation from the accepted standard also gives room for the necessary allowance for deviation which is acceptable. The measurement again has to be made precisely and concurrently so that the necessary correction through regulation feedback mechanism can be effected.

d) **Regulate through feedback mechanism:** Automatic control and monitoring of a process can be done as per a feedback control loop. After establishing a system or subsystem in which an input goes through and produces an output, the need to monitor quality and quantity of output in relation to the inputs provided becomes essential both from the management point of view as well as conservation of the resources put into the system. If this control mechanism can be made automatic, then the system becomes self correcting and the information is concurrent. In such a case, it also becomes the necessary data for future revision or change of the process itself. This change can be in the orm of resource allocation of the standards or the methodology.

19.7 STRATEGY IMPLEMENTATION AND CHANGE

Implementation incorporates a number of aspects, some of which can be changed directly and some of which can only be changed indirectly. Implementing strategy involves change, which in turn involves uncertainty and risk. Motivating mangers to make changes is therefore a key determinant.

The next requirement in the implementation of a successful strategy is to focus attention on the five Cs that is:

1. Coordination

2. Communication

3. Command

4. Control and

5. Conflict/Consensus

Coordination:

Coordination must occur at every step in a strategy making process. Coordination involves the harmonization of objectives as they are disaggregated and the accommodation of the demand for resources to the existing supply.

Communication:

The information communicated should be accurate. There should be clear incentives not to suppress information and not to distort it in a deliberate way. Coordination can only occur on the basis of the proper communication of information concerning objectives and opportunities, risks and threats, capabilities and outcomes.

Command:

Command is passed downward, reflecting the hierarchy of authority which characterizes every organization. It should be rarely given and only when absolutely necessary, in a crisis or to resolve a particular conflict.

Control:

Control is often exercised indirectly and discretely, through incentive structures and the internationalization of a corporate culture.

Conflicts/Consensus:

Conflict often does represent a legitimate clash of viewpoints and a release of energy. The energies released should be harnessed to the achievement of the objectives of the strategy.

Implementing business level cooperative strategies:

Firms with competencies in different stages of the value chain form a vertical alliance to cooperatively integrate their different, but complementary, skills. A strategic network of vertical relationships such as the network in Japan between Toyota and its suppliers often involves a number of implementation issues.

Implementing corporate level cooperative strategies:

Corporate level cooperative strategies (such as franchising) are used to facilitate product and market diversification. An important strategic control issue for McDonald's is the location of its franchise units.

Implementing international cooperative strategies:

Strategic networks formed to implement international cooperative strategies result in firms competing in several countries.

19.8 BARRIERS TO STRATEGY IMPLEMENTATION

The main factor causing unsuccessful implementation of strategy is as follows:

1. **Vague or poor strategy:** In some cases, the chosen strategy cannot be implemented because it is vague or defective.

2. **Lack of commitment:** When the employees are not fully committed to the chosen strategy, it cannot be implemented successfully. Lack of employee commitment may be caused by several factors. First, employees may feel that the new strategy is not practical and the earlier one was better. Second, strategist may have assumed that employees will willingly accept the new strategy. Thirst, most people focus on smooth and efficient conduct of current operations.

3. **Resistance to change:** A new of modified strategy usually requires major changes in the organization. In case the changes are resisted by the employees, implementation of strategies is likely to the unsuccessful.

4. **Ineffective management:** Inadequate leadership, incompetent administration, ill defined tasks, inability to manage change is all signs of poor management. Managers are often trained to plan and not to execute the plans. Strategy implementation is a time consuming process and required the involvement of all. Top managers often lack the patience and aptitude needed for execution of strategies. The pressure to show short term results may hamper strategy implementation.

5. **Poor communication:** Strategies need to be communicated and explained so that those who are to implement understand and accept them. Poor or inadequate information sharing, unclear responsibilities, poor comprehension of roles are the major hurdles in successful implementation.

6. **Power politics:** Internal and external factors may work against the organization's power structure. These factors or elements may have vested interests in making strategies unsuccessful.

In order to overcome barriers to strategy implementation and to make it effective, the following steps may be taken:

i) **Clear guidelines may be laid down for implementing strategies:** These guidelines can specify the major issues/element in the implementation process. Otherwise managers act as per their wishes and abilities and implementation becomes an unsystematic and uneven process.

ii) **Management must manage change effectively:** Changes in culture, leadership style and employee behavior are much more difficult to carry out than structural changes. Optimum implementation requires effective management of the change process.

19.9 BARRIERS TO STRATEGIC EVALUATION AND CONTROL

The main barriers to the strategic evaluation and control process are as follows:

1. Resistance to evaluation:

The evaluation process faces the psychological barrier of accepting own mistakes.

2. Problems in measurement:

Several problems arise in the measurement of actual performance or results. The information system may fail to provide valid and timely information. Lack of uniformity and objectivity in measurement distorts the control system. Better information system, quantification of objectives, standardized procedures for measurement, and reliable/valid measurement systems help to overcome these difficulties.

3. Limits of control:

Strategists find it very difficult to decide the limits of control. Too much control inhibits initiative and creativity, impede efficient performance and restrict managerial freedom. On the other hand, too little controls, make evaluation ineffective, create problems in coordination, and encourage indiscriminate use of managerial discretion. Mangers can overcome this dilemma of too much versus too less control by learning from experience.

4. Focus on short term achievement:

Quite often managers focus on immediate results and short term achievements. They may ignore long term impact of strategy. It is tedious to judge long term implications and immediate assessment is easier and more convenient. In order to overcome this bias the attitude to measurement should be positive. The focus needs to be on finding out the factors that obstruct good performance.

5. Emphasis on efficiency:

Efficiency means doings things rightly 'while effectiveness means doing the right things. What constitutes effective performance is not always clear. When wrong parameters are used to measure performance rewards may be given for performance that does not really contribute to organizational objectives. Therefore, the focus should be on effectiveness rather than on efficiency.

6. Motivational problem:

Having taken a position while formulating and implementing the strategy, strategists are often reluctant to admit their mistakes when things go off the track. Instead of setting

their own house in order, they tend to shift the blame on others. This may also prevent them from hiving off unprofitable divisions, reversing wrong decisions and go in search of more viable alternations quickly.

Using the strategic audit to monitor and evaluate corporate performance:

The strategic audit provides a checklist of questions, by area or issue that enables a systematic analysis of various corporate functions and activities to be made. It is a type of management audit and is extremely useful as a diagnostic tool to pinpoint corporate wide problem areas and to highlight organizational strengths and weakness. The strategic audit can help determine why a certain area is creating problems for a corporation and help generate solutions to the problem.

19.10 NOTES

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19.11 SUMMARY

Strategy implementation is a difficult process punctuated with challenges relating to structural, behavioral, functional and operational areas. The nature of strategy implementation has to necessarily follow formulated strategy across various situations within the organization and in the macro environment. The chapter discusses challenges of strategy implementation, the barriers in strategy implementation and barriers to strategic evaluation and control.

19.12 KEY WORDS

strategic evaluation

operational areas

organization structure

19.13 SELF ASSESSMENT QUESTIONS

1. Describe the challenges of strategy implementation.
2. What is short term orientation and goal displacement?
3. Describe feedback control loop.
4. Explain the barriers to strategy implementation.
5. Explain the barriers to strategic evaluation and control.

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UNIT - 20: ROLE OF CORPORATE GOVERNANCE

Structure :

20.1 Objective

20.2 Introduction

20.3 Definition

20.4 Importance of Corporate Governance

20.5 Key Constituents of Corporate Governance

20.6 Principles of Corporate Governance

20.7 Role of Corporate Governance in Strategic Management

20.9 Corporate Governance Models around the World

20.10 Development in Corporate Governance Policy Framework

20.11 Notes

20.12 Summary

20.13 Keywords

20.14 Self-Assessment Questions

20.15 References

20.1 OBJECTIVES

After studying this unit, you will be able to:

- To define the term corporate governance
- To evaluate the key constituents of corporate governance
- To analyze the importance of corporate governance
- To evaluate the role of corporate governance in strategic management.

20.2 INTRODUCTION

Corporate governance in simple term can be referred to set of laws, rules or processes within which organization need to be operated, controlled and regulated. It helps to bring proper functioning in the management. It is implemented and evaluated through various processes in an organization. The main objective of the corporate governance is to enhance the shareholder value keeping in view of the interest of the stakeholders. With the increase in unethical practices in the firms and financial crisis in different countries the term corporate governance has come into sharp focus. Lack of proper checks and balances by firms, misuse of power, insider trading and various other fraudulent activities has led to the importance on the study of corporate governance. Corporate governance contributes to the efficiency of firms enabling them to compete internationally in a sustained way. Corporate governance plays an important role in maintaining integrity in the organization and to manage the risk of the firm. It is a crucial system which guides, monitors and controls the organizational functions.

The development of corporate governance depends on the different theories which explain the nature of corporate governance mechanisms and the differences of practice regarding the legal, cultural, ownership and political systems which differ between countries

Strong corporate governance assures investor confidence, a vibrant capital market and good economic growth. Thus corporate governance is a conscious, deliberate and sustained effort on the part of the organization to strike a judicious balance between its own interests and those of its stakeholders.

The essence of corporate governance is the identification of ways to ensure that strategic decisions are made effectively. Corporate governance can be defined as the determination of the broad uses to which organizational resources will be deployed, and the resolutions of conflicts among the myriad participants in organizations.

20.3 DEFINITION

"Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined."

According to OECD (1999), "Corporate Governance is the system by which business Corporations are directed and controlled. The structure of corporate governance specifies the distribution of responsibilities and rights among different participants in the Corporation, such as the board of directors, managers, shareholders and other stakeholders and spells out the rules and procedures for making decision on corporate affairs. By doing this it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance."

According to **Sir Adrian Cadbury.** "Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals".

Objectives of corporate governance

a) To build up an environment of trust and confidence amongst those having competing and conflicting interest

b) To enhance shareholders' value and protect the interest of other stakeholders by enhancing the corporate performance and accountability.

20.4 IMPORTANCE OF CORPORATE GOVERNANCE

Corporate governance is needed to create a corporate culture of consciousness, transparency and openness. It refers to a combination of laws, rules, regulations, procedures and voluntary practices to enable companies to maximize shareholder's long term value. It should lead to increasing customer satisfaction, shareholder value and wealth.

As Iskander and Chamou observe, Corporate governance becomes necessary because "the interests of those who have effective control over a firm can differ from the interests of those who supply the firm with external finance. The problem, commonly referred to as a principal agent problem, grows out of the separation of ownership and control and of corporate outsiders and insiders".

Corporate governance is considered an important instrument of investor protection and it is, therefore a priority on SEBI's agenda. Progressive firms in India have voluntarily put in place systems of good corporate governance. Internationally also, while this topic has

been accepted for a long time, the financial crisis in emerging markets has led to renewed discussions and inevitably focused them on the lack of corporate as well as government oversight. The same applies to recent high profile financial reporting failures even among firms in the developed economies. Strong corporate governance is thus indispensable to resilient and vibrant capital markets and is an important instrument of investor protection. Good corporate governance, besides protecting the interest of shareholders and all other stakeholders, contributes to the efficiency of a business enterprise to the creation of wealth and to the country's economy.

According to **Charkham,** good corporate governance is considered vital from medium and long term perspectives to enable firms to compete internationally in sustained way and to make them flourish and grow so as to provide employment, wealth and satisfaction, not only to improve standard of living materially but also to enhance social cohesion.

Corporate governance is important due to many reasons as given below:

- It lays down the framework for creating long-term trust between companies and the external providers of capital.
- It improves strategic thinking at the top by inducting independent directors who bring in a wealth of experience and a host of new ideas.
- It rationalizes the management and monitoring of risks a firm faces globally.
- It limits the liability of the top management and directors by carefully articulating the decision making process.
- It ensures the integrity of financial reports.
- It helps to provide a degree of confidence that is necessary for the proper funding of a market economy.
- It enables a corporation perform efficiently by preventing fraud and malpractices.
- It provides protection to shareholder's interest.
- It ensures compliance of laws and regulations.
- It helps in creation and enhancement of a corporation's competitive advantage.

20.5 KEY CONSTITUENTS OF CORPORATE GOVERNANCE

Much of the recent interest in corporate governance arises from scandals associated with failure in governance. But, evidence suggests that good governance also offers competitive advantages to firms.

- **The three important constituents of corporate governance are:**
  - Board of Directors
  - Shareholders and
  - The management.

Board of Directors: The important role in the system of the corporate governance is performed by the board of directors. The board of directors is a group of elected individuals whose primary responsibility is to act in the owner's best interest by formally monitoring and controlling the corporation's top level executives. The board is accountable to the stakeholders and directs and controls the management. It stewards the company, sets its strategic aim and financial goals and oversees their implementation, puts in place adequate internal controls and periodically reports the activities and progress of the company in a transparent manner to all the stakeholders.

Shareholders: The important role of the shareholder's is to hold the board accountable for the proper governance of the company by enabling the board to provide them periodically the required information in a transparent manner about the activities and progress of the company.

Management: The management has the responsibility to undertake the management of the organization in terms of the direction provided by the board, to put in place adequate control systems and to ensure their operation and to provide information to the board on a timely basis and in a transparent manner to enable the board to monitor the accountability of management to it.

Organizational mechanisms which help to ensure good governance are as follows:

a) An independent and effective board of directors;

b) Commitment to a code of governance;

c) Sound internal control system;

d) Transparency through disclosure of information concerning the company's financial and operational performance;

e) Proper risk management procedures;

f) A sound whistle blower policy;

g) Fair executive compensation policy;

h) An effective external audit system.

20.6 PRINCIPLES OF CORPORATE GOVERNANCE

The corporate governance is based on the principles of integrity, fairness, equity, transparency, accountability and commitment to values. Good governance practices are based on the culture, mindset and shared values of the organization, especially in leasers. The important theories of corporate governance are agency theory and stewardship theory. Agency theory argues that in order to protect a shareholder's interest, there is a need to separate the role of chairman of the board of directors and the CEO. There would be divergence of difference between the shareholders and that of the management which requires splitting of the chairman position and the CEO position. On the contrary, stewardship theory argues that shareholders' interests are maximized by a shared incumbency of roles. According to this theory is that sociological and psychological needs drive the business.

Thus the first principle of corporate governance is that of agency issues. Mangers work as agents of investors, and their behavior with investors and other shareholders determines the quality of governance and performance of the firm. It is better to ensure the accountability of certain individuals in an organization through mechanism that tries to reduce or eliminate the principal-agent problem. The second principle is about the impact of a corporate governance system on the economic efficiency of the company, with a strong emphasis on balancing shareholder's welfare with that of the other stakeholders. There are number of studies that show that companies with good corporate governance have been able to demonstrate higher earnings.

20.7 ROLE OF CORPORATE GOVERNANCE IN STRATEGIC MANAGEMENT

Strong corporate governance is thus indispensable to resilient and vibrant capital markets and is an important instrument of investor protection.

Good corporate governance, besides protecting the interests of shareholders and all other stakeholders, contributes to the efficiency of a business enterprise, to the creation of wealth and to the country's economy.

The important role of corporate governance is:

- To create and enhance corporation's competitive advantage.
- To enable a corporation perform efficiently by preventing fraud ad malpractices.
- To provide protection to shareholder's interest.
- To enhance the valuation of an enterprises.

- Ensure compliance of laws and regulations.

Good Corporate Governance is achieved through :

- Adequate disclosures and effective decision making to achieve corporate objectives;
- Transparency in business transactions;
- Statutory and legal compliances;
- Protection of shareholder interests;
- Commitment to values and ethical conduct of business.

1. **Corporate governance and strategic intent:** The strategic intent of an organizational comprises its vision, mission, business definition, business model and objectives. The vision and mission must reflect the aspirations and intentions of all the stakeholders and not only those of shareholders. There must be a consensus amongst the stakeholders on the business definitions, business model and objectives of the company. Various mechanisms of corporate governance help the stakeholders in arriving at such a consensus. Thus, corporate governance plays a important role in each element of strategic intent.
2. **Corporate governance and strategy formulation:** Top management must keep in mind the interests and goals of different stakeholders in making the strategic choice. Some strategies help in achieving high returns for shareholders. Other strategies are chosen to ensure long term growth, corporate image and decision making authority of managers. Both long term and short term goals must be kept in mind while formulating corporate level and business level strategies.
3. **Corporate governance and strategy implementation:** The success of an organization depends as much on effective implementation of strategy as on strategy formulation. Strategy implementation is the job of managers. Shareholders and board of directors usually do not intervene in the job. Corporate governance mechanisms help to ensure that managers do not deviate from the company's strategic intent while implementing the strategies.
4. **Corporate governance and strategy evaluation:** Board of directors and shareholders play a major role in strategic evaluation and control. They have to ensure that the corporate objectives are achieved. Board of directors sets up operational and strategic mechanisms of corporate governance enable the shareholders to judge whether the company is on the right track.

20.8 CORPORATE GOVERNANCE MODELS AROUND THE WORLD

Corporate Governance systems vary around the world. The following are the important models developed by the scholars 1. The Anglo-American Model 2. The German model 3. The Japanese model 4. The Indian Model.

Anglo American Model: In the Anglo-American model, all directors participate in a single board comprising both executive and non-executive directors in varying proportions. This model is the basis of corporate governance in Canada, America, Britain, and Australia.

German Model: This is also known as two-tier board model. In this model corporate governance is exercised through two boards, in which the upper board supervises the executive board on behalf of stakeholders and is typically societal-oriented

The Japanese model: The Japanese system of corporate governance is many-sided, centering around a main bank and a financial/industrial network or keiretsu. In the Japanese model, the four key players are: main bank (a major inside shareholder), affiliated company or keiretsu (a major inside shareholder), management and the government.

Indian Model of Corporate Governance: Indian corporate governance model is more or less based on UK model. India has adopted key tenets of the Anglo-American external and internal control mechanism after economic liberalization.

20.9 DEVELOPMENT IN CORPORATE GOVERNANCE POLICY FRAMEWORK

There are various developments worldwide in terms of framing corporate governance policy framework such as US Blue Ribbon Commission, UKs Cadbury Committee, World bank guidelines, OECD guidelines. It was Cadbury committee, 1991 which gave India groundwork for implementation of Best Practices. The advisory group chaired by Dr. Patil. R. H in the year 2001 and Ganguly group in 2002, UTI advisory body has given a framework for good corporate governance in India. There are various committees and the Acts which have paved the way for good governance. The summarized report of some of the important committee recommendation and acts is highlighted below. Companies Act, 1956: Companies

Act, 1956 has given guidelines related to good governance of companies where the Companies (Amendment) Act, 2000 has introduced good Corporate Governance leading to more transparent, ethical and fair business practice to be adopted by Corporate at large.

The Tradway Report: 1987: It highlights the need for a proper controlled environment, independent audit committees, an objective internal audit function and call for

published reports on the effectiveness of internal control. The commission requested the sponsoring organizations to develop an integrated set of internal control criteria to enable companies to improve their control.

Sir Adrian Cadbury Committee on Financial Aspects of CG, 1992: Cadbury committee recommended that the listed companies should comply with the Code of Best Practice and are required to include a statement of compliance/noncompliance of the Code in their Annual Report. The Code of Best Practice sets out guidelines for a governance structure monitoring the board and the governing process.

Sir Richard Greenbury Report 1995: The Greenbury Report's review included the recommendation of remuneration committees (to consist of non-executive directors to avoid potential conflicts of interest). This included preparing annual reports to shareholders with full disclosure of remuneration policies for executive directors and other senior executives; and the length of service contracts and compensation when these were terminated.

The Confederation of Indian Industries (CII), 1996: It is the first institutional initiative in Indian industry on corporate governance with the objective to develop a code for corporate governance to be adopted by both public and private sector banks and financial institutions which are corporate entities.

OECD Principles on CG, 1998: OECD principles emphasize transparency and accountability of all parties to CG; management, BOD, shareholders and other stakeholder.

The Hampel Report (Sir Ronald Hampel being the Chairman), 1998: The report gives recommendations on the four major issues (a) The role of directors (b) Directors compensation (c) The role of shareholders (d) Accountability and audit

Blue Ribbon Committee, 1999: The Blue Ribbon Committee recommends that all listed companies over a certain size have audit committees composed entirely of independent directors. Independence is defined to exclude current and former employees, relatives of management, persons receiving compensation from the company (except directors fees) or controlling for profit organizations receiving from or paying the Corporation significant sums, and compensation committee interlocking directorships. The BRC s recommendations are consistent with audit committee incentives.

The Kumar Mangalam Birla committee Report 1999: The mandatory recommendations of the Kumar Mangalam Birla committee include the constitution of Audit Committee and Remuneration Committee in all listed companies, appointment of one or more independent directors in them, recognition of the leadership role of the Chairman of a company, enforcement of Accounting Standards, the obligation to make more disclosures in

annual financial reports, effective use of the power and influence of Institutional shareholders and so on. The Committee also recommended a few provisions, which are non- mandatory.

The Turnbull Committee1999: It was set up by the Institute of Chartered Accountants in England and Wales (ICAEW) to provide guidance to assist companies in implementing the requirements of the Combined Code relating to internal control.

The Sarbanes–Oxley Act 2002: It was set up by the Institute of Chartered Accountants in England and Wales (ICAEW) to provide guidance to assist companies in implementing the requirements of the Combined Code relating to internal control.

The Ganguly Consultative Group(April 2002): It looked into the functioning of the Boards visa-vis compliance, transparency, disclosures, audit committees and suggested measures for making the role of the Board of Directors more effective.

Narayana Murthy Committee 2002: The key mandatory recommendations focus on strengthening the responsibilities of audit committees; improving the quality of financial disclosures, including those related to related party transactions and proceeds from initial public offerings; requiring corporate executive boards to assess and disclose business risks in the annual reports of companies; introducing responsibilities on boards to adopt formal codes of conduct; the position of nominee directors; and stock holder approval and improved disclosures relating to compensation paid to non-executive directors. Non mandatory recommendations include moving to a regime where corporate financial statements are not qualified; instituting a system of training of board members; and the evaluation of performance of board member.

Naresh Chandra Committee 2002: The auditor-company relationship, Independent directors: Role, remuneration and training were discussed in this committee report.

Derek Higgs Committee, UK, 2003: It reviewed the role of effectiveness of non-executive directors.

ASX Corporate Governance Council, Australia 2003: It deals with the Principles of Good Corporate Governance and has given Best Practice Recommendations.

Clause 49 of the Listing Agreement, 2005: A major compliance directive that came into force from the quarter ended June 2005, it has major aspects of compliance by listed companies that include; definition of independent directors; Non-Executive Director's compensation and disclosures, other provisions as to Board and Committees, Code of Conduct, Composition of Audit Committee, Meeting of Audit Committee, Subsidiary Companies, Disclosures pertaining to (a) basis of related transactions (b) accounting treatment

(c) risk management (d) proceeds from public/rights/preferential issues (e) remuneration of directors and management discussion and analysis, CEO/CFO Certification, report on corporate governance, auditors certificate on compliance etc.,

Corporate Governance provisions in the Companies Act, 2013

The enactment of the companies Act 2013 was major development in corporate governance in 2013. The new Act replaces the Companies Act, 1956 and aims to improve corporate governance standards simplify regulations and enhance the interests of minority shareholders. The new Act is a major milestone in the corporate governance sphere in India and is likely to have significant impact on the governance of companies in the country. Following are the main provisions related to corporate governance that have been incorporated in the Companies Act, 2013.

- The Companies Act, 2013 introduces new definitions relating to accounting standards, auditing standards, financial statement, independent director, interested director, key managerial personnel, voting right etc. For example, the legislation introduces a new class of companies called 'one person company' (OPC) to the existing classes of companies, namely public and private. OPC is a new vehicle for individuals for carrying on a business with limited liability.
- **Board of Directors (Clause 166):** The new Act provides that the company can have a maximum of 15 directors on the Board; appointing more than 15 directors, however, will require shareholder approval.
- **Independent Director (Clause 149):** The concept of independent directors (IDs) has been introduced for the first time in the Company Law in India. It prescribes that all listed companies must have at least one third of the Board as IDs. IDs may be appointed for a term of up to five consecutive years. While the
- **Related Party Transactions (RPT) (Clause 188):** The new Act requires that no company should enter into RPT contracts pertaining to — (a) sale, purchase or supply of any goods or materials; (b) sale or dispose of or buying, property of any kind; (c) leasing of property of any kind; (d) availing or rendering of any services; (e) appointment of any agent for purchase or sale of goods, materials, services or property; (f) such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company.
- **Corporate Social Responsibility (CSR) (Clause 135):** The new Act has mandated the profit making companies to spend on CSR related activities. Every company having net worth of Rs 500 crore or more or turnover of Rs 1000 crore or more or net profit

of Rs 5 crore or more during any financial year shall constitute a CSR Committee of the Board. In pursuance of its CSR policy, the Board of every such company–through these committees shall ensure that the company spends (in every financial year) at least 2 percent of the average net profits of the company made during the three immediately preceding financial years.

- **Auditors (Clause 139):** A listed company cannot appoint or reappoint (a) an individual as auditor for more than one term of five consecutive years, or (b) an audit firm as auditor for more than two terms of five
- **Disclosure and Reporting (Clause 92):** In the new Act, there is significant transformation in non-financial annual disclosures and reporting by companies as compared to the earlier format in the Companies Act,1956.
- **Serious Fraud Investigation Office (SFIO) (Clause 211):** The Act has proposed statutory status to SFIO. Investigation report of SFIO filed with the Court for framing of charges shall be treated as a report filed by a Police Officer.
- **Class action suits (Clause 245):** For the first time, a provision has been made for class action under which it is provided that specified number of member(s), depositor(s) or any class of them, may file an application before the Tribunal seeking any damage or compensation or demand any other suitable action against an audit firm.

20.10 NOTES

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20.11 SUMMARY

Corporate governance refers to the system by which the companies are governed. It involves relationships amongst the company's board of directors, its management and various stakeholders. It involves maintaining a balance between economic and social goals, individual and common goads by aligning the interest of individuals, companies and society. Accountability of the board of directors and the management to shareholders, transparency in working and disclosures, fairness in dealings and integrity are the main pillars of good governance. Both voluntary and statutory mechanisms have been created to ensure good governance in India.

The companies Act 2013; the securities and Exchange Board of India Act 1992 are the main statutory regulations. Clause 49 of the listing agreement states the corporate governance practices which all listed companies must follow. The new Companies Act, 2013 has mandated the profit making companies to spend on Corporate Social Responsibility related activities. Good corporate governance ensures that all these are done appropriately and reported objectively and transparently. Only when the proper corporate governance is exercised can strategies been formulated and implemented that will help the firm achieve strategic competitiveness and earn above average returns. Thus corporate governance mechanisms are a vital part of firm's efforts to select and successfully use strategies.

20.12 KEY WORDS

Corporate governance: Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders.

Board of directors: The board of directors is a group of elected individuals whose primary responsibility is to act in the owner's best interest by formally monitoring and controlling the corporation's top level executives.

Anglo American Model: In the Anglo-American model, all directors participate in a single board comprising both executive and non-executive directors in varying proportions. This model is the basis of corporate governance in Canada, America, Britain, and Australia.

20.13 SELF ASSESSMENT QUESTIONS

1. Define corporate governance and explain the principles of corporate governance.
2. Explain the key constituents of corporate governance.
3. Discuss the development in Corporate Governance Policy framework.

4. Explain the role of corporate governance in strategic management.

20.14 REFERENCES

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