MP-205

Vardhaman Mahaveer Open University, Kota

Strategic Management

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CONTENTS

Strategic Management

Unit - 1 : Strategic Management : An Overview

Unit Structure:

1.0 Objectives

After reading this unit, you should be able to understand:

- Concept of Strategic Management.
- Nature of Strategic Management.
- Difference between Strategic & Other Decisions.
- Importance of Strategic Management.
- Strategic Management Process.
- Limitations of Strategic Management.

1.1 Concept of Strategy

The concept of strategy is to control the process of strategic management. In the recent past, it has emerged as a critical input to organizational success. With the increasing uncertainties in the environment, it has become essential for organizations to anticipate, monitor and assess the opportunities and threats in the environment and capitalize on its resources and minimize its weaknesses. In order to take advantage of the opportunities the company changes its courses of action. These courses of action are what we call Strategic.

It is a game plan of management which involves matching of an organization's resources to the requirements and determining how the organization should use them to take advantage of future opportunities. An organization's strategy gives it the future direction and scope. A strategy or general plan of action might be formulated for broad, long-term, corporate goals and objectives for more specific business unit goals and objectives, or for a functional unit.

Strategy is different from tactics. Tactics is a scheme for a specific manoeuvre whereas strategy is the overall plan for deploying resources to establish a favourable position. According to **Thompson & Strickland** – "A company's strategy consists of the combination of competitive moves and business approaches that managers employ to please customers and compete successfully and achieve organizational objectives." According to **Pearce II & Robinson, Jr. — "**Strategy reflects a Company's awareness of law, where and when it should compete; against whom it should compete and for what purpose it should compete."

Bryson defines strategy as "a pattern of purposes, policies, programs, actions, decisions, or resource allocations that define what an organization is, what it does, and why it does it."

From the above definitions, we can conclude that strategy:

- Is a plan or course of action denoting a pattern which evolves a direction for the organization.
- Relates to pursuning those activities which move an organization from its current position to a desired future state.
- Is concerned with the resources necessary for implementing a plan or following particular course of action.
- Describes an organization's activities for the present, as well as for the future by making trade offs between its different activities and creating a fir among these activities.

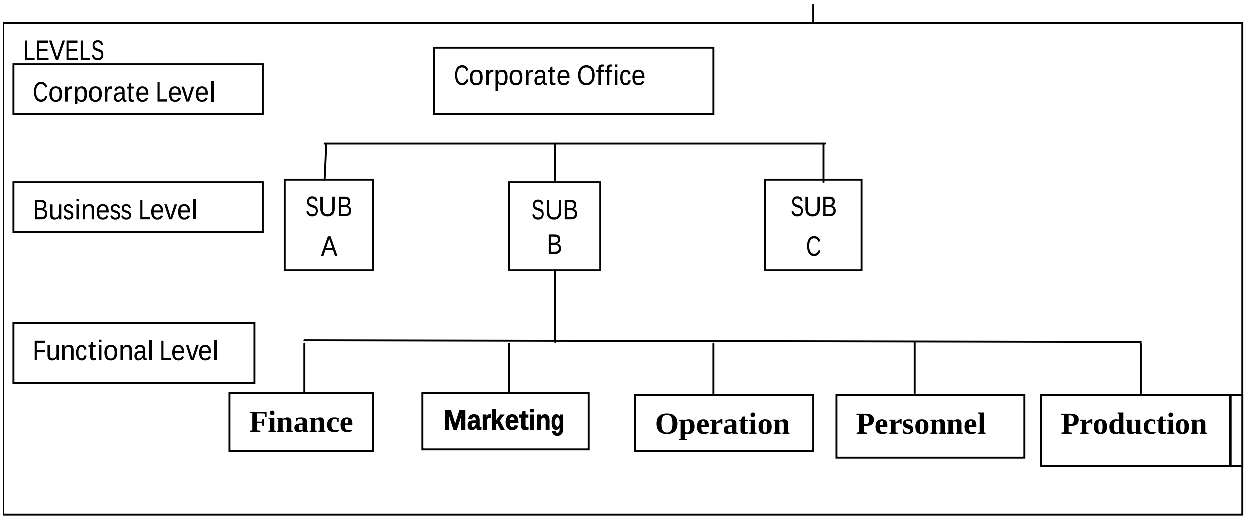
1.2 Levels of Strategy

In any organization decision making takes place at three levels and so strategies can also be formulated at all these different levels. Strategies are formulated at all these levels because single strategy is not only inadequate but also insufficient. These different levels of strategic decision making and strategic formulation in any organization include corporate-level, business-level and functional-level. The Top level or corporate-level, which is a Board of Directors and the Chief Executive officer, is responsible for the organization's financial performance and other non-financial goals like its image and social responsibilities. It takes major strategic decisions and formulates corporate level strategies. These corporate-level strategies basically involve taking decisions about allocation of resources among different businesses of the organization, transferring resources from one set of business to other and also managing and nurturing a portfolio of business in such a way that the overall corporate objectives are achieved. Such as ITC a cigarette company diversified into the hotel industry. Bombay Dyeing, a textile organization took decision to enter into the readymade garment business. The corporate level strategies decide the investment portfolio of an organization.

The middle level or business-level is the level, which includes business managers and corporate managers. Strategies formed at this level are comprehensive plans providing objectives for SBUs, allocation of resources and coordination of the SBUs for optimal performance. At this level the strategies decided at corporate level, are translated into concrete objectives and strategies for individual business. At this level the courses of action are adopted by an organization for each of its business separately to serve particular customer group or groups, for providing value to the customers by satisfying their needs. At business level an organization decides that it would take which route to achieve its corporate objectives. Whether it would be a cost leader, be different from others or focus at a particular market. For example Moser Baer India fulfilled corporate objectives by selecting to be a low cost leader in CD manufacturing. Also Philips India Ltd. launched premium-price flat screen TV by selecting differentiation on technology basis and focussed on niche market.

- At the third level which is the functional or the bottom level, managers of functional areas develop short term strategies to achieve their objectives. Functional strategy deal with providing the objectives for a specific function, for allocation of resources among different operations within the functional area and for enabling coordination between them for an optimal level achievement of the business and corporate level objectives. They are derived from business and corporate strategies. They are implemented at functional and operational levels. For example: Bajaj Auto depended heavily on technology and production function to achieve its objectives. These different levels are illustrated in Exhibit-1.

Exhibit 1 : Different Levels of Strategy



The three levels of strategy, the questions each level addresses, the main issues and the output-strategies at each level are discussed in the following table:

Table - 1 : The Questions each Level of Strategy Addresses and Main Issues

Level	Question it Addresses	Main Issues	Generic Grand Strategies
Corporate	Which businesses the corporate should be in?	• Overall purpose and scope of an organization • Resource allocation • Structure & Finance of organization • How can synergy be created to complement in SBUs into one other	• Expand • Stabilize • Retrench • Combinatio
Business Unit (Competitive)	How to compete in its business? (Strategic Business units)	• How can competitive advantage be achieved. • Spotting/creating new opportunities in market • Product market configurations • Meeting objectives of profitability, efficiency, market growth	• Cost • Differentiation • Focus

Operational (Functional)	How will strategy be executed?	• Main issues here are related to business process & the value chain. • How the parts of organization in terms of resources, process, people and the skills are pulled together to from the strategic landcape for implementation of strategy. • The integration between various functional units and with overall strategy. • Allocation of resources between the various functions and sub-functions of the business unit. • Provides input to business unit & corporate level.	• Human Resource • Marketing • Finance • Production R&D

1.3 Concept of SBU

It becomes very cumbersome for an organization having multi-products and multi-businesses, to have separate planning treatment of each of its products/businesses. To have better strategic planning, business products can be grouped into strategically-related business units known as SBU, so that they are manageable.

The concept of strategic business unit (SBU):

- A scientific grouping of the businesses of a multi-business corporation which helps the firm in strategic planning.
- An SBU is grouping of related businesses that can be taken up for strategic planning distinct from the rest of the businesses.
- Products/businesses within an SBU receive same strategic planning treatment and priorities.
- The task consists of analyzing and segregating the assortment of business portfolios and regrouping them into a few, well-defined, distinct, scientifically demarcated business units.
- Products/businesses that are related from the standpoint of "function" are assembled together as a distinct SBU.
- Grouping the businesses on SBU lines facilitates correct relative priorities and resources to the various businesses.

Strategic business unit is an independent business unit:

- Having its independent markets and products.
- Takes its own decisions regarding new product decisions, hiring decisions and price setting.
- It is treated as an internal profit centre by the corporate level.

- Each SBU is responsible for developing its business strategies, strategies that must be in tune with broader corporate strategy.

When a corporate consists of a number of SBUs then decisions regarding resources allocation to these SBUs are made at the corporate level depending on the future prospects of each. (Thus, expanding, retrenching or stabilizing the level of activity of each SBU).

1.4 Operational and Strategic Decisions

Strategic decisions are important decisions. Any organisation needs to take operational as well as strategic decisions. Strategic decisions are characterized by their important nature and a significant commitment of resources. These decisions require top management involvement, and its perception of the changing environment. In case of Morico Industries, the Kaya Skin care initiative was taken as a service venture providing 360^{o} solutions in skincare, which was based on an accurate perception of changing need of Indian People. These decisions have great affect on the organisation's long term prosperity and future orientation. Strategic decisions have wide & varied implications and affect different functions.

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. Exhibit-2 shows the differences between these three types of decisions.

Exhibit 2: Differences between Strategic, Administrative and Operational Decisions

Strategic Decisions	**Administrative Decisions**	**Operational Decisions**
Strategic decisions are long-term decisions.	Administrative decisions are taken daily.	Operational decisions are not frequently taken.
These are considered where the future planning is concerned.	These are short-term based Decisions.	These are medium-term based decisions.
Strategic decisions are taken in accordance with organizational mission and vision.	These are taken according to strategic and operational Decisions.	These are taken in accordance with strategic and administrative decision.
These are related to overall counter planning of all organization.	These are related to working of employees in an organization.	These are related to production.
These deal with organizational growth.	These are in welfare of employees working in an organization.	These are related to production and factory growth.

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.

- Strategic decisions are complex in nature.
- Strategic decisions are at the top most level, are uncertain as they deal with the future, and involve a lot of risk.
- Strategic decisions have major resource propositions for an organization. These decisions may be concerned with possessing new resources, organizing others or reallocating others.
- Strategic decisions deal with harmonizing organizational resource capabilities with the threats and opportunities.
- 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.
- Strategic decisions involve a change of major kind since an organization operates in ever-changing environment.

1.5 Strategic Planning

Strategic planning is a defined, recognizable set of activities designed to achieve organizational objectives and goals. The techniques for strategic planning may vary but the substantive issues are essentially the same. These include:

- Establishing and periodically confirming the organization's mission and its corporate strategy.
- Setting strategic or enterprise-level financial and non-financial goals and objectives.
- Developing broad plan of action necessary to attain these goals and objectives, allocating resources on a basis consistent with strategic directions, and managing the various lines of business as an investment "portfolio".
- Communicating the strategy at all levels , as well as developing action plans at lower levels that are supportive of those at the enterprise level.
- Monitoring results, measuring progress, and making such adjustments as are required to achieve the strategic intent specified in the strategic goals and objectives.
- Reassessing mission, strategy, strategic goals and objectives, and plans at all levels and, if required, revising any or all of them.

A great deal of strategic thinking must go into developing a strategic plan and, once developed, a great deal of strategic management is required to put the plan into action. Strategic planning is a useful tool, of help in managing the enterprise, especially if the strategy and strategic plans can be successfully deployed throughout the organization. Thinking and managing strategically are important aspects of senior managers' responsibilities, too. To paraphrase an old saw, "The strategy wheel gets the executive grease." This is as it should be. Senior management should focus on the strategic issues, on the important issues facing the business as a whole, including where it is headed and what it will or should become. Others can "mind the store."

1.6 Concept of Strategic Management

Strategic Management includes the actions and decisions related to formulating and implementing strategies. It enables the organizations to perform better in its future and gives a direction and aim to the organization. Strategic Management is all encompassing because it is concerned with all areas of management, yet it is not the same day-to-day management. It is linked with purpose or mission of the organization.

Developing a strategic plan is crucial in creating a competitive advantage, which is an aggregation of factors that set an organization apart from its competitors and gives it a unique position in the market. Strategic management is the process of developing and executing a series of competitive moves to enhance the success of the organization both in the present and in the future. These competitive moves are derived from the demands of the external environment in which the firm operates as well as the internal capabilities which it has developed or can reasonably hope to build or acquire.

While managers may follow somewhat different strategic management routines, a sound process should include an analysis of the current business situation, the formulation of objectives and strategies based on that analysis, and an implementation and evaluation procedure that ensures progress toward each strategy and objective.

According to **Pearce & Richard B. Robinson Jr. -**"Strategic Management is defined as the set of decisions and actions that result in the formation & implementation of plans designed to achieve a company's objectives."

Hence, we can say that:

- Strategic management provides a number of alternatives to chose from in order to achieve organizational objectives.
- The key to all strategic management is having a transformation process working to move an organization from where it is to where it wants to be in the future.
- Strategic management involves decision-making about an organization's objectives together with the formulation and implementation of plans, particularly regarding the allocation of resources, to support their achievement. As such, strategic management is a dynamic and complex process involving consideration of internal and external factors, and the short and long term. It consists of the decisions and actions used to formulate and implement strategies that will provide a comparatively competitive and superior fit between the organization and its environment and enable it to achieve organizational objectives.
- Strategic management makes an organization operate effectively in a volatile and dynamic environment. Strategic management focuses on two aspects i.e. strategic planning and strategic implementation.

1.7 Evolution of Strategic Management

In early 1920's and 1930's the managers used day-to-day planning methods to perform any task. To anticipate the future, they tried using tools like preparation of budgets and control systems like capital budgeting and management by objectives. The techniques were unable to emphasize the future adequately. As the environment became unstable, long range planning was used and then replaced by strategic planning and later by strategic management.

In mid 1930's, according to the nature of business the planning was done through Adhoc policy making. As many businesses had just started operations and were mostly in a single product line, there arose a need for policy making. As companies grew they expanded their products and they catered to more customers and which in turn increased their geographical coverage. The expansion brought in complexity and lot of changes in the external environment. Hence there was a need to integrate functional areas. This integration was brought about by framing policies to guide managerial action.

Especially after II World War there was more complexity and significant changes in the environment. Competition increased with many companies entering into the market. Policy making and functional area integration was not sufficient for the complex needs of a business. As the organization became large and the layers of management increased alongwith were environment al uncertainties, basic financial planning and foreast based planning became insufficient. As the only focused on operational control.

Strategic planning develops increasing responsiveness to markets and competition by trying to think strategically, later Strategic management evolved which seeks a competitive advantage and a successful future by managing all resources. Thus the evolution of the strategic management includes a consideration of strategy implementation and evaluation and control, in addition to the emphasis on the strategic planning. General Electric, one of the pioneers of the strategic planning, led the transition from the strategic planning to strategic management during the 1980s. By the 1990s, most corporations around the world had also begun the conversion to strategic management.

A part of strategic management has now evolved to the point that its primary value is to help the organization operate successfully in dynamic, complex environment. To be competitive in dynamic environment, corporations have to become less bureaucratic and more flexible. In stable environments such as those that have existed in the past, a competitive strategy simply involved defining a competitive position and then defending it.

Organizations must develop strategic flexibility: the ability to shift from one dominant strategy to another. Strategic flexibility demands a long term commitment to the development and nurturing of critical resources. It also demands that the company become a learning organization It means an organization skilled at creating, acquiring, and transferring knowledge and at modifying its behaviour to reflect new knowledge and insights. Learning organizations avoid stability through continuous self-examinations and experimentations. People at all levels, not just top the management, need to be involved in strategic management: scanning the environment for critical information, suggesting changes to strategies and programs to take advantage of environmental shifts, and working with others to continuously improve work methods, procedures and evaluation techniques. At Xerox, for example, all employees have been trained in small-group activities and problem solving techniques. They are expected to use the techniques at all meetings and at all levels. The evolution of Business policy to strategic management summaried below:

Table - 2 : Various Phases of Industrial Development & Business Policy

Evolution of Industrial Development	**Focus**	**Planning Tasks**	**Evolution of Business Decision Making Practice**
• Entrepreneurial decision making (sole decision maker)	Product maker decisions due to expansion of American firm	Objectives and goals were set as and when required (informal planning)	Phase of ad-hoc Policy Making
• Increased volume led to inception of different functional departments and their decisions makers.	Co-ordination of different function units	Led to for malisation of objectives to have co-ordination between various functions of the organization.	Phase of formal planned policy for for mulation begins
• When local markets saturated business increased geographic scope of their operations to secure further growth, this led to cration of departmental from or organization	Assessing the attractiveness via-a-via risk of different businesses	Led to formalization of the organization functional area polices to gauratnee consistency of actions throughout the different sub units.	Phase of Formal planned Policy for mulation of Business Policy
• With the advent of many new industries the firms had more choice to enter into variety of business according to risk return criteria thus, diversification let to multi-divisional structure		Need for strategic Dicisions to keep pace with the dynamic, complex environment multiple level of general management corporate strategy formulation	Phase of strategic planning
• Age of 'Discontinuity'- Technological changes become faster and unpredictable leading to new and substitute products of unimaginable speed. Rise of conglomerates having a global outlook	Anticipate environmental changes before your competitors	Proactive responses rather then reactive ones to align the business with the uncertain environmental changes	Phase of strategic management Still evolving.

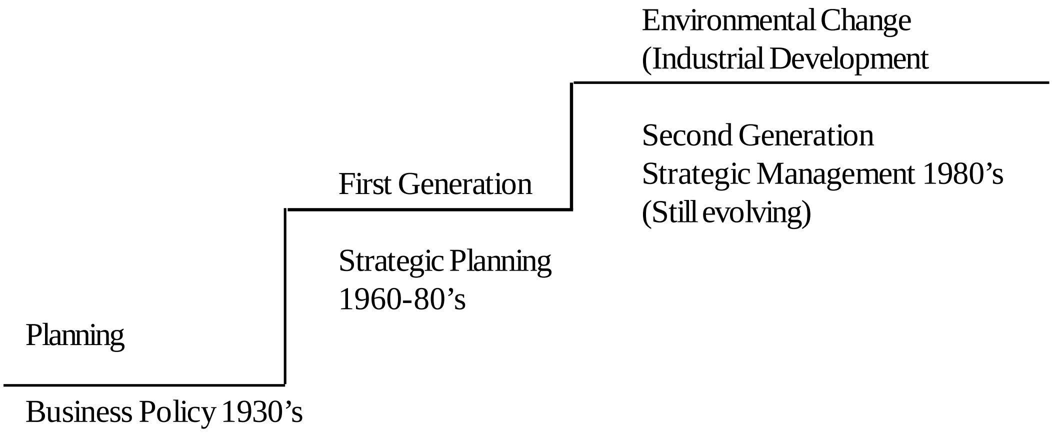


Exhibit 3 : Evolution of Business Policy and Stategic Management

1.8 Strategic Planning Process

The strategic management process means defining the organization's strategy. It is also defined as the process by which managers make a choice of a set of strategies for the organization that will enable it to achieve better performance. Strategic management is a continuous process that appraises the business and industries in which the organization is involved; appraises its competitors; and fixes goals to meet all the present and future competitors and then reassesses each strategy.

A good strategic management process will help any organization to improve and to gain more profits. Every organization should know that performance of the management process is very important. There is a big difference between planning and performing. The organization will be successful only if it follows all the stages of the strategic management process. Strategic management process has following four steps-

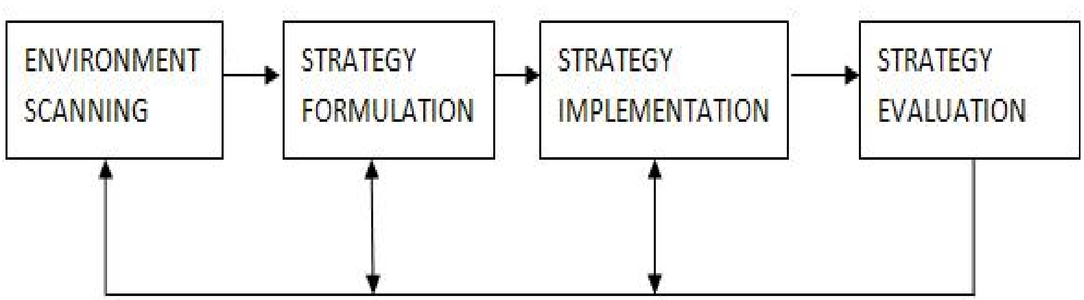
a) Environmental scanning refers to a process of collecting, scrutinizing and providing information for strategic purposes. It helps in analyzing the internal and external factors influencing an organization. After executing the environmental analysis process, management should evaluate it on a continuous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

b) 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.

c) 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.

d) 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.

Exhibit - 4: Strategic Management Process



Thus Strategic management process is an ongoing process. The strategic management process is dynamic and continuous. A change in one component can necessitate a change in the entire strategy. If all the stages of strategic management process are well placed in the organization, even though it is imperfect, the organization can accomplish its desired results and develop more in its organization. To be effective, all the stages in the management process should be implemented and performed well by the organization.

1.9 Benefits of Strategic Management

Strategic management process involves various activities which provide sound basis for future growth and success of any organization. It leads to adequate and appropriate analysis and systematic allocation and utilization of resources, which contributes to the success of an organization. There are several advantages of it.

a) **Financial Gains –** Strategic management accumulates higher financial benefits because adequate planning and implementation of strategies yields more profit and higher level of growth. It helps in achieving greater financial targets.

b) **Effective dealing of Future Problems -** If any organization does strategic planning accurately, it comes to know its future problems in advance, thus it is alerted and fore-warned when hindrances and hurdles occur and it can therefore, deal with those problems effectively.

c) **Quality Strategic Decision Making –** Strategic management assists in selecting best strategic alternatives, due to systematic planning process, which results in enhancing the quality of strategic decisions taken by the management.

d) **Highly Motivated Employees –** Systematic process in strategic management lead to a higher participation of employees, especially in its formulation, enables employees in understanding decisions better. It not only enhances their productivity but also makes them highly motivated.

e) **Reduce Overlapping Activities –** Strategic management helps the higher levels of management to undestand the environmental changes more effectively. Strategic management process is systematic process which clarifies any role overlapping, if it exists. It differentiates various roles and also removes any overlaps and gaps.

f) **Minimizes Resistance to Change –** Participation of employee in strategic decision making develops acceptability among them. It helps in minimizing their resistance since they can visualize the impact of change and the uncertainty is reduced.

1.10 Limitations of Strategic Management

As mentioned, ”Strategic management can contribute significantly to organisational performance; however, its practice can have limitations.”One of the major criticisms of strategic management is that it requires the organization to anticipate the future environment in order to develop plans, and predicting the future is not an easy task. Recent research conducted in the private sector has demonstrated that organizations that use planning process achieve better performance than those organizations who don’t plan - regardless of whether they actually achieved their intended objective. In addition, there are a variety of approaches to strategic planning that are not as dependent upon the prediction of the future.Although a sense of direction is important, it can also kill creativity, especially if it is strictly enforced. In an uncertain and ambiguous world, flexibility can be more important than a rigidity of strategic compass. When a strategy becomes internalized into a corporate culture, it can lead to group think. It can also cause an organization to define itself too narrowly. Some of the other reasons of strategic management failure which act as its limitations are as follows:

- Inability to predict environmental reaction
- Failure to coordinate
- Failure to obtain senior management commitment
- Failure to obtain employee commitment
- Failure to follow the plan
- Poor communications
- Failure to understand the customer
- Over-estimation of resource competence
- Under-estimation of time requirements
- Failure to manage change

1.11 Role of Strategists

During the 1980s, the focus on the CEO as strategist was broadened to look at the role of the Top Management Team. Despite a substantial body of work establishing the strategic influence of middle managers, the belief in a simple link between top management team characteristics and performance, has persisted. The role of the strategist in the strategy process has been implied in terms of 'crafting' strategy. In strategic management, strategist plays a major role because a process of strategic management involves careful consideration on the part of strategist. Strategists are key person involved in strategic management process. They are individuals or groups who are primarily involved in the formulation, implementation and evolution of strategy. They perform key activities related to various aspects of strategic management. In an organization different persons at different key positions can play a major role in it. All these individuals such as members of the board of directors, chief executive officer, corporate planning staff, entrepreneur etc are strategist and their roles are as follows:

1) Role of Board of Directors

The Board of Directors of any organization is responsible for the governance of it. The Board of Directors is a body of elected or appointed members who jointly oversee the activities of a company or an organization. The board makes decisions on shareholders' behalf. Most importantly, the board of directors should be a fair representation of both management and shareholders' interests. The Board of Directors play different roles in different types of organization. Some of their major roles are as follows:

(i) To guide senior management in setting and achieving corporate level objectives.

(ii) To set strategic direction and review and evaluate organizational performance.

(iii) To fulfil responsibilities towards the organization's stakeholders as well as creditors.

(iv) To determine strategic options, select those to be pursued, and decide the means to implement and support them.

(v) To determine the business strategies and plans that underpin the corporate strategy.

(vi) Ensure that the company's organisational structure and capability are appropriate for implementing the chosen strategies.

2) Role of Chief Executive Officer

The Chief Executive Officer plays the most significant role among the strategist. He is chiefly responsible for the execution of the strategic function in any organization. The Chief Executive Officer is the officer who has ultimate responsibility for any organization. He is the highest ranking executive in an organization whose main responsibilities include developing and implementing high-level strategies, making major corporate decisions, managing the overall operations and resources of a company, and acting as the main point of communication between the board of directors and the corporate operations. The Chief Executive Officer reports directly to the Board of Directors. He appoints other managers and assists them in carrying out the responsibilities of the organization. Their major roles in strategic management are as follows:

(i) Articulates strategic vision and provides leadership.

(ii) Manages the strategic planning process.

(iii) Communicates and monitors strategic activities.

(iv) Motivates, leads and mentors other strategists.

3) Role of Entrepreneur

An Entrepreneur is an initiator who provides a sense of direction and sets the standards and objectives in an organization. An Entrepreneur plays a key role in his organization. Some of his main roles in strategic management are as follows:

(i) Create project by defining purpose, scope and manages resource requirements and timing.

(ii) Proactive role in strategic management.

(iii) Play all the strategic roles simultaneously.

(iv) Identify and track key performance indicators and take corrective actions.

4) Role of Senior Management

Senior managerial level is the highest in managerial hierarchy. They are involved in various aspect of strategic management. Actually, strategic management is the top-level management. It covers all the management functions because it starts from planning such as environmental analysis and strategic choice, associated with organizing and leading in implementation phase, and lastly also evaluates and controls the results. Planning, organizing, leading, and controlling are the major parts of management activities that a manager performs. The role of senior management is vital and of utmost importance. Their major roles in strategic management are as follows:

i) When an organization promotes a joint venture/new decision.

ii) Decides to go for an expansion.

iii) Takes other important actions.

iv)Responsible for implementation of strategies.

v) Responsible for periodic evaluation of performance.

vi)Perform various key roles assigned to them in formulation, implementation and evaluation of strategies.

5) Role of SBU-level Executives

SBU-level Executives play vital role in strategic management of their unit. SBU-level strategy formulation and implementation are the chief responsibilities of the SBU-level executives. Their major roles in strategic management are as follows:

(i) Articulates strategic vision and provides leadership.

(ii) Manages the strategic planning process.

(iii) Communicates and monitors strategic activities.

(iv) Motivates leads and mentors other strategists.

(v) Responsible for implementation of strategies.

(vi) Responsible for periodic evaluation of performance.

(vii) Perform various key roles assigned to them in formulation, implementation and evaluation of strategies.

6) Role of Corporate Planning Staff

The corporate planning staff plays a supporting role in strategic management. It helps the management in strategy formulation, implementation and evaluation. For example, Essar Steel had a corporate planning cell which helps in planning and developing diversification and growth plans for it. Several roles played by the corporate planning staff in strategic management are as follows:

i) Supporting role in strategic management.

ii) Assists in all aspects of strategic formulation, implementation and evaluation.

iii) Preparation and communication of strategic plan.

iv) Special duties related to research for strategic planning.

7) Role of Consultants

Consultants are external planners which are hired by the management. These consultants may be individuals, academicians, consultancy organizations, specialising in strategic management. There are various advantages of hiring these consultants such as – cost effectiveness, specialists' services, unbiased and objective opinions. They perform various strategic roles required to render the services.

8) Role of Middle-level Managers

The strategic role of middle managers in organisations and particularly their influence on organisational performance through involvement in strategic planning processes is limited. They do not play any active role in strategy formulation, but they play a significant role in strategy implementation. Some of their roles in strategic management are as follows:

i) Involved in implementation of functional strategy.

ii) Assist in contributing the general strategic ideas.

iii) Develop strategic alternatives for consideration.

iv) Set targets at departmental level.

9) **Role of Executive Assistants**

Executive assistants are those who assist chief executives in the performance of their duties in various ways. They play various roles by indirectly helping chief executives, such as:

i) Assist the chief executive in data collection and analysis.

ii) Suggest alternatives where decisions are required.

iii) Prepare briefs of various proposals, projects and reports.

iv) Help in liaison function and in maintaining public relations.

v) Act as a filter for the information coming from different source.

Thus, Strategic management can be defined as the art and science of formulating, implementing and evaluating cross-functional decisions that enables any organisation to attain its objectives. As this definition entails, strategic management gives emphasis on integrating management, marketing, finance, production/operations, research and development and computer information systems to achieve organisational success. Strategic management is guiding an organisation relative to challenges and opportunities appearing in the contingent environment. The purpose of Strategic management is manifold. To be successful in the business one should have holistic approach and should know how to integrate the knowledge gained in various functional areas of management. By having generalist approach, senior management can understand the complex inter linkage operating within the organization and it should have systematic approach in decision making in relation with the changes which takes place in the environment.

1.12 Issues in Strategic Decision Making

There are certin issues related to strategic decision-making which are:

(1) Use Vaguest of Information: While taking strategic decision, a search process is initiated. This search should not be related to the preferred areas alone, it should also take into account all incomplete, vague and uncertain information so that it contributes to varying degree of alternatives.

(2) Synthesis of Approaches: strategic decision-making is neither completely rational, nor completely intuitive. It is a combination of both the approaches in the light of political and cultural set up.

(3) Criteria for Decision-Making: Objectives are set which serve as yardstik to measure the efficiency and effectiveness of decision-making process. Objectives can be set at highest points i.e. maximization. They can be realistically achieved through optimization, and they can also be incremental.. Any of these criteria or a combination of them can be chosen for strategic decision-making.

(4) Rationale in Decision-Making: The rationale behind decision –making is the choice of such alternatives which leads to achievement of objectives in the best possible manner.

(5) Creativity: Creativity involves thainking in new dimensions. A lot of brainstorming should be done while taking decisions such that new ideas are generated, which would help in finding new domains, opportunities and develop competitive advantage, which are all essence of strategy.

(6) Variability: Different decision makers reach different conclusions while making a strategy depending on their perceptions, and the access to information. Such variability is essential in decision-making as it helps in looking at things from different perspectives and hence come to right conclusions.

(7) **Persons Related Factors:** Decision-making is affected not only by external factors but individual factors also. Age, Value Systems, Intelligence, Cognitive style etc. are variables that are of importance while strategizing.

(8) **Individual v/s Group Decision-Making:** Depending on the size of the organization, the degree of complexity, the degree of turbulence in the environment,strategic decisions are taken individually or in groups.

1.13 Summary

This unit tries to provide an understanding of the concept of strategic management. It defines strategy as a course of action or a game plan. Strategies are formulated and implemented at different levels. The corporate-level strategy applies to large organizations which are divided into a number of discrete units and is responsibility of the top level management. The business level strategy is related to different businesses of any organization and the functional level strategy is concerned with various functions in any organization. There are different types of decisions which are taken in any organization i.e. operational, administrative and strategic decisions. Strategic decisions are more complex and varied in nature and related with strategic tasks and taken by the top level management.

Strategic management has evolved gradually with the growing needs of the management. Strategic management process involves four significant steps i.e. environmental scanning, strategy formulation, strategy implementation and strategy evaluation. Strategists are those key persons or groups who play vital roles in strategy formulation and implementation at different levels in any organization. The BOD, CEO, SBU-level executives, Entrepreneurs, Senior Managers, Corporate Planning Staff , Consultants, Middle-level Managers and Executive Assistants are key strategists who play several important roles at different phases of strategic management process in strategic management. A host of issues in strategic decision making has been taken up finally.

1.14 Key Words

- **Strategy:** It is a game plan of management which involves matching of an organization's resources to the requirements and determining how the organization should use them to take advantage of future opportunities.
- **Levels of Strategy:** There are different levels of strategic decision making and strategic management in any organization i.e. corporate-level, business-level and functional-level of strategies.
- **Strategic Decisions:** 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.
- **Strategic Management Process:** Strategic management process involves various activities which provide sound basis for future growth and success of any organization. It involves four significant steps i.e. environmental scanning, strategy formulation, strategy implementation and strategy evaluation.
- **Strategists:** They are individuals or groups who are primarily involved in the formulation, implementation and evolution of strategy. They perform key activities related to various aspects of strategic management.

1.15 Self Assessment Test

1 Explain the concept of strategy.

2 What are different levels of strategy formulation in any organization?

3 Define strategic and operational decisions and give any two differences in them.

4 What is the concept of Strategic Management?

5 Describe Corporate level strategy.

6 What is the role of the Board of Directors in Strategic management?

7 What different role does an entrepreneur play in Strategic management?

8 Identify the roles of Middle-level managers in Strategic management.

9 Give steps of Strategic management process.

10 Give advantages of Strategic management.

11 What are limitations of Strategic management?

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Unit - 2 : Strategic Intent

Unit Structure:

2.0 Objectives

The main objectives to study this unit are:

- To understand the concept, nature and meaning of strategic intent and its hierarchy;
- To understand and appreciate the concept and importance of vision, mission, values, goals, objectives, plans, business definition;
- To understand the process of formulation of vision, mission, values, goals, objectives, plans, business definition;
- To appreciate importance of all the above as a strategic tools.
- To understand the way a firm's strategic intent is determined.
- To understand the concept of strategic dissonance, and its implication for a firm's strategic intent

2.1 Introduction

The term strategy is derived from a Greek word '*strategos*' which means generalship; a plan or a course of action or a set of decision rules making a pattern or creating a common link. All the successful business enterprises today constantly take in new information about their markets, customers, and operating environments. Then management uses that knowledge and data to shape new strategic directions, to reorganize how they respond to marketplace demands, and to ensure that their views regarding all aspects of the business are fresh and viable. *Johnson and Scholes* have defined strategy as: "… the **direction** and **scope** of an organization over the **long-term:** which achieves **advantage** for the organization through its configuration of **resources** within a challenging **environment**, to meet the needs of **markets** and to fulfill **stakeholder** expectations".

The above definition centers on the following key points:

Direction: In which the business is trying to get to in the long-term

Scope: Competing grounds for business and the involved activities

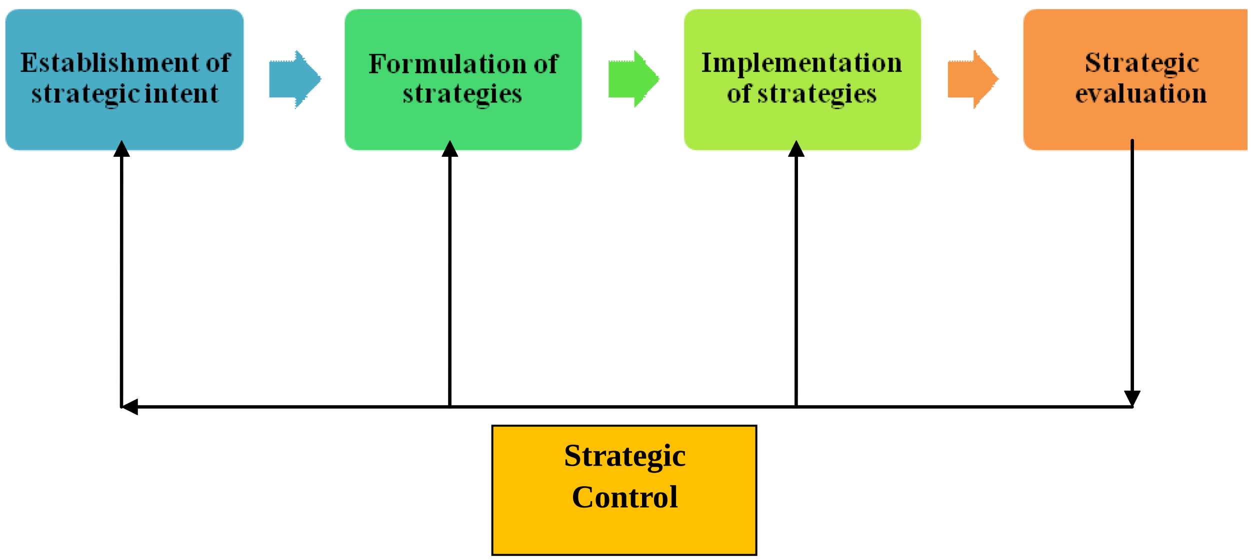
Advantage: Gaining a competitive edge against the competitors

Resources: Tangible and intangible resources required to compete effectively

Environment: Factors related to External, Industry & Internal environment & their impact

Stakeholders: Values & expectations of different stakeholders

Strategic management is defined as the dynamic process of formulation, implementation, evaluation and control of strategies to realise the organization's strategic intent. There are four phases in strategic management:



Hence, in a strategic decision-making process, the following steps are involved:

1. Determination of the objectives to be achieved;
2. Identification of alternative ways to achieve identified objectives;
3. Evaluation of each alternative in terms of its objective-achieving ability; and
4. Choosing the 'best alternative'.

The strategic intent of an organization is determined by a continuous and complex interaction of various forces like assessing the various strategic options, considering the interests of various stakeholders, the firm's industry context, its management & leadership, history and culture, and the perceived state of the future prospects of the organization.

The hierarchy of strategic intent lays the foundation for strategic management and decision – making process. The strategic intent of the firm represents the organization's belief about its state of the future. The purpose or ends, the organization wishes to pursue vary from being broadly structured and long-term (vision and mission), to being narrow, with a focus on the short or near-term (objectives or goals).

It is important to realize that achieving the narrow intentions is a pre-requisite for achieving the broader intentions, and therefore, there needs to be a careful alignment between these various levels of intentions; for example 'quality leads to profitability' in case of any manufacturing concern.

In a case where such alignment is lacking, it is possible that the organization and its employees indulge in wastage of time and efforts to pursue a particular set of narrow objectives that do not necessarily take them towards their intended state of the future (for example, focusing excessively on quality and manufacturing a product that is so expensive and unaffordable, at the cost of profitability). Therefore, it is the broader intentions that define the specific milestones (the short-term intentions) that the organization needs to cross in order to reach the long-term intent.

From strategy formulation point of view, an organization must define 'why' it exists, 'how' it justifies that existence, and 'when' it justifies the reasons for that existence. The answer to these questions lies in the organization's vision, mission, business definition, objectives, goals and plans. These terms become the base for strategic decisions and actions.

2.2 Strategic Intent

Gary Hamel & C.K. Prahalad popularized the term through an article "Strategic Intent".in. Harvard Business Review, in which they argued that in order to achieve success; a company must reconcile its end to its means through Strategic Intent. They were of the view that companies that have acquired global leadership over the past two decades or so invariably began with ambitions that were out of all proportion to their resources and capabilities. Still, they were able to create an obsession with winning at all levels of the organization and then sustained that mindset over the entire period of achieving a global leadership.

G. Hamel & C.K. Prahalad termed this obsession as ***"strategic intent"*** In their opinion, 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, sustaining enthusiasm by providing new operational definitions as circumstances change, and using intent consistently to guide resource allocations.

Strategic intent implies a considerable stretch for an organization. Current capabilities and resources are not going to prove sufficient which forces the organization to be more innovative for optimizing on them. It is in a way coming out of the comfort zone.The traditional view of strategy focuses on the degree of fit between existing resources and current opportunities, 'strategic intent' creates an extreme misfit between resources and ambitions. Top management then challenges the organization to close the gap by systematically building new advantages.

At this point, another term, which is significant for the organization to close the gap between the dream and reality on the part of the leadership is the **"Merlin Factor"** which is the ability to see the potential of the present from the point of view of the future. It is the ability to enlist people throughout the organization as ambassadors who listen, speak, and act on behalf of that future, and it is an absolute commitment to performance breakthroughs that explode the existing cultural limits on what's possible. This is more relevant with the quality of the top management think tank. As with strategic intent, top management is specific about the ends (reducing product development times by 75%, for example) but less prescriptive about the means.

Therefore, according to Hamel & Prahalad, strategic intent encompasses the following three basic features:

- Strategic intent captures the essence of winning.
- Strategic intent is stable over time.
- Strategic intent sets a target that deserves personal effort and commitment

The process of establishing the hierarchy of strategic intent is very complex. In this hierarchy, the vision, mission, business definition and objectives are established which also serve as the starting point of strategy formulation. Formulation of strategies is possible only when strategic intent is clearly set up. The organizations strive for achieving the end results, which are 'vision', 'mission', 'purpose', 'goals', 'objectives', 'plans' etc.

The hierarchy of strategic intent lays the foundation for the strategic management of any organization. The strategic intent makes clear what an organization stands for. The strategic intent can be understood as a mix of five basic elements as depicted below:

The Five Elements of Strategic Intent –

The above elements are briefly described as below:

• **Breadth:** The breadth of a company's strategy describes the choices it makes with respect to the range of products or services offered, the different markets served, the different technologies supported, the different segments of the value chain occupied, and so on. The broader the company's strategy, the more complex and diversified it is. GE, for example, has one of the broadest strategies, operating in twenty – three of twenty – six industry categories that are recognized by the U.S. government and supporting technologies ranging from locomotive engines and turbines to light bulbs.

• **Aggressiveness:** A company's aggressiveness defines how it develops new products, grows its business, and battles its competitors. It refers to the organization's commitments to courses of action and is reflected in an organization's goals, objectives, and policies. Intel, for example, devotes a very high percentage of its expense budget to the development of new products and to basic research

• **Differentiation:** The differentiation elements of a strategy are concerned with the features of a company's product or service and how they match up against competitors' products or services. GM has a broad strategy because it operates in multiple segments but for each segment, its product has features that distinguish it from other competitors in its class.

• **Strategic Logic:** Strategic logic refers to the underlying business model used to generate revenue, manage costs, and produce profits. An organization, for example, that chooses an aggressive and broad strategy may be attempting to capture market share and lower unit costs.

• **Orchestration:** This element is particularly important because it is both an element of strategic intent and a capability. The term basically relates to the effectiveness of adapting to and adopting change at the speed of business. This factor ultimately decides the fate of any organization and is the pinwheel of the entire process.

The nature, components & process of 'strategic intent' can also be summarized on the basis hierarchy as in the following figure:

Hierarchy of Strategic Intent

2.3 Vision

It is at the top in the hierarchy of strategic intent. It is what the firm would ultimately like to become. Vision states what an organization wishes to achieve in the long run. **Miller and Dess** have defined vision as the **"category of intentions that are broad, all inclusive and forward thinking".** The definition itself is comprehensive and states clearly the futuristic position. The definition lays stress on the following:

- Broad and all inclusive intentions.
- Vision is forward thinking process.

It refers to the broad category of long-term intentions that the organization wishes to pursue. As the word 'vision' suggests, it is an image of how the organization sees itself. It can be equated to a dream; the aspirations of the organization for its future. It may seem unreal to actually achieve it even in the long term; yet, it provides the direction and energy to work towards it.

If we consider the vision statement of the National Thermal Power Corporation (NTPC), India: 'To be one of the world's largest and best power utilities, powering India's growth, it can be seen that this statement clearly specifies the larger purpose of the organization i.e. powering India's growth, and describes the future state of the organization i.e. world's largest and best power utilities. It might not clearly define in what terms NTPC seeks to be the 'largest' or the 'best' power utilities in the world, but it definitely provides the direction to NTPC, needed to work towards becoming 'big'.

A few more important aspects regarding vision are as follows:

- It is more of a dream than an articulated idea.
- It is an aspiration of an organization, which it has to strive and exert to achieve.
- It is a powerful motivator of action.
- Vision articulates the position of an organization, which it may attain in distant future.

A Well-defined and convincing vision statement specifies intentions that are:

- Core to its ideology
- Broad, all-inclusive, forward thinking in nature – envisioned future
- Aspirations for the future—i.e. destination rather than the course to be taken.
- Mental image of the future state.
- A dream that is shared across the entire organization.
- Inspiring, motivating, and challenging.
- Easily communicated to all its stakeholders.

Shared vision, is a common mental image of the future being shared by the members of the organization, which integrates their efforts towards achieving that future state. The vision statement categorically tells us the direction in which the organization is headed. It should be highly motivating, inspiring, and challenging. Good vision statements act like slogans that drive people towards a dream. The larger purpose binds people together and creates enthusiasm for performing the set of activities that are required to reach the dedicated ends.

Core Ideology will remain unchanged. It has the enduring character. It consists of core values and core purpose. Core values are essential tenets of an organization. Core purpose is related to the reasoning of the existence of an organization. Envisioned Future will basically deal with the long-term objectives of the organization and a clear description of the articulated future.

Advantages of Vision

A few benefits accruing to an organization having a vision are as follows:

- They foster experimentation.
- Vision promotes long term thinking.
- Visions foster risk taking.
- They can be used for the benefit of people.
- They make organizations competitive, original and unique.
- Good vision represents integrity.
- They are inspiring and motivating to people working in an organization.

Vision statements of some Companies:

• **Ford Motors:** To become the world's leading Consumer Company for automotive products and services.

General Motors:To be the world leader in transportation products and related services. We will earn our customers' enthusiasm through continuous improvement driven by the integrity, teamwork, and innovation of GM people.

• **Pfizer**: We will become the world's most valued company to patients, customers, colleagues, investors, business partners, and the communities where we work and live.

• **McDonald's:** To be the world's best quick service restaurant experience. Being the best means providing outstanding quality, service, cleanliness, and value, so that we make every customer in every restaurant smile."

• **Colgate-Palmolive**: As we plan our strategies to sustain growth for the years to come, our core values of Caring, Global Teamwork and Continuous Improvement will continue to drive our future initiatives.

• **Whirlpool**: Every Home… Everywhere… with Pride, Passion and PerformanceOur vision reinforces that every home is our domain, every customer and customer activity our opportunity. This vision fuels the passion that we have for our customers,pushing us to provide innovative solutions to uniquely meet their needs. Pride... in our work and each otherPassion... for creating unmatched customer loyalty for our brandsPerformance... that excites and rewards global investors with superior returnsWe bring this vision to life through the power of our unique global enterprise andour outstanding people... working together... everywhere.

• **Coca Cola:** Our vision serves as the framework for our Roadmap and guides every aspect of our business by describing what we need to accomplish in order to continue achieving sustainable, quality growth.

• **People:** Be a great place to work where people are inspired to be the best they can be.

• **Portfolio:** Bring to the world a portfolio of quality beverage brands that anticipate and satisfy people's desires and needs.

• **Partners:** Nurture a winning network of customers and suppliers, together we create mutual, enduring value.

• **Planet:** Be a responsible citizen that makes a difference by helping build and support sustainable communities.

• **Profit:** Maximize long-term return to shareowners while being mindful of our overall responsibilities.

• **Productivity:** Be a highly effective, lean and fast-moving organization.

2.4 Mission

Translating the organizational vision into action is mission. The mission statement makes the vision statement more tangible and comprehensible. Although, these two terms are often used interchangeably, yet both stand for different meanings.

Hunger and Wheelen defines mission as "purpose or reason for the organization's existence. **David F. Harvey** states, " A mission provides the basis of awareness of a sense of purpose, the competitive environment, degree to which the firm's mission fits its capabilities and the opportunities which the government offers." Dictionary states that, "Mission relates to that aspect for which an individual has been or seems to have been sent into the world". In the organizational context, the mission of an organization is its reason for existence, what it sees as its essential purpose. This is often written down in the form of a mission statement, which embodies its philosophies, goals, ambitions etc. Any entity that attempts to operate without a mission statement faces the risk of going haywire without having the ability to verify that it is on its intended course. Managers, especially in large organizations, may find it difficult to relate to broad vision statements.

In comparison to vision, mission is relatively less abstract, subjective, qualitative, philosophical & non-imaginative. Mission has a societal orientation. It is a statement, divulging what an organization, intends to do for the society. Through the mission statement, an organization gives a public statement specifying the direction for different activities it would like to carry on. It motivates employees to work in the interest of the organization along with a sense of purpose.

2.4.1 Nature

- It gives **social reasoning**. It specifies the role, which the organization plays in society. It is the basic reason for existence.
- It is **philosophical and visionary** and relates to top management values. It has long term perspective.
- It **legitimizes societal** existence.
- It has **stylistic objectives**. It reflects corporate philosophy, identity, character & image of organization.

While a business must continually adapt to its competitive environment, there are certain core ideas that remain relatively steady and provide guidance in the process of strategic decision-making. These unchanging ideas form the business vision, as discussed in the above segment, and are expressed in the company mission statement.

Mintzberg defines a mission as – "the organization's basic function in society, in terms of the products and services it produces for its customers". A mission statement may answer the following:

- Why the organization exists, or the purpose
- What differentiates the organization from others, or the identity
- What are its values & philosophy e.g. to serve its investors or to help the community
- What is the scope of its activities e.g. to be a UK, European or global business and
- What is the competitive strategy e.g. to be a luxury provider or low cost operator

Therefore, a clear business mission statement should have each of the following elements:

(1) A Purpose

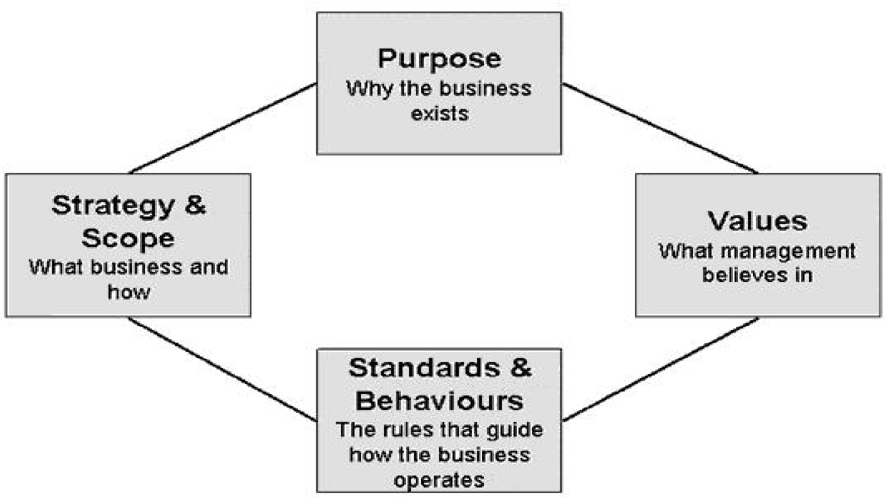
- Why does the business exist?
- Is it to create wealth for shareholders?
- Does it exist to satisfy the needs of all stakeholders?

(2) A Strategy and Strategic Scope

A mission statement provides the commercial logic for the business, which focuses on the following:

- The products or services it offers.
- The competencies through which it tries to succeed, and
- It's method of competing.

A business's strategic scope defines the boundaries of its operations that are set by the management. For example, these boundaries may be set in terms of geography, market, business method, product etc. The decision management makes about strategic scope defines the nature of the business.



(3) Policies and Standards of Behavior

Mission has to be translated into everyday actions. For example, if the business mission includes delivering "outstanding customer service", then policies and standards should be created and customer dealing monitored against these.

This may be done through monitoring the speed with which telephone calls are answered in the sales call center, the way of addressing the customer grievances and queries, the number of complaints received from customers, the number of complaint calls that go unattended, or the extent of positive customer feedback through questionnaires &/or schedules.

(4) Values and Culture

- The values of a business are the basic, often un-stated, beliefs of the people who work in the business. These include:
  - o Business principles like commitment to various stakeholders.
  - o Loyalty, commitment and valuing each other - both on the part of employees as well as the organization.
  - o Guidance on expected behavior – a strong sense of mission helps create a work environment where there is a common purpose.

The identity of the organization delimits the scope of the business and identifies the key sources of competitive advantage for that business. In delimiting the scope of the business, the organization answers the question, 'what business are we in?' In doing so, it defines the breadth of products/markets/target customers' served/ technology applied by the firm. The scope of this definition typically serves as the basis of further decisions on corporate strategy and competition.

Some examples of mission statements of renowned organizations:

Company Name	Mission Statement
Dell	Dell's mission is to be the most successful computer company in the world at delivering the best customer experience in markets we serve.
Face book	Face book's mission is to give people the power to share and make the world more open and connected.
Google	Google's mission is to organize the world's information and make it universally accessible and useful.
MetLife Inc.	The capable team of MetLife's Customer Response Center (CRC) shares a common mission - that all customers are "Met for Life." By balancing the efficiencies of new technologies with the personal touch of highly trained and motivated professionals, we are able to deliver solutions and services that exceed our customers' expectations. We thereby earn their loyalty.
NIKE Inc.	To Bring Inspiration and innovation to every athlete in the world.
ITC	To enhance the wealth generating capability of the enterprise in a global environment, delivering superior and sustainable stakeholder value.
Skype	Skype's mission is to be the fabric of real-time communication on the web.
Coca Cola	Our Roadmap starts with our mission, which is enduring. It declares our purpose as a company and serves as the standard against which we weigh our actions and decisions. • To refresh the world... • To inspire moments of optimism and happiness • To create value and make a difference.

Microsoft	Microsoft's mission is to enable people and businesses throughout the world to realize their full potential.
The Walt Disney	The mission of The Walt Disney Company is to be one of the world's leading producers and providers of entertainment and information. Using our portfolio of brands to differentiate our content, services and consumer products, we seek to develop the most creative, innovative and profitable entertainment experiences and related products in the world.
Twitter	Twitter lists its mission as "a work in progress" as it has yet to be fully developed.
Apple	Apple is committed to bringing the best personal computing expe rience to students, educators, creative professionals and consumers around the world through its innovative hardware, software and Internet offerings.
IBM	Operating a safe and secure government.
The McGraw-Hill	We are dedicated to creating a workplace that respects and values people from diverse backgrounds and enables all employees to do their best work. It is an inclusive environment where the unique com bination of talents, experiences, and perspectives of each employee makes our business success possible. Respecting the individual means ensuring that the workplace is free of discrimination and harassment. Our commitment to equal employment and diversity is a global one as we serve customers and employ people around the world. We see it as a business imperative that is essential to thriving in a competitive global marketplace.
Johnson & Johnson	**Our Credo** We believe our first responsibility is to the doctors, nurses and patients, to mothers and fathers and all others who use our products and services. In meeting their needs everything we do must be of high quality. We must constantly strive to reduce our costs in order to maintain reasonable prices. Customers' orders must be serviced promptly and accurately. Our suppliers and distributors must have an opportunity to make a fair profit. We are responsible to our employees, the men and women who work with us throughout the world. Everyone must be considered as an individual. We must respect their dignity and recognize their merit. They must have a sense of security in their jobs. Compensation must be fair and adequate, and working conditions clean, orderly and safe. We must be mindful of ways to help our employees fulfil their family responsibilities. Employees must feel free to make suggestions and complaints. There must be equal opportunity for employment, development and advancement for those qualified.

Sources of Formulation of Mission Statements

The mission statements can be formulated from the following sources:

- National priorities projected in plan documents and industrial policy statements.
- Corporate philosophy as developed over the years.
- Major strategists have vision to develop mission statements.
- The services of consultants may be hired.

Even though it is acknowledged that the organization needs to honor obligations to a wide variety of stakeholders, the mission statement establishes the relative priority/emphasis placed on meeting the specific requirements of significant stakeholders, by specifying the specific value added by the firm. The sequence of the statements in the mission typically signifies the relative priority of the various values added.

2.5 Core Values

Core Values are the essential and enduring tenets of an organization**.** A well-conceived vision consists of core ideology and envisioned future. Core ideology rests on core values. **Collins and Porras** have popularized this concept. Core Values are the foundation of management style in any business. They provide the justification of behavior and, therefore, exert significant influence on marketing decisions. These are few in numbers and are central to the firm. They reflect the deeply held values of the organization and are independent of the current industry environment and management short-term trends or fads.

They may be beliefs of top management regarding employees' welfare, costumer's interest and shareholder's wealth. The beliefs may have economic orientation or social orientation. Evidences clearly indicate that the core values of Tata's are different from core values of Birla's or Reliance. The entire organization structure revolves around the philosophy coming out of core values. The core values should be clearly translated into observable norms of behavior, so that all members of the organization can understand them in the same way, & practice in their day-to-day behavior.

Good core value statements clearly delineate the observable norms of behavior, which reflect the desired values of the organization. For instance, an organization might have 'customer responsiveness' as its core value, but without proper translation in terms of the observable norms of behavior, it may be differently interpreted by different people. Therefore, organizations strive to operationally abstract core values into behavioral norms like 'greeting every customer when he/she enters or exits the premises'. These core values and the related norms of behavior reflect the culture of the organization.

The ways to determine whether a value is core to the organization can be understood by asking whether it would continue to be supported if circumstances changed and caused it to be seen as a liability. If the answer is that it would be kept, then it is core value. Another way to determine which values are core is to imagine the firm moving into a totally different industry. The values that would be carried with it into the new industry are the core values of the firm. 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 5 years down the innovation is no longer valued by the current customers, rather than seeking a change in its values, the firm should venture into new markets where innovation is advantageous. Few examples of core values of organizations are cited below:

Example 1: Glaxo Smith Kline Pharmaceuticals Ltd.

Our core value - we care

Being a premier pharmaceutical company in the country, GSK's core value is to be a good corporate citizen. It is committed to the communities in which it works. Support to the community through charitable initiatives is the way through which it invests in society. This is done by Being proactive in improving the environment.

Participating and contributing actively for Tribal Welfare.

Our initiatives are primarily focused towards women, children and the aged and are directed in the areas of Health and Education. We believe that these areas are related and of direct concern to GSK. If there is proper education, one will eventually learn to be hygienic, and if one is hygienic, will one remain healthy. The organization facilitates in educating masses on good practices of healthy living. At GlaxoSmithKline India, the activities towards community development are attached to the Corporate Communications Department. Since 1970, the Company has been implementing various social responsibility activities apart from statutory ones. Community Development activities are carried out through the company's Corporate Social Responsibility Department situated at its Head Office in Mumbai.

Example 2: ITC

Our Core Values are aimed "at developing a customer-focused, high-performance organization, which creates value for all its stakeholder.

Trusteeship

As professional managers, we are conscious that ITC has been given to us in "trust" by all our stakeholders. We will actualize stakeholder value and interest on a long-term sustainable basis.

Customer Focus

We are always customer focused and will deliver what the customer needs in terms of value, quality and satisfaction.

Respect For People

We are result oriented, setting high performance standards for ourselves as individuals and teams.

We will simultaneously respect and value people and uphold humanness and human dignity.

We acknowledge that every individual brings different perspectives and capabilities to the team and that a strong team is founded on a variety of perspectives.

We want individuals to dream, value differences, create and experiment in pursuit of opportunities and achieve leadership through teamwork.

Excellence

We do what is right, do it well and win. We will strive for excellence in whatever we do.

Innovation

We will constantly pursue newer and better processes, products, services and management practices.

Nation Orientation

We are aware of our responsibility to generate economic value for the Nation. In pursuit of our goals, we will make no compromise in complying with applicable laws and regulations at all levels.

2.6 Business Definition

The answer to the question that 'how' does an organization justify its existence is defining the business of the organization. A business definition is the clear-cut statement of the business or a set of businesses, the organization engages or wishes to pursue in the future. It also defines the scope of the organization. Business can be defined along three dimensions i.e. product, customer and technology. It must reflect two features:

Focus - Focus of business is defined in terms of the kind of functions the business performs rather than the broad spectrum of industry in which the organization operates. A sharp focus on business definition provides direction to a company to take suitable actions including positioning of the company's business.

Differentiation - The next feature involved in business definition is differentiationi.e. how an organization differentiates itself from others so that the business concentrates on achieving superior performance in the market. Differentiation can be on several bases like quality, price, delivery, service or any other factor which the concerned market segment values. For example, an organization can charge comparatively lower price as compared to its competitors in the same product quality segment, then price is not the differentiating factor. As against this, if the organization is charging a much lower price in the same product group excluding quality, price becomes a differentiating factor.

A clear business definition is helpful in identifying several strategic choices. The choices regarding various customer groups, various customer functions and alternative technologies give the strategists various strategic alternatives. The diversification, mergers and turnaround depend upon the business definition. Customer oriented approach of business makes the organization competitive. The product/ service concept also gives a new angle to the strategic alternatives. Business can be defined at the corporate or SBU levels.

Another version of the business definition explains the business of an organization in terms of customer needs, customer groups and alternative technologies. **Oerik Abell** suggests defining business along the three dimensions of customer groups, customer functions and alternative technologies. They are developed as follows:

i) Customer groups are created according to the identity of the customers.

ii) Customer functions are based on provision of goods/services to customers.

iii) Alternative Technologies describe the manner in which a particular function can be performed for a customer.

For a watch making business, these dimensions may be outlined as follows:

- Customer groups are individual customers, commercial organizations, sports organizations, educational institutions etc.
- Customer functions are record time; finding time, alarm service etc. It may be a gift item also.
- Alternative technologies are manual, mechanical and automatic.

2.7 Goals, Objectives and Plans

The goals provide the basis for action towards the achievement of the organization's mission, in the form of specific milestones. Goals can be both financial and non-financial, and specify the route the organization takes to achieve its vision and mission. The goal(s) statement(s) also specify the relative priorities and trade-offs between the various goals the organization intends to pursue. Goals that make the organization 'stretch' in order to achieve them are called stretch goals, and are considered to be more effective in extracting the best out of the people and the resources in control of the organization. Such goals are able to bring out the organization out from its "comfort zone".

Features of 'good goals' can be enumerated as follows:

- Be a statement of **end**, not of means.
- Reflect what an organization **wants**, not what it is doing.
- Be **realistic** enough to be implemented within the organization's resources.
- Show some **"stretch."**
- Describe achievement that is **measurable**.
- Be **qualitative** as well as measurable.

Objectives are statements of specific outcomes that are to be achieved. Objectives are operational definitions of the organization's goals. A firm's mission needs to be turned into something more focused and less general. Hence, objectives are specific targets. Organizational objectives are also defined as ends, which the organization seeks to achieve, by its existence and operation. Objectives represent desired results, which the organization wishes to attain.

Objectives also include a time dimension regarding the specific goals the organization intends to achieve in defined periods. They provide the measurable parameters for evaluating the organizational performance. By providing a series of time-bound objectives, the organization demonstrates how it can move towards achievement of its goals, through consistently and periodically achieving its objectives. For example, "to be the best sports goods business in the world" might be the mission statement of a firm whereas to "increase market share by 20% in 5 years" is an objective. Objectives may be set both in financial and non-financial terms. Those could include:

- Desired sales or profit levels
- Rates of growth
- Amount of cash generated
- Value of the business or dividends paid to shareholders
- An innovative player in the market
- A leader in the quality of customer service

Objectives and goals are the terms, which are used interchangeably.

2.7.1 Difference between objectives and goals

The points of difference between the two are as follows:

- The goals are broad while objectives are specific.

- The goals are set for a relatively longer period of time.
- Goals are more influenced by external environment.
- Goals are not quantified while objectives are quantified.

Broadly, it is more convenient to use one term rather than both. The difference between the two is simply a matter of degree and it may vary widely.

2.7.2 Need for Establishing Objectives

The following points specifically emphasize the need for establishing objectives:

- To provide a yardstick to measure performance of a department or SBU or organization.
- To serve as a motivating force. All people work to achieve the objectives.
- To help the organization to **pursue its vision and mission.** Long-term perspective is translated in short-term goals.
- To define the relationship of organization with internal and external environment.
- To provide a basis for decision-making.

All decisions taken at all levels of management are oriented towards accomplishment of objectives.

2.7.3 Levels of Objective Formulation

The objectives are set at the three levels of strategy development in an enterprise, i.e.;

1. Corporate level
2. Business unit level
3. Functional or departmental level

Corporate objectives are those that relate to the business as a whole. The top management of the business usually sets them and they provide the focus for setting more detailed objectives for the main functional activities of the business. They tend to focus on the desired performance and results of the business. It is important that corporate objectives cover a range of key areas where the business wants to achieve results rather than focusing on a single objective.

Peter Drucker has suggested that corporate objectives should cover eight key areas:

Area	**Examples**
Market standing	Market share, customer satisfaction, product range
Innovation	New products, better processes, use to technology
Productivity	Optimum use of resources, focus on core activities
Physical & financial resources	Factories, business locations, finance, supplies
Profitability	Level of profit, rates of return on investment
Management	Management structure; promotion & development
Employees	Organizational structure; employee relations
Public responsibility	Compliance with laws; social and ethical behavior

2.7.4 Business Unit Objectives

The objectives at this level are aimed at the business unit or product and through them the improvement of the competitive position of a corporation's products or services in the specific industry or marketing segment served by that business unit is categorically emphasized. A well-established business will divide its activities into several business functions. These traditionally include areas such as:

- Finance & administration
- Marketing & sales
- Production & operations
- Human resource management

Whilst each of these functional areas requires specialist expertise, their activities are not carried out in isolation from the rest of the business. It is common for each functional area to be set its own objectives, which should be consistent with the higher-level corporate objectives.

Hence, functional objectives are set for each major business function and are designed to ensure that the corporate objectives are achieved. Let us consider some example of objectives for the marketing function. 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

2.7.5 Kinds of Objectives

According to Peter Drucker, objectives should be set in the area of market standing, innovation productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude and public responsibility. Researchers have identified the following areas for setting objectives:

1. **Profit Objective**: It is the most important objective for any business enterprise. In order to earn profit; an enterprise has to set multiple objectives in key result areas such as market share, new product development, quality of service etc. Ackoff calls them performance objectives.
2. **Marketing Objective** may be expressed as: "to increase market share to 20 percent within five years" or "to increase total sales by 10 percent annually". They are related to a functional area.
3. **Productivity Objective** may be expressed in terms of ratio of input to output. This objective may also be stated in terms of cost per unit of production.
4. **Product Objective** may be expressed in terms of product development, product diversification, branding etc.
5. **Social Objective** may be described in terms of social orientation. It may be tree plantation or provision of drinking water or development of parks or setting up of community centers.
6. **Financial Objective** relates to cash flow, debt equity ratio, working capital, new issues, stock exchange operations, collection periods, debt instruments etc. For example a company may state to decrease the collection period to 30 days by the end of this year.
7. **Strategic Framework Human resource Objective** may be described in terms of absenteeism, turnover, number of grievances, strikes and lockouts etc. An example may be "to reduce absenteeism to less then 10 percent by the end of six months".

2.7.6 Characteristics of Objectives

The following are the characteristics of corporate objectives:

- They form a **hierarchy.** It begins with broad statement of vision and mission and ends with key specific goals. These objectives are made achievable at the lower level.
- It is impossible to identify even one major objective that could cover all possible relationships and needs. Organizational problems and relationship cover a multiplicity of variables and cannot be integrated into one objective. They may be economic objectives, social objectives, political objectives etc. Hence, **multiplicity of objectives** forces the strategists to balance those diverse interests.
- A **specific time horizon** must be laid for effective objectives. This timeframe helps the strategists to fix targets.
- Objectives must be within reach and is also challenging for the employees. If objectives set are beyond the reach of managers, they will adopt a defeatist attitude. **Attainable objectives** act as a motivator in the organization.
- Objectives should be **understandable** once communicated. Clarity and simplicity should characterize the language of formulation.

2.7-.7 Process of Setting Objectives

Glueck identifies four factors that should be considered for objective setting. These factors are:

Environmental forces, both internal and external, may influence the interests of various stakeholders. Further, these forces are dynamic by nature. Hence, objective setting must consider their influence on its process. As objectives should be realistic, the efforts be made to set the objectives in such a way so that objectives may become attainable. For that, **existing resources of enterprise and internal power structure** be examined carefully.

The **values of the top management** influence the choice of objectives. A philanthropic attitude may lead to setting of socially oriented objectives while economic orientation of top management may force them to go for profitability objective.

Past is important for strategic reasons. Organizations cannot deviate much from the past. Unnecessary deviations will bring problems relating to resistance to change. Management must **understand the past** so that it may integrate its objectives in an effective way.

2.7.8 SMART objectives

It is often sited that both corporate and functional objectives need to conform to a set of criteria referred to as an acronym SMART. These are summarised below:

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
Achievable	The objective should be realistic 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

2.7.9 Plans

Plans indicate the specific actions that will be taken by the organization in order to achieve the objectives. Plans specify the roles members of the organization will perform, the resource allocation across different organizational sub-units and departments, and prioritize and schedule the various activities.

- An Organizational Plan is basically a “to do” list for an organization.
- It lists out the
  - Plan of work,
  - Programs,
  - Organizational growth over a period of time - six months, a year or five
  - Tasks involved,
  - Who is responsible for them, and
  - When they’ll be done.
- Setting priorities for work
- Making sure tasks get done on time
- Focusing on one thing at a time
- Sharing work among staff, board members & volunteers
- Making targets clear to investors
- Getting a grip on big projects by breaking them down

2.8 Determination of Strategic Intent and Limitations

Although the strategic intent of a firm is considered relatively a long-term concept, but due to the volatile nature of the business environment, it requires to be updated according to the changes in one or more areas of the macro or micro environment. For instance, a firm that has been traditionally in a single business could grow into multiple businesses, and suddenly find its business environment broader and more complex. These are situations where the organization needs to look back and redefine its strategic intent. At the same time, there is an inherent risk in redefining the strategic intent of the firm too frequently. A variable intent may result in a lack of commitment on the part of the people. The strategic intent of the organization is determined by a continuous interplay of various forces and strategic options it has in front of it. These can be summarized as below:

A. The state of the future as perceived by the organization’s dominant coalition

The primary determinant of an organization’s strategic intent is the way the organization sees itself in the future as represented by its scope of businesses or domains or activities. Some examples of business scope definitions include FMCG (Fast Moving Consumer Goods) companies, marketing companies, integrated energy companies, and logistics companies. The firm begins by asking,, ‘What business we are in?’ and ‘What do we want to be known for or as in the future?’

B. The interests of various stakeholders associated with the organization

Various stakeholders might have different views about the strategic intent of the organization. Some of the dominant stakeholders like shareholders, senior managers, employees, customers, business partners like vendors/ technology partners, the government, and the society vary in the values and interests. Consequently, their expectations from the organization also change in this regard. These stakeholders are in a position to exercise their power to a varying extent on the organization, which ultimately shapes the organization's intent and strategy. Shareholders are generally the most powerful of these stakeholders. Therefore, the organization specifies 'In what way will the organization serve the interests of the various stakeholders?'

C. **The economic or the industry context the firm operates in**

The economic or the industrial context the firm operates in also has a significant impact on the organization's strategic intent. In developing markets like India, the firms mainly have their strategic intents limited to market leadership in domestic markets due to limited availability of resources, whereas in developed markets, firms may intend to capture a much larger share of the global market.

Moreover the specific industry context also affects the organization's outlook to the future—in fast growing emerging industries like telecommunications, no firm would want to restrict their intent to a specific technology/ product scope due to the anticipated speed of technology innovation and obsolescence. In mature industries like manufacturing, most firms would want to limit their product scope, but would want to expand their geographic/customer segment scopes. Depending on the nature of the economy and industry the firm is operating in, the firm determines its scope or strategic intent.

For instance, the strategic intent of AirTel (a mobile telecommunications service provider)[11] is:

> **Vision:** To make mobile communications a way of life and be the customers' first choice.
>
> **Mission:** We will meet the mobile communication needs of our customers through (a) Error-free service delivery, (b) Innovative products and services, (c) Cost efficiency, and (d) Unified messaging solutions.

It can be seen that the company has not committed itself to any specific technology while formulating its intent. It has kept the scope of innovation and re-alignment open in this regard.

D. Its leadership, history and culture

The history, leadership, and culture of an organization play a significant role in shaping the intent. The culture of the firm determines how aggressive will the firm be in its pursuit of the stated intent. Leadership also plays a significant impact on the organization's perception of the impending future. Usually, owner-managers superimpose their personal vision on the organization, and play a significant role in shaping the strategic intent and direction of the firm. It is also likely that powerful leaders transform organizations through infusing new intent into the members of the organization (for example, Steve Jobs at Apple Computers, Andy Grove at Intel, and Jack Welch at GE). Thus the history, culture, and leadership of the firm determine how broad, aggressive, and powerful the strategic intent of the organization is going to be.

To conclude, answering the following set of questions can summarize the process of determining the strategic intent of the firm:

1. What business we are in?
2. What do we want to be known for/as in the future?
3. In what way will the organization serve the interests of the various stakeholders?
4. How does the organization define its various scopes of businesses?
5. How broad, aggressive, and powerful will the organization's intent be defined?

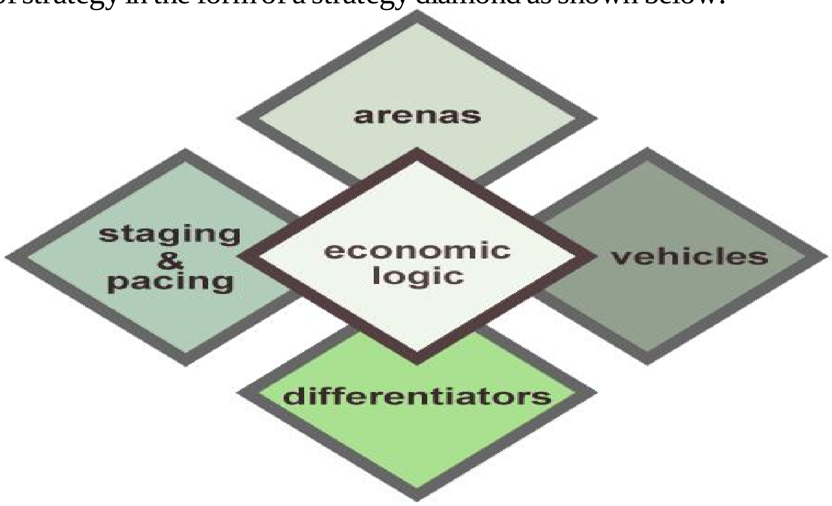
Limitations of Strategic Intent

Strategic intent as a concept has its own limitations. Strategic intent is not a static concept; rather it is a dynamic one. When firms pursue their strategic intent with their sensors inactivated, it is likely that they may fail to align or re-orient themselves to the changes in the business environment. Dorothy Leonard-Burton (1995) has highlighted how such a pursuit of a firm's strategic intent can create core rigidities that blind the firms to opportunities/ threats in the business environment. In order to overcome this, firms need to use strategic intent as a guide and direction to the future, rather than an end in itself.

The **strategy diamond** is an effective method of specifying and articulating the strategic intent in terms of a roadmap of priorities and activities. As the firm accomplishes the elements of the strategy diamond or if they become irrelevant due to changes in the business environment, the firm needs to re-think, revisit and re-evaluate their strategic intent.

Statement of the Firm's Strategic Intent

Having determined a firm's strategic intent, it is important that the strategy of the firm is conveyed in the right manner to all the stakeholders as a categorical statement. Hambrick and Fredrickson (2001) specify the architecture of strategy in the form of a strategy diamond as shown below:



- **Arenas**

Arenas specify in what businesses the firm will be active. Specifying the arenas is similar to answering the question 'what business are we in?' Responses to this question are typically general and broad, as 'a national leader in financial services'. In defining arenas, it is important to be as specific about the products, market segments, geographic areas, and core technologies, as the firm is likely to focus on arenas like 'specialized personal banking and consumer finance'.

- **Differentiators**

Differentiators define the specific sources of competitive advantage for the firm, i.e., they specify how the firm will attract and retain its customers, and therefore win in the larger pie of the marketplace. These differentiators are a result of specific decisions taken by managers to make their products/service/ information offerings unique and valuable. For instance, the State Bank of India uses its large branch network, and a large number of overseas branches, to serve the needs of its customers in every corner of the country. Similarly, banks like the Citibank use telecommunication and information technology to serve their customers 'round the clock', leading to the differentiator, 'the Citi never sleeps'.

There are two important things regarding differentiators—

1. Differentiators do not just happen; rather they result from the conscious choices made by the managers of the product/service/information offering. It is very hard to create and maintain differentiation by firms. It becomes all the more difficult to extract the maximum benefit from the differentiator, if, the same is easily imitable. For instance, even though the Graphic User Interface (GUI) was first

introduced in personal computing by Apple, it is Microsoft who reaped maximum value out of it, by scaling their operating system DOS to Windows.

2. Just having a differentiator is not sufficient, it is important that the differentiation adds value to the customer. For instance, Indian watchmaker HMT continued its focus on mechanical watches in the name of low prices, when the industry shifted towards quartz watches. Gradually, the industry matured to provide quartz watches at the same low prices HMT was offering its mechanical watches at, thereby limiting the value of HMT to the consumers.

- **Vehicles**

Vehicles define how the firm will reach the intended ends i.e. the vehicles specify the means the firm will use to reach designated ends. If the purpose is to develop competence in a particular product/market, how the firm goes about developing it—through internal development, joint ventures, or acquisitions. For instance, quoting the strategy statement of ICICI Bank—

"ICICI Bank is India's second largest bank with total assets of about Rs. 1 trillion, and a network of about 540 branches and offices and over 1,000 ATMs. ICICI Bank offers a wide range of banking products and financial services to corporate and retail customers, through a variety of delivery channels, and through its specialized subsidiaries and affiliates in the areas of investment banking, life and non-life insurance, venture capital, asset management, and information technology."

It is noteworthy that the above statement clearly specifies the arenas (investment banking, life and non-life insurance, venture capital, asset management, and information technology), differentiators (India's second largest bank, total assets worth Rs. 1 trillion, and a network of 540 branches and 1 000 ATMs), and the vehicles (a variety of delivery channels, and through its specialized subsidiaries and affiliates) of the Bank's strategy.

- **Staging**

While arenas, differentiators, and vehicles specify the constituents of the firm's strategy; staging refers to the speed and sequence of major activities of the firm towards the pursuit of its intent. Where the strategy is multi-staged or multi-pronged, it becomes very important to specify the sequence and priorities of the various actions. It is not always possible to provide the same kind of focus and emphasis to every one of the strategic moves, due to various constraints

- **Economic logic**

Economic logic defines the specific business model of the firm—how the firm intends to generate its revenues and profits. The economic logic defines how the firm will take advantage of the differentiators. For instance, The Times of India leverages on its large, national circulation base to charge a premium from its advertisers. The Indian FMCG giant like the Hindustan Lever Limited (HLL) uses its marketing strength and countrywide distribution networks to sell large volumes of its products to various segments of the market. The business model is based on reducing marginal costs through exploiting scale and scope economies.

2.9 Strategic Intent and Strategic Dissonance

Every company must need to confront the change. When this change is huge, it will change the ultimate destiny of the company. The point at which the company changes from an older structure to a newer structure is called strategic inflection point. The con-cept was devel-oped by Andy Grove to describe the point in time when a company's competitive environ-ment under-goes a major change that requires a fun-da-men-tal change in business strategy. These are subtle shifts or changes that may occur in the highly dynamic or volatile macro or micro business environment. These generate 'Early Warning' signals, which, if not interpreted correctly in context of the implications it can have in the relevant industry or organization, for example, new emerging technology or shifts in consumer behavior, much before competition, etc., the products and services may become redundant and obsolete in the market place.

A dissonance occurs when the company actions and statements differ. A discrepancy between upper management's intended strategy and the strategy actually implemented by lower levels of management. Identifying the strategic inflection points and taking actions appropriately will reduce dissonance.

Example: Coca-Cola used to use a centralized strategy in which all product offering decisions were made from the Atlanta headquarters for markets all around the world. However, headquarters didn't always know what was the best for each market. The new CEO changed Coca-Cola's strategy to be based on localized decision-making.

2.10 Summary

Strategic management begins with the organization clearly articulating its vision for the future. It is also important that the organization clearly defines the various levels of its strategic intent in the form of its vision, mission, goals, objectives, and plans. This clear proclamation provides the firm with the criteria to decide its future courses of action in pursuit of its broad vision. The strategic intent of an organization is determined by a continuous interplay of various forces-the assessments of the strategic options, the interests of various stakeholders, the firm's industry context, its leadership, history and culture, and the state of the future as perceived by the organization's dominant coalition. Along with the strategic intent, it is also imperative that the firm specifies its strategic diamond in the form of arenas, differentiators, vehicles, staging, and economic logic. This specification of a firm's strategy defines how the firm is intending to achieve its strategic intent. There might also be situations (strategic dissonance) where the firm finds that its strategies are separated from its intent—either too far ahead or too far behind due to the nature of the industry the firm operates in. This calls for a reconsideration of the firm's intent and strategies so that they are in alignment with each other.

2.11 Key Words

- **Arenas** imply a specification of what businesses the firm wishes to be active in.
- **Business Definition:** It explains the business of an organization in terms of customer needs, customer groups and alternative technologies.
- **Core values** signify essential and enduring beliefs, mindsets, and assumptions that shape how work is done in an organization.
- **Differentiators** are the specific sources of competitive advantage for a firm.
- **Economic logic** is the business model of a firm that specifies how the firm intends to generate its revenues and profits.
- **Goals:** A broad category of financial and non-financial issues that a firm sets for itself to achieve its vision and mission.
- **Mission** is a statement that specifies the purpose, identity, and the basic values of the organization.
- **Objectives** are the time-bound operational definition of organization's goals.
- **Plans** are specific actions that will be taken by an organization in order to achieve its objectives.

- **Staging** indicates the speed and sequence of major activities of a firm in the pursuit of its intent.
- **Strategic dissonance** refers to the divergence between the basis of competition in an industry, the distinctive competence of a firm, the stated corporate strategy of the firm, the firm's strategic actions, and the firm's internal environment.
- **Strategic Intent:** It makes clear what an organization stands for.
- **Vehicles** are the means a firm uses (strategies) to reach its ends.
- **Vision** is the broad category of long-term intentions that the organization wishes to pursue.

2.12 Self Assessment Test

1. What is strategic intent? Explain hierarchy of strategic intent and its importance.
2. What is mission? How is it different from purpose? Discuss the essentials of a mission statement.
3. Stage five mission statements of big companies in India and review them critically.
4. Explain the three dimensions of a business definition. Illustrate.
5. What are objectives? How are they set? State the characteristics of objectives.
6. How will you set objectives for a large organization? Assume imaginary details.
7. Visit two companies of your choice and collect the details regarding hierarchy of strategic intent.
8. Choose a major organization under you and proclaim its strategic intent. Identify if your organization expects to transcend beyond its current resources and capabilities, and achieve a supernormal vision. Also, specify your organization's strategy is in dissonance with its intent.
9. Distinguish between vision, mission, and goals of a firm's strategic intent.
10. Elucidate the various forces that impact the determination of a firm's strategic intent.
11. Take the case of any organization in your neighborhood and try and evolve the strategic diamond for them.
12. Describe the concept of strategic dissonance. Give an example of how a firm has handled strategic dissonance through redefinition of its strategic intent.

2.13 Case Study

Alignment of strategic intent: National Thermal Power Corporation (NTPC), India

Vision

To be one of the world's largest and best power utilities powering India's growth.

Mission

- To make available reliable and quality power in increasingly large quantities appropriate tariffs, and ensure timely realization of revenues.
- To speedily plan and implement power projects, with contemporary technologies.
- To implement strategic diversifications in the areas of R&M, Hydro, LNG, and No conventional and Eco-friendly fuels, and explore new areas like transmission and information technology.

- To promote consultancy.
- To make prudent acquisitions.
- To continuously develop competent human resources to match world standards.
- To be a responsible corporate citizen, with thrust on environment protection, rehabilitation, and ash utilization.

Objectives

Growth

- To add generating capacity within prescribed time and cost.
- To promote consulting operations and to participate in ventures abroad.
- To diversify into Hydro and Non-Conventional Energy Sources for power generation.
- To diversify into power related businesses to ensure integrated development of energy sector in India.

Performance leadership

- To achieve continuous performance improvement in the areas of project implementation, plant operation and maintenance, and generation efficiency, and to acquire and sustain internationally comparable standards in these areas, with good business ethics and values.

Human Resource Development

- To develop a learning organization having knowledge-based competitive edge.
- To create a culture of team building, empowerment, and accountability to convert knowledge into productive action with speed, creativity, and flexibility.

Financial soundness

- To maintain and improve the financial soundness of NTPC by managing the financial resources in accordance with the best commercial utility practices.
- To develop appropriate commercial policies which ensure remunerative tariffs and minimum receivables.

Technology leadership

- To acquire, assimilate, and adopt reliable, efficient, and cost-effective technologies, and to disseminate knowledge to other constituents of the power sector in the country.

Sustainable power development

- To contribute to sustainable power development by functioning as a responsible corporate citizen, and discharge social responsibilities in the areas of environment protection and rehabilitation.
- To strive to utilize the ash produced at its stations to the maximum extent possible.

Research & Development

- To carry out research and development for efficient and reliable operation of power plants in the country.

Core Values

(Abbreviated as COMIT)

- Customer focus.
- Organizational pride.
- Mutual respect and trust.
- Initiative and speed.
- Total quality.

Discussion Questions

1. Highlight how the mission statement of NTPC operationalizes the vision, and reinforces the strategic intent.
2. Critically analyze the list of objectives that NTPC has set for themselves. Are these objectives specific enough? Do they provide the necessary direction for managers in their day-to-day functioning?
3. Attempt at operational zing the core values specified as COMIT into observable norms of behavior.

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Unit - 3 : Environmental Appraisal

Unit Structure:

3.0 Objectives

After studying this unit should be able to understand:

- The importance of environmental (external) analysis;
- The relevant broad dimensions in macro environment and micro environment;
- To study the relationship between the general environment and strategy;
- To study the different models for environmental analysis;
- To study the process of analysis;
- To study about the emerging trends in business environment on global and local level.

3.1 Introduction

The well-known saying, "Change is the only constant in this world", stands eternally true for the business world as well. The 'change' is an inevitable force and organizations, which fail to keep pace with this, are bound to become unstable. Every organization operates within an environment, which may be internal or external. It constitutes of things, events, or situations that occur and affect the way a business operates, either positively or negatively. These are called "driving forces or environmental factors". These may be categorized as 'internal driving forces' and 'external driving forces'.

Internal driving forces are those happenings, situations, or events that occur inside the business, and are generally under the control of the company. Examples might be as follows:

- Management systems
- Financial management
- Employee morale
- Organization of machinery and equipment
- Technological capacity
- Organizational culture

External driving forces are those happenings, situation, or events that occur outside of the company and are by and large beyond the control of the company. Examples of external driving forces may be:

- The industry itself
- The economy (national and global)
- Demographics
- Competition
- Political interference, etc.

Another classification of environmental factors can be on the basis of the impact on an organization as follows:

- Factors which influence environment directly including suppliers, customers and competitors, and
- Factors which influence the firm indirectly including social, technological, political, legal, economic factors etc.

In order for a business to succeed and gain the competitive edge, the business must know what changes are taking place and how the scenario is going to be in the future. Various informational resources are critical to business intelligence and the consequent short-term and long-term forecasts. Some examples of critical information might include the following:

- Competition (strategies, what are they doing?)
- Customer behavior (needs, wants, and desires)
- Industry out look (local, national, global)
- Demographics (the changes in population characteristics)
- Economy (inflationary or deflationary trends)
- Political movements (regulating or facilitating or interfering policies)
- Social environment (culture and values and related consumer perception)
- Technological changes
- General environmental changes

The environment in which business operates has a greater influence on their successes or failures. There is a strong linkage between the changing environment, the strategic response of the business to such changes and the performance. It is therefore important to understand the environmental forces that influence this linkage.

Environmental analysis or environmental appraisal is an exercise in which total view of environment is taken; it is the process through which an organization monitors and comprehends various environmental factors and their interplay. The environment is divided into different components to find out their nature, function & relationship for searching opportunities and threats and determining where they come from. Ultimately the analysis of these components is aggregated to have a total view of the environment. A large part of the process of environmental analysis seeks to explore the unknown terrain, the dimensions of future. The analysis emphasizes on what could happen and not necessarily what will happen.

3.2 Concept of Environnment

In order to conduct an environmental analysis, the strategic intent has to be very clear. This clarity in definition of mission and objectives helps in the detailed analysis of the environment. Therefore, after developing the strategic intent, environmental analysis becomes the next important step in the process of strategy formulation. The environmental appraisal plays a very important role in the process of strategic analysis and is basically concerned with the relationship between a business and its environment.

Environmental analysis provides time to anticipate the opportunities and plan to meet the challenges. It also warns the organization about the threats. The analysis provides for elimination of alternatives, which are inconsistent with the organizations objectives. Due to the element of uncertainty, environmental analysis provides for certain anticipated changes in the organization's network. The organization equips itself to meet the unanticipated changes and face the ever-increasing competition. The organizations while attempting at strategic realignments, try to capture these opportunities and avoid the emerging threats. The business transformation process does not take place in a vacuum. Firms operate in a particular context and they are influenced by and are able to influence this environment.

3.2.1 Importance of Business Environmental Appraisal

There is a close and continuous interaction between the business and its environment. This interaction is helpful to strengthen the business firm and optimally utilize its resources. The business environment is multi-dimensional, intricate, and highly dynamic in nature. It has a far-reaching impact on the survival and growth of the business organization. The importance of analyzing the business environment lies in the following:

(a) To Determine Opportunities and Threats: The study of different factors of the business environment is helpful to identify opportunities for and threats to the business. It helps the business enterprises for meeting the challenges successfully.

(b) To Give Direction for Growth: It enables the business to identify the areas for growth and expansion of their activities.

(c) Continuous Learning Process: Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.

(d) To Build Image: Environmental understanding helps the business organizations in improving their image by showing their sensitivity to the environment within which they are working. This entails addressing the different concerns of various stakeholders.

(e) To Meet Competition: It helps the firms to analyze the competitors' strategies and formulate their own strategies accordingly.

(f) To Identify a Firm's Strength and Weakness: Business environment analysis helps to identify the individual strengths and weaknesses in view of the technological and global developments, and thereby develop their core competence.

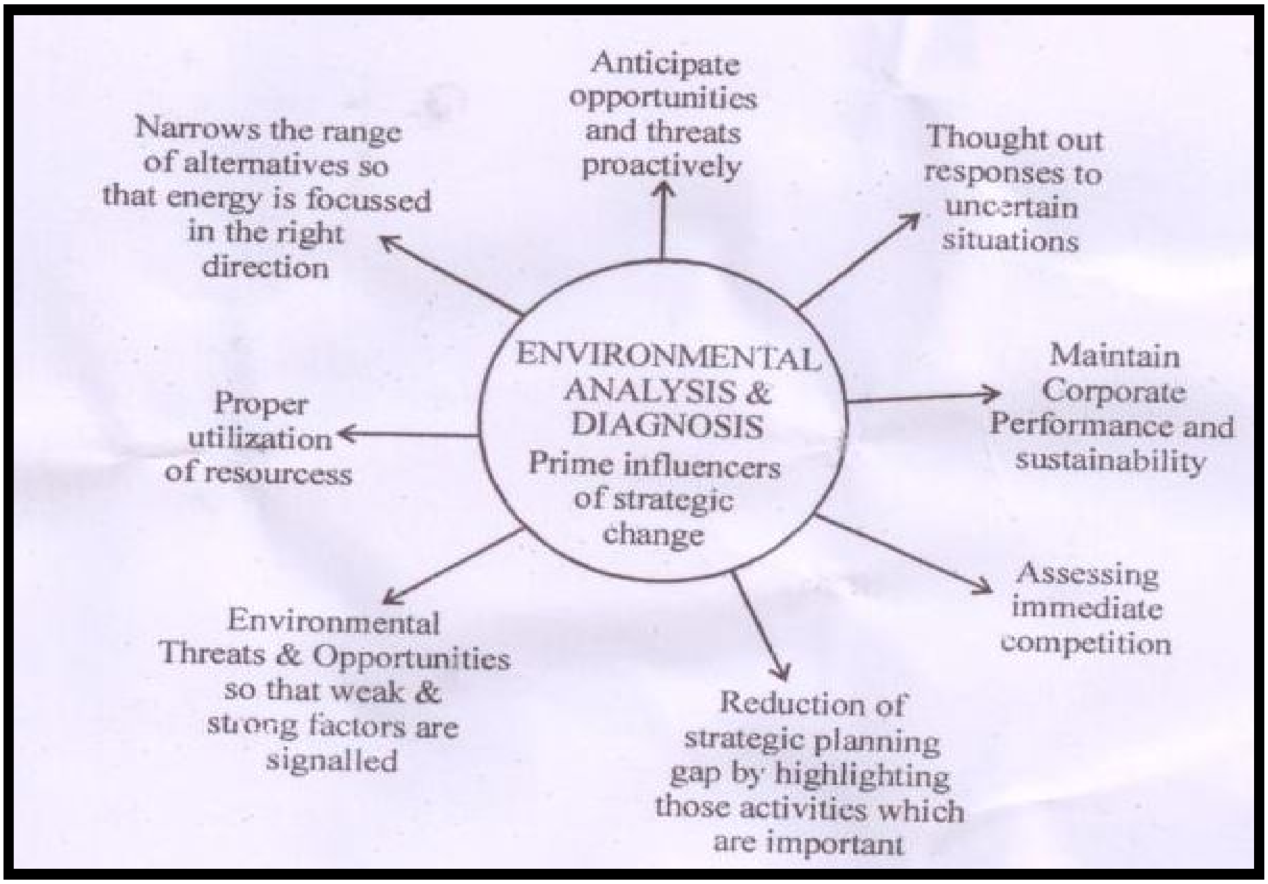

Exhibit 3.1 : Process and Outcomes of Environmental Analysis

3.2.2 Process for Environmental Appraisal

Environmental analysis is a systematic process that starts from identification of environmental factors, assessing their nature and impact, auditing them to find their impact to the business, and making various profiles for positioning. A common process of environmental analysis can be identified in the steps as follows:

a) **Monitoring or identifying environmental factors -** As a first step, a business strategist needs to identify all the relevant factors, both internal and external components that might affect the business. This includes an overall assessment of the interaction and interplay of all stakeholders.

b) **Scanning and selecting the relevant factors and grouping them -** Out of all the business environmental factors, a strategist should focus only on the relevant factors for further analysis. All the factors are not equally important and affecting to the business. In this context, a strategist has to scan the environmental trend to select only the most prominent environmental factors which affect the business. This step paves the way of environment analysis and forecasting.

c) **Defining variables for analysis -** Selected environmental factors are to be further specified into the variables. A concept can be interpreted as a series of different variables. For example, the economic environment might cover many variables such as Per Capita Income, GDP, and economic policies that can be further classified into many other variables. These variables can be used in different ways to envision the clearer picture of the broader concept.

d) **Using different methods, tools, and techniques for analysis -** Different types of methods, tools, and techniques are used for analysis. Some of the major methods of analysis can be Scenario Building, Benchmarking, and Network methods. Scenario presents overall picture of its total system along with factors affecting it. Benchmarking is to find the best standard in an industry and to compare one's strengths and weaknesses with the standard. Network method is to assess organizational systems and its outside environment to find the strength and weakness, opportunity and threats of an organization.

e) **Analyzing environmental factors and forecasting -** Collecting relevant information from the selected areas and to identify the variables in such areas are the basics of analysis. Analyzing the past information to predict the future is the main objective of this step. As discussed earlier, use of different methods, techniques, and tools comes under the analysis process. It is, therefore, a comprehensive process that analyzes collected information using different tools and techniques.

f) **Designing profiles -** There are varieties of reporting formats or profiles used for external and internal business environment analysis. Environmental Threat and Opportunity Profile (ETOP) is commonly used to report the external environmental situation whereas Strategic Advantages Profile (SAP) to report the internal environmental situation. Both of these profiles lead to Strength- Weakness-Opportunity-Threat (SWOT) profile. All these above described profiles provide a clear picture to understand the strategic position of an organization.

g) **Strategic positioning and writing a report -** After analysis of business environment a strategist knows the actual situation and can make some future forecasting based on the environmental analysis. After preparing the profiles strategists prepare formal report that describes the business environment. The report might present issues and major strengths of business environment in a systematic process. One can draw future strategies based on the strategic and environmental anaysis.

3.3 Environmental Sectors

The business environment is generally layered out into three sectors dicsussed below:

I **The Macro-environment or General Environment:**

It involves factors outside of or external to the direct control of the business. These sectors may not have a direct impact on the daily operations of a firm but will indirectly influence it. The general environment often includes the government, social, cultural, economic conditions, technology, and financial resources sectors, which affect all organizations eventually. The macro-factors can have a significant effect on a firm's success. However, while these macro factors can fundamentally change the environment of an organization, an individual business organization can rarely do much on its own to shape them. One firm is unlikely to be able to influence government taxation policy or new legislation, for example.

II **The Micro environment or Industry or Competitive Environment:**

It involves individuals or organizations that a firm deals with on a regular and direct basis. For example, suppliers, distributors, competitors, customers and employees are all members of the microenvironment. These groups are stakeholders of the business. They all have a direct interest in the activities of the firm and have a direct impact on the organization's ability to achieve its goals. Managers regularly interact with others in the micro-environment and their decisions have a direct effect on them e.g. a decision to expand may mean an increase in supplies, an increase in overtime, more deliveries and greater profits. At the same time these stakeholder groups can have a direct impact on the firm. Labor shortages in the local labor market may make it more expensive to recruit, competitors launching new products may take away market share and changes in customer tastes may require a rethinking of the marketing strategy. The microenvironment therefore plays a critical role in the success and behavior of a business.

III **The Organizational or Internal Environment**:

It consists of and focuses on the factors typical and specific to the organization concerned. These factors are internal to the business, some of which can be easily changed or improved upon. These are generally as follows:

- Organizational Structure
- Management Style
- Staff
- Skills
- Systems
- Shared values and organizational culture, etc.

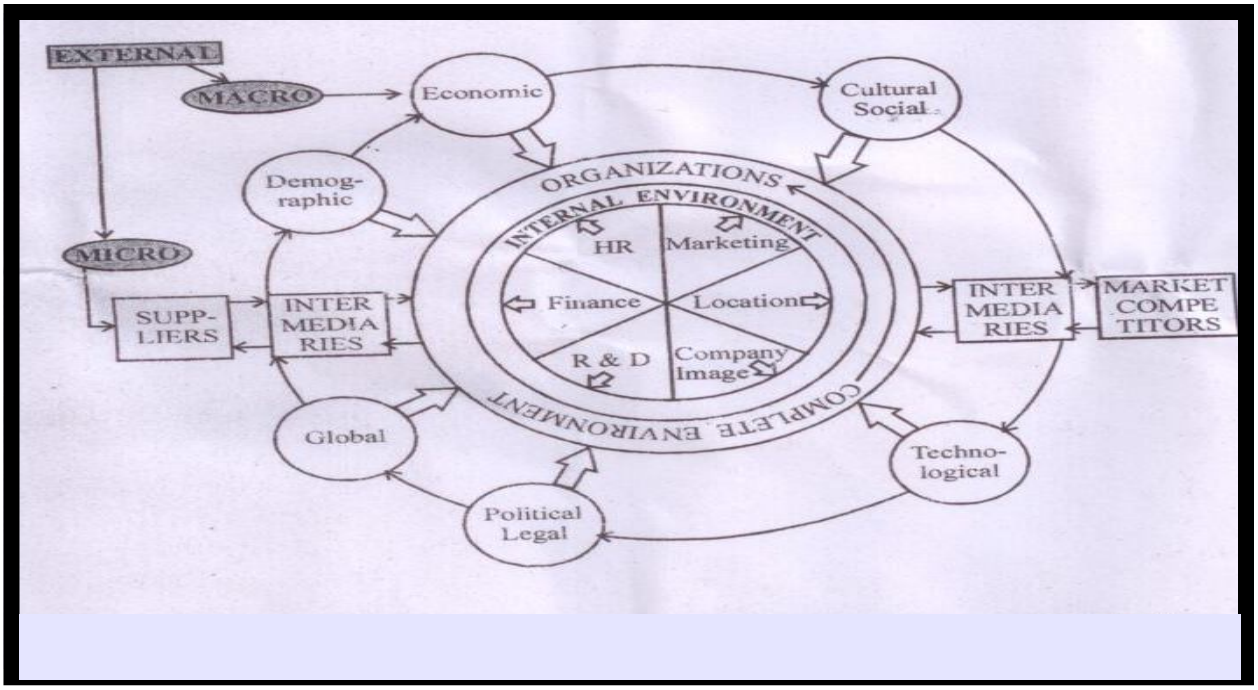

Exhibit - 3.2: The Complete Environmental Influences on the Organizations

3.4 Environmental Appraisal

I Macro-Environmental Appraisal

There are many factors in the macro-environment that will affect the managerial decisions in any organization. Tax changes, new laws, trade barriers, demographic change, government policy changes etc. are all examples of a macro-environmental change. In order to analyze these factors, the strategists can categorize them using the following model and the variants:

(A) PEST (Political, Economic, Social and Technological

The PEST model focuses on the analysis of the political, economic, social and technological (external) factors that must be understood in order for an organization to succeed. It is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations. These may have direct or indirect impact on the organization's operation. Various factors which are analysed using this toals are:

• Political Factors:

This includes the political system, the government policies and attitude towards the business community and the unionism. All these aspects have a bearing on the strategies adopted by the business firms. The stability of the government also influences business and related activities to a great extent. It sends a signal of strength, confidence to various other stakeholders and investors. The ideology of the political party also influences the business organization and its operations. An apt example of this can be Coca Cola, which had to wind up operations in India in late seventies. The trade union activities also influence the operation of business enterprises. Most of the labor unions in India are affiliated to various political parties. Strikes, lockouts and labor disputes etc. also adversely affect the business operations. Though, in today's competitive business environment, the trade unions have brought a change in their attitude. They are now showing great maturity and started contributing positively to the success of the business organization and its operations through workers participation in management.

The important political factors can be enumerated as below:

- Taxation Policy
- Trade regulations
- Governmental stability
- Employment Policy
- Political values and beliefs behind shaping policies
- Regulations towards trade and global business
- Priorities in social sector
- Labor welfare policies and Trade Union activities

• **Economic Factors:**

Economic factors also affect an organization. They have a bearing on the purchasing power and behavior of the consumers. Economic factors have a major impact on how businesses operate and make decisions. For example, interest rates affect a firm's cost of capital, return on capital invested etc. and therefore to what extent a business grows and expands. Exchange rates affect the costs of exporting goods and the supply and price of imported goods in economy.

The important economic factors can be enumerated as below:

- Inflation rate
- Growth in spending power
- Rate of people in a pensionable age etc.
- GNP trends
- Interest rates/savings rate
- Money supply
- Unemployment
- Disposable income
- Business cycles
- Trade deficit/surplus

• **Social Factors:**

These factors have a big influence on the consumer needs and wants. Sociological factors also affect the size of potential markets. Social factors are significant in the manner that they function as a basis for deciding the operational policies of an organization in regards to product attributes, marketing strategies, promotional policies and campaigns. Furthermore, companies may change various management strategies to adapt to these social trends. The social structure and the values that a society cherishes have a considerable influence on the functioning of business firms. For example, during festive seasons there is an increase in the demand for new clothes, sweets, fruits, flower, etc. Due to increase in literacy rate the consumers are becoming more conscious of the quality of the products. Due to change in family composition, more nuclear families with single child concepts have come up. This increases the demand for the different types of household goods. It is noteworthy that the consumption patterns, the dressing and living styles of people belonging to different social strata and culture vary significantly.

The important socio-cultural factors can be enumerated as below:

- Age distribution.
- Education levels.
- Income level.
- Consumerism.
- Diet & nutrition.
- Changes in Population growth and decline
- Life expectancies
- Religion
- Ethnic composition
- Social mobility
- Lifestyle changes
- Attitudes to work and leisure
- Education - spread or erosion of educational standards
- Health and fitness awareness
- Multiple income families
- Values and Beliefs

• **Technological Factors:**

Technological change plays an important role in shaping how organizations operate. These are important in gaining competitive advantage. Technological innovations can improve production efficiency, quality and speed. New technology is changing how organizations operate. They can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. The varying technological environments of different countries affect the designing of products. For example, in USA and many other countries electrical appliances are designed for 110 volts. But when these are made for India, they have to be of 220 volts. In the modern competitive age, the pace of technological changes is very fast. Hence, in order to survive and grow in the market, a business has to adopt the technological changes from time to time. It may be noted that scientific research for improvement and innovation in products and services is a regular activity in most of the big industrial organizations. Today, no organization can afford to continue with the obsolete technologies.

The important technological factors can be enumerated as below:

- Technological changes
- New or improved distribution channels
- Improved communication and knowledge transfer etc.
- Moral factor
- Biotechnology

- Process innovation
- Digital revolution
- Government spending on research
- Government and industry focus on technological effort
- New discoveries/development
- Speed of technology transfer
- Rates of obsolescence

(B) PESTEL (Political Economic Social Technological Environmental Legal) Model

PEST model is alternatively also known as STEP model. The growing importance of environmental or ecological factors in the first decade of the 21st century have given rise to green business and encouraged widespread use of an updated version of the PEST framework. STEER analysis systematically considers

- Socio-cultural
- Technological
- Economic
- Ecological, and
- Regulatory factors.

It is most useful when used together with other tools such as the SWOT analysis. This model also takes into account the various environmental and legal factors, besides the political, economic, social and technological as in the PEST model. The description of the first four factors has been dealt with in the PEST model. The two additional dimensions of the model are discussed as below:

• Environmental Factors:

These mainly focus on the weather and climate change and their subsequent impact on the business organizations. Changes in temperature can impact many industries including farming, tourism and insurance. With major climate changes occurring due to global warming and with greater environmental awareness this external factor is becoming a significant issue for business organizations to consider. The growing desire to protect the environment is having an impact on many industries such as the travel and transportation industries and the general move towards more environmentally friendly products and processes is affecting demand patterns and creating business opportunities. The natural environment includes geographical and ecological factors that influence the business operations. These factors include the availability of natural resources, weather and climatic condition, location aspect, topographical factors, etc. Business is greatly influenced by the nature of natural environment. For example, sugar factories are set up only at those places where sugarcane can be grown. It is always considered better to establish manufacturing unit near the sources of input. Further, government's policies to maintain ecological balance, conservation of natural resources etc. put additional responsibility on the business sector.

The important environmental factors or laws to be considered are:

- Waste disposal
- Energy consumption or Carbon footprint
- Pollution monitoring
- Recycling
- Using greener (eco-friendly) techniques and processes

- **Legal Factors:**

They relate to the legal environment in which firms operate. In recent years there have been many significant legal changes that have affected firms' behavior. The introduction or change in laws affects an organization's actions. For example, an increase in the minimum wage and greater requirements for firms to recycle are few of the recent examples that have an impact on the costs and demand of the products. This refers to set of laws, regulations, which influence the business organizations and their operations. Every business organization has to obey, and work within the framework of the law.

The important legislations that concern the business enterprises include:

- Companies Act, 1956
- Foreign Exchange Management Act, 1999
- The Factories Act, 1948
- Industrial Disputes Act, 1972
- Payment of Gratuity Act, 1972
- Industries (Development and Regulation) Act, 1951
- Prevention of Food Adulteration Act, 1954
- Essential Commodities Act, 2002
- The Standards of Weights and Measures Act, 1956
- Monopolies and Restrictive Trade Practices Act, 1969
- Trade Marks Act, 1999
- Bureau of Indian Standards Act, 1986
- Consumer Protection Act, 1986
- Environment Protection Act
- Competition Act, 2002

Besides, the above legislations, the following also form part of the legal environment of business:

- Provisions of the Constitution: The provisions of the Articles of the Indian Constitution, particularly directive principles, rights and duties of citizens, legislative powers of the central and state government also influence the operation of business enterprises.
- Judicial Decisions: The judiciary has to ensure that the legislature and the government function in the interest of the public and act within the boundaries of the constitution. The various judgments given by the court in different matters relating to trade and industry also influence the business activities.

By using the PESTEL framework we can analyze the many different factors in a firm's macro environment. It is more important to think about which factors are most likely to change and which ones will have the greatest impact on the firm. They must identify the key factors in their own environment. For some such as pharmaceutical companies' government regulation may be critical; for others, perhaps firms that have borrowed heavily, interest rate changes may be a huge issue. Managers must decide on the relative importance of various factors. The higher the likelihood of a change occurring and the greater the impact of any change the more significant this factor will be to the firm's planning.

(C) LONGPESTEL (Local National Global Political Economic Social Technological Environmental Legal) Model

A company may also wish to divide environmental factors according to geographical relevance, such as local, national, and global. For example, a retailer undertaking PESTEL analysis may consider:

Local Factors: such as:

- Planning permission and
- Local economic growth rates

National Factors, such as:

- Indian laws on retailer opening hours
- Trade descriptions
- Legislation and
- Interest rates

Global Factors,: such as:

- The opening up of new markets making trade easier.
- Various treaties and conventions

This is illustrated in the matrix table given below:

	LOCAL	**NATIONAL**	**GLOBAL**
POLITICAL	Provision of services by local municipal council	Indian government policy on subsidies	World trade agreements e.g. further expansion of the various trade blocks.
ECONOMIC	Local income	Indian interest rates	Overseas economic growth
SOCIAL	Local population growth	Demographic change (e.g. ageing population)	Migration flows
TECHNOLOGICAL	Improvements in local technologies e.g. availability of Digital TV	India wide technology e.g. Indian online services	International technological breakthroughs e.g. internet
ENVIRONMENTAL	Local waste issues	Indian weather	Global climate change
LEGAL	Local licenses/planning permission	Indian law	International agreements/conventions on environment, human rights, investment etc.

Exhibit - 3.3

The external environment is tremendously complex, volatile and dynamic. This is the reason the macro level analysis through the above-described models really needs to be undertaken on a regular basis. However, even then it does not ensure that every significant change will be identified. In case of majority of firms, there is little hope of influencing the macro environment on their own, at least on a global scale; they may have more success on a local scale where they might play a relatively important role in the local economy. However, decision-makers naturally try where they can to shape the external environment in their favor. This may be more feasible through industry associations that are formed to protect their interests and represent a particular sector such as cars or printing, for example bodies like CII, FICCI, and NASSCOM etc. These bodies represent many firms and therefore may have more power than any individual firm when it comes to influencing government. The larger organizations may also involve their own public relations departments or agencies that work with lobbying companies to try and introduce or delay particular forms of legislation.

II Micro-Environmental Appraisal

The micro environmental analysis is the second step in creating the Environmental Analysis. The microenvironment examines the general business climate as it relates to the organization within its industry. The microenvironment consists of stakeholder groups that a firm has regular dealings with. The way these relationships develop can affect the costs, quality and overall success of a business. Issues in the microenvironment include:

- **Suppliers:** The suppliers are the underlying force to provide high quality products at a good price in required volume. Some firms take quite an aggressive attitude towards their suppliers by trying to push down the prices and delay payments. Others view the relationship more as a partnership in which they are working together with suppliers and that by helping each other both can benefit. The importance of suppliers can be seen if things go wrong. In 2000 Ford's image was damaged when tyres on its Explorer vehicles started exploding. Bridgestone produced these tyres and the supplier ended up re-calling over 6.5 million tyres. In 2007 Sony batteries in several Dell laptops caught fire which caused a terrible public relations issue for the computer manufacturer and led to over 4 million laptop batteries being recalled.

- **Distributors:** These are the major agents for getting products to the end customers and can be a major issue for firms. Good negotiating skills and offering appropriate incentives may achieve getting the stores to stock the particular product. The distributors used will determine the final price of the product and how it is presented to the end customer. When selling via retailers, for example, the retailer has control over where the products are displayed, how they are priced and how much they are promoted in-store. A competitive advantage can be gained by changing distribution channels. Banks, insurance companies, holiday firms, hotels and many others businesses have seen the opportunities created by the internet. Direct Line insurance, Dell computers and Amazon have reduced costs by selling direct.

- **Customers:** They are the key to sales. Decision makers must monitor customer needs and try to anticipate how these will develop so that they can meet these requirements effectively in the present as well as the future. To help understand their customers organizations are increasingly trying to gather information on them through various mechanisms. Many firms are also trying to develop relationships with customers to help ensure they come back time and time again. The growth of the internet has enabled customers to search quickly for alternatives and compare deals more easily; this puts pressure on firms to either provide better value for money or else lose their customers.

- **Competition:** The success and behavior of any business will depend on the degree of competition in its market. This interaction is further determined by the monopoly or oligopoly or oligopolistic or competitive market conditions. In more competitive markets where there are many firms providing similar products customers have more choice; this may put downward pressure on prices and means that excellent customer service is essential.

- **Employees:** The employees are an integral part of an organization since they interface with the customers and convert them into consumers. They are the face of an organization. It is said that an organization is as good as its employees. It is very important to properly deal with this category of stakeholders since they are instrumental in achieving the organizational objectives. In order to analyse the micro or industrial or competitive environment, the most widely used tool or method is the Five Forces Model developed by Michael Porter. This model attempts to analyze the attractiveness of an industry by considering five forces within a market.

It helps in explaining how forces in the competitive environment shape strategies and affect performance. The framework discusses the various forces that shape up the competitive environment. According to Porter (1980) the likelihood of firms making profits in a given industry depends on five factors or competitive forces.

These competitive forces are as follows:

1) The rivalry among competitors in the industry

2) The potential entrants

3) The substitute products

4) The bargaining power of suppliers

5) The bargaining power of buyers

However, these five forces are not independent of each other. Pressures from one direction can trigger off changes in another, which is capable of shifting sources of competition. The model can be described as below:

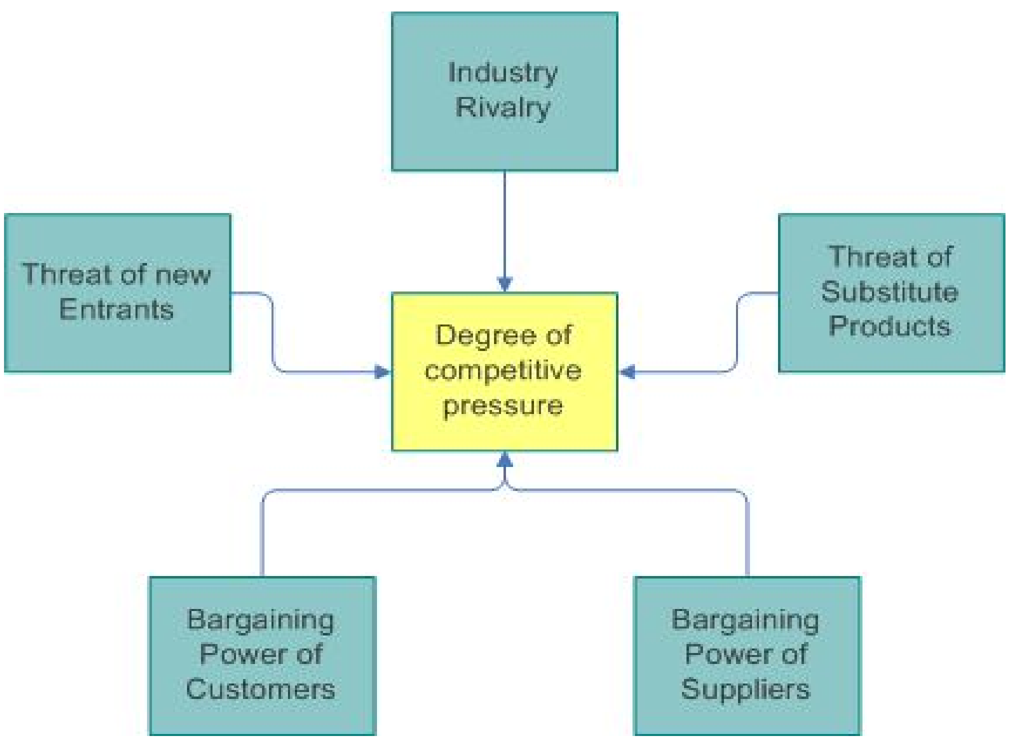

Exhibit - 3.4

1. **The likelihood of new entry -** The extent to which barriers to entry exist, the more difficult it is for other firms to enter a market, and it is more lokely that existing firms can make relatively higher profits. The likelihood of entering a market would be lower if:

- The entry costs are high e.g. if heavy investment is required in marketing or equipment
- There are major advantages to firms that have been operating in the industry already in terms of their experience and understanding of how the market works; this is known as the "learning effect".
- Government policy prevents entry or makes it more difficult; for example, protectionist measures may mean a tax is placed on foreign products or there is a limit to the number of overseas goods that can be sold; this would make it difficult for a foreign firm to enter a market
- The existing brands have a high level of loyalty
- The existing firms may react aggressively to any new entrant e.g. with a price war
- The existing firms have control of the supplies. e.g. entering the diamond industry might be difficult because the majority of known sources of diamonds are controlled by companies such as De Beers.

2. **The power of buyers -** The stronger the power of buyers in an industry the more likely it is that they will be able to force down prices and reduce the profits of firms that provide the product. Buyer power will be higher if:

- There are a few big buyers so each one is very important to the firm
- The buyers can easily switch to other providers so the provider needs to provide a high quality service at a good price
- The buyers are in position to take over the firm. If they have the resources to buy the provider this threat can lead to a better service because they have real negotiating power

3. **The power of suppliers -** The stronger the power of suppliers in an industry the more difficult it is for firms within that sector to make a profit because suppliers can determine the terms and conditions on which business is conducted. Suppliers will be more powerful if:

- There are relatively few of them; so the buyer has few alternatives
- Switching to another supplier is difficult and/or expensive
- The supplier can threaten to buy the existing firms so is in a strong negotiating position

4. **The degree of rivalry -** This measures the degree of competition between existing firms. The higher the degree of rivalry the more difficult it is for existing firms to generate high profits. Rivalry will be higher if:

- There are a large number of similar sized firms rather than a few dominant firms all competing with each other for customers.
- The costs of leaving the industry are high e.g. because of high levels of investment. This means that existing firms will fight hard to survive because they cannot easily transfer their resources elsewhere.
- The level of capacity utilization. If there are high levels of capacity being underutilized the existing firms will be very competitive to try and win sales to boost their own demand
- The market is shrinking so firms are fighting for their share of falling sales.
- There is little brand loyalty so customer are likely to switch easily between products.

5. **The substitute threat** - This measures the ease with which buyers can switch to another product that does the same thing e.g. aluminum cans rather than glass or plastic bottles. The ease of switching depends on what costs would be involved (e.g. transferring all the data to a new database

system and retraining staff could be expensive) and how similar customers perceive the alternatives to be. Using Porter's analysis firms are likely to generate higher returns if the industry:

- Is difficult to enter
- There is limited rivalry
- Buyers are relatively weak
- Suppliers are relatively weak
- There are few substitutes.

On the other hands returns are likely to be low if:

- The industry is easy to enter
- There is a high degree of rivalry between firms within the industry
- Buyers are strong
- Suppliers are strong
- It is easy to switch to alternatives

Implications:

The implication of Porter's analysis for decision makers is that these five factors should be examined before choosing an industry to move into. The ways should also be considered of making these five factors more favorable for the organization.

To exemplify -

- If firms merge together this can reduce the degree of rivalry. This has happened a great deal in industries such as automobiles, pharmaceuticals and banking where firms have joined together to remove competitors
- If firms buy up distributors (this is called forward vertical integration) they can gain more control over buyers
- If firms differentiate their product perhaps by trying to generate some form of Unique Selling Proposition (USP) that makes it stand out from the competition. This lies at the heart of many marketing and brand building activities. For example, Coca Cola, has promoted itself as "the real thing" and the hidden meaning is that everything else is just an imitation.
- If they react aggressively to a firm that enters its market this may deter potential entrants in the future

The five forces will change over time as market conditions alter. For example, more information is available nowadays to enable customers to compare offerings and prices; this gives buyers more power. The opening up of world markets through WTO enabling free trade between more countries, has led to much more rivalry in markets in recent years. As the business world is not static and the conditions in any industry will always be changing, the various elements of the five forces are always shifting requiring established firms and potential entrants to review their strategies.

3.5 Emerging Scenario at Global and Local Levels

According to a latest Ernst & Young report, three underlying drivers have been identified that have helped in establishing new trends and would perpetuate them on global and local levels. They are described below:

1. Demographic shifts. Population growth, increased urbanization, a widening divide between coun-

tries with youthful and quickly aging populations and a rapidly growing middle class are reshaping not only the business world, but also society as a whole.

2. Reshaped global power structure. As the world recovers from the worst recession in decades, the rise of relationships between the public and private sectors has shifted the balance of global power faster than most could have imagined just a few years ago.

3. Disruptive innovation. Innovations in technology continue to have massive effects on business and society. The emerging markets have become hotbeds of innovation, especially in efforts to reach the growing middle class and low-income consumers around the globe. Faced with complexity, the trends are going to unfold and a clear picture emerges in the time to come. The organizations have to gear up before that.

The trends that have been initiated by the above-mentioned driving forces are:

1. **Emerging markets increase their global power:** Today, emerging markets serve as the world's economic growth engine, and the far-reaching effects of their spectacular rise continue to outplay even developed economies of the world. But their risks are often downplayed. Therefore an organization has to focus on taking advantage of emerging-market opportunities but with careful planning. Estimates show that 70% of world growth over the next few years will come from emerging markets, with China and India accounting for 40% of that growth. Adjusted for variations in purchasing power parity, the ascent of emerging markets is even more impressive: the International Monetary Fund (IMF) forecasts that the total GDP of emerging markets could overtake that of the developed economies as early as 2014.

   Emerging economies are characterized by fierce competition, not only from global players but from local ones.

2. **Cleantech becomes a competitive advantage:** Renewable energy is still expensive in most places, which will limit its use in the short run. But as wind, solar and other renewable projects scale up, their prices will continue to fall. The IEA predicts that power generation using renewable will triple between 2010 and 2035. Fossil fuels such as oil and coal will lose market share over time, as natural gas and nuclear power contribute to the diversified energy mix. Hence, governments and organizations are announcing plans to shrink their carbon footprints. The move to CleanTech may represent a second industrial revolution that will have effects as great as the first. Green technology is now regarded as a strategic advantage.

3. **Global banking seeks recovery through transformation:** The global financial system remains in flux. The uncertain scenario poses both opportunities and risks for financial institutions, alternative asset managers and other enterprises that need funding to meet growth objectives. The system will soon have to find answer to the critical issues of growth, regulatory issues, data and capital in the time to come.

4. **Governments enhance ties with the private sector:** The recent time has been one of readjustment between developed and emerging economies, between the public and private sectors and between global institutions and nations. These adjustments will continue as governments, organizations and institutions define their roles in the post-crisis world.

5. **Rapid technology innovation creates a smart, mobile world:** Smart technology offers the promise of remote access to health care and education, while blurring boundaries between industries. The power of the individual will grow and new competitors will emerge, disrupting industries and creating new business models. Now, every business is going to be in the 'tech-world'.

6. **Demographic shifts transform the global workforce and the consumer:** Never before has demographic change happened so quickly. Global employers face the challenge that, despite a growing global population, they will soon have to recruit from a shrinking workforce due to an aging population. Between now and 2050, the world's population is expected to grow by 2.3 billion people, eventually reaching 9.1 billion. The combined purchasing power of the global middle classes is estimated to more than double by 2030 to US$56 trillion. Over 80% of this demand will come from Asia. Most of the world's new middle class will live in the emerging world, and almost all will live in cities, often in smaller cities not yet built. This surge of urbanization will stimulate business but put huge strains on infrastructure.

3.6 Role of Strategists in Environmental Analysis

The nature of strategists has an impact on the ultimate analysis and diagnosis of the environment. Several factors which are important are:

(1) The experience, motivation, perception and psychological mood of the strategists. The more relevant experience the strategists have the greater the tendency to do a more accurate and higher quality diagnosis. Higher the aspiration level of the strategists better is the diagnosis.Perceptions about the environment are largely influenced by the personality of the strategists whether he is risk taker, risk averter, impulsive, reflective andso on.

(2) The nature of the strategist's job: Time pressures and stress can have an impact on the quality of analysis.Significance of the decision also influences the time that the strategist will devote to the analysis. Grater the significance, more time will he devote. if substantial resources in terms of manpower, money and time are available then analysis will be done in depth.

(3) When a team of strategists are involved in conducting the analysis, then several factors will influence the analysis:

Team spirit and the extent of cohesiveness amongst the members of the group will be high. Power plays within the group can result into filtering of information and thereby conflicts can emerge.

3.7 Summary

Understanding of the general environment in which an organization operates is the foremost pre-requisite towards strategy formulation. The broad dimensions which the PEST/PESTEL framework provide of the environment-political, economic, sociocultural, technological, environmental and legal are capable of giving a comprehensive overview of how things may be unfolding. The objective of the analysis out of this framework however should not only restrict to the present and past but the real focus should be on projecting the trends into future in order to get the real feel of the environment then. This shall enable the firm to proactively strategize for future considering the general environment; it is going to face and the issues, which will be of importance. The immediate competitive environment influences an organization and therefore has to be understood alongside the general environment. The five forces model helps us in understanding any industry by identifying the strengths of each of the five forces and the nature of competitive pressure that each force generates. It also enables an understanding of the overall structure of competition.

3.8 Key Words

- **PESTEL Framework:** This framework categorizes environmental influences into 6 main types - political, economic, social, technological, environmental and legal.
- **Structural Drivers of Change:** Factors, which have the likely effect on the structure of an industry or on the competitive environment.
- **Competitive Environment:** Refers to the situation which organization's face within its specific arena of operation.
- **SWOT analysis:** To access the particular strengths, weaknesses, opportunities and threats that are strategically important to your organization
- **Strategy:** A means for achieving a long-range strategic goal; explains how the goal will be attained.

3.9 Self Assessment Test

1. Identify few key active political forces. Discuss how they are shaping the overall environment in the country.
2. Suppose the foreign exchange reserves in the country gets depleted by half of the present level because of few developments in the outside world. Discuss the environmental effects it may lead to.
3. There has been a thrust on women literacy. Discuss the influences you see in the social environment and their impact on business.
4. Enumerate few of the technological advances in the field of agriculture and discuss its role in tapping better opportunities in the overseas market.
5. List out five major industries, which in your view, pose danger to environmental conditions. Mentioning your reasons suggest how these industries may correct the situation.
6. Briefly explain the following:
   - PEST framework
   - PESTEL framework
   - LONGPESTEL framework
   - Porter's 5 forces model
   - Process of environmental analysis
   - Macro environment and Microenvironment
   - Role of strategists in environmental analysis.

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Unit - 4 : Environmental Scanning

Unit Structure:

4.0 Objectives

After reading this unit, you should be able to understand:

- Environmental factors affecting the performance of an organization.
- The complexity of the environment.
- Different methods of Scanning the Environment.
- SWOT Analysis.
- TWOS Matrix.
- ETOP for an organization.
- SAP Analysis.

4.1 Introduction

One of the major causes of industrial failure is mismatch between the organization and its environment. Dynamic nature of the environment along with vast multitude of factors, of which it is comprised of, makes it very difficult to predict. Changing external variables make the environment of any organization uncertain. An organization which operates in a highly volatile environment is difficult to understand, because various factors change frequently and affect its performance, . Elements like technology, competitive situations, and income, attitude and value systems etc. undergo changes which an organization needs to cope with. Another reason is globalization due to which the degree of this uncertainty has increased. As the environment, an organization is facing is having complex variables, it becomes essential for the organization to carefully and effectively appraise it. Its success depends on its ability to foresee the changes and to modify its business strategies accordingly.

According to **Wheelen, Hunger and Rangarajan** –"Environmental Scanning is the monitoring, evaluating and disseminating of information from the external and internal environments to key people within the corporation."

Aguilar defined environmental scanning as- "…the activity of acquiring information... about events and relationships in a company's outside environment, the knowledge of which would assist top management in its task of charting the company's future course of action."

It is the process by which organizations monitor their relevant environment to identify opportunities and threats affecting their business. There are various influences which are to be considered by an organization while scanning its environment. 'Influences like several events, trends, issues and expectations of different interested groups have considerable impact on the performance of an organization. A trend break could be a value shift in society, a technological innovation that might be permanent or a paradigm change. Issues are less deep-seated and can be 'a temporary short-lived reaction to a social phenomenon. These influences depend on different factors of the environment. Philip Thomas, Glueck & Jauch have categorized these factors of external environment. (Exhibit 1)

Exhibit 1 : Categories of External Environment Factors

Philip Thomas	Glueck & Jauch	
1.Political Conditions	1.	Socio- economic Factors
2. Social Conditions	2.	Technological Factors
3.Economic Conditions	3.	Suppliers Factors
4.Legal Regulatory Conditions	4.	Competitors Factors
5.Business Conditions	5.	Government Factors
6.Technical Conditions		

Thus environmental scanning involves studying and interpreting the developments of social, political, economic, ecological and technical events early before they become future driving forces. It attempts to make out few path breaking developments which may have significant impact on the organization 5 to 20 years into the future. The purpose of the environmental scanning is to raise the consciousness of managers about potential developments that could have an impact on industry conditions and bring in new threats or opportunities. It is normally accomplished by systematically monitoring and studying current events, constructing scenarios and employing a technique for finding consensus among a group of knowledgeable experts.

4.2 Approaches to Environmental Scanning

Kubr has suggested three basic approaches, which could be adopted for sorting out information for environmental scanning. Under Systematic Approach, information for environmental scanning is collected continuously to monitor changes in various factors related to markets and customers, changes in legislation and regulation etc. that have direct impact on the business of the organization. Sometimes organization may conduct special surveys and studies to deal with specific environmental issues.This approach of Environment scanning leads to the identification of many issues that affect the organization. This approach is known as Ad Hoc Approach. Under Processed-Form Approach the organization uses information which is already available either within the organization or available from other sources outside the organization. The available information is used in processed form.

Organizations use different practical combinations or approaches to monitor their relevant environments . Informal approach is generally used as a reactive measure to a crisis, and ad hoc studies may be undertaken occasionally. As a proactive measure, highly systematic and formal environmental scanning processes are used.

Between the two extreme approaches of environmental scanning, organizations also scan the environment depending on the require mints of a particular situation.For example-When an issue related decision has to be taken, periodic monitoring of the environment may be done. Also, systematic and ad-hoc approaches are used for the relevant environment of the organization, white the processed form approach can be used to approach both the relevant and the general environment.

4.3 Factors to be Considered for Environmental Scanning

Environmental scanning gives the strategists time to anticipate opportunity and to plan optional responses to these opportunities. It also helps strategists in developing a warning system to prevent threats or develop strategies which can turn a threat to the firm's advantage. It allows the organization in summarizing the impact of various sectors of the environment. There are different methods of environmental scanning. Some of these methods are SWOT, ETOP, TOWS Matrix and Strategic Advantage Profile.

The external environment of any organization consists of a host of various factors. These factors are also termed as influences-known as events, trends, issues and expectations of different interested groups.

- Events–important and specific occurrences taking place in different environmental sectors.
- Trends –are general tendencies in the environment.
- Issues –are current concerns that occur in response to events and trends.
- Expectations – are demands made by interested groups in tight of various issues.

By monitoring the environment through environmental scanning, the impact of different events, trends, issues and expectations, on strategic management process is studied by an organization.

4.4 Sourees of Information for Environmental Scanning

Organization tap information and collect data from a wide variety of sources for the purpose of environmental scanning. Some of the important sources of information are given below :

- Different types of publications like newspapers, government publications, annual reports, journals, books, magazines etc. constitute secondary sources of information.
- Mass media such as radio, internet, T.V.etc.
- Internal sour**ce**s like company files and documents, data bases, employees, suppliers trade associations etc.
- Formal studies- conducted by employees, market research agencies, consultants and educational institutions.
- Spying and surveillance through ex-employees of competitors etc.

While using any of the above sources of information, the validity, reliability and time frame of the source should be checked to ensure the authenticity of the source used.

4.5 SWOT Analysis

SWOT is the acronym for strengths, weaknesses, opportunities and threats. It provides a framework within which an organization can develop and alter its strategies. It gives an organized basis for discussion and information sharing to improve managerial strategic decision making. Before going into details, let's first understand strengths, weaknesses, opportunities and threats.

Strengths-

Strengths are the strong areas or attribute of the company, which are used to overcome weakness and capitalize to take advantage of the external opportunities available in the industry. Strength is an inherent capacity which an organization can use to gain strategic advantage over it competitors. Strengths arise from resources and competencies available to the organizations. Tata Group sees its strength in strong brand identity and for Ranbaxy in its strong R & D base. Big Bazaar by its networked distribution, efficient supply chain which helped in reducing inventory and by ensuring availability of products at all stores at reasonable price as per customer demand, acquired its present successful position.

Weaknesses-

Weaknesses are drawbacks, which can become harmful for the company performance. These are the weak factors which need to be improved in future and if they are exposed to the competitors they can take advantage of it. Weakness is an inherent limitation or constraint which creates a strategic disadvantage. For SAIL a weakness is its excess manpower and for Hindustan Motor it is its outdated technology. South-West Airlines recognized its weakness of limited financial resources and adopted a selected route expansion strategy to make profit.

Opportunities-

Opportunities are the chances that exist in the external environment, it depends on an organization whether it is willing to exploit the opportunities or maybe it ignores the opportunities due to lack of resources. Opportunity is a favourable condition in the organization's environment which enables it to consolidate and strengthen its position. Telecom Sector saw opportunities in de-licensing of industry and Retailing Sector saw an opportunity in Consumerism. Reliance Industry (Textile Division) saw an opportunity in potential domestic polyester fabric market in 1977 and expanded domestically on a large scale.

Threats-

Threats are always evil for the organization; less threats in the external environment open many doors for the organization, but more threats for the organization reduce its power in the industry. Threat is an unfavourable condition in organization's environment which creates a risk or causes damage to the organization. Threats are key impediments to the organization's current or desired position. Singur SEZ faced a major threat in the form of Social Activism for Tata motors.

Exhibit 2: Tabular Form of the SWOT

	Positive	Negative
	Strengths	**Weaknesses**
Internal Factors	* Technological skills * Leading Brands * Distribution channels * Customer Loyalty/Relationship * Production quality * Scale * Management	* Absence of important skills * Weak brands * Peer access to distribution * Low customer retention * Unreliable product/service * Sub-scale * Management
	Opportunities	**Threats**
External Factors	* Changing customer tastes * Liberalisation of geographic markets * Technological advances * Changes in government policies * Lower personal taxes * Change in population age-structure * New distribution channels	* Changing customer tastes * Closing of geographic markets * Technological advances * Changes in government policies * Tax increases * Change in population age structure * New distribution channels

The SWOT analysis of Volkswagon Company logically provides how SWOT helps in identifying the basis for a compelling strategy.

Strengths -

- Provided better quality by cutting defects by 60%.
- In the US, Vokswagon outperformed GM.
- Vokswagon managers know exactly their different products.
- Cost-control with the purchasing list.
- Own seven different car brands, offering two broad categories, one for the traditional driver and one for the performance-minded driver.

Weaknesses-

- Trails Toyota, Mercedes, Nissan, and Honda in overall quality.
- Suffering from a bad image of its management department.
- Bad publicity due to the case from GM.
- Cost of capital is relatively higher than Daimler's.
- Bungled its communications with investors.

Opportunities

- Take advantage of the attractiveness of the new Beetle to get customers to point of sales.
- Growth potential in the American market.
- Good results on the stock exchange.
- Potential cost decrease with their production strategy.

Threats

- A softening in auto sales in Europe and South America.
- Risk of self-cannibalization between VW's brands, like top of the line VW's models and bottom of the line Audi's.
- Risk of brand dilution, confusion between the VW Passat and the Audi A4.

Thus, SWOT Analysis is a broad conceptual approach which has some limitations like overemphasizing internal strengths or downplaying external threats. T.Hill & R.Westbrook criticizes SWOT analysis because it generates lengthy list where some factors can be placed in two categories i.e. strength as well as weakness. Anf other limitation is that it uses no weights to reflect priority and use ambiguous words and phrases. Yet SWOT provides a generalized view to assess internal capabilities in light of key external opportunities and threats.

4.6 TOWS Matrix

The TOWS Matrix is a tool given by H. Weihrich which overcomes the weaknesses of SWOT. To overcome these weaknesses, here a Strategic Factors Analysis Summary (SFAS) is prepared. In SFAS, weights are given to different identified factors. These weights are revised and reviewed and then rated as per score to create a SFAS, which constitute both Internal Factors Analysis Summary (IFAS) and External Factors

Analysis Summary (EFAS). The TOWS Matrix uses EFAS which lists opportunities and threats & IFAS which lists of the specific areas of current and future weaknesses & strengths of the organization. By providing these lists TWOS helps managers in developing four types of strategies i.e. SO strategies, WO strategies, ST strategies and WT strategies.

Exhibit 3: TOWS Matrix

Strengths(S)	Opportunities(O) (SO)Max-Max	Threats(T) (ST)Max-Mini
	SO strategies use a firm's internal strengths to take advantage of external opportunities.	ST strategies use a firm's strengths to avoid or reduce the impact of external threats.
Weaknesses(W)	**(WO)Mini-Max** WO strategies aim at improving internal weaknesses by taking advantage of external opportunities.	**(WT)Mini-Mini** WT strategies involve defensive tactics directed at reducing internal weaknesses and avoiding external threats.

Exhibit – 4: Wal-Mart Strengths, Weaknesses, Opportunities and Threats

	Opportunities(O)	Threats(T)
Strengths (S)	**Wal-Mart Strengths** ➢Customer oriented ➢Super centres offer one stop shopping ➢Satisfaction guaranteed Programs promoting customer goodwill ➢Buy from local merchants when possible ➢Stock ownership and profit-sharing with employees ➢Leads industry in information technology ➢Ongoing development of its employees ➢Strong community involvement	**Wal-Mart Threats** ➢Regulation of Wal-Mart pharmacies ➢Small towns do not want entry of Wal-Mart ➢Bad media exposure for Kathie Lee Brand ➢Variety of competition nationally, regionally and locally ➢ Substitute products more easily because of intense competition
Weaknesses (W)	**Wal-Mart Weakness** ➢No formal mission statement ➢Membership only for SAM'S Club ➢Keep poor performing employees on hand ➢Old fashioned store policies	**Wal-Mart Opportunities** ➢Consumers want ease of shopping ➢Internet shopping growing ➢Dollar value increasing ➢Similar shopping patternsworldwide ➢Retail sales expected to increase ➢Environment conscious consumers ➢Elderly population growing ➢Asian market virtually untapped by retail

4.7 ETOP Analysis

Glueck has given Environmental Threat and Opportunity Profile method of environmental scanning which is referred to as ETOP. An ETOP involves dividing the environment into different sectors and then analysing the impact of each sector on the organization. 'The preparation of ETOP provides a clear picture to the strategists of the different factors in each sector which have a favourable impact on the organization. By means of an ETOP, the organization comes to know where it stands. This understanding can be of great help to an organization in formulating appropriate strategies to take advantage of the opportunities and counter the threats in its environment'.

All the organizations must examine the ETOP to reduce the degree of threats on the basis of their competencies and capabilities. It identifies the relevant environmental factors. Such factors might be general environment factors and task environment factors. Thereafter, it is necessary to identify their nature. Some factors are positive to the organization whereas others are negative. Therefore, it is necessary to find out their impact to the organization. To prepare an effective and comprehensive ETOP an organization's external environment is subdivided into sub-factors and impact of these major sub-factors are listed in a table. The table uses positive, neutral, and negative signs in ETOP to denote the relevant impact of environmental factors. Here is an example of a hypothetical bicycle manufacturing company.

Exhibit 5: ETOP for a Bicycle Company

Environmental Sector	Nature of Impact	Impact of each Sector
Socio-cultural	↑	Customer preference for fashionable, easy to ride & durable - sports cycles
Political	→	Not significant
Economic	↑	Growing affluence-Urban consumers exports potential high
Regulatory	↑	A thrust area for exports
International	↓	Emerging threat from cheap imports from China
Market	↑	Industry growth rate in 7%-8% p.a. and sports cycle - 30% p.a., largely unsaturated demand
Supplier	↑	Mostly ancillaries & associated companies supply Spareparts & components, imported raw materials easily available
Technological	↑	Technological upgradation of industry in progress, import of machinery is easy.

Note: Up arrows indicate favourable impact; down arrows indicate unfavourable impact, while horizontal arrows indicate a neutral impact.

Thus, Environmental Threat and Opportunity Profile (ETOP) lists different aspects of the environment of an organization that have a bearing on it. It also assesses the nature and extent of the impact of the factors and prepares a complete picture – a holistic view.

4.8 SAP Analysis

The Internal Environment of an organization is full of forces and influences which make it very complex. The strategists find it very critical to identify various factors and to determine the organizational capabilities. The organizational capabilities are used to refer to a firm's capacities for undertaking a particular productive activity. To identify the firm's capabilities it uses the functional classification approach. A functional classification identifies organizational capabilities in relation to each of the principal functional areas i.e. Finance, Marketing, Operational, Personnel and General management. An organization tries to secure strategic advantage by scanning internal environment. According to **Azhar Kazmi,** "Strategic Advantages are the outcomes of organizational capabilities. They are organizational activities leading to rewards in terms of financial parameters."

According to Kumar M.Birla, of A.V.Birla Group their group has core competencies in a wide array of skills related to process industry, project management, operations, raw materials sourcing, distribution and logistics, setting up dealer networks, commodity branding and raising finance at a competitive cost. These distinctive competencies provide competitive advantages for any organization which are strengths relative to competition. These result in distinctive cost or differentiation advantages. A collection of these competitive advantages is presented in Strategic Advantage Profile i.e. SAP. Organizations have to systematically and continuously conduct exercise to prepare its Strategic Advantage Profile which is critical for stretching and leveraging of resources. According to Glueck & Jauch –"A Strategic Advantage Profile provides a picture of more critical areas which can have a relationship to the strategic posture of the firm in the future."

The SAP presents strengths and weaknesses of different functional areas. Exhibit 4 presents an example of SAP of a hypothetical Cosmetic company, which shows strengths in Marketing, Information and Operations areas but weakness in Finance and General management areas whereas Personnel is neutral.

Exhibit 6: SAP of a hypothetical Cosmetic company

Capability	**Nature of**	**Impact of each Sector**
Factor	**Impact**	
Finance	↓ ↑	High cost of capital, reserves & surplus position unsatisfactory Marketing Favorable company and product image, High profile advertising.
Operational	↑	High level of capacity utilization, Reliable sources of supply.
Personnel	→	Quality of management & personnel par with competition
Information	↑	Convenient access to information sources, Secure information system.
General management.	↓	No rapport with the government and bureaucracy.

Note: Up arrows indicate favourable impact; down arrows indicate unfavourable impact, while horizontal arrows indicate a neutral impact.

4.9 Summary

Environmental Scanning is an essential and significant process for an organization as it helps strategists in finding out and determining various influences existing in its external and internal environment. Various sectors of external environment i.e. market, technological, supplier, regulatory, political, socio-cultural, and international as well as internal environment i.e. finance, operations, personnel, marketing, information and general management are appraised in environmental scanning. Some of the methods of environmental scanning are SWOT, ETOP, TOWS Matrix and SAP. In SWOT, after examining different sectors of external and internal environment, a list of strengths, weaknesses, opportunities, and threats is prepared. This list becomes a source of information which is used by the strategists in forming compelling strategies.

The TOWS Matrix developed by Heinz Weihrich, is an important systematic approach of scanning environment which helps in selecting strategic alternatives most suitable in the existing environment. Environmental Threat and Opportunity Profile method of environmental scanning is a profile of opportunities and threats existing in external environment. For an organization, ETOP provides a clear picture to the strategists so that they can capitalize on an existing opportunity and formulate strategies to take its advantage and avoid an approaching threat.

The environmental scanning is also structured by preparation of Strategic Advantage Profile, which involves dividing internal environment different sectors and then in identifying the impact of each sector on the organization. These methods of environmental scanning not only help the strategists, in appraising the mass of information available which is related to dynamic and complex environment, which an organization faces, but also present a clear picture of the strengths, weaknesses, opportunities and threats operating in the environment of the organization.

4.10 Key Words

- **Environmental Scanning –** It is the monitoring, evaluating and disseminating of information from the external and internal environments to key people within the corporation.
- **Strength –** It is an inherent capacity which an organization can use to gain strategic advantage over it competitors.
- **Weakness –** It is an inherent limitation or constraint which creates a strategic disadvantage.
- **Opportunity –** It is a favourable condition in the organization’s environment which enables it to consolidate and strengthen its position.
- **Threat –** It is an unfavourable condition in organization’s environment which creates a risk or causes damage to the organization.
- **ST –** ST strategy uses a firm’s strengths to avoid or reduce the impact of external threats.
- **SO –** SO strategy uses a firm’s internal strengths to take advantage of external opportunities.
- **WT –** WT strategy involves defensive tactics directed at reducing internal weaknesses and avoiding external threats.
- **WO –** WO strategy aims at improving internal weaknesses by taking advantage of external opportunities.
- **SAP –** It presents a collection of the organizations competitive advantages.

4.11 Self Assessment Test

1 Why does an organization need to do environmental scanning?

2 What are the different factors existing in an organization's internal and external environment which are scanned by an organization?

3 Define SWOT with an example.

4 What is SWOT Analysis? Prepare SWOT for an automobile company.

5 What is TOWS Matrix? Prepare a TOWS for a fast food organization.

6 What information does an ETOP contains?

7 What is an ETOP? Prepare an ETOP of a cosmetic company.

8 What are SO, ST, WO, and WT strategies?

9 What is Strategic Advantage Profile and how is it prepared?

10 What are different methods of environmental scanning? Give any two of methds in detail.

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Unit - 5 : Organizational Diagnosis

Unit Structure:

5.0 Objectives

After studying this unit, you should be able to understand:

- The concept of organizational diagnosis
- The objectives, process and factors affecting organizational diagnosis
- Techniques for organizational diagnosis
- Organizational Appraisal

5.1 Introduction

Organizational diagnosis is an evaluation of the dynamics of interacting forces within and outside the organization. It leads to an understanding of the opportunities and threats in the environment, the strengths and weaknesses of the organization and their implications on the organization's functioning. Organizational diagnosis is an effective way of looking at an organization to determine gaps between current and desired performance and how it can achieve its goals.

The organizational diagnosis is the basis for sound growth and organizational development. The essential elements are structure, procedures, relationships and the cooperation within an organization. Each organization can be seen as consisting of various subsystems. Effective functioning of each of these elements is essential for smooth functioning of the organization. Moreover the coordinated functioning of these subsystems also contribute to organizational effectiveness. For making organizational diagnosis the strengths, weaknesses and potential of each of the subsystems need to be examined. In addition the various processes that contribute to the effective functioning of the organization as a whole also needs to be examined.

5.2 Objectives of Organizational Diagnosis

The objectives of organizational diagnosis are to establish the understanding of a system and, based on that understanding, to determine whether change is desirable and also to assess the feasibility of change in an organization. They are:

- To give new senior or middle managers the operational and critical information they need to get to act more quickly.

- When two companies are merged, or when one company acquires another, it can help identify misalignments between the art-of-working and cultural characteristics of both entities, thus helping in the integration process.
- To provide quantitative input into an organization's strategic planning process by indicating the organization's Strengths, and Weaknesses (SWOT analysis).
- To identify the main causes and underlying patterns of ineffective organizational behaviors that hinders growth and prevents organizations from achieving their goals.
- To determine the extent to which an organization listens to, and focuses on, its customers and whether or not the structures and systems are result-oriented and operating to meet customers' needs and requirements.
- To identify the cultural parameters within which business processes operate so that management can develop better solutions to problems like re-work, inconsistent quality and service, downtime, ineffective communication, interpersonal conflict, and lack of employee motivation.
- To identify pivotal issues that need to be addressed and to predict where potential barriers to change will be.

5.3 Internal Environmental Factors

There are many influences that need to be considered when diagnosing the internal environment of an organization. These influences include organizational, cultural, financial, research and development, production, marketing and resources.

Organizational: The structure of the organisation needs to be studied in terms of how the customers needs are met, what are the channels of communication, how is change brought about and how does the organisation achieve coordination.The decision making process has to be understood to make sure that decisions are made correctly and implemented adequately. The decisions also need to be adequate for operational purposes as well as strategic purposes. The management hierarchy bears a lot of influence over the organisation and it has to be ensured that the managers are encouraging initiative while maintaining control, and that they are effective and efficient.

Cultural: The culture of an organisation drives a company forward and it needs to be assessed whether the mission statement reflects what the organisation believes or desires, and that the organisational ethos are understood and communicated effectively. Management style of the organisation should enable the achievement of goals and motivate and create a learning environment.

Financial: The profitability of an organisation is to be assessed to see if the company achieves the targets and perform satisfactorily, and whether there is a balance between retained and shared profits. There needs to be a growth in assets that is acceptable for the organisation, and key ratios such as the operating income and net assets needs to be monitored. The cash flow has to be studied to identify what the sources of cash are and whether they are negative or positive.

Research and Development: When an organisation is selling products then enough emphasis should be on product development so that there are sufficient new products or designs to be launched. The budget for R&D needs to be decided pragmatically. Any new technology that the organisation introduces should be evaluated in terms of return on investment.

Production: The assessment of production levels in terms of output and the efficiency of the organisation in achieving targets in terms of productivity and quality standards should be considered Stock levels need to be optimum along with lead times and quality, and it also needs to be evaluated if new technology should be implemented or needs to be implemented to achieve better levels of production.

Marketing: The marketing of the company's products should be able to meet customer needs and should be competitive. The market share needs to be analyzed to verify if it is growing, stable or declining and that potential markets are being developed and targeted. The profitability of the product or brand needs to be analyzed with respect to pricing structure. This will lead to the apportionment of costs to the cost of sales in terms of promotion. The overall turnover of the product or service will be marked from the overall sales figure in terms of targets.

Resourcing: Resourcing takes into account such things as purchasing costs and how the purchasing of the organization is done. Human resources such as staff retention, wage and salary costs and staff training and promotion need to be assessed. Also if new projects need to be funded then the resources available have to be studied, as well as, the company's requirement to use long or short term loans has to be assessed.

5.4 Organizational Capability Factors

Organizational capability is the inherent capacity or potential of an organization to use its strengths and overcome its weaknesses in order to exploit opportunities and face threats in its external environment. It is also viewed as a skill for coordinating resources and putting them to productive use.

Organizational Capabilities are developed in specific areas. -Marketing and Operations or in a part of a functional areas, such as R&D & Distribution. We have divided an organization into six largely accepted functional areas as described below:

Financial Capability:

Factors influencing financial capability are: (a)Factors related to sources of funds (b)Factors related to usage of funds (c)Factors related to management of funds.

Marketing Capability:

Factors influencing marketing Capability:- (a)Product related factors (b)Price related factors (c)Place related factors (d)Promotion related factors (e) Integrative and systemic factors.

Operations Capability:

Factors influencing Operations Capability are: (a) Production System, (b) Operations and Control system and (d) R&D System.

Personnel Capability:

Factors influencing Personnel Capability are:(a)Factors related to personnel system (b)Factors related to organization & employee characteristics (c)Factors related to industrial relations.

Information Management Capability:

Factors influencing information management capability:- (a)Acquisition and retention of information, (b)Processing and synthesis of information, (c)Retrieval and usage of information, (d)Transmission and dissemination.

General Management Capability:

Factors influencing general management capability are: (a) Factors related to general management system, (b)Factors related to General managers, (c)Factors related to external relations, (d)Factors related to organizational climate and culture.

5.5 Techniques for Organizational Diagnosis

The following are the commonly used techniques:

1. SWOT Analysis

It is a method for analyzing a business, its resources, and its environment. SWOT is commonly used as part of strategic planning and looks at:

- Internal strengths
- Internal weaknesses
- Opportunities in the external environment
- Threats in the external environment

SWOT can help management to discover:

- What the firm does better than the competition
- What competitors do better than the firm
- Whether the firm is making the most of the opportunities available
- How a firm should respond to changes in its external environment

2. Organisational Analysis

An organizational analysis evaluates all relevant factors in an organization in order to determine its strengths and weaknesses. Some of the areas that most businesses should analyze include the following:

- **Financial position** - The financial position of a business plays a crucial role in determining what it can or cannot do in the future.
- **Product position** - For a business to be successful, it must be rightly aware of its product position in the marketplace.
- **Marketing capability** - Closely tied with an organization's product position is its marketing capabilities (i.e., its ability to deliver the right product at the right time at the right price, to the right customer.)
- **Research and development capability** - Every organization must be concerned about its ability to develop new products.
- **Organizational structure**. Organizational structure can either help or hinder an organization in achieving its objectives.
- **Human resources**. All the activities of an organization are significantly influenced by the quality and quantity of its human resources.
- **Condition of facilities and equipment** - The condition of an organization's facilities and equipment can either enhance or hinder its competitiveness.

- **Objectives and strategies -** In assessing its internal environment, every business should attempt to explicitly lay down its objectives and strategies.

3. Human ResourceAnalysis

There are many techniques for analysis that can be undertaken to diagnose organizational productivity. These include the following:

1) Rate of Employee Turnover:

Mostly it is said that employee turn over is not good for the organizations. But employers should remember that turnover is not that bad either. What is required is an optimum mix of turnover, not too high-not too low. A low rate of employee turnover may result into:

1. Bringing in new ideas and skills from new hires.
2. Better employee-job matches.
3. More staffing flexibility.
4. Facilitate change and innovation.

High rate of turnover may lead to decrease in:

1. Productivity
2. Service delivery
3. Spread of organizational knowledge

2) Grievances and Disputes:

Grievance means any type of dissatisfaction arising out of factors related to an employee's job which he thinks are unfair. A grievance arises when an employee feels that something has happened or is happening to him which he thinks is unfair, unjust or inequitable. Grievances are symptoms of conflicts in the organization. Therefore, management should be concerned with both complaints and grievances, because both may be important indicator of potential problems within the workforce. Without a grievance procedure, management may be unable to respond to employee concerns since managers are unaware of them. Hence, a formal grievance procedure is an important communication tool for the organization.

3) Employee Attitude:

Employee attitude survey is a valuable tool for any organization. The survey provides information that may be used to improve productivity and commitment. By identifying the basic causes of negative attitude in the workplace, organization can take appropriate create a positive environment and action to maximize overall job satisfaction. Taking action as a result of the information gathered from an employee survey will lead to improved productivity. And, improving employee attitude throughout the workplace will lead to better cooperation and communication. Surveys can also uncover many cost saving opportunities.

4. Organisational Structure Analysis

The main aim of the analysis is to determine if:

- The structure is as per the needs of the organization;
- The structure supports the objectives and strategy;
- It is logical and cost-effective;

- The structure maximizes the human resource potential in the organization.

Some of the main techniques for analyzing these factors are-

- **Organizational Design**

Organizational Design is a methodology that systematically assesses work and organizational issues, reviewing organizational/job strategies, inputs, outputs, structure, workflow and feedback system. Major phases in this method are:

- Defining the problem
- Analysis of causes
- Selecting and implementing solutions.

- **Job Analysis**

Job analysis is the process of describing and recording the various aspects of jobs and specifying the skills and other requirements necessary to perform the job. One of the main purposes of conducting job analysis is to prepare job description and job specification which in turn helps to hire the right quality of workforce into the organization. The purpose of job analysis is to document the requirements of a job and the work performed. Job and task analysis is performed as a basis for later improvements, including: definition of a job domain; describing a job; developing performance appraisals, selection systems, promotion criteria, training needs assessment, and compensation plans.

- **Process Analysis**

Approaches for analyzing the organization's processes are considered below.

- **Business Process Re-engineering (BPR)**

It is the analysis and design of workflows and processes within an organization. According to Davenport (1990) a business process is a set of logically related tasks performed to achieve a defined business outcome. Business Process Re-engineering (BPR) is basically the fundamental re-thinking and radical re-design, made to an organization's existing resources. It is more than just business improvising. Re-engineering identifies, analyzes, and re-designs an organization's core business processes with the aim of achieving dramatic improvements in critical performance measures, such as cost, quality, service, and speed.

- **Activity Profiling**

Activity profiling is a technique used to document and describe an activity to facilitate strong activity management and to enable improvements to be made. Activity profiling is used to describe all aspects of an activity including managerial, operational, social, and technological. Activity profiling describes aspects such as:

- operations, policies, and procedures,
- activity relationships and dependencies,
- management concepts and philosophies,
- organization, roles, and responsibilities,
- social systems,
- technology, tools, and techniques,
- timing and volumes, etc.

Activity profiling is used to document and describe business activities. It may be used to describe an entire value stream, individual business processes that comprise a value stream, or individual activities that comprise a business process.

• Value-Chain Analysis

It is a method of determining the strengths and weaknesses of an organization on the basis of performance of the series of activities. Value chain was introduced by Porter. It is a chain of value creating activities in an organization. Two broad categories of value activities are- Primary and Support. Primary activities include activities connected with the physical creation of product and its marketing. Support activities include those which provide inputs for primary activities to be carried out. Say, value chain may start with purchasing of raw material, then processing in various stages and finally continue till marketing of end products to the consumer. The value chain depicts a systematic progress and analysis of all the activities performed by an organization which are interrelated. Value-chain surely affects the profit margin of the organization.

• Benchmarking

It is the process of comparing one's business processes to industry. Dimensions typically measured are quality, time and cost. In the process of benchmarking, management identifies the best firms in their industry, or in another industry where similar processes exist, and compare the results and processes of those studied (the "targets") to one's own results and processes. In this way, they learn how well the targets perform and, more importantly, the business processes that explain why these firms are successful.

• Balanced Scorecard

It was conceived by **Robert S Kaplan** and **David P Norton**. It identifies following performance measures:

- Perspective of customer
- Internal business perspective
- Learning perspective of value creation
- Financial perspective

Using these perspectives together paves the way to a balanced approach in strategy formulation.

• Zero-based Budgeting (ZBB)

Its a method of budgeting in which all expenses must be justified for each new period. Zero-based budgeting starts from a "zero base" and every function within an organization analyzed with respect to its needs and costs. Budgets are then built around what is needed for the upcoming period, regardless of whether the budget is higher or lower than the previous one.

• Work Measurement

It is the application of techniques designed to establish the time for an average worker to carry out a specified task at a defined level of performance. It is concerned with the length of time it takes to complete a work task assigned to a specific job. There are also a number of jobs for which the techniques of work measurement are inappropriate. This would apply to most professional and managerial jobs, where the measures have to be based more on capabilities and competencies.

• Effective Communication Processes

Although the organisation chart will show the formal lines of communication, there are of course many informal links and these may be the more important sources of information. Everyone knows about the power of the grapevine. A useful working definition of sociometry is that it is a methodology for tracking the energy vectors of interpersonal relationships in a group. It shows the patterns of how individuals associate with each other when acting as a group toward a specified end or goal. Sociometry is defined as "the mathematical study of psychological properties of populations, the experimental technique of and the results obtained by application of quantitative methods. Measuring communication in an organisation can be achieved using socio-gramswhich map the number of interactions occurring between different members of a particular work group.

• People Analysis

While reviews of organisations concentrate on structure and processes, it is important to review the organisation's human resources as they will make the structure and processes work. Efficient and well-motivated employees will overcome the deficiencies of poor structure and processes, while the best structure and processes will not work without their co-operation.

• Psychometric Tests and Assessment Centers

Employers use psychometric testing to help determine who will best suit the role. Psychometric tests measure the competencies, motivations, intelligence, preferences and personality traits of an individual under standardised conditions to create a more complete picture of the person in conjunction with his resume, interview answers and referee comments. The most common psychometric tests are aptitude tests and personality questionnaires.

An assessment centre is a process that involves using different exercises to test how well one display the behaviours applicable to his role. These exercises can include psychometric testing, interviews and group activities where people observed interacting in a team environment. Employers are looking to see if one has the correct level of knowledge and display the right skills and attitudes for the role and find out the behaviours that employers consider essential for the role and strive to demonstrate them. Examples could be strong teamwork skills, leadership capability or the ability to remain calm under pressure.

• Rightsizing

There are a number of methods to establish the optimum number of employees required by an organisation. It is designed to help the organisation change the level of the resources allocated to a particular activity to meet the requirements of markets, competition, or economic and other constraints.

• Attitude Surveys

The surveys of this type provides an understanding how the employee perceives the organization. Employee attitude surveys measure the employee's opinions on various aspects of his workplace including:

- Overall satisfaction
- Management/employee relations
- Corporate culture
- Career development
- Compensation
- Benefits

- Recognition and rewards
- Working conditions
- Training
- Staffing levels
- Safety concerns
- Policies and procedures

- **The 7's Framework**

The 7-S framework of McKinsey is a Value Based Management (VBM) model that describes how one can holistically and effectively create an effective organization. Together these factors determine the way in which a corporation operates.

- **Shared Value:** The interconnecting center of McKinsey's model is: Shared Values. What does the organization stands for and what are its central beliefs and attitudes.
- **Strategy:** Plans for the allocation of a firms scarce resources, over time, to reach identified goals.
- **Structure:** The way the organization's units relate to each other: centralized, functional divisions (top-down); decentralized (the trend in larger organizations); matrix, network, holding, etc.
- **System:** The procedures, processes and routines that characterize how important work is to be done: financial systems; hiring, promotion and performance appraisal systems; information systems are the sub-systems in the organization.
- **Staff:** Numbers and types of personnel within the organization.
- **Style:** Cultural style of the organization and how key managers behave in achieving the organization's goals. Various management Styles are practiced by managers to achieve desired objectives.
- **Skill:** Skill relates to distinctive capabilities of personnel or of the organization as a whole. Core Competences are developed through the skills that the people in the organization possess.

5.6 Structuring Organizational Appraisal

How can we appraise an organization? It is appropriate to mention that appraisal should be carried within some framework and that the framework should be rational. A more commonly accepted technique which uses a structured approach has emerged from work carried out by Kaplan and Norton in the 1990s, and is based on a number of perspectives besides financial performance:

- Customer perspective "How do customers visualise us?"
- Internal efficiency perspective "How effective are internal processes?"
- Assessment of organisational health

The organisation develops its own measures in each of these areas, and the owners, managers and staff of the organisation strive for improvements. Some measures might be for the specific parts of the organisation indicating their performance, while other measures might be organisation-wide. The top management of the organisation can make a composite of all of these measures to form a so-called balanced scorecard.

• **Customers View Profile**

Since the organisation is in the business of creating social impact, the question regarding customer views can be understood as "How do all stakeholders see us and what is the extent and the nature of impact upon them?". In an educational institutions for example students are clearly its customers and in some ways so are prospective employers. Since public money is made use of then the taxpayers, are also stakeholders in the institution's performance. It is for the institution to produce objective measures of its impact that depicts its performance and effectiveness as well as properly imbibe changes that balance the interests of various stackeholders.

The quality of processes is a matter of enquiry. It is very common for processes not to be particularly optimised amongst units, for example a unit might possess information that is also kept elsewhere, leading to duplication of work and greater probability of inconsistencies. Further, the individual units often have their own management structures with their own associated costs. Taking an organisatinal view of processes can be useful in highlighting opportunities for improvement as well as providing knowledge of where internal costs actually originate. Various benefits occur such as improvements in quality of services, more capability to cope with organisational and strategic change and effective control over costs.

Assessment of organisational health is equally important, for example, in case of education institutions teaching and research staff who, as they are individuals, are happy to work with administrators and leaders that guide and run the institution as a whole, should also be while allowed to do their work. For this reason the organisational culture should favour and recognize all its faculty members and other supporting staff. It is to be noted that many of the successful academic institutions are the ones in which the spirit of a community of scholars prevails alongwith able leadership.

Organisational Capability Profile Analysis (OCP)

Capacity and ability of an organization should be analysed in terms of its (1) Human resources: their number, quality, skills, and experience, (2) Physical resources: machines, land, buildings, (3) Financial resources: money and credit, (4) Information resources: pool of knowledge database, and (5) Intellectual resources: copyrights, designs, patents, etc.

Strategic Advantage Profile Analysis (SAP)

Strategic advantage profile is known as SAP. It shows strength and weakness of an organization.There are generally five functional areas in most of the organizations. These areas are Production or Operation, Finance or Accounting, Marketing or Distribution, Human Resource & Corporate Planning, and Research & Development. These functional areas are listed to identify their relative strength and weakness in SAP. The positive, neutral, and negative signs are denoted and brief description is written in SAP profile.

5.7 Summary

There are various ways of analysing organisations. The different approaches employed are important for evaluating organizational effectiveness and for finding where improvements can be made. They are critical in the design of organisations for achieving higher motivation and morale among employees. In this section we have learnt that organisational diagnosis is a method which analyses an organisation, its structures, subsystems and processes and identify strengths and weaknesses to improve the organizational effectiveness. Different ways which could be used for analysing an organization and different methods by which an organisation could be analysed have been discussed in this unit.

5.8 Key Words

- **SWOT –** It is a method of analyzing strengths and weaknesses in the internal environmental and , weaknesses, opportunities and threats in the external environment.
- **BPR -** Business Process Reengineering identifies, analyzes, and re-designs business processes with the aim of achieving improvements in key performance measures, such as cost, quality, service, and speed.
- **Activity Profiling -** It is used to describe all aspects of various actrvites in an organisation including managerial, operational, social, and technological.
- **Benchmarking -** It is the process of comparing one's business processes to the best in industry in terms of quality, time and cost.
- **Value Chain** - It depicts a systematic progress and analysis of all the value creating activities performed by an organization which are interrelated.
- **ZBB -** Zero-based budgeting starts from a "zero base" and every function within an organization is analyzed for its needs and costs.
- **Work Measurement -** It is concerned with the length of time it takes to complete a work task assigned to a specific job.
- **Psychometric Test -** Psychometric tests measure ones competencies, motivations, intelligence, preferences and personality traits under standardized conditions to create a more complete picture of the candidate.
- **Assessment Centers -** An assessment centre is a process that involves using different exercises to test how well one display the behaviours applicable to the role.

5.9 Self Assessment Test

1 What is organizational diagnosis? How it is done?

2 What different approaches can be used by strategists for organizational appraisal?

3 Mention the important factors that influence the overall capability of an organization.

4 Discuss the steps to prepare of OCP and SAP of an organization.

5 Conduct a SWOT analysis of an organization of your choice.

5.10 References

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Unit - 6 : Generic Strategic Alternatives

Unit Structure:

6.0 Objectives

After studying this unit you will be able to :

- Understand the meaning of generic strategies.
- Acquaint with the objectives behind establishing these strategies.
- Familiarize with the various generic strategies available at the corporate level.
- Understand rational for adopting these strategies.
- Understand the meaning of corporate restructuring.

6.1 Introduction

After completing environmental analysis and organizational appraisal the corporate managers are able to identify what are the strategies available for them in the light of their organization mission. The strategic choices available at corporate level are known as grand strategies. Formation of grand strategies is a process which is strategic in nature, and has an impact for long period, hence it is not an action oriented process but primarily an analytical one. At the corporate level, top management has to define the corporate profile by identifying the business or industry in which they are performing or want to operate in future.

Corporate-level strategies address the entire strategic scope of the enterprise. This is the "big picture" view of the organization and includes deciding in which product or service markets to compete and in which geographic regions to operate. For multi-business firms, the resource allocation process-how cash, staffing, equipment and other resources are distributed-is typically established at the corporate level. In addition, because market definition is the domain of corporate-level strategists, the responsibility for diversification, or the addition of new products or services to the existing product/service line-up, also falls within the realm of corporate-level strategy. Formation of corporate-level answer satisfies the following questions:

1. What should be the scope of operations; i.e.; what businesses should the firm be in?
2. How should the firm allocate its resources among existing businesses?
3. What level of diversification should the firm pursue; i.e., which businesses represent the company's future? Are there additional businesses the firm should enter or are there businesses that should be targeted for termination or divestment?
4. How diversified should the corporation's business be? Should we pursue related diversification; i.e., similar products and service markets, or is unrelated diversification; i.e., dissimilar product and service markets, a more suitable approach given current and projected industry conditions? If we pursue related diversification, how will the firm leverage potential cross-business synergies? In other words, how will adding new product or service businesses benefit the existing product/service line-up?
5. How should the firm be structured? Where should the boundaries of the firm be drawn and how will these boundaries affect relationships across businesses, with suppliers, customers and other constituents? Do the organizational components such as research and development, finance, marketing, customer service, etc. fit together? Are the responsibilities or each business unit clearly identified and is accountability established?
6. Should the firm enter into strategic alliances-cooperative, mutually-beneficial relationships with other firms? If so, for what reasons? If not, what impact might this have on future profitability?

6.2 Objectives for Developing Alternative Strategies

The main objectives for identification of grand strategies are :

I. The managers at corporate level should be aware about the various courses of action available to them. The various alternatives are considered in the light of organization's strengths & weaknesses and available opportunities & threats of external environment, thereby limiting the choice of alternatives.

II. To achieve organizational mission by pursuing the relevant strategic alterative.

6.3 Grand Strategies at Corporate Level

A grand strategy is one which provides guidance for major actions for the purpose of meeting long term objectives. It provides a basic direction for strategic action in line with major corporate objectives of a company. Thus, these grand strategies are a blue print for action and operational decisions. It works as a choice of direction that corporates adopts in order to achieve its objectives. The corporate strategy sets the direction in which the organization will go. Even where the organization simply comprises a single business with only one or few products, corporate strategy is relevant. And where an organization is made up of many business units operating in different markets, corporate strategy is also concerned with how resources are to be allocated across the business units.

According to Azhar Kazmi, "Corporate-level strategies are basically about decisions related to allocating resources among the different business of a firm, transferring resources from one set of business to others, and managing and nurturing a portfolio of business in such a way that the overall corporate objectives are achieved."

According to Glueck and Jauch, "Strategic alternatives revolve around the question of whether to continue or the business an enterprise is currently in or change the business to improve the efficiency and effectiveness with which the firm achieves its corporate objectives in its chosen business sector".

The grand strategies are also known as generic or basic strategies. According to Glueck and Jauch there are four strategic alternatives available to a firm which are :

I. Stability,

II. Expansion or growth,

III. Retrenchment, and

IV. Combination

6.4 Stability Strategies

Basic approach in the stability strategy is 'maintain present course: steady as it goes.' The stability grand strategy is adopted by organization when there is over capacity in the industries concerned with regard to the resources available to them. The organization may enter into the new customer group, another technology or narrowest possible product-market scope consistent with the firm's resources & market requirements. The firms are satisfied with their current rate of growth and profits. This strategy is essentially a continuation of existing strategies. Such strategies are typically found in industries having relatively stable environments. The firm is often making a comfortable income operating a business that they know, and see no need to make the psychological and financial investment that would be required to undertake a growth strategy. The stability strategy can be appropriate for a successful corporation operating in a reasonably predictable environment. Stability strategies can be very useful in short run but can be dangerous if followed for too long. For example : Steel Authority of India has adopted stability strategy because of over capacity in steel sector. Instead it has concentrated on inceasing operational efficiency of its various plants rather than going for expansion.

Characteristics of Stability Strategies:

The distinctive elements or characteristics that stability strategy possess are :

1. There is no major change in the product or service line, markets or functions.
2. The focus is an maintaining and developing competitive advantages consistent with the present resources and market requirements.
3. The aim of the organization is to achieve substantial growth
4. Business of the organization is not redefined in this strategy. It means that business is same but new parameters are set.
5. Stability strategy is less risky, as it is practiced in a stable environment

Types of Stability Strategies:

The organization has following options available under stability strategy:

1. **Maintain the Present Status:** Organization can maintain the same level of operations by adopting this strategy. Business firms with limited capital or finance, desire the same level of operation as they

are producing profitable results in the past. This step is taken when the environment in which the business is operating does not change. Hence, the firms pursue the same strategy as they were in the past.

2. **Sustainable Growth Strategy:** Firms cannot operate with 'no change strategy' for a longer time. When the environment becomes a little unstable, the firms has be to take the decision to do something. They decide to act in a manner so as to systain profitability by whatever means possible. So it just works like tide. As the opportunity is visualized the firm takes advantage. It may also happen that the cost of growth is more than the benefit for the same. So this strategy only works if the problems are of temporary in nature.

6.5 Expansion Strategies

Every organization as pires to grow at one point of time or the other, therefore, organizations pursue Growth strategy to survive and excel in the long run. According to Azhar Kazmi, "The expansion grand strategy is followed when an organization aims at high growth by substantially broadening the scope of one more of its business in terms of their respective customer groups, customer functions and alternative technologies - singly or jointly - in order to improve its overall performance". Organizations opt for expansion strategy either or all of the following reasons: growing economy, changing taste and preferences of customers, emerging technologies bottle neck competition (burgeoning market) etc.. A growth strategy signifies something different from stable growth or substantial growth. When the firm increases the level of objectives higher than what it has achieved in the immediate past, may be in terms of sales revenue or market share, or strategic decision center around increased functional performance in major respects, then we can say that growth strategy is followed. Reliance Industry Limited (RIL) is the best example of expansian strategy.

Characteristics of Expansion Strategy :

1. Expansion strategy is risky in Nature.
2. It is most commonly employed strategy.
3. It involves redefinition of the business of the corporation.
4. Thrust areas for expansion strategy could be new business, new products or new markets.
5. It is a highly versatile strategy; it offers several permutations and combinations for growth.
6. Increase in size of business leads to more control over the market as well as on competitors also.
7. Expansion strategy denotes the health of an organization.

A company which does not expand is said to be stagnat and on other hand a growing company enjoys more visibility and is better known and attracts better management.

Indicators of Growth –

There are a number of indicators of growth. The important indicators are –

1. Increase in net worth
2. Increase in total assets
3. Increase in the number of employees
4. Increase in the total volume of business

5. Increase in the market share
6. Increase in the number of products and markets
7. Increase in profits.

It is not necessary that all the above indicators should be positive simultaneously. Business growth could take place even with negative trend in some of the indicators. For example, if labour saving technology is substituted, business could grow even with lower number of employees. Similarly, when the total market is growing faster than the growth in the sale of the company, growth takes place with declining market share.

Risks of Growth –

There is a general feeling that business growth is good. However, it is important to note that there are several risks associated with growth and growth may land some companies in trouble. Common risks associated with growth are the following–

1. An increase in the productive capacity would have very adverse effect if the demand falls.
2. If new business fails, that could sometimes even affect the old business.
3. There is a tendency to concentrate more on the new business at the expense of old business.
4. A rapid and substantial growth of business may sometimes lead to ineffective management.
5. When a firm becomes large, it may lose several advantages like tax concessions , subsidies, exemption from several laws causing an increase in costs and other problems.
6. As a firm grows significantly it is likely to receive more attention by competitors and the public.

Right Time for Growth/Expansion Strategies –

An expansion strategy is a strategy that a firm pursues when–

- It serves the public in additional product or service or adds markets or functions to its definitions.
- The growth is fast in the markets in which their products are sold.
- They tend to have larger than average profit margins.
- A stretch rather that a fit strategy is pursued.
- New products, new markets, new processes and new uses for old products are regularly developed.
- Internal expansion, mergers and acquisitions are used to achieve growth.

Resorons for Growth/Expansion Strategies –

- In volatile industries, a stability strategy can mean short run success, long un death. So expansion becomes necessary if environments are volatile.
- Top management equals expansion with effectiveness.
- Belief in experience curve.
- Growth strategies lead to better organizational performance.
- Belief that growth will yield monopoly power.

Too much growth can result in inefficiencies that can prove disastrous in the long run. Hence, to avoid such a situation the following three questions should be answered before embarking on a growth strategy.

1. Are company's financial resources adequate?
2. If the company is stopped short in pursuing the strategy for any reason, will its position be competitively viable?
3. Will government regulators permit the company to follow the strategy it has chosen?

Types of Expansion Strategies:

An organization can expand its business in terms of new product, new market, new technology or new costumers. On the basis of these parameters different types of expansion strategies are categorized as:

1) Concentration Strategy:

Under this strategy an organization pursue growth by going in for internal growht. It means an organization concentrate on its primary business. It is a simple strategy and is least ambiguous as every one in the organization is familiar with the products and markets.

A. Intensive Growth –

A profit market expansion grid has been proposed by Ansof which is a very useful framework for detecting new intensive growth opportunities.

	Current Markets	New Markets
Current Products	Market Penetration	Market Development
New Products	Product Development	Diversification Strategy

ANSOFF'S PRODUCT/MARKET EXPANSION GRID.

I. Market Penetration – Market penetration strategy strives to increase the sale of the current products in the current markets.

There are three major approaches to increasing current products market share in their current markets.

(i) Encourage customers for more use of the product by increasing the–

a. Frequency of use – For example, if customer of tooth paste, who brushes teeth once a day now, is habituated to brush twice a day, the sale of product to the current consumer would almost double.

b. Usage per Use of the Product – For example, every time you shampoo your hair, repeat it two times for better results.

(ii) Attract Competitors Customers – If the company succeeds in making the customer to switch from the competitors' brands to the company's brands while maintaining its existing customers intact, there will be an increase in the company's sales. This is growth at the expense of the competitors. The competitors would, naturally fight back. This strategy will, therefore, succeed only if the company has some distinctive edge over the competitors.

(iii) Convince non-users to Use the Product – If there is a significant number of non-users of a product who could be made users of the product, that provides a potential opportunity for increasing the sales. For example, in India thee is a very large number of people, particularly in the rural areas, who are not in the habit of using to othpaste. product. It was reported that Balsara introduced the Babool tooth paste mainly targeting at the first time users of tooth paste.

II. Market Development Strategy – Another option is to look for new markets whose needs might be met by existing products –

(i) Convert Laggards – For example, the Hindustan Lever (HLL) entered the low price detergent market by introducing Wheel. HLL has increased its share of the tooth paste market ever since by opening up new segments through innovative products and packaging to convert laggards into users.

(ii) Seek additional distribution channels in its present locations.

(iii) Consider selling in new locations here or aborad.

A company which has been confined to some part of a nation may expand to other parts and foreign markets. Nirma, which in the beginning had been confined to the local markets of Gujrat, later expanded to the regional markets and then to the National markets.

III Product Development Strategy – In addition to penetrating and developing markets, management can consider new product possibilities in the same existing markets.

(i) Add New Features – For example, Band aid with turmeric.

(ii) Different Quality Levels – For example, Surf Excel, Surf Ultra, Surf Normal etc.

(iii) Alternative Technology – For example, CDMA and GPRS in mobiles. Despite the attractiveness of product development, it may often raise uncomfortable dilemmas for organization–

- While new products may be vital to the future of the organisation , the process of creating a broad product line is expensive, risky and potentially unprofitable.
- New product introductions at a rapid rate can depress the profitability of the organisation.

Hence, while choosing this as a growth option, caution against these must be taken care of. By examining these three intensive growth strategies, management may discover several ways to grow Still, that growth may not be enough, in which case management must also examine integrative growth opportunities.

(2) Integration Strategy:

Integration means combining activities related to the present activity of a firm. And combining activities can be done from acquiring or procuring basic raw material down to the marketing of finished products to the similar customer group. These interlinked activities are done to follow the economies of scale. It is a process related activity. An organization can either go for vertical integration or horizontal integration.

(a) Vertical Integration:

When an organization starts new activity undertaken with the purpose to cater its own need in the form of either supplying raw material or serving customers by marketing of a product is called vertical integration.

This is a logical strategy for a corporation or business unit with a strong competitive position in a highly attractive industry. To keep and even improve its competitive position through backward integration, the company may act to minimize resource acquisition costs and inefficient operations, as well as to gain more control over quality and product distribution through forward integration. The amount of vertical integration can range from full integration, in which a firm makes 100% of key suppliers and distributors, to taper integration, in which the firm internally produces less than half of its key supplies, to no integration, in which the firm uses long term contracts with other firms to provide key supplies and distribution. Outsourcing, the use of long-term contracts to reduce internal administrative costs, has become more popular as large corporations have worked to reduce costs and become more competitive by becoming less vertically integrated. Although backward integration is usually more profitable than forward integration, it can reduce a corporation's strategic flexibility; by creating an encumbrance of expensive assets that might be hard to sell, it can thus create for the corporation an exit barrier to leaving that particular industry.

Backward and forward integration: Backward integration means relating to the source of raw material. Example: Reliance Industries Limited (RIL) in oil exploration, refining gude oil and by-products of petroleum. Whereas forward integration means relating to the supply of finished good to ultimate user. Example: RIL petrol pumps, HDPE pipes etc.

(i) Backward Integration – Refers to the development/growth into all those activities which are concerned with inputs into the company's current business (i.e.are further back in the value chain). For Eg: Raw materials, machinery and labour are all important inputs into a manufacturing company. Backward integration involves starting the preceding stage of the current business. For example, manufacture of a finished product may start the manufacture of the raw material required for the finished product. For instance, a detergent manufacturer may take up the manufacturer of Linear Alkaline Benzyne (LAB) which is a raw material for detergents (as has been done by Nirma).

A company which currently only markets a product, taking up the manufacturing of it is another example of backward integration. For example, the Brooke Bond resorted to backward integration by acquiring two tea plantations. Backward integration has certain advantages. It ensures smooth supply of materials for production or good for marketing. This is particularly important when there are supply bottlenecks. Secondly, it may enable the company to obtain the goods cheaply or to make some profits out of the manufacturing. Thirdly, it may also help the company to ensure quality of the goods. Further, it may also facilitiate tax savings.

Backward integration, however is not a unmixed blessing. In some cases it may have the following problems–

1. The cost of making may be higher than the cost of buying.
2. Integration may make exit from a business more difficult.

(ii) Forward Integration – Refers to the development/growth into activities which are concerned with the company's outputs (i.e., are further forward in the value chain) such as transport, distribution, repairs and servicing.

Forward integration means entering the subsequent stage of the industry. For example–

(i) The manufacturer of a product who does not do the marketing of it currently, may start marketing it.

(ii) The manufacturer of the raw material may take up the finished product. For instance, a LAB manufacturer may start the manufacture of detergents.

Some tea plantations like Mahavir Plantations, Harrisons Malayalam etc. are now doing consumer packing and marketing tea. Textile firms like Bombay Dyeing, Maftalal, J and K (Raymonds, resorted to forward integration by entering the ready made garments business. The advantages of forward integration are –

(i) It creates captive demand for the product.

(ii) It may generate additional profit.

The major risk of forward integration is that there is no guarantee that the new business will be a success.

(b) Horizontal Integration:

Horizontal integration is followed when an organization acquires the same type of products at the same level of production or marketing process. The organization deals with same product but have large number of customer group. It is the degree to which a firm operates in multiple geographic locations at the same point in industries. Value changed growth can be achieved via horizontal integration by expanding firm's product into other geographic locations or by increasing the range of product and services offered to current customers. For example: a book publisher might acquire another publishing house to increase its assembly of editors and authors or to otherwise enhance its competitiveness. Horizontal integration generally involves the acquisition of one or more competitors at the same level of business–For Eg : A tyre company may grow by acquiring another tyre company. Acqusition of Deccan Airlines by Kingfisher, Tata Oil Mills Company (TOMCO) by Hindustan Lever (HLL). The most important advantage of Horizontal integration is that it eliminates or reduces competition.

Possible Advantages	**Example/Comments**
• Control of Supplies	
- Quantity	Tea processors own plantations to secure continuity of supply.
- Quality	Components for motor cars may need to be manufactured by the company.
- Price	Printing facility can be cheaper if in-house.
• Control of Markets	UK shoe manufacturers own retail outlets to gain gauranateed distribution.
• Access to Information	Shoe manufacturers are involved in machinery companies to keep abreast of developments.
• Cost savings	Fully integrated steel plants save cost on reheating and transport.
• Building On Core Competences	Firm of accountants moving into tax advice or corporate recovery.
• Technology	Precision engineering equipment manufacturer in one market entering another with similar technical requirements.
• Spreading Risk	Avoids over reliance on one product/market, but builds on related experience.
• Resource Utilisation	Manfuacturer acquiring company for compatible product to fill capacity.

(3) Diversification Strategy :

In long run it is not possible for the corporate to expand in the basis product market. So corporate add new product or markets to its existing business line. This approach toward growth is known as diversification strategy. This diversification involves all dimensions of strategic alternatives. Either related or unrelated to the product, technology, or market of one or more firms singly or collectively. Through diversification organisation enjoys reduced competitive pressure and gains greater profitability. Simultaneously risk is spread over the firm.

Diversification strategies can be categories as :

(a) Concentric diversification

(b) Conglomerate diversification

(a) Concentric Diversification : When an organisation acquires the business of other organisation related in terms of similar product, similar technology or similar customer group, it is said to be concentric diversification. The ideal concentric diversification occurs when the combined company profits increase the strength and opportunities and decreases the weaknesses and exposure to risk. Concentric diversification can be further classified into 3 types :

- **(i) Market related Concentric Diversification :** In this similar type of product is offered with unrelated technology. For example : Godrej, a durable goods company diversified into electronic home appliances, which are sold to housewives through a chain of retail.

- **(ii) Technologies related concentric Diversification :** In this new product is provided with similar or related technology. For Example : Suzuki, a car manufacture company also launched their bikes.

- **(iii) Market and Technology related Concentric Diversification :** When related product is provided with the help of similar technology. Like: Gujarat Cooperative Milk Marketing Federation (GCMMF), the makers of Amul is diversified both into dairy products and food products.

(b) Conglomerate Diversification:

When a corporate adopts or acquires a business of promising investment opportunity and which are not similar to the existing business in terms of products, market or technology, then it is said to be conglomerate diversification. In this, organization involves diversify into business with those which have no strategic fit or no meaningful value claim relationship. An organization approach is to venture into any business in which profit can be and risk can be speed. An organization can also go for diversification to exploit unutilized resources and competences or to use excess cash or safeguard profiles like in tax loss situation. There are many example of such diversification. like ITC, a cigarette company diversify into FMCG products, hotel, industry etc. TATA group, basically steel company stepped into motor vehicles, FMCG housing etc.

DIVERSIFICATION STRATEGY	ADVANTAGES	DISADVANTAGES
Vertical Diversification	• Access to and control of supply or demand • Economising operations • Improved coordination	• Risk of unfamiliar business. • Reduces flexibility • Unbalanced capacities, reduces transaction cost savings. • Difficulties arise in integrating different specializations
Horizontal Diversification	• Eliminating competitors • Access to new markets • Economies of scale	• Increase in risk and commitment. • Reduction in flexibility. • Target for other competitors.
Concentric Diversification	• Attain synergies by exchange or sharing of resources and skills. • Economies of scale & tax benefits.	• Additional investment in marketing infrastructure or new technology • Untried markets and technology.
Conglomerate Diversification	• Better market of cash flows & its location • Reducing risks by spreading investment in different businesses & industries.	• Diversion of resources & lack of focus. • Risks of managing entirely new businesses.

(4) Cooperation Strategy:

Competitive strategies and tactics are used to gain competitive advantage within an industry by battling against other firms. But there are also some option available to the organization in the form of cooperation strategy to gain competitive advantage within an industry by working with other firms:General type of cooperation strategy are :

(a) **Strategic Alliances:** It is a partnership of two or more corporations or business units to achieve strategically significant objectives that are mutually benefits. An organization can go for strategic alliance due to one or many of reasons: to obtain manufacturing capabilities or technology; to enter into specific market; to decrease financial risk; to reduce political risk or to achieve competitive advantage. Strategic alliance can be seen just like of Intel who formed a partnership with Hewlett-Packard to use HP's capabilities in RISC technology in order to develop the successor to Intel's Pentium microprocessor. The type of strategic alliances can rang from service consortium to join venture and licensing arrangements to value-chain partnership.

(i) **Consortium :** It is a mutual agreement or partnership of similar companies of similar industries who pool their resources to obtain a benefit that is too expensive to develop alone; such as access to advanced technology. For Example: IBM of the United States, Toshiba of Japan, and Siemens of Germany formed a consortium to develop new generations of computer chips.

(ii) **Joint Ventures :** According to Lynch, "A joint venture is a cooperative business activity, formed by two or more separate organization for strategic purposes, that creates an independent business entity and allocates ownership, operational responsibilities and financial risks and reward to each member, while preserving their separate identify/autonomy." It is set for a specific purpose. 'Purpose over venture over.' So it is temporary in nature. Individuals or companies choose to enter joint ventures in order to share strengths, minimize risks, and increase competitive advantages in the marketplace. Joint ventures can be distinct business units (a new business entity may be created for the joint venture) or collaborations between businesses. In a collaboration, for example, a high-technology firm may contract with a manufacturer to bring its idea for a product to market; the former provides the know-how, the latter the means.

(iii) **Licensing Arrangements:** It is an agreement in which the firm grants right in the form of license to another firm in another market or country to sell or produce a product. The license firm pays compensation to the licensing firm in return for technical expertise. This technique is useful in the firm where the brand name or trade mark of the licensing firm has well known space in the existing market but financially not so strong to market its product or enter into another country directly. It is also useful where company makes entry through investment either difficult or impossible.

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

(b) Mergers & Acquisitions - When two or more organizations/firms wishes to work jointly to achieve the similar objective, merger takes place. Where as, when buyer firm has strong motive to acquire the seller firm, then it is acquisition. Merger is also known as amalgamation, consolidation or integration. So it is a combination of two or more organizations in which both organizations are dissolved and one acquires the assets and liabilities of the other in exchange for share or cash, and new stock is formed.

Acquisition is an attempt of one firm to acquire the other in the sense of ownership or control against the wishes of later's management. An organization can opt for merger or acquisition to fill the gap either in its product line, distribution channel or competitive gap.

6.6 Retrenchment Strategies

When an organisation reduces or eliminates its business in terms of customers groups, customer functions or alternative technologies alone or in combination, then it is said to be retrenchment strategy. It is a strategic option which involves withdrawal of an existing product or service line along with the level of objectives set below the past achievements. It is a defensive strategy adopted as a reaction to problems resultant from internal or external environmental factors. External factors that threaten organization can be adverse government policies, competitors or changing tastes preferences of customers. Internal factors includes poor management, wrong strategies or poor quality of functional management etc. Retrenchment strategies involve a reduction in the scope of a corporation's activities, which also generally necessitates a reduction in number of employees, sale of assets associated with discontinued product or service lines, possible restructuring of debt through bankruptcy proceedings, and in the most extreme cases, liquidation of the firm.

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

A firm pursues a retrenchment strategy by –

- Dropping product line (s), market (s), market segment (s) or function (s).
- Focusing on functional improvements or reversing certain deteriorating trends.

Reasons

- The firm is not doing well or perceives itself as doing poorly.
- The firm has not met its objectives by following one of the other generic strategies and hence pressure from stockholders to improve performance.
- The environment poses threats which the internal strengths are insufficient to face.
- Better opportunities elsewhere, where a firm's strengths can be utilized.
- Three alternative retrenchment strategies which can be employed by organizations are turnaround, divestment and liquidation.

End Game Strategies –

- Dominate Market– Strategy involves taking advantage of a declining market to achieve market leadership. (Cash Cows try to gain when market growth declines).
- Hold Market– Involves maintaining ones position relative to one rivals.
- Shrink selectively – Strategy involves getting to the profitable market segments first. The objective of this strategy is to capture the desirable market niches.
- Milk the Investment – This is a true harvesting strategy. This strategy involves retrieving as much of the value of the original investment as possible. Cash is generated and not invested.
- Divest – Involves selling the assets of the business or simply terminating the business.
- Use of end game strategies is made by considering industry conditions and the relative strengths or weaknesses of the individual organisation.
-

	Have relative competitive strengths	Have relative competitive weaknesses
Favourable Industry Conditions	Dominate Market Or Hold Market	Shrink selectively Or Milk the investment
Unfavourable Industry conditions	Shrink selectively Or Milk the investment	Divert

The Organisation has following options available under retrenchment :

(1) Turnaround Strategy -

When certain indicators or signs in the form of negative cash forms, losses, decline in market share, mismanagement, uncompetitive product or services, are seen in organization, then the action taken to reverse this negative trend can be termed as turnover strategy. A turnaround strategy involves management measures, designed to reverse certain negative trends and to bring the firm back to normal health and profitability. Firms pursue a turnaround strategy by undertaking a temporary reduction in operations is an effort to make the business stronger and more viable in the future. These moves are popularly called downsizing or rightsizing. The hope is that going through a temporary belt-tightening will allow the firm to pursue a growth strategy at some future point.

Turnaround Strategy is an attempt to improve efficiency of operations during a decline in an organisation's financial situations due to –

- Higher costs of wages/raw material.
- Decreased demand.
- Strikes.
- Increased competitive pressures.
- Management problems.

The purpose of turnaround strategy is to weather the bad times in hopes that the situation will change and then a new strategy can be adopted during the upturn. The actions the can be taken during a turn around are –

- Change management personnel, both top and lower levels.
- Cut back on capital expenditures.
- Centralise decision-making in an attempt to control costs.
- Cut back on hiring new personnel.
- Reduce advertising and promotion expenditures.
- Increase emphasis on cost control and budgeting.
- Sell off some assets.
- Tighten inventory control.
- Improve collection of accounts receivable.

(2) Divestiture : A divestment decision occurs when a firm elects to sell one or more of the businesses in its corporate portfolio. Typically, a poorly performing unit is sold to another company and the money is reinvested in another business within the portfolio that has greater potential. It may be due to loss in business, less than target rate of return, urgency to mobilize funds, managerial problems, or redefinition of the business of the company.

If an organization cannot pull itself up by its bootstraps, then it may have no choice but to sell out. The sale of Tata Oil mills (Tomco) to Hindustan Lever (HLL) is an example of sellout. If the corporation has multiple business lines and decides to sell of a division with low growth potential, then it is called divestment. HLL followed this strategy when it divested the edible oil business to 'Bunge', an American company.

Divestment is a difficult decision for management. The barriers that impede an organisation from following a divestment strategy can be–

1. Structural (Economic) – Exit barriers due to technology and fixed working capital.
2. Corporate Strategy – Relationships between the various business units within an organisation may deter divestment of a particular business unit.
3. Managerial –Company does not know that it is making an unsatisfactory return on its investment.
    - Exit is a blow to management's pride.
    - Exit is taken as a failure externally.
    - Exit threatens specialised manager's carreer.
    - Exit conflicts with social goals.

    Manageral incentive systems work against exit.

    Suggestions on overcoming exit barriers

- Have top management team manage the whole process.
- Design compensation systems.
- Design management information systems.
- Plan for job security of personnel.
- Change top management periodically.

(3) Liquidation: Bankruptcy involves legal protection against creditors or others allowing the firm to restructure its debt obligations or other payments, typically in a way that temporarily increases cash flow. Liquidation is the most extreme form of retrenchment. When the management wants to sell the company and there is no buyer, its assets may be sold and company may be wound up. Liquidation involves the selling or closing of the entire operation. There is no future for the firm; employees are released, buildings and equipment are sold, and customers no longer have access to the product or service. This is a strategy of last resort and one that most managers work hard to avoid.

6.7 Combination Strategies

Combination Strategies are a mixture of stability, expansion or retrenchment strategies applied either simultaneously (at the same time in different businesses) or sequentially (at different times in the same business). So it involves combination of two or more strategies. In, some cases, particularly in the rapid environmental change it would be difficult to find any organization that has survived and grown by adopting a single 'pure' strategy. The complexity of operating a business demands that, different strategies are adopted according to the situational demands made upon the organization. For Example: The Tube Investments of India (TI), a Murugappa group company, has created strategic alliances in its three major businesses: tubes, cycles, and strips. In cycles, it has entered into regional outsourcing arrangements with the UP-based Avon (which we could term as co-competition, as Avon is TI's competitor in the cycle industry) and Hamilton Cycles in the western region. In steel strips, TI has entered into a manufacturing contract with Steel Tubes of India, Steel Authority of India, and the Jindals.

6.8 Corporate Restructuring

Also referred as revamping, regrouping, rationalization or consolidation. The restructuring may involve expansion or contraction of the portfolio, or changes in the ownership, control, business conditions or volume of business. It is not necessary that restructuring is required when a business unit is sick. It can be done to improve the organizational performance, cost reduction or to increase the vitality or health of the units. Its main concentration is on the products, which are having high potential along with the division of units. Growth and expansions can also be called as restructuring. This is done to prevent a unit from becoming a sick. The process of corporate restructuring involves evaluating the business/turnaround strategy, providing valuation analysis of the business, its components and assets and assessing the financial alternatives available for consideration. Some of the tasks in restructuring include:

- Stabilizing operations and financial crisis
- Analyzing operational economics and cash flow dynamics
- Restructuring financial obligations to match cash flow potential
- Redesigning business models to be more competitive, including the rationalization of SKUs, channels of distribution and management layers
- Evaluation of management
- Turnaround plan development and implementation
- Financial restructuring
- Management of relations with debtholder/investors
- Analysis of financial alternatives
- Development & management of wind-down and liquidation strategies
- Cash flow forecasting and management
- Viability analysis
- Operational analysis and forecasting
- Refinancing and recapitalization
- Evaluation of systems and controls
- Bankruptcy consulting

Various Strategic Alternatives : A Glance

Stability is more likely if the firm is doing well, the environment is not excessively volatile, and the product or service has reached the stability or maturity stage of the life cycle.

Expansion is more likely in highly competitive, volatile industries, particularly early in the products' services' life cycle.

Retrenchment is more likely if the firm is not doing well, greater returns can be gained elsewhere or the products or services are in the later stage of the life cycle.

Combinations are more likely for multiple SBU firms, in periods of economic transition and during changes in the product service life cycle.

Generic Strategy Alternatives Vis-A-vis-Business Definition

	EXPAND		**RETRENCH**		**STABILISH**		**COMBINATION**
	Business Definition	**Pace**	**Business Definition**	**Pace**	**Business Definition**	**Pace**	**Definition &/or pace**
PRODUCTS	Add new products	Find new uses	Drop old products	Decreases product development	Maintain	Make package changes, quality improvements	Drop old while adding new products
MARKETS	Find new territories	Penetrate Markets	Drop distribution channels	Reduce Market Shares	Maintain	Product Market Shares, focus on market niches	Drop old customers while finding new ones
FUNCTIONS	Forward Vertical integration	Increase capacity	Become captive company	Decrease process R & D	Maintain	Improve production efficiency	Increase capacity and improve efficiently

Firms adopt different generic strategies under different conditions. It may give preference to one strategy over the other due to the following reasons –

(1) The kind of growth the firm seeks–incremental or drastic.

(2) The kind of environment–emerging, declining, growing markets.

(3) The stage of development of an industry.

(4) The internal position of the firm.

Different strategic alternatives demand specific handling, knowledge and expertise. Hence, an organisation which might have carried out stability strategy successfully, may find it difficult to pursue an expansion strategy as it might require a different orientation altogether.

6.9 Summary

The generic strategic alternatives available to corporate entities are related to stability, expansion or retrenchment with regard to the pace or the business definition of products, markets or functions. Combinations of simultaneous activities or sequential options are also included under combination strategies. All these strategies are designed to improve firm's performance but several propositions are offered for when each is more likely to be pursued successfully. Stability strategy is successful when environment is not too volatile and the product is at maturity stage of its life cycle. Retrenchment is pursued when firm is not doing well and firm wants to attain greater returns. Combinations are more likely for multiple - SBU firms, in the period of economic transition, and during changes in the product life cycle. Business level restructuring deals with the problems being faced by the firms or to create a more profitable enterprise.

6.10 Key Words

- **Grand Strategy-** Comprehansive, long-term plan of essential actions by which a firm plans to achieve its major objectives.
- **Expansion-** Expansion strategies are designed to expand an organization's performance, usually measured by sales, profits, product mix, market coverage, market share or other accounting and market-based variables.
- **Retrenchment -** When an organization has a weak competitive position in some or all of its product lines resulting in poor performance in the form of decrease in sales or losses then company is pursuing retrenchment.
- **Stability-** When firms are satisfied with their current rate of growth and profits, they may decide to use a stability strategy.
- **Merger-** The combining of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock.
- **Turnaround-** This strategy involves management measures designed to reverse certain negative trends and to bring the firm back to normal health and profitability.
- **Licensing Arrangement-** Contract giving someone the legal right to use a patent or trademark.
- **Joint Venture-** An association of two or more individuals or companies engaged in a solitary business enterprise for profit without actual partnership or incorporation.
- **Diversification-** Diversification strategies are used to expand firms' operations by adding markets, products, services, or stages of production to the existing business. The purpose of diversification is to allow the company to enter lines of business that are different from current operations.
- **Corporate Restructuring-** The process of corporate restructuring involves evaluating the business/ turnaround strategy, providing valuation analysis of the business, its components and as sets and assessing the financial alternatives available for consideration.

6.11 Self Assessment Test

1. What are corporate level strategies? Explain
2. Why do organisation opt expansion strategy? Explain
3. Explain various types of expansion strategy?
4. When does a firm pursue a retrenchment strategy? Describe.
5. What is a combination strategy? Explain
6. Write short note on :
    (i) Corporate Restructuring
    (ii) Merger
    (iii) Strategic Alliance

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Unit - 7 : Business Level Strategies

Unit Structure:

7.0 Objectives

After reading this unit you shall be able to understand:

- The concept of generic strategies at the business lend . A conceptual framework consisting of customer groups, customer needs and alternative technology lays the foundations for business level strategies.
- Porters five forces model and value chain concept which helps to understand how competitive advantage can be created in the industry.
- An understanding of the three main generic strategies at the business level–Cost, Differentiation and Focus shall help to know how above average performance can be achieved in the industry.
- How competitive strategies in different industry types have different implications for competition.
- How eragmented, Emerging, maturing and declining industries require different strategies, of which shall be very helpful in developing right strategies.

7.1 Introduction

Strategies exist at several levels in any organization ranging from the overall business to individuals working in it. Strategy and competitive advantage are actually two sides of the same coin. One without another is impossible. As we already know that a company has competitive advantage whenever it has an edge over its rivals in attracting customers and defending against competitive forces. Only winning business strategies can create sustainable competitive advantage. These winning strategies can take different routes to building Competitive Advantage under different environmental conditions. Thus, we see that a company's competitive strategy consists of business approaches and initiatives; attracting customers and fulfilling their expectations in order to withstand competitive pressures; and thereby strengthening its competitive position by doing things differently than their rivals and developing a unique position for themselves.

The manner in which a company can achieve or defend a competitive advantage depends on the kind of strategy it pursues. Thus, we now take up in detail, the various strategy alternatives that any organization can pursue which shall enable us to understand and choose the right alternative in a particular environment.

Generally, competitive advantage helps in building up our competitive strategy at the business unit level. But the multi business organizations have to make strategies at both the business levels and corporate level. Finally, operational level strategies form the basis of strategy implementation.

Corporate Strategy is concerned with the overall purpose and scope of the business to meet stakeholder expectations. This is a crucial level since it is heavily influenced by investors in the business and acts as a basis to strategic decision-making throughout the business. Corporate strategy is often stated explicitly in a "mission statement".

Business Unit Strategy is concerned more with how a business competes successfully in a particular market. It concerns strategic decisions about choice of products, meeting needs of customers, gaining advantage over competitors, exploiting or creating new opportunities etc.. Operational Strategy is concerned with how each part of the business is organised to deliver the corporate and business unit level strategic direction. Operational strategy therefore, focuses on issues of resources, processes, people etc..

7.2 Conceptual Framework

The objectives of the strategic business unit guide strategic choice. The resource allocation to functional areas is governed by the strategy the business pursues.The corporate strategy sets the pace and direction for SBU. Each SBU draws its objectives from the strategic option at the corporate level. If corporate level decides to expand a particular business, its objectives also would be in accordance with the former. Objectives at both the levels affect each other. The corporate level objectives of expansion retrenchment of a particular business takes into account also the profit prospects, market share and competitive position of each SBU, which are the business level objectives in turn. The vice-versa is also true. Objectives of each business are also set after taking into account whether the corporate level wants it to pursue expansion retrenchment or so on.

An organization's core competencies should be focused on satisfying customer needs or preferences in order to achieve above average returns. This is done through business-level strategies. Business level strategies detail actions taken to provide value to customers and gain a competitive advantage by exploiting core competencies in specific individual product or service markets. Business-level strategy is concerned with a firm's position in an industry in relation to competition.

Each business in a company can be defined along with three dimensions of customer needs, customer groups and alternative technologies. Business definition is at the core of business strategies. By defining the what, who and how related to a business, a business definition seeks to provide a direction in which action has to be taken. Customers are the foundation or essence of an organization's business-level strategies. Who will be served, what needs have to be met, and how those needs will be satisfied have to be determined. These are discussed below:

• Customer Groups – Who have to be served?

Customer groups are identified on the basis of needs that they seek to satisfy. Popular bases for identifying customer groups are demographic, geographic, lifestyle choices (tastes and values), personality traits, consumption patterns (usage rate and brand loyalty), geographic segmentation.

• Customer Needs - What are the goods and/or services that potential customers need?

The basic needs of food, clothing and shelter are examples of customer needs. There could be higher order needs of security, entertainment, education, information etc. Knowing ones customers is very important in obtaining and sustaining a competitive advantage. Being able to successfully predict and satisfy future customer needs is important.

• Alternative Technology - How to satisfy customer needs?

It refers to the alternative technologies used to provide the products and services that satisfy the target customer group's needs. Organizations must determine how to bundle resources and capabilities to form core competencies and then use these core competencies to satisfy customer needs by implementing value-creating strategies.

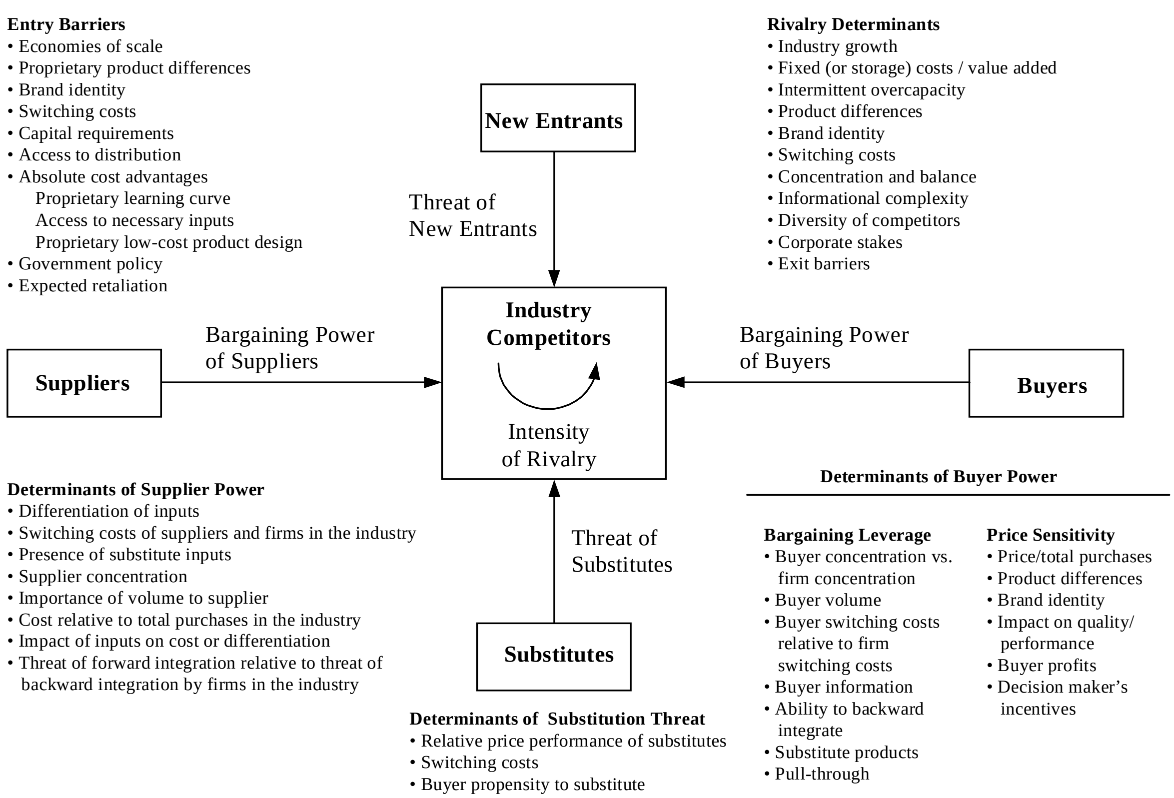
7.2.1 Porter's 5 Forces & Industry Structure

Basically, strategy is about two things: deciding where you want your business to go, and deciding how to get there. A more complete definition is based on competitive advantage. Competitive advantage grows out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price. There are two basic types of competitive advantage: cost leadership and differentiation.

• What is the basis for competitive advantage?

Industry structure and positioning within the industry are the basis for models of competitive strategy promoted by Michael Porter. The "Five Forces" diagram captures the main idea of Porter's theory of competitive advantage. The Five Forces define the rules of competition in any industry. Competitive strategy must grow out of a sophisticated understanding of the rules of competition that determine an industry's attractiveness. Porter claims, "The ultimate aim of competitive strategy is to cope with and, ideally, to change those rules in the firm's behavior." The five forces determine industry profitability and some industries may be more attractive than others. The crucial question in determining profitability is how much value firms can create for their buyers, and how much of this value will be captured or competed away. Industry structure determines who will capture the value. But a firm is not a complete prisoner of industry structure - firms can influence the five forces through their own strategies. The five-forces framework highlights what is important and directs manager's towards those aspects most important to long-term advantage.

Porter's Five Forces of Industry Structure



Besides industry structure the second factor that determines the choice of a competitive strategy of a firm is its positioning within the industry. It is designed to gain sustainable competitive advantage and is based on two variables – competitive advantage and competitive scope. A firm's relative position within an industry is given by its choice of competitive advantage (cost leadership vs. differentiation) and its choice of competitive scope. Competitive scope distinguishes between firms targeting broad industry segments and firms focusing on a narrow segment.

• How is competitive advantage created?

At the most fundamental level, firms create competitive advantage by perceiving or discovering new and better ways to compete in an industry and bringing them to market, which is ultimately an act of innovation. Innovations shift competitive advantage when rivals either fail to perceive the new way of competing or are unwilling or unable to respond. The most typical causes of innovations that shift competitive advantage are the following:

- New technologies
- New or shifting buyer needs
- The emergence of a new industry segment
- Shifting input costs or availability
- Changes in government regulations

• How is competitive advantage implemented?

But besides watching industry trends what can the firm do? At the level of strategy implementation, competitive advantage grows out of the way firms perform discrete activities - conceiving new ways to conduct activities and employing new procedures, new technologies or different inputs. The "Fit" of different strategic activities is also vital to lock out imitators. Porters, "Value Chain" concept helps us think about how activities build competitive advantage.

The value chain is a systematic way of examining all the activities a firm performs and how they interact. It scrutinizes each of the activities of the firm (e.g. development, marketing, sales, operations, etc.) as a potential source of advantage. The value chain maps a firm into its strategically relevant activities in order to understand the behavior of costs and the existing and potential sources of differentiation. Differentiation results, fundamentally, from the way a firm's product, associated services and other activities affect its buyer's activities. All the activities in the value chain contribute to buyer value and the cumulative costs in the chain will determine the difference between the buyer value and producer cost.

A firm gains competitive advantage by performing these strategically important activities more cheaply or better than its competitors. One of the reasons the value chain framework is helpful is because it emphasizes that competitive advantage can come not just from great products or services but from anywhere along the value chain. It is also important to understand how a firm fits into the overall value system, which includes the value chains of its suppliers, channels, and buyers.

Apart from competitive advantage, Porter defines competitive scope as the breadth of a firm's target within its industry. It includes range of products, distribution channels, types of buyers, geographic areas served and so on. It helps in identifying and satisfying customer needs.

When the two factors of positioning – competitive advantage and competitive scope are combined, what results is a set of generic competitive strategies.

7.2.2 Porter's Generic Competitive Strategies

Business owners commonly develop business strategies in order to maintain a competitive advantage. Several types of strategies are available in the business environment. Business owners can use standard strategies or develop their own strategy. Flexibility is an important feature of competitive business strategies.

Competitive strategies involve taking offensive or defensive actions to create a defendable position in an industry. The best competitive strategy for a firm is unique and dependent on the challenges the firm is facing. However, generic strategies can also help the organizations cope with the five competitive forces in the industry and do better than other organization in the industry. Generic strategies include overall cost leadership, differentiation and focus. Generally, firms pursue only one of the above generic strategies.

The figure below defines the choices of "generic strategy" a firm can follow. Generic strategies are useful because they characterize strategic positions at the simplest and broadest level. Porter maintains that achieving competitive advantage requires a firm to make a choice about the type and scope of its competitive advantage. There are different risks inherent in each generic strategy, but being "all things to all people" is a sure recipe for mediocrity - getting "stuck in the middle".

COMPETITIVE ADVANTAGE

		Lower Cost	Differentiation
COMPETITIVE SCOPE	Broad Target	1. Cost Leadership	2. Differentiation
	Narrow Target	3A. Cost Focus	3B. Differentiation Focus

Porter's Generic Strategies

However, some firms make an effort to pursue more than one strategy at a time by bringing out a differentiated product at low cost. Though approaches like these are successful in the short term, they are hardly sustainable in the long term. The two basic types of competitive advantages combined with the scope of activities for which a firm seeks to achieve them leads to three generic strategies for achieving above average performance in an industry.

A. Cost Leadership

B. Differentiation

C. Focus

These strategies are called generic because all business/industries can pursue them regardless of whether they are manufacturing, service or not-for-profit enterprises. Each of the generic strategies results from companies making consistent choices of product, market and distinctive competencies.

	Cost Leadership	Differentiation	Focus
Product Differentiation	Low(principally by price)	High (principally by uniqueness)	High to Low (Price or Uniqueness)
Market Segmentation	Low (mass market)	High (many market segments)	Low (one or few segments)
Distinctive Competence	Manufacturing & Material Marketing	Research & Development, sales & marketing	Any kind of distinctive competence

7.3 Cost Leadership Strategy

Cost leadership is a business strategy that allows a company to become the lowest cost production company in an industry. Traditionally, businesses have two options for improving profits: increasing sales or decreasing costs. Cost leadership strategies focus on acquiring raw materials that are the highest quality at the lowest price. Business owners must also use the best labor to transform raw materials into valuable consumer goods. Low-cost leadership usually translates into high-quality goods at low consumer prices. The ability to undercut a competitor and price often leads to increases in market share.

Under this strategy firms compete for a wide customer based on price. Price is based on internal efficiency in order to have a margin that will sustain above average returns and cost to the customer so that customers will purchase your product/service. It works well when product/service is standardized it can have generic goods that are acceptable to many customers and can offer the lowest price. Continuous efforts to lower costs relative to competitors is necessary in order to successfully be a cost leader. This can include:

- Building state of art efficient facilities (make it costly for competition to imitate)
- Maintain tight control over production and overhead costs
- Minimize cost of sales, R&D and service.

Observe how these firms used the cost leadership strategies:

- Gujarat Cooperative Milk Marketing Federation (GCMMF), the country's largest cooperative, probably known better by its brand name Amul operates in the branded ice cream market on the lower cost platform. It has the backing of about 180 cooperative dairy networks located across the country and an efficient supply chain in place for the procurement of high quality milk. Besides these it has developed a cold chain for supplying its refrigerated products through an efficient distribution network.
- Tata steel was likely to emerge globally as the lowest cost producer of steel in 2000. Its vision statement included the intention of becoming the world's cheapest steel producer. Cost reduction was attempted through benchmarking with the global steel firms. World steel Dynamics, a leading industrial steel analyst, reviews the lowest cost producers every year. In 1999, Posco of South Korea was rated as the lowest cost producer of hot-rolled coils and Tata Steel was expected to replace Posco as the lowest cost steel producer globally.

What each of these firms does is to rely on its inherent strengths to lower the cost of its products and emerge as a low cost producer vis-à-vis other rivals in the industry.

7.3.1 How to Obtain a Cost Advantage?

Central to the objective of achieving cost leadership is an understanding of the value chain for a product/service of the firm. Costs are spread over the entire value chain in activities that contribute to the making of the product. The basic objective in achieving cost leadership is to ensure that the cumulative cost across the value chain is lower than that of its competitors. For doing this it is essential to analyze the cost drivers and then identify the areas for optimization of costs. Several actions could be taken for achieving cost advantage like:

- Determine and Control Cost.
- Reconfigure the Value Chain as needed.

- Accurate demand forecasting and high capacity utilization.
- Attaining economies of scale which leads to lower per unit cost.
- High level of standardization of products and offering uniform service packages using mass production techniques.
- Investment in cost saving technologies.
- Withholding differentiation till it absolutely becomes necessary.

7.3.2 Conditions under which Cost Leadership strategy is used:

- Markets for the product/service operate in such a way that price based competition is vigorous making costs an important factor
- Standardized product/service whose consumption creates superfluous differentiation.
- Buyers are numerous and possess significant bargaining power to negotiate a price reduction from the supplying firm.
- Less customer loyalty and the cost of switching from one seller to another is low.
- There are few ways available for differentiation to take place.

7.3.3 Benefits:

A cost leader is producing at an industry's lowest costs. Recall that efficiency is defined as output divided by input. Therefore, such a firm often strives to produce at large volumes to take advantage of economies of scale. It does this by targeting the average consumer knowing that while the product may not be exactly what each consumer wants, it has broad enough appeal to create demand for a large volume production. With its standardized stores and similar product mix, Wal-Mart is the epitome of a cost leader. Efficiency provides the foundation for the cost leadership strategy. Efficiency is commonly obtained from each of the functional areas, economies of scale and learning effects. Each functional area of the firm (e.g. marketing, production, etc.) is a potential source of efficiency.

If economies of scale, unit cost reductions as output expands, are present then there are opportunities for cost leadership to be especially effective. Similarly, with learning effects which represent cost savings from learning by doing. These also reduce costs and unlike economies of scale are often highly visible in service industries.

- Best insurance against industry competition as it has a lower cost structure.
- Powerful suppliers possess a higher bargaining power to negotiate price increase for inputs.
- Threat of cheaper substitutes can be offset to some extent
- Effective entry barrier for potential entrants who cannot offer low priced products.

7.3.4 Risks of Cost Leadership Strategy:

It is a powerful and frequently announced business level strategy. However, it is undermined by technological change, loss of focus on customers and imitation of a cost advantage some other way. For example, the slope of an economy of scale curve is determined by technology. Therefore, economies of scale may increase or decrease with technological change rendering earlier cost advantages obsolete.

Not paying attention to customers can also undermine a cost leadership strategy. While focusing on efficiency it is very easy to ignore customer demands and supply only what is most efficient. While this can work when demand is very high, e.g. Henry Ford's famous dictum about "any color you want as long as it's black," it can lead to a firm's downfall if competitors have nearly matched a cost advantage and can offer more product diversity. This is in fact how Alfred Sloan and General Motors over took Ford.

Finally, it is possible for other firms to imitate another firm's cost advantage somehow. The most common example is the use of low cost foreign labor coupled with low trade barriers. However, government intervention or subsidies are also possible examples.

7.3.5 Porter's Five Forces Model and Cost Leadership Strategy:

Earlier we discussed Porter's Model. A cost leadership strategy may help to remain profitable even with: rivalry, new entrants, suppliers' power, substitute products, and buyers' power as disucssed belwo:

- Rivalry – Competitors are likely to avoid a price war since the low cost firm will continue to earn profits after competitors compete away their profits (Airlines).
- Customers – Powerful customers that force firms to produce goods/service at lower profits may exit the market rather than earn below average profits leaving the low cost organization in monopoly positions. Buyers then lose much of their buying power.
- Suppliers – Cost leaders are able to absorb greater price increases before it must raise price to customers.
- Entrants – Low cost leaders create barriers to market entry through its continuous focus on efficiency and reducing costs.
- Substitutes – Low cost leaders are more likely to lower costs to entice customers to stay with their product, invest to develop substitutes, purchase patents.

7.4 Differentiation Strategy

Value is provided to customers through unique features and characteristics of an organization's products rather than by the price. This is done through high quality features, high customer service, rapid product innovation, advanced technological features, image management, etc. Business owners use competitive business strategies to differentiate their goods or services from others in the industry. Differentiation may be actual or perceived. Actual differentiation involves creating products that are not currently available in the marketplace. Perceived differentiation takes a little more work on the part of companies. Companies typically use advertising messages that describe a product similar to those in the market with a few subtle differences. This strategy encourages consumers to differentiate the product in their minds. In a differentiation strategy firms attempt to have their products be perceived as unique in order to obtain a premium price. There are numerous examples of this like product differention:

In an interesting case, packaging became differentiator for Parle Agro when in 1985 it launched Frooti, a nonaerated, natural, and fruit based drink, in a tetrapack. The customer perceived glass bottle drinks to be synthetic. Frooti went on to become generic to the category of tetrapacked fruit drinks.Orient fans, a Calcutta based CK Birla group company offers premium ceiling fans based on product innovation and superior technology. The product attributes for differentiation are extra wide blades, heavy duty motor, high velocity and maximum area coverage.

7.4.1 Achieving Differentiation

- Lowering Buyers' Costs – Higher quality means fewer breakdowns and quicker response to problems.

- Raising Buyers' Performance – Buyer may improve performance, have higher level of enjoyment, and buyer satisfaction in tangible and non-tangible ways.
- Sustainability – Creating barriers by perceptions of uniqueness and reputation, creating high switching costs through differentiation and uniqueness.

7.4.2 Conditions for Differentiation Strategy

A differentiation business strategy is suitable for special conditions, primarily related to the markets and customers. The major conditions under which differentiation strategy is used are:

- The market is too large to be catered.
- Customer needs and preferences are too diversified to be satisfied.
- Possibility for the firm to charge a premium price for differentiation and thereby increase sales and profit.
- Possibility of generating brand loyalty for the product/service.

7.4.3 Benefits

- Firms distinguish themselves successfully on the basis of differentiation thereby lessening competitive rivalry.
- Powerful suppliers can negotiate price increases that the firm can absorb to some extent as it has brand loyal customers typically less sensitive to price increase.
- It is a market and customer focused strategy as powerful buyers do not negotiate price decrease.
- Formidable entry barrier to new entrants.

7.4.4 Risks of Using a Differentiation Strategy

There are many potential threats to differentiation such as:

- Perhaps the most common is that over time consumers cease to value the difference they were willing to pay a premium for earlier. The demise of many direct salesforce in the personal computer industry is a great example of this. Why pay extra for a sales repsentative when anyone can go online and order a PC? Sometimes a differentiator will become too successful and wind up turning their product into a commodity.
- In a growing market, as with markets of most industries in India, products tend to become commodities. Long term perceived uniqueness – the basis for differentiation-is difficult to sustain. There is an imminent threat from competitors who can imitate the differentiation strategy.
- Price premiums too have a limit. Charging too high a price may cause the customer to forgo the additional advantage.

7.4.5 Porter's Five Forces Model and Differentiation strategy

Effective differentiators can remain profitable even when the following five forces appear unattractive:

- Rivalry – Brand loyalty means that customers will be less sensitive to price increases as long as the firm can satisfy the needs of its customers.
- Suppliers – Because differentiators charge a premium price they can afford to absorb higher costs and customers are willing to pay extra too.

- Entrants – Loyalty provides a difficult barrier to overcome.
- Substitutes– Once again brand loyalty helps combat substitute products.

7.5 Focus Strategy

The third business level strategy is focus. Focus is different from other business strategies as it is segment based and has narrow competitive scope. This strategy involves the selection of a market segment, or group of segments in the industry and meeting the needs of that preferred segment (or niche) better than the other market competitors. This is also known as a niche strategy. In focus strategy, the competitive advantage can be achieved by optimizing strategy for the target segments. Focus strategy has two variants. They are:

(i) Cost Focus is where a firm seeks a cost advantage in the target segment; and Differentiation Focus where a firm seeks differentiation in the target segment

(ii) Companies that use focused strategies may be able to serve the smaller segment (e.g. business travellers) better than competitors who have a wider base of customers. This is especially true when special needs make it difficult for industry wide competitors to serve the needs of this group of customers. By serving a segment that was previously poorly segmented an organization has unique capability to serve niche.

The success of the focus strategy depends on the difference of the target segment from other segments. To explain this concept let us take example of soft drink market. Coca Cola and Pepsi are the major players in the Indian market and are rivals but each has developed a competitive advantage by serving different segments offering flavoured drinks as well. Coca Cola has different brands like; Thums Up, Limca and Pepsi have brands like Lehar Pepsi and Sprite catering different market segments. The focus can also have an above average level of performance by having an appropriate cost-focus and differentiation focus strategies. Some more examples include:

In the rapidly growing niche market for herbal based cosmetics, Ayur Herbal Collections, a low profile company adopted a low cost, high volume business strategy as compared to Shahnaz Herbals which caters to the high priced segment of the same market. Philips India Ltd launched the flat TV with plasma technology that enables distortion free pictures and bright accurate colors. The premium priced TV with differentiation on technology basis, was targeted at the niche market of a selective, sophisticated, technology driven audience.

7.5.1 Conditions for Focus Strategy:

- Focus strategy can be effective in certain situations only. Following can be the situations where a focus strategy is efficient if:
- Market segment large enough to be profitable;
- Market segment has good growth potential;
- Market segment is not significant to the success of major competitors;
- Focuser has efficient resources;
- Focuser is able to defend against challenges;
- High costs are difficult to the competitors to meet the specialized needs of the niche;
- Focuser is able to choose from different segments.
- There can be more situations depending on the need of the focuser.

7.5.2 Benefits

Focus strategy, if implemented properly, has following advantages:

- Focuser can defend against Porters competitive forces;
- Focuser can reduce competition from new firms by creating a niche of its own;
- Threat from producers producing substitute products is reduced;
- The bargaining power of the powerful customers is reduced;
- Focus strategy, if combined with low-cost and differentiation strategy, would increase market share and profitability.

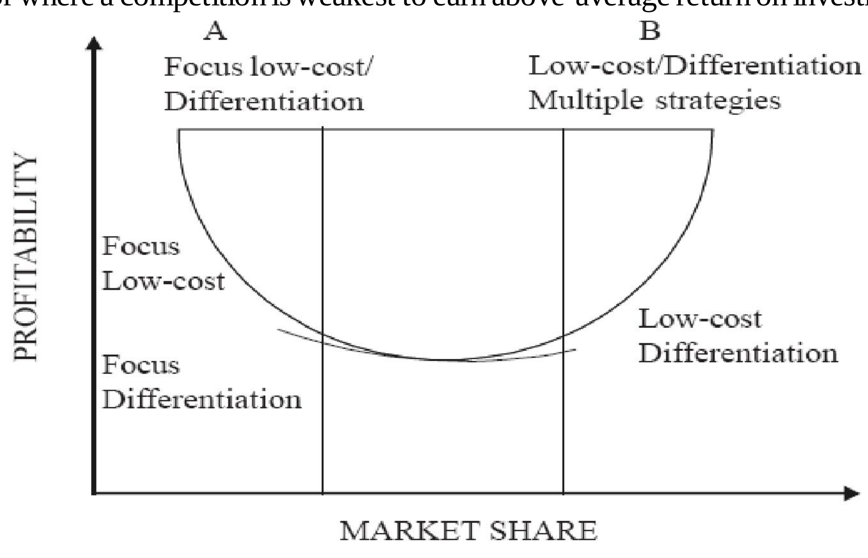
7.5.3 Risks of Focused Strategy:

The risks associated with focus strategy can be as under:

- Market segment may not be large enough to generate profits;
- Segment's need may become less distinct from the main market;
- Competition may take over the target-segment.
- We can very well say that the main objective of the focus/niche strategy is to perform a better job of serving buyers in the target market niche than rivals.

This dimension is not a separate strategy per se but describes the scope over which the company should compete based on cost leadership or differentiation. The firm can choose to compete in the mass market (like Wal Mart) with a broad scope, or in a defined, focused market segment with a narrow scope. In either case, the basis of competition will still be either cost leadership or differentiation.

In adopting a narrow focus, the company ideally focuses on a few target markets (also called a segmentation strategy or niche strategy). These should be distinct groups with specialized needs. The choice of offering low prices or differentiated products/services should depend on the needs of the selected segment and the resources and capabilities of the firm. It is hoped that by focusing the marketing efforts on one or two narrow market segments and tailoring the marketing mix to these specialized markets, one can better meet the needs of that target market. The firm typically looks to gain a competitive advantage through product innovation and/or brand marketing rather than efficiency. It is most suitable for relatively small firms but can be used by any company. A focused strategy should target market segments that are less vulnerable to substitutes or where a competition is weakest to earn above-average return on investment.



In adopting a broad focus scope the principle is the same. The firm must ascertain the needs and wants of the mass market and compete either on price (low cost) or differentiation (quality, brand and customization) depending on its resources and capabilities. Wal Mart has a broad scope and adopts a cost leadership strategy in the mass market. Apple also targets the mass market with its iPhone and iPod products, but combines this broad scope with a differentiation strategy based on design, branding and user experience that enables it to charge a price premium due to the perceived unavailability of close substitutes.

7.6 Stuck In the Middle Strategy

A firm that is not performing well is probably trying to do some elements of cost leadership coupled with some elements of differentiation. This strategy is embarrassingly common. The key to escape is to pick a strategy and align on it.

The three generic strategies are alternative viable approaches to dealing with the competitive forces The converse of the previous discussion is that the firm failing to develop its strategy in at least one of the three directions - a firm that is ''stuck in the middle" - is in an extremely poor strategic situation. These firms lack the market share, capital investment and resolve to play the low-cost game, the industry wide differentiation necessary to obviate the need for a low- cost position, or the focus to create differentiation or a low-cost position in a more limited sphere. The firm stuck in the middle is almost guaranteed low profitability. It either loses the high-volume customers who demand low prices or must bid away its profits to get this business away from low-cost firms.

There are three generic strategies that are used to help organizations establish a competitive advantage over industry rivals. Firms may also choose to compete across a broad market or a focused market. We also briefly discuss a fourth business level strategy called an integrated strategy which is gaining popularity these days.

7.7 Integrated Low Cost Strategy

This new strategy is becoming more popular as global competition is increasing. Firms that use this strategy may see improvement in their ability to:

- Adaptability to environmental changes.
- Learn new skills and technologies
- More effectively leverage core competencies across business units and products lines which should enable the firm to produce products with differentiated features at lower costs.

Thus the customer realizes value, based both on product features and a low price. Southwest airlines are one example of a company that does uses this strategy. However, organizations that choose this strategy must be careful not to: becoming stuck in the middle i.e. not being able to manage successfully the five competitive forces and not achieve strategic competitiveness. It must be capable of consistently reducing costs while adding differentiated features.

As one can see, based on this framework, all firms have at least one business level strategy. Firm which are in multiple industries can have different business level strategies in each of their different markets. However, all firms have a business level strategy whether they intend it or not.

None of the three business level strategy is inherently better than the others. Successful firms have embodied each of them. The primary issue of concern for performance is therefore not which strategy the firm has taken but how well the firm has aligned its resources and capabilities on that strategy. Therefore, the key is not which strategy but how well the firm is Aligned on it. Alignment is simply defined as how well each aspect of the firm supports its business level strategy. So while business level strategies can be described in three ways they are conceptually evaluated based on alignment. After understanding all these business/

generic strategies, we can say that if all the three are combined and the cost is optimized, then the market share and profitability.

7.8 Competitive Strategies in Industries

7.8.1 Fragmented Industries

Industries are fragmented for a wide variety of reasons, with greatly differing implications for competing in them. Some industries are fragmented for historical reasons - because of the resources or abilities of the firms history with in them - and there is no fundamental economic basis for fragmentation. However, in many industries there are underlying economic causes as follows:

(i) **Absence of Economies of Scale or Experience Curve:** Most fragmented industries are characterized by the absence of significant scale economies or learning curves in any major aspect of the business, whether it be manufacturing, marketing, distribution, or research.

(ii) **High Transportation Costs:** High transportation costs limit the size of an efficient plant or production location despite the presence of economies of scale. Transportation costs balanced against economies of scale determine the radius a plant can economically service. Transportation costs are high in such industries as cement, fluid milk, and highly caustic chemicals.

(iii) **High Inventory Costs.** High inventory costs influence the efficiency of operations. Sometimes they even nullify the intrinsic economies of scale in the production process. Here production has to be built up and down, which works against the construction of large-scale, capital-intensive facilities and operating them continuously.

(iv) **No Advantages of Size in Dealing with Buyers or Suppliers:** The structure of the buyer groups and supplier industries is such that a firm gains no significant bargaining power in dealing with these adjacent businesses from being large. Buyers, for example, might be so large that even a large firm in the industry would only be marginally better off in bargaining with them than a smaller firm.

(v) **Diseconomies of Scale:** Diseconomies of scale can stem from a variety of factors. Rapid product changes or style changes demand quick response and intense coordination among employees. Where frequent new product introductions and style changes are essential to competition, allowing only short lead times, a large firm may be less efficient than a smaller one .

(vi) **Low Overheads:** If maintaining a low overhead is crucial to success, this factor can favor the small firm under the iron hand of an owner-manager, unencumbered by pension plans and other corporate trappings and less subject to scrutiny by government regulators than the larger firm.

(vii) **Highly Diverse Product Line:** A diverse product line requiring customization to individual users requires a great deal of user-manufacturer interface on small volumes of product and can favor the small firm over the larger one.

(viii) **High level of Creative Content:** Although there are exceptions, if heavy creative content is required, it is often difficult to maintain the productivity of creative personnel in a very large company. One sees no dominant firms in industries such as advertising and interior design.

(ix) **Diverse Market Needs:** In some industries buyers' tastes are fragmented, with different buyers each desiring special varieties of a product and willing (and able) to pay a premium for it rather than accept a more standardized version. Thus the demand for any particular product variety is small, and adequate volume is not present to support production, distribution, or marketing strategies that would yield advantages to the large firm.

(x) **High Product Differentiation:** If product differentiation is very high and based on image, it can place limits on a firm's size and provide an umbrella that allows inefficient firms to survive. Large size may be inconsistent with an image of exclusivity or with the buyer's desire to have a brand all his or her own. Closely related to this situation is one in which key suppliers to the industry value exclusivity or a particular image in the channel for their products or services. Performing artists, for example, may prefer dealing with a small sighting agency or record label that carries the image they desire to cultivate.

(xi) **Exit Barriers:** Exit barriers limit consolidation by preventing firms from leaving the market. Aside from economic exit barriers, managerial exit barriers appear to be common in fragmented industries. There may be competitors with goals that are not necessarily profit-oriented. This factor seems to be common in such industries as fishing and talent agencies.

(xii) **Local Regulation:** Local regulation, by forcing the firm to comply with standards that may be particularistic, or to be attuned to a local political scene, can be a major source of fragmentation in an industry, even where the other conditions do not hold. Local regulator has probably been a contributing factor to fragmentation in industries like liquor retailing and personal services such as dry cleaning and fitting eyeglasses.

(xiii)Newness.:An industry can be fragmented because it is new and no firm or firms have yet developed the skills and resources to command a significant market share, even though there are no other impediments to consolidation. Solar heating and fiber optics may well have been in this state in 1979.

Formulating Strategy in Fragmented Industries

Strategy formulation in this type of industry involves outlining a broad analytical framework as under:

I Step one is to conduct a full industry and competitor analysis to identify the sources of the competitive forces in the industry, the structure within the industry, and the positions of the significant competitors.

II With this analysis as background, step two is to identify the causes of fragmentation in the industry. It is essential that the list of causes be complete and that their relationship to the economics of the industry be established.

III Step three is to examine the causes of industry fragmentation one by one in the context of the industry and competitor analysis in step one and look for ways to overcome fragmentation.

IV Step four is for the firm to assess whether or not the implied future structure of the industry will yield attractive returns.

V If the consolidated Industry does promise attractive returns, the final question is what is the best, defendable position for the firm to adopt to take advantage of industry consolidation?

7.8.2 Emerging Industries

Emerging industries are created by technological innovations, emergence of new consumer needs or shifts in relative cost relationships. In this industry fundamental rules of the competition change due to change in the environment. Primary characteristics of this industry from the point of view of formulating strategies are that there are no rules.

Although emerging industries can differ a great deal in their structures, there are some common structural factors that seem to characterize many industries in this stage of their development. Most of them relate either to the absence of established bases for competition or other rules of the game or to the initial small size and newness of the industry.

Common Structural Characteristics

- **(i) Technological Uncertainty:** There is usually a great deal of uncertainty about the technology in an emerging industry regarding product configuration and production technology. Alternative production technologies may also be present, all of which have been untried on a large-scale basis. In the manufacture of optical fibers, for example, there are at least five different processes backed by different industry participants.
- **(ii) Strategic Uncertainty:** A wide variety of strategic approaches often being tried by industry participants. No ‘’right” strategy has been clearly identified, and different firms are groping with different approaches to product/market positioning, marketing, servicing, and so on, as well as betting on different product configurations or production technologies. For example, solar heating firms are taking a wide variety of stances with respect to supplying components versus systems, market segmentation, and distribution channels.
- **(iii) High Initial Costs but Steep Cost Reduction:** Small production volume and newness usually combine to produce high costs for small production in the emerging industry. Even for technologies for which the learning curve will soon level off, there is usually a very steep learning curve operating. The result of a steep learning curve is that the initially high costs are declining at a very high proportional rate.
- **(iv) Embryonic Companies and Spin Off :** The emerging phase of the industry is usually accompanied by the presence of the greatest proportion of newly formed companies (to be contrasted with newly formed units of established firms) that the industry will ever experience which are known as spin offs. Related to the presence of newly formed companies is that of many spin-off firms are created because in an environment of rapid growth and perceived opportunity, the rewards of equity participation seem attractive when compared to a salary at an established company by the personnel. Spinoffs can be a common phenomenon in emerging industries as there are no entry barriers.
- **(v) First-Time Buyers:** Buyers of the emerging industry’s product or service are inherently first-time buyers. The buyer must be informed about the basic nature and functions of the new product or service, be convinced that it can actually perform these functions, and be persuaded that the risks of purchasing it are rationally borne given the potential benefits.
- **(vi) Short Time Horizon:** In many emerging industries the pressure to develop customers or produce products to meet demand is so great that bottlenecks and problems are dealt with expediently rather than as a result of an analysis of future conditions.
- **(vii) Subsidy:** In many emerging industries, especially those with radical new technology or that address areas of societal concern, subsidy may come from a variety of government and nongovernment sources; heavy subsidies in solar energy and conversion of fossil fuels into gas are particularly prominent examples of the early 1980s. Subsidies often add a great degree of instability to an

industry and they often deeply involve government bodies in an industry, which can be a mixed blessing.

Formulating Strategy in an Emerging Industries

Strategy formulation in this phase involves uncertainty and risk of this period of an industry's development. The rules of the competitive game are largely undefined, the structure of the industry unsettled and probably changing, and competitor's early entry is especially risky in the following circumstances:

- Early competition and market segmentation are on a basis different to that which will be important later in industry development. The firm, therefore, builds the wrong skills and may face high costs of changeover.
- Early competition with small, newly started firms will be costly, but these firms will be replaced by more formidable competition later.
- Technological change will make early investments obsolete and allow firms entering later to have an advantage by having the newest products and processes.

Tactical Moves. The problems limiting development of an emerging industry suggest some tactical moves that may improve the firm's strategic position:

- Early commitments to suppliers of raw materials will yield favorable priorities in times of shortages. Suppliers might show interest in meeting special needs of the industry in terms of variety, service and delivery.
- Financing can be timed to take advantage of the financial markets preference with the industry if it happens, even if financing is ahead of actual needs. This step lowers the firm's cost of capital.
- Shaping Industry structure: A firm can set rules for competition in areas like product policy, pricing strategy and market approach.

7.8.3 Maturing Industries

Maturing industries are those in which growth rates are reaching saturation stage. This stage can also be delayed by innovations and other events that fuel continuous growth for industry players. Transition to maturity can often signal a number of important changes in an industry's competitive environment. Some of the probable tendencies for change are as follows:

(i) **Slowing growth means more competition for market share:** Companies start attacking each other's market share when there is no scope for maintaining historical growth rates. In order to survive, knowledge of competitors' characteristics and their reactions that has been gained in the past must be reassessed.

(ii) **Firms in the industry increasingly are selling to experienced, repeat buyers:** The product is no longer new but an established, legitimate item. Buyers are often increasingly knowledgeable and experienced, having already purchased the product, sometimes repeatedly. The buyers' focus shifts from deciding whether to purchase the product at all to making choices among brands.

(iii) **Competition often shifts toward greater emphasis on cost and service.:** As a result of slower growth, more knowledgeable buyers, and usually greater technological maturity, competition tends to become more cost and service-oriented. Added pressure on costs may also increase requirements for capital by forcing the firm to acquire the most modern facilities and equipment.

(iv) **There is a topping-out problem in adding industry capacity and personnel.:** As the industry adjusts to slower growth, the rate of capacity addition in the industry must slow down as well or overcapacity will occur. Thus companies' orientations toward adding capacity and personnel must fundamentally shift and be disassociated from the euphoria of the past. A firm is confronted with the need to monitor competitors' capacity additions closely and to time its capacity additions with precision. Rapid growth will no longer quickly cover mistakes by rapidly eliminating excess capacity.

(v) **Manufacturing, marketing, distributing, selling, and research methods are often undergoing change:** These changes are caused by increased competition for market share, technological maturity, and buyer sophistication. The firm is faced with the need for either a fundamental reorientation of its functional policies or some strategic action that will make reorientation unnecessary. If the firm must respond to such changes in functional policy, capital resources and new skills are almost always required. Adoption of new manufacturing methods may accentuate the problems of overcapacity discussed above.

(vi) **New products and applications are harder to come by:** Whereas the growth phase may have been one of rapid discovery of new products and applications, the ability to continue product change generally becomes increasingly limited, or the costs and risks greatly increase, as the industry matures. This change requires, among other things, a reorientation of attitude toward research and new product development.

(vii) **International competition increases:** As a consequence of technological maturity, often accompanied by product standardization and increasing emphasis on costs, transition is often marked by the emergence of significant international competition. Significant exports or foreign investment by domestic firms usually predates transition to maturity in a large market like the United States.

(viii) **Industry profits often fall during the transition period sometimes temporarily and sometimes permanently:** Slowing growth, more sophisticated buyers, more emphasis on market share, and the uncertainties and difficulties of the required strategic changes usually mean that industry profits fall in the short run.Falling profits reduce cash flow during a period when it may be sorely needed. They also increase the difficulty of raising debt financing.

(ix) **Dealers' margins fall, but their power increases:** For the same reasons that industry profits are often depressed, dealers' margins may be squeezed, and many dealers may drop out of the business - often before the effect on manufacturers' profits is noticeable. Such trends tighten competition among industry participants for dealers, who may have been easy to find and hold in the growth phase but not upon maturity. Thus, dealers' power may increase markedly.

Formulating Strategies in Maturing Industries

The changes that often accompany transition to maturity represent possible changes in the basic structure of the industry. Each major element of industry structure often is changing: overall mobility barriers, the relative significance of various barriers, the intensity of rivalry (it usually increases), and so on. Structural change nearly always means that firms must respond strategically.

Rapid growth tends to mask strategic errors and allow most, if not all, companies in the industry to survive and even to prosper financially. Strategic experimentation is high, and a wide variety of strategies can coexist. Strategic sloppiness and maturity may force companies to confront, often for the first time, the need to choose among the three generic strategies. Some steps involved in strategy formulation are:

I Sophisticated Cost Analysis: Cost analysis becomes increasingly important in maturity to rationalize the product mix and price correctly.

II Rationalizing the Product Mix: A broad product line and frequent introduction of new varieties and options may have been possible during growth, and often necessary and desirable for industry development, this situation may no longer be viable in the mature setting. Cost competition and fights for market share are too demanding. Hence, focusing on the items with distinct advantage is essential. The need to rationalize the product line sometimes creates the need to install computerized costing systems.

III Correct Pricing: Change in Pricing Methodology is often necessary in maturity. Average cost pricing, or pricing the line as a whole are the common methods followed during the growth phase.

IV Process Innovation and Design for Manufacture: Process innovation assumes significance in a maturing industry, as does the payoff for designing the product and its delivery system to facilitate lower-cost manufacturing and control. Japanese industry has put a great premium on this factor, to which many attribute its success.

V Increasing Scope of Purchases: Increasing purchases of existing customers may be more desirable than seeking new customers. Incremental sales to existing customers can sometimes be increased by supplying peripheral equipment and service, upgrading the product line, widening the line, and so on. This strategy is often less costly than finding new customers. In a mature industry, winning new customers usually means battling for market share with competitors and is consequently quite expensive.

VI Buy Cheap Assets: Sometimes assets can be acquired very cheaply as a result of the company distress that is caused by transition to maturity. A strategy of acquiring distressed companies or buying liquidated assets can improve margins and create a low-cost position if the rate of technological change is not too great.

VII Buyer Selection: As buyers become more knowledgeable and competitive pressures increase in maturity, buyer selection can sometimes be a key to continued profitability. Buyers who may not have exercised their bargaining power in the past, or had less power because of limited product availability, will usually not be bashful about exercising their power in maturity

VIII Different Cost Curves: There is often more than one cost curve possible in an industry. The firm that is not the overall cost leader in a mature market can sometimes find new cost curves which may actually make it a lower- cost producer for certain types of buyers, product varieties, or order sizes.

IX Competing Internationally: A firm may escape maturity by competing internationally where the industry is more favorably structured. Sometimes equipment that is obsolete in the home market can be used quite effectively in international markets, greatly lowering the costs of entry there. Or industry structure may be a great deal more favorable internationally, with less sophisticated and powerful buyers, fewer competitors, and the like. The drawbacks to this strategy are the familiar risks of international competition and the fact that it may only postpone maturity rather than deal with it.

7.8.4 Declining industries

Industries that have experienced an absolute decline in unit sales over a sustained period are declining industries. This decline is due to typical situations and cannot be attributed to single business cycle, or strikes or shortages. The decline is due to slower economic growth and product substitution and other technological changes. A number of structural factors take on a particular importance in determining the nature of competition in the decline phase of an industry. Shrinking industry sales make this phase potentially volatile.

• **Conditions of Demand:**

The process by which demand declines and the characteristics of the market segments that remain have a major influence on competition in the decline phase.

• **Uncertainty:**

The degree of uncertainty perceived by competitors (whether rationally or not) about whether demand will continue to decline is one of the most potent factors affecting end-game competition. If firms believe that demand might revitalize or level off, they will probably try to hold onto their positions and remain in the industry. Their efforts to maintain position despite shrinking sales will have a high probability of leading to bitter warfare.

Firms may well differ in their perceptions of future demand; some firms may foresee a higher probability of revitalization, and these firms will be prone to hang on. Furthermore, there is some evidence in case histories of declining industries that a firm's perception of the likelihood of future decline is influenced by its position in the industry and its exit barriers. The stronger the firm's position or the higher the exit barriers it faces in leaving, the more optimism seems to exist in its projections of the future.

• **Causes of Decline:**

Industry demand declines for a number of different reasons, which have implications for competition during the decline phase:

• **Technological Substitution:**

One source of decline is substitute products created through technological innovation (electronic calculators for slide rules) or made prominent by shifts in relative costs and quality (synthetics for leather). This source can be threatening to industry profits because increasing substitution usually depresses profits at the same time it cuts into sales.

• **Demographics:**

Another source of decline is shrinkage in the size of the customer group that purchases the product. In industrial businesses, demographics cause decline by reducing demand in downstream industries.

• **Shifts in Needs:**

Demand can fall because of sociological or other reasons which change buyers' needs or tastes. For example, cigar consumption has fallen in large part because of cigars' plummeting social acceptability. The cause of decline, then, gives clues about the probable degree of uncertainty firms perceive about future demand as well as some indications about the profitability of serving the remaining segments.

• **Exit Barriers:** Just as there are barriers to entry, however, there are exit barriers which keep firms competing in declining industries even though they are earning subnormal returns on investment. The higher the exit barriers, then, the less hospitable the industry will be to the firms that remain during decline. Exit barriers stem from a number of fundamental sources:

If the assets of a business, either fixed or working capital or both, are highly specialized to the particular business, company, or location in which they are being used, creates exit barriers by diminishing the liquidation value of the firm's investment in the business and the firm might be forced to remain in the industry.

• **Fixed costs of exit:** Often substantial fixed costs of exiting elevate exit barriers by reducing the effective liquidation value of a business like substantial cost of labor settlements, provision to maintain spare parts for existing customers might force the firm to stay in the industry.

• **Government and Social Barriers:** In some situations, especially in foreign countries, closing down a business is next to impossible because of government concern for jobs and impact on the local community. These exit barriers might force the firm to make concessions from other businesses. Closely akin is the social concern that many managements feel for their employees and local communities. Such concerns often interplay with emotional barriers to exit. Because of any or all of these types of exit barriers, a firm may continue to compete in an industry even though its financial performance is subnormal.

• **Volatility of Rivalry:** Because of falling sales, the decline phase of an industry will be particularly susceptible to fierce price warfare among competitors. This rivalry will be more when the product is perceived as a commodity, fixed costs are high, many firms are locked by exit barriers into the industry, the position of the firm is of high strategic importance in the industry and firms are uncertain about their relative competitive strengths and many attempt ill-fated efforts at changing position.

Formulating Strategies in Declining Industries

Discussions of strategy during decline usually revolve around disinvestment or harvest, but there is a range of strategic alternatives - although not all are necessarily feasible in any particular industry. The range of strategies can be conveniently expressed in terms of four basic approaches to competing in decline, which the firm can pursue individually or in some cases sequentially.

- **Leadership:** The Leadership strategy is directed at taking advantage of a declining industry whose structure is such that the remaining firm or firms have the potential to reap above-average profitability and leadership is feasible vis-a-vis competitors. Once this position is attained the firm switches to a holding position or controlled harvest strategy. The premise underlying this strategy is that by achieving leadership the firm is in a superior position to hold position or harvest than it would be otherwise (taking into account the investment required).

- **Niche :** The objective of this strategy is to identify a segment (or demand pocket) of the declining industry that will not only maintain stable demand or decay slowly but also has structural characteristics allowing high returns. The firm then invests in building its position in this segment. Ultimately the firm may either switch to a harvest or divest strategy.

- **Harvest:** In the harvest strategy, the firm seeks to optimize cash flow from the business. It does this by eliminating or severely curtailing new investment, cutting maintenance of facilities, and taking advantage of whatever residual strengths the business has in order to raise prices or reap benefits of past goodwill in continued sales, even though advertising and research have been curtailed. Other common harvest tactics include shrinking the number of channels employed, eliminating small customers, eroding service in terms of delivery time (inventory), speed of repair, or sales assistance.

- **Quick divestment:** This strategy rests on the premise that the firm can maximize its net investment recovery from the business by selling it early in decline, rather than by harvesting and selling it later or by following one of the other strategies. Selling the business early brings the highest value a firm can realize. In some situations it may be desirable to divest the business before decline, or in the maturity phase. Once decline is clear, buyers for the assets inside and outside the industry will be in a stronger bargaining position.

7.9 Summary

The purpose of business strategy is to exploit the capabilities of the enterprise to gain and sustain competitive advantage in serving the needs of customers in a chosen marketplace. An effective business strategy will provide good answers to questions on business scope, customers' needs, how the enterprise will exploit its advantages, and on how competitive advantage will be achieved. It will also describe the main actions necessary to implement the strategy and the reasons why the changes are necessary.

Three levels of business strategies are common: corporate, business and functional. Corporate-level strateges outline specific goals or objectives for the entire company. Owners use these strategies to create their company's mission and vision. Business-level strategies represent specific actions that will create a competitive advantage for the company in the existing business environment. Functional strategies are internal procedures and practices that provide guidance for each function in the business.

Three business/generic strategies, viz. an overall cost leadership, differentiation and focus, play an important role in the success of a business. All the three strategies can be used individually or in combination to create a sustainable competitive advantage. Porter has specifically suggested that these strategies can be used to defend against the competitive forces. Another strategy that can be used is a integrated low cost and differentiation strategy. Finding out the stage of industry before formulating any business strategy is crucial for its success. The structural environments of an industry during its emerging stage, maturing stage and declining stage are different and therefore, determinants of formulating strategy would be entirely different.

7.10 Key Words

- **Competitive Advantage:** It is about how a firm puts the business strategies into practice.
- **Cost Leadership:** A strategy where a firm seeks to compete on the basis of its lowest cost not price.
- **Differentiation:** A strategy where a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers.
- **Focus:** A strategy which involves the selection of a market segment, or group of segments, in the industry and meeting the needs of that preferred segment (or niche) better than the other rivals.
- **Fragmented Industry:** industry where no firm has significant market share and contains privately owned small and medium sized companies.
- **Emerging Industry:** Emerging industries are created by technological innovations, emergence of new consumer needs or shifts in relative cost relationships.
- **Maturing Industry:** Industries in which growth rates are reaching saturation stage
- **Declining Industry:** Industries that have experienced an absolute decline in unit sales over a sustained period are declining industries.
- **Value Chain:** A framework that firms can use to identify and evaluate the ways in which their resources and capabilities can add value. The value of the analysis lays in being able to break the organization's operations or activities into primary (such as operations, marketing & sales, and service) and support (staff activities including human resources management & procurement) activities. Analyzing the firm's value-chain helps to assess your organizations to what you perceive your competitors value-chain, uncover ways to cut costs, and find ways add value to customer transactions that will provide a competitive advantage.

7.11 Self Assessment Test

1. What do you understand by the term Competitive Strategy? What does it do for the organization? Explain.
2. Strategies are made at different levels of an organization. What are the generic strategies at these various levels? Briefly discuss.
3. What are the favorable conditions to pursue a cost strategy? What are the pitfalls of cost leadership?
4. Differentiation is a preferred choice by a few companies, citing an example point out how can firms achieves differentiation.
5. "Focus" can be a very successful strategy. Under what conditions is it so. Also write down its pitfalls.
6. Explain the concept of "Stuck in the middle".
7. Explain the structural environment of Fragmented industries and steps to formulate strategy in it.
8. What all factors should be taken into consideration by a firm for choosing strategy in a declining industry? Discuss.
9. Strategic sloppiness and high strategic experimentation characterize maturing industries which force companies to choose among generic strategies. Describe the strategy formulation process in this industry.
10. Strategy formulation in emerging phase involves uncertainty and risk of this period of an industry's development. Outline the environment and strategy formulation in this industry.

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Unit - 8 : Strategic Choice

Unit Structure:

8.0 Objectives

After reading this unit, you should be able to understand:

- Identify various strategic alternatives.
- How to choose among alternatives.
- Techniques of selecting the suitable alternative.
- How to develop a TOWS Matrix, SPACE Matrix, BCG Matrix and QSPM.
- Realise importance of strategic choices.
- Factors to be considered in making strategic choice.
- Strategic choice process.
- Contingency strategies.

8.1 Introduction

After performing the environmental scanning and evaluation, strategists get to know the environment of the organization. This scanning leads the strategists to certain potential strategies which can be used by the organization in overcoming the gap between expected and desired outcomes. Different strategies which an organization can select from include stability, expansion, and retrenchment or combined strategies. The choice of strategy depends on the gap. Strategic choice largely involves making subjective decisions based on objective information. It is an important concept that can help strategists generate feasible alternatives, evaluate those alternatives, and choose a specific course of action. It focuses on establishing long-term objectives, generating alternative strategies, and selecting strategies to pursue. According to **Jauch, Gupta & Glueck** – "Strategic choice is the decision to select from among the alternatives the strategy which will best meet the enterprise's objectives. The decisions involve focusing on a few alternatives, considering the selection factors, evaluating the alternatives against these criteria and then making the actual choice."

During the process of generating and selecting strategies, strategists never consider all feasible alternatives that could benefit the organization, because there are an infinite number of possible actions and an infinite number of ways to implement those actions. Therefore, a manageable set of the most attractive alternative strategies must be developed.

After that it involves many of the strategists and employees who earlier assembled the organizational mission statement, performed the external audit, and conducted the internal audit and they identify and evaluate alternative strategies and certain strategies are proposed by them. Strategic choice is the third logical element of the strategy formulation process. Choice is at the centre of strategy formulation. If there are no choices to be made, there can be little value in thinking about strategy at all. On the other hand, in practice, there will always be limits on the range of possible choices.

In general, small organizations tend to be limited by their resources. Whereas large organizations find it difficult to change quickly and so tend to be constrained by their past. In large organizations, strategists may find their range of choice limited because some choices are made at a higher level or in another country. In the public sector, the genuine strategic choices may be made by politicians so that the role of the strategist is limited to devising how best to implement strategies rather than to ponder fundamental choices of future direction for themselves. Even when strategists are apparently free to make strategic choices, results may eventually depend as much on chance and opportunity as on the deliberate choices of those strategists. When considering future strategies, it may seem that there are clear choices to be made.

When outcomes are analysed, it is often clear that events, and particularly unexpected events, played a major role in determining results. When considering choice, it is necessary to take a prescriptive view. Descriptive ways of thinking may help to explain the outcomes after the event. In a tidy logical world, any process of choice could be rationally divided into four steps—identify alternatives, evaluate the alternatives against preference criteria, select the best alternative, and then take action. This suggests that identifying and choosing alternatives can be done purely analytically.

In practice, it may be difficult to identify all possible alternatives with equal clarity or at the same time. Unexpected events can create new opportunities, destroy foreseen opportunities, or alter the balance of advantage between opportunities. Identifying and evaluating alternatives is a useful approach but it has limitations. It is necessary to remember that the future may evolve differently from any of the alternatives.

Good strategic choices have to be challenging enough to keep ahead of competitors but also have to be achievable. Analysis has an important role in making strategic choice but judgement and skill are also critical. For instance, sometimes it may be better to delay making a decision whereas at other times a wrong decision may be better than no decision.

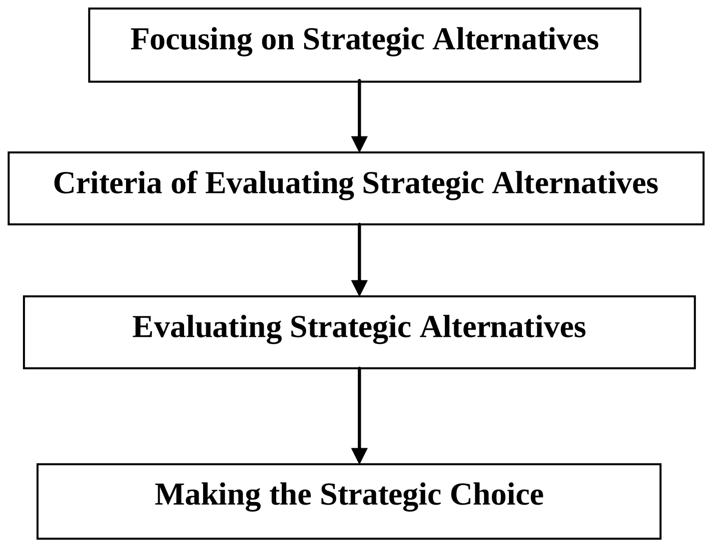
Strategic choices that keep alternatives open may be preferable in an uncertain future to strategies that depend for their success on uncertain events happening. Such judgements require wisdom as much as analytical skill. These words of caution lay the ground for this chapter that might otherwise seem to make the process of strategic choice sound too mechanistic.

Thus, a strategic alternative is a set of related alternatives (typically combining alternatives for product/ markets and resources) that form a potential strategy. For instance, it might be an alternative to enter a new market in a new country. The entry to that market with a chosen method of distribution and known way of acquiring necessary distribution resources—in fact, a complete business plan of how to enter the new market successfully—would become a strategic alternative. Chosen Strategy is the strategic alternative that has been chosen.

8.2 Strategic Choice Process

The process of strategic choice is basically a decision-making process. Decision-making involves setting objectives, generating alternatives, selecting the best alternative out of them and finally implementing that chosen alternative. Process of strategic choice also includes these four essential steps of decision-making process. It involves focusing on alternatives, considering various selection factors, evaluating various alternatives on the basis of those selection factors and making the final strategic choice.

Exhibit 1: Process of Strategic Choice



(I) Focusing on Strategic Alternatives

At this stage, the organization focuses on a few alternatives. An organization can have n number of strategic alternatives available before it, while making a decision yet practically only a few strategic alternatives are feasible alternatives. A decision-maker focuses on these restricted numbers of alternatives only, which he could consider and other alternatives are left aside. Selection of these reasonable numbers of alternatives again depends on various factors. For deciding a few alternatives, three dimensions of business i.e. the customer group, customer function and alternative technologies can be considered. Selection of the alternatives which could be focused is also done through GAP Analysis as well.

(II) Criteria of Evaluating Strategic Alternatives

After selecting a few strategic alternatives and before choosing the best alternative, the selected alternatives are analysed on the basis of certain factors. At this stage to evaluate these alternatives, factors for evaluation are determined. These factors could be objective as well as subjective. Objective factors are rational and prespective factors which are based on facts and figures, whereas subjective factors constitute the other aspect, on the basis of which ultimate choices are made. These involve the application of managerial intuition and judgement.

(III) Evaluating Strategic Alternatives

After deciding the selection factors which constitute the criteria of final strategic choice, few selected strategic alternatives are evaluated at this stage. All the strategic alternatives which were narrowed down earlier are evaluated on the basis of objective as well as subjective factors selected as criteria. Different techniques used and approaches are considered at this stage by the strategists to evaluate these strategic alternatives. No set technique or procedure is suitable for all.

(IV) Making the Strategic Choice

This is the final stage at which the most suitable or best strategic alternative is chosen. Strategic choice made could be one strategy or more strategies. Here a blueprint that will describe the strategies and the conditions under which they would operate are implemented.

8.3 Alternatives for Strategic Choice

A strategic alternative refers to the situation or element that must be decided upon taking, whether or not one has to take a strategic alternative or not. In this regard, the different elements of strategic choice become essential to take note off, as they are the ones decided upon in making good strategic decisions. An organization derives strategic alternatives from the organization's Vision, Mission, Objectives, External Audit, Internal Audit and past successful strategies.

Exhibit 2 : Basis of Strategic Choice

Corporate purpose and aspirations

Ownership
Mission and strategic intent
Scope and diversity
The global dimension

Bases of SBU strategy

Achieving competitive advantage
Price-based strategies
Differentiation strategies
Focus strategies

Enhancing SBU strategy: corporate parenting

Portfolio management
Financial strategy
The role of the corporate parent
The parenting matrix

The starting point in developing alternatives is the definition of business. The search for alternatives may occur in two ways i.e. through routine method or creative approach. Generating alternatives through routine methods take place when alternatives are developed as a defensive approach to meet environmental pressures under the force of circumstances, whereas creative approach is when an active search for alternatives takes place, in anticipation of environmental threats and opportunities. The process of developing alternative starts with identifying available alternatives. There are likely to be different kinds of alternatives. There are three types of alternatives derived from products/services/markets, resources/capabilities, and method of progress.

8.3.1 Alternatives in Markets and Products/Services

The most obvious type of alternative relates to which products or services to offer in which markets. Igor Ansoff suggested product including services and any form of offering market needs which can be any group of potential customers whether defined by their needs, inclinations, or income bracket, and market geography. One set of alternatives is possible within the existing product/market set.

• 'Do nothing'—that is, continue present strategies. This strategy is important as it is usual to compare any proposed change with the 'do nothing' alternative as a baseline. The 'do nothing' alternative is rarely viable for the long term as it is likely that competitors will gradually take the market by improving their products, their processes, or their relationships.

• 'Withdraw'—leave the market by closing down or selling out. This appears to be a negative alternative but may be necessary to focus available resources into areas of greater strength. It is common in declining markets to see some of the competitors selling out to others who can operate the combined operation more cheaply.

• 'Consolidate'—attempt to hold market share in existing markets.

• 'Market Penetration'—increase market share of the same market. This is a more aggressive alternative and usually involves investing in product improvement, advertising, or channel development. Acquiring the businesses of competitors who are withdrawing from the market may be a necessary related resource alternative. Other possible alternatives are either to develop or acquire new products (product development) or to address new market needs (market development). These two alternatives are easy to understand at the generic level but clearly have to be spelt out in detail before they have any practical meaning for a real discussion in a particular context.

• Diversification is entry into new markets with new products. Diversification may be of two kinds—related and unrelated. Related diversification again divides into backward, forward, and horizontal integration. Backward Integration is a move towards suppliers and raw materials in the same overall business. An example of this would be a brewer acquiring malting facilities or growing hops. Forward integration is a move towards the market place or customers in the same overall business. An example of this would be a manufacturer acquiring retail outlets or a hop grower beginning to brew his own beer. Horizontal Integration is a lateral move into a closely related business such as selling by-products.

Diversification which is not of any of the above types is 'unrelated'. Even unrelated diversification usually has (or is thought to have) some degree of synergy (or if) with the original business. Examples of synergy are the ability to share facilities—a sales force, for instance—or a balance in the timing of cash fiow. Often the fit is less than expected, so less synergy is achieved than was anticipated. Here is a long history of research into how successful diversification has been.

More generally, it seems that diversified businesses grow faster and growth tends to be greatest if the diversification is unrelated. However, related diversification tends to be more profitable. In general, there is less fit than anticipated so that the benefits expected are often not fully realized. While research may measure how successful different forms of market or product development are in general, the management choice has to focus on the relative attractiveness of available alternatives. If the present position is bad enough, even relatively risky alternatives may be preferable to doing nothing.

8.3.2 Alternatives for Building Resources, Capabilities and Competence

Just as strategic assessment was necessarily concerned with both the internal and external perspectives, so strategic choice has to consider alternatives about resources, capabilities, and competencies as well as those for markets and products. It may well be, therefore, that the strategic assessment has identified strengths and weaknesses in existing resources and capabilities in comparison with competitors. This may lead to identifying the improvements needed either to shore up weakness or to build on existing strengths. It is also likely that potential market/product alternatives will require supporting changes in resources and capabilities. The time-scales for developing resources and capabilities may be very long and may be longer than the time-scale for market entry. For instance, people are a major resource, but changing the overall mix of people in a company is likely to take years or decades.

Strategic alternatives about building skills and experience may therefore have to precede choices to enter new markets or to develop individual products. Similarly, computer systems usually take several years to develop and install and then may be in place for a decade or more. Information technology investments may therefore have to be seen as much as a strategic building of future capability as being justfied on immediate cost-benefit grounds.

Thus, strategic alternatives could be related to capability alternatives first and market alternatives second, so that an organization can develop unique competencies and then seek markets and products to demonstrate them. There are likely to be multiple links between market/product alternatives and resource/strategic choice capability alternatives. Entry into new markets is likely to require acquiring access to new distribution channels and product support. New products may require a fundamental rethink of development resources and field staff skills. While the resource needs are the most obvious, the capabilities needed to succeed may be much more subtle. For instance, the resources may need to be world-class and all the pieces may have to fit into a working whole.

8.3.3 Alternatives in Methods of Implementation

There are likely to be alternatives in methods of implementation. There are four main methods by which companies can grow their capabilities—internal development, acquisition, contractual arrangements and strategic alliances. Internal development is perhaps the most obvious approach to growth. It involves developing the necessary skills among existing staff and acquiring the necessary production capacity piecemeal. The main disadvantage of internal development is that it takes time during which competitors may move faster or opportunities may be lost. On the other hand, the risks may be lower than for other methods.

Acquisition is a very common implementation alternative, particularly in countries where the structure of financial markets and equity ownership makes take-overs relatively easy to achieve. Take-overs and mergers have sometimes been so dominant as the means of implementing strategies that 'M&A' has sometimes become almost a synonym for 'strategy'. There can be real advantages of acquisition, particularly if there is a good fit with what is acquired. Synergy, by which the whole is greater than the sum of the parts, can occur, although less often than expected.

Contractual arrangements come in many different forms. This form is common in the civil engineering and defence industries. Franchising is another form of contractual arrangement and is commonest in retailing. The franchisee pays the franchiser a fee for services and royalties, typically for use of the company name, business approaches, and central advertising. The franchisee is halfway between an employee and an independent entrepreneur with his risk limited by the success of the brand name and by the support and advice provided by the franchiser.

Licensing is a another form of contractual arrangement. A common example is when a small inventive company licenses its product or patent to be manufactured and marketed by others. This can allow quick growth by avoiding the need to build manufacturing or distribution capability. At the same time, the intellectual property rights for the invention are retained. Licensing is probably most frequent in high technology businesses and the creative arts.

All the above arrangements have in common the need for a written contract which binds the two or more parties into a clear agreement as to who will do what and pay what. Such contracts will normally have defined duration. The contracts can be very varied to suit the needs of each individual. Disputes can be handled through the courts, by agreed arbitration procedures, or by not renewing the contract at the expiry of the contracted term.

Strategic alliances and partnerships are other alternatives in a rapidly changing world. They can give the necessary speed of response and global spread can be achieved through them. There are dangers in strategic alliances. The objectives of the two parties may drift apart over time and the arrangement is hard to terminate neatly because of the lack of contracts. The Rover–Honda alliance is an example of an arrangement that seemed to work well for a time but ended messily when Rover was acquired by BMW.

8.3.4 Grouping Alternatives into Strategic Alternatives

Options about product/markets, resources/capabilities, and the method of implementation have to be combined into a much smaller number of strategic alternatives. This may be a bottom-up or top-down process. The bottom-up approach implies linking what might be done in detail into potential strategies that seem to make wider sense. The top-down approach means testing general ideas of future direction against detailed alternatives. In practice, the process is likely to combine top-down and bottom-up thinking.

8.4 Strategic Choice Factors

Strategic choice involves selecting from several alternatives the best and most suitable strategic alternative. Various key internal factors i.e. marketing, management, operations/production, accounting/finance, computer information systems, research and development with key external factors i.e. political, governmental, legal, economic, technological, social, demographic, cultural and competitive factors affect the environment of any organization from which it develops these alternatives. Along with these factors the decisions of choosing the most appropriate strategic alternative is also influenced by crucial factors.

According to Glueck these decisions are influenced by time constraints and managerial choice factors whereas Alvar Elbing distinguished seven categories of elements which make the frame of reference for the choice. These categories include- accumulated knowledge base, decision-making process i.e. intuitive, rational or group, assumption about cause and effect, human needs, past experiences, expectations and culture and values.

Some of the most crucial factors affecting strategic alternative choice are as follows:

- **External Factors**

External constraints of an organization are its owners or shareholders, customers, suppliers, competitors, the government and community. The choice of strategic alternative is greatly influenced by these. Well-established and large organizations are more powerful and could manipulate and bargain therefore have greater flexibility in the choices.

- **Information Factors**

The availability of information also influences choice of a particular strategic alternative. The lesser the amount of information available about an alternative, the greater will be the risk in selecting that alternative.

- **Competitive Factors**

Another factor affecting the choice of strategic alternative is competitor's reaction. If the choice of an aggressive strategic alternative is a challenging one for a strong competitor, then before initiating it, the organization should weigh the risk. The competitor's capability to react is another factor affecting the choice of a strategic alternative.

- **Time Factors**

Time is another factor, which affects the choice of particular strategic alternative. There are four different dimensions of time constraint- time pressure, time frame, time horizon and timing of the decision. The deadlines for making strategic decisions becomes a critical factor and affect number of strategic alternatives because strategists may not be able to gather adequate information in that time. Thus the number of strategic alternatives gets affected. Even the desire to achieve certain objectives within a certain time frame i.e. short term or long-term also leads to restricted choice of strategic alternatives. The timing of decision is another such constraint. If a strategic alternative needs longer time for gathering relevant information and implementation, that strategic alternative could not be taken in a situation where decision is to be taken instantly due to the right timing of decision. Time horizon is another aspect of time dimension that affect the choice of strategic alternatives. Certain strategic alternatives need longer time horizon to capitalize like diversification or expansion strategic alternatives, whereas stability strategic alternatives give results in short time. Thus time is a major factor which affects the choice of strategic alternative.

- **Cultural Factors**

Culture includes the set of shared values, beliefs, attitudes, customs, norms, personalities, heroes, and heroines that describe an organization. All organizations have a culture. It is beneficial to view strategic management from a cultural perspective because success often rests on the degree of support that strategies receive from an organization's culture. If an organization's strategies are supported by cultural values, beliefs, rites, rituals, ceremonies, stories, symbols, language etc. then strategists can implement changes swiftly and easily. Strategies that require fewer cultural changes may be more attractive because extensive changes can take considerable time and effort.

8.5 Managerial Choice Factors

Some strategists frequently rely on assumptions and the collective wisdom of the group. They don't have much confidence in the data given in support of strategic alternatives selected by using unfamiliar techniques. Strategic choices are also influenced by managerial factors. Some major managerial factors which affect strategic choices are as follows-

- Perception of External Dependence.
- Attitude towards Risk.
- Dependence on Past Strategies.
- Power Relationships.

Organizations as they exist in external environment their dependence on it, is easily understandable. Various factors affecting an organization can be objectively measured. These factors restrict strategic alternatives available for any organization. Strategists provide the subjective views on these alternatives and sometimes they limit themselves and their alternatives unnecessarily. According to Glueck, strategists see the same environment differently. This choice of strategy is dependent on perception of strategists and their interpretation of environmental factors.

Similarly managerial attitude towards risk affect strategic choices tremendously. 'High risk leads to high returns', it is a well known fact, besides that, risk is inevitable in business, but sometimes high risk may affect business adversely any organization. Strategists having optimism and risk-acceptance attitude choose expansion strategies but those who are averse to take risk go for stability strategies. Thus they limit their strategic alternatives. Impact of strategists towards risk can be felt clearly in case of industrialists like Dhirubhai Ambani of Reliance Group, Vijay Mallya of UB Group and Rahul Bajaj of Bajaj Auto.

Strategists take past strategies as the beginning point of strategic choices and some do become committed to continuing the past strategies and ignore other alternatives. Mintzberg on the basis of a research concluded that past strategic choices greatly affect the present choices. Bureaucratic momentum keeps the past strategies going. Only when the unique and integrated past strategy begins to fail then strategists adopt new sub-strategies.

Power relationship and politics in decision making, are a reality in organizations. The top strategists' personality and relationships and the one alternative which is advocated by him becomes widely accepted. Sometimes if the top manager is powerful, his personal goals, ambitions, values and motivations can affect the choice of strategy. Role of power struggle in strategic choices is not easy to understand yet it can be felt and viewed in strategic choices. Prominent CEOs like Chanda Kochhar of ICICI Bank and Mukesh Ambani of Reliance Industries and several others, have played a key role in exercising strategic choice which were greatly influenced by the power play. In case of family groups such as Birla's, Tata's , Reliance, various differences were caused due to conflicting personalities and power play. Even in Public sector organizations political influence on strategic choices could be assessed where bureaucrats, politicians play roles. In case of Tata Nano's Singur Plant controversy, the strategic choices were limited by power politics. Similarly in case of Akurdi plant of Bajaj, strategic choices were highly influenced by Bajaj Auto's chairman Rahul Bajaj's personality.

8.6 Evaluating Strategic Alternatives

There are a number of analytical conceptual models developed for evaluating strategic alternatives before making a strategic choice. Each strategic alternative has to pass certain tests based on logic, for it to become a viable alternative. There are three essential criteria of evaluating a strategic alternative i.e. suitability, feasibility and acceptability.

A strategic alternative must be aligned first of all. It means it conforms to the strategic intent. This test answers the question- 'Does this alternative take us towards where we want to go?' It attempts to find the suitability of that strategic alternative. It should 'fit' the situation identified in the choice situation.

Another criterion is related to the feasibility of the strategic alternative. It should be feasible in that the capabilities and resources necessary for success can be made available. This answers the question: 'Will it work?' This test is likely to draw on the analysis of the strategic assessment. The tests of feasibility require serious consideration of what will be required to implement the necessary changes.

A third criterion answers the question: 'Will this alternative be acceptable?' Acceptable means that it will win the approval of both those who will have to approve it and those who will have to implement it. Any strategic alternative has to pass all three tests to be viable. If more than one strategic alternative passes these tests, they may have to be compared with each other to choose the 'best'. The judgement has to take into account both tangible characteristics such as risk and return and less tangible matters such as match to values and culture.

8.7 Prescription for Strategic Choice

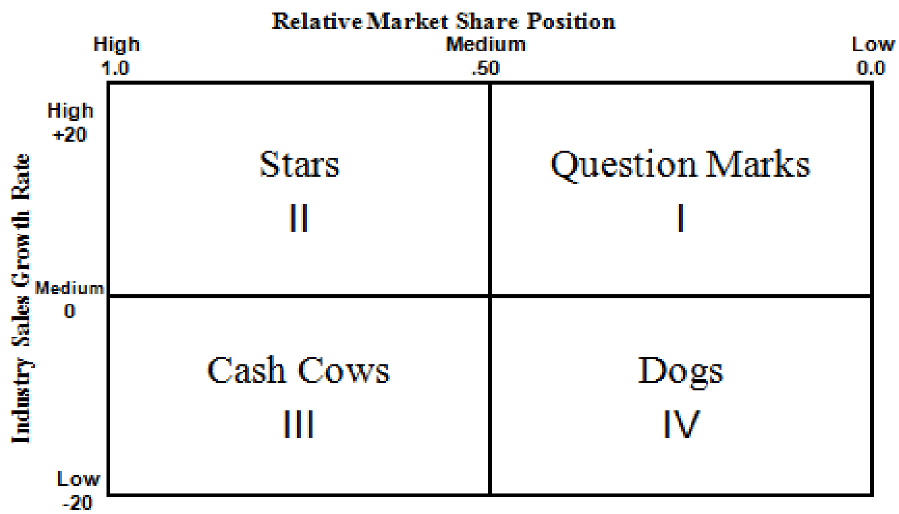
There are various techniques to help strategists in making strategic choices. Some of these models are for developing alternatives and others are for evaluating them. These models are also chosen as per the level of strategies. Some techniques are more suitable for corporate level strategies and others are for business level strategies.

For corporate level strategic analysis there are BCG Matrix, GE Nine-cell Matrix, Hofer's Product Market Evolution Matrix, Shell's Directional Policy Matrix and SPACE Matrix are used. Whereas to analyse business-level strategies The TOWS Matrix , Experience Curve Analysis, Porter's Industry Analysis, Competitor's Analysis and Gap Analysis are used. Corporate Portfolio Analysis is a set of techniques that helps the strategists in taking decisions with regard to individual products or businesses in an organization. Any organization, whether military, product-oriented, service-oriented, governmental, or even athletic must develop and execute good strategies to win. Some of these techniques are as follows:

1. BCG Matrix

The Boston Consulting Group's Product Portfolio Matrix is developed in 1963 by Bruce Henderson is a tool for formulating alternative strategies based on two dimensions i.e. competitive position and market growth. According to this there are four types of scenarios for an organization. It assumes that a high market share for a fast growing product or service normally leads to high profitability and stable competitive situation. Whereas in a slow growing market, it is costly to increase the market share of an organization. It takes into consideration two dimensions i.e. Relative competitive position and Business growth rate. It helps multi-divisional organizations in formulating strategies. The BCG Matrix graphically portrays differences among divisions (of a organization) in terms of relative market share position and industry growth rate. Divisions in the BCG Matrix are called question marks, stars, cash cows and dogs.

Exhibit 3 : BCG Matrix



I Questior

These are those products or services which have low relative market share but can compete in high-growth industry. Here cash needs are high to survive, but cash generation is low. These need decision to strengthen like (intensive strategies) or divestments and can be converted into stars.

II Stars

Stars have high relative market share and high growth rate. These are best long-run opportunities for growth and profitability. They require substantial investment to maintain or strengthen dominant position and provide the best opportunities for expansion. Here strategies like integration or joint ventures are also profitable.

III Cash Cows

Cash Cows generate a large amount of cash because they have high relative market share, and compete in low-growth industry. They generate cash in excess of their needs and milked for other purposes of the organization. They maintain strong position as long as possible and strategies like product development, concentric diversification and if weaken retrenchment or divestiture are appropriate choices.

IV Dogs

Dogs are those products or services which have low relative market share & compete in slow or no market growth. They create a weak internal and external position. Here strategies like liquidation, divestiture and retrenchment are appropriate choices.

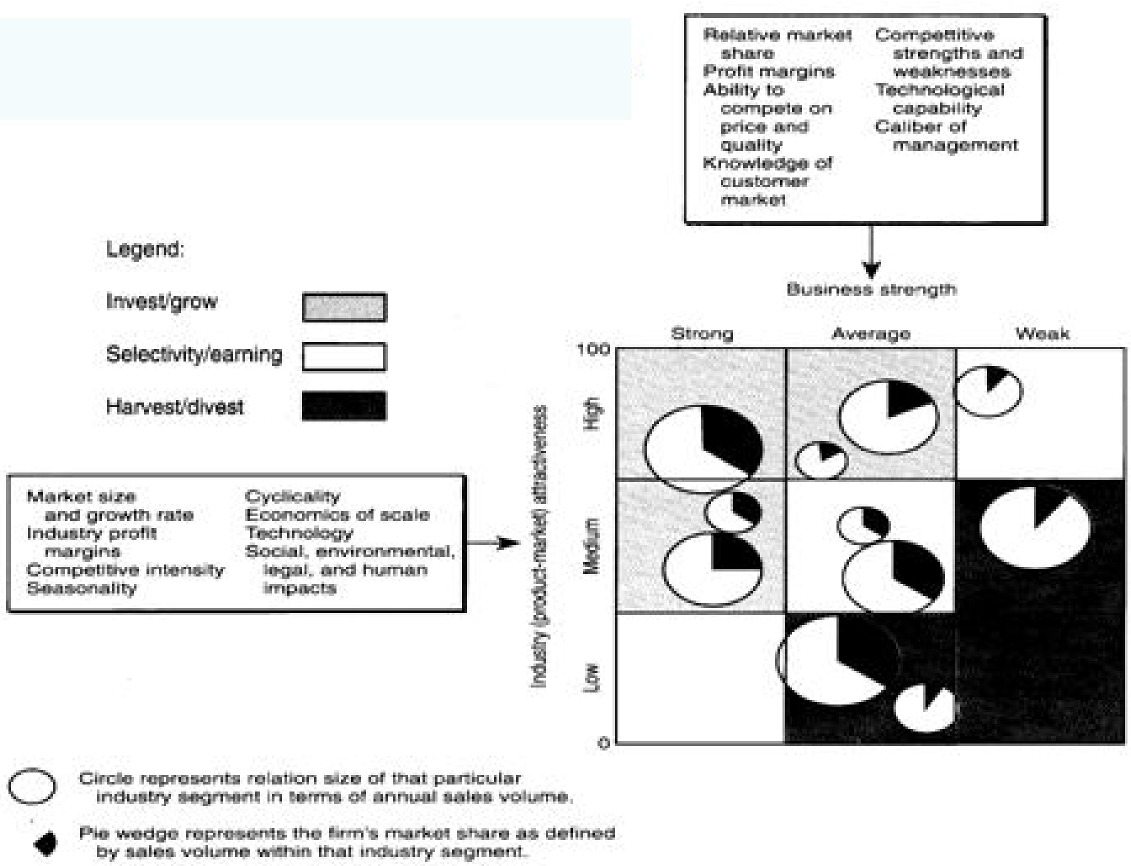
2. GE Nine-cell Matrix

GE Nine-cell Matrix is also known as the GE-McKinsey matrix, is a portfolio planning method which was developed by General Electrics to overcome the limitations of BCG matrix in the certain aspects. The GE matrix generalises the axes of the matrix as Industry Attractiveness and Business Unit Strength. The BCG matrix uses the market growth rate and relative market share whereas GE matrix's industry attractiveness and competitive business unit strength include a broad range of factors. The GE matrix has a 3×3 grid with nine cells while the BCG matrix is a 2×2 grid with four cells.

All business units of an organization can be represented by circles placed appropriately within the matrix. The size of the circle represents the industry / market size. The market share of the SBU is represented by the smaller sector within the circle. Thus, it can be seen that this is a complex framework to evaluate an SBU along four dimensions: market attractiveness, market size, market share, and business strength. The cells in the nine-cell matrix are coloured differently to categorize the matrix into five distinct zones of overall business attractiveness: high (green cell), medium-high(yellow cells), medium (ocean-blue cells), medium-low (pink cells), and low (red cell).

The strength of this framework is based on the premise that to be successful, a organization should enter attractive markets / industries for which it has the needed business strengths to succeed. However, over-reliance on this framework may lead to undue neglect of existing businesses. SBU owners / strategists will also be susceptible to manipulate the parameters so that their SBUs show up on the desired high or medium-high overall attractive zones. Thus, this framework should be used with caution while crafting strategy.

Exhibit 4 : GE Nine-cell Matrix



Thus, GE Nine-cell Matrix offers an intermediate classification of medium and average rating and involves a greater number of strategic variables than the BCG Matrix but it provides broad strategic prescriptions rather than the specific business strategies.

3. Hofer's Product Market Evolution Matrix

Hofer and Schendel felt that the major weakness with the General Electric Matrix was that it didn't effectively depict the positions of new businesses that are just starting to grow in new industries. The Hofer-Schendel matrix takes into account the concept that changes in basic competitive positions are easier to accomplish at certain stages in the evolution of an industry than others. The magnitude and type of opportunities and threats that face a business vary according to the stage of evolution of that industry as well as its competitive position within that industry. The model concentrates on positioning existing SBU's on the product-market evolution matrix thereby establishing an ideal future portfolio.

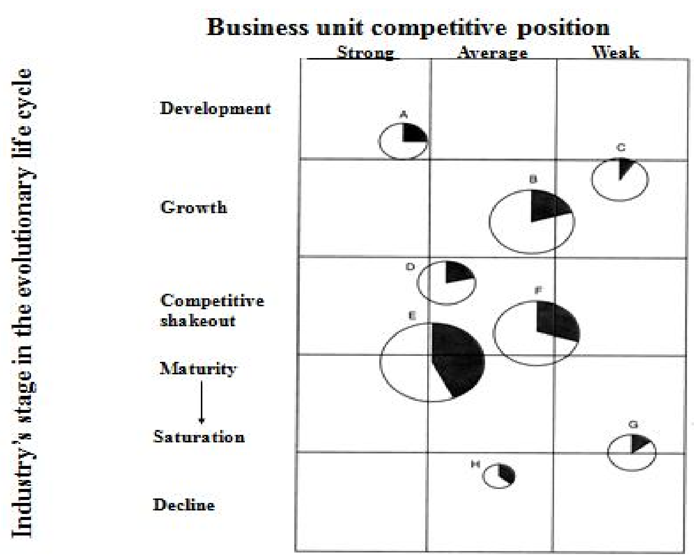
The basic steps of matrix determine the strategic position and this in turn determines the investment strategy of the business. These steps are related to the short-term financial condition, the relative competitive position, and the position of evolution of the market that the business competes in. A plot is then made of the business's basic strategic position with regards to the competitive position and the stage of product/ market evolution.

Different opportunities and threats face a business as the product/market segments in which it competes, evolve over time. Charles W. Hofer and Dan Schendel described different stages of the life cycle, each with certain characteristics by which the position of the market can be identified. The stages are development, growth, shakeout, maturity, saturation, and decline. Major changes in basic competitive position occur in the stages of development, shakeout and decline because in these stages the basic nature of competition changes. It is more difficult to make changes to competitive position in the other stages of growth, maturation and saturation as the bases for competition are usually well established.

From the positioning on the matrix it can be seen that there are various generic strategies, corresponding to the positions determined by the x and the y-axis. The position of the SBU/etc. can fall in one of 15 quadrants

The six strategies devised by Hofer and Schendel are: Share increasing strategies, Growth strategies, Profit strategies, Market concentration and asset reduction strategies, Turnaround strategies, Liquidation and divestiture strategies. This matrix is used when an organization wants to know what the investment potential of the businesses is likely to be – the product /market evolution gives a good indication of this. It may be usefully applied to balancing the corporate portfolio and assigning strategies to each SBU using the generic strategies.

Exhibit 5 : Hofer and Schendel Product Market Evolution Matrix



4. Shell's Directional Policy Matrix

The Shell Directional Policy Matrix is another refinement upon the Boston Matrix. Along the horizontal axis are prospects for sector profitability, and along the vertical axis is a company's competitive capability. As with the GE Matrix the location of a Strategic Business Unit (SBU) in any cell of the matrix implies different strategic decisions. However decisions often span alternatives and in practice the zones are an irregular shape and do not tend to be accommodated by box shapes. Instead they blend into each other. Each of the *zones* is described as follows:

• **Divest/Disinvest:** SBU's running in losses with uncertain cash flows. They should be divested as the situation is not likely to improve in the near future. These liquidate or move thee assets.

• **Phased/Gradual Withdrawal**: SBU's with weak competitive position in a low growth market with very little chance of generating cash flows. They should be phased out gradually. The cash realized should be invested in more profitable ventures.

• **Double or Quit**: Gamble on potential major SBU's for the future. Either invests more to use the prospects presented by the market or else better to quit the business.

• **Custodial**: SBU's are just like a cash cow, milk it and do not commit any more resources. The corporate has to bear with the situation by getting help from other SBU's or get out of the scene so as to focus more on other attractive business.

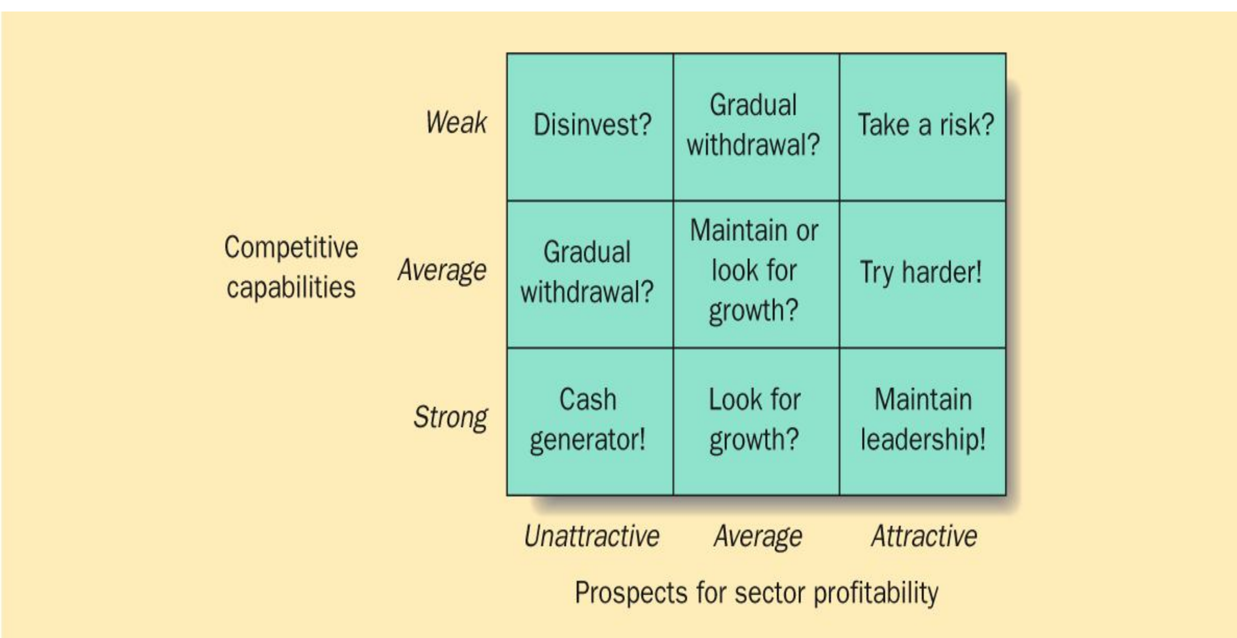
• **Try Harder**: SBU's could be vulnerable over a longer period of time, but fine for now. They need additional resources to strength their capabilities. The corporate try harder to exploit the business prospects thoroughly.

• **Cash Generator**: These are even more like a cash cow, milk here for expansion elsewhere. SBU's May continue their operations, at least for generating strong cash flows and satisfactory profits. No further investments are made.

• **Growth**: Grow the market by focusing just enough resources here. These SBU's need funds to support product innovations, R&D activities etc.

• **Market Leadership**: Major resources are focused upon the SBU. It must receive top priority.

Exhibit 6 : Shell's Directional Policy Matrix



5. SPACE Matrix

The SPACE Matrix is another important tool. Its four-quadrant framework indicates whether aggressive, conservative, defensive, or competitive strategies are more appropriate for a given organization. Depending on the type of organization, numerous variables could be chosen in each of the dimensions represented on the axes of the SPACE Matrix. To develop a SPACE Matrix following steps are used:

I Select a set of variables to define financial strength (FS), competitive advantage (CA), environmental stability (ES), and industry strength (IS).

II Assign a numerical value ranging from 1 (worst) to 6 (best) for the variables that make up the FS and IS dimensions. Assign a number between –1 (best) to –6 (worst) for variables that make up the ES and CA dimensions.

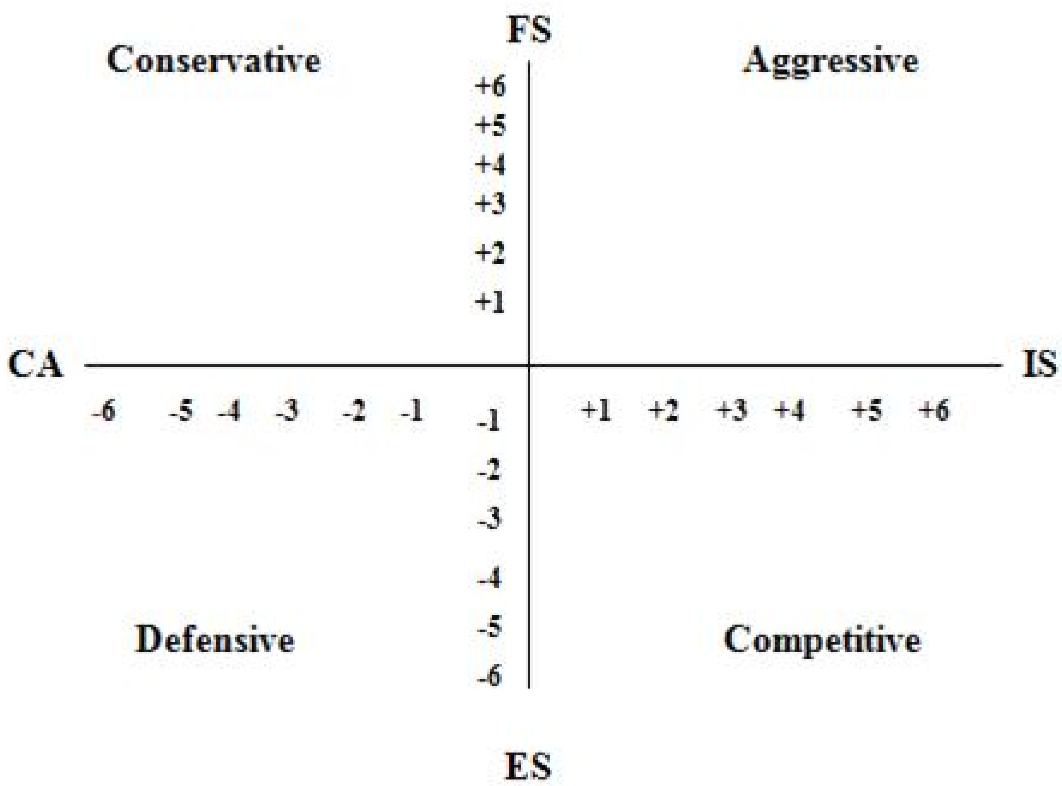
III Compute an average score for FS, CA, IS, and ES by summing the values given to the variables and dividing by the number of variables included in each dimension.

IV Plot the average scores for FS, IS, ES, and CA on the appropriate axis in the SPACE Matrix.

V Add the two scores on the x-axis and plot the resultant point on X. Add the two scores on the y-axis and plot the resultant point on Y. Plot the intersection of the new x-y point.

VI Draw a directional vector from the origin of the SPACE matrix through the new intersection point. This vector reveals the type of strategies recommended for the organization i.e. aggressive, competitive, defensive or conservative.

Exhibit 7 : SPACE Matrix



SPACE Factors may include a long list. Which are given in the exhibit 8.

Exhibit 8: SPACE Factors

Internal Strategic Position	External Strategic Position
Financial Strength (FS) • Return on investment • Leverage • Liquidity • Working capital • Cash flow	**Environmental Stability (ES)** • Technological changes • Rate of inflation • Demand variability • Price range of competing products • Barriers to entry • Competitive pressure • Price elasticity of demand. Ease of exit from market Risk involved in business
Competitive Advantage CA • Market share • Product quality • Product life cycle • Customer loyalty • Competition's capacity utilization • Technological know-how • Control over suppliers & distributors	**Industry Strength (IS)** • Growth potential • Profit potential • Financial stability • Technological know-how • Resource utilization • Ease of entry into market • Productivity, capacity utilization

6. TOWS Matrix

The TOWS Matrix is an important matching tool that helps strategists develop four types of strategies: SO strategies which use a organization's internal strengths to take advantage of external opportunities, WO strategies which are aimed at improving internal weaknesses by taking advantage of external opportunities, ST strategies which use a organization's strengths to avoid or reduce the impact of external threats, and WT strategies which are defensive tactics directed at reducing internal weaknesses and avoiding external threats. There are eight steps to construct a TOWS Matrix:

I List the organization's key external opportunities.

II List the organization's key external threats.

III List the organization's key internal strengths.

IV List the organization's key internal weaknesses.

V Match internal strengths with external opportunities and record the resulting SO strategies in the appropriate cell.

VI Match internal weaknesses with external opportunities and record the resulting WO strategies.

VII Match internal strengths with external threats and record the resultant ST strategies.

VIII Match internal weaknesses with external threats and record the resulting WT strategies.

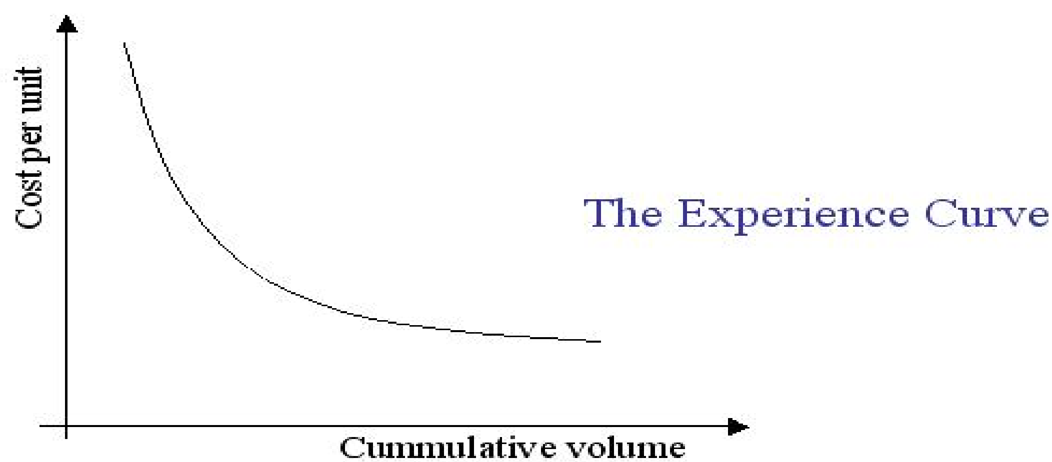
7. Experience Curve Analysis

Experience Curve Analysis, its concept was first quantified in the 1960s, when the Boston Consulting Group demonstrated that there was generally a consistent relationship between the marginal cost of producing a unit of a good and the total number of units the company had produced. This relationship showed that the real marginal cost of production tended to fall by around 25 % every time the total number of units produced doubled. This demonstrated that, even for processes that are not particularly labour intensive, a company would become more cost efficient as production continued. Indeed, such is the strength of the relationship predicted by the experience curve that a lack of an experience curve effect in a company is often argued to be a signal of mismanagement.

As the experience curve has been observed over almost all industries, it has important strategic implications. In particular, should an organization obtain more market share than any of its competitors; it will produce more units, hence gaining greater experience effects and ultimately a cost advantage.

This provides additional support to the use of penetration pricing and mass production strategies, as well as significant marketing investments in the early stages of a product, to maximise its demand and hence benefit from rapid experience effects. However, when an organization plans to use the experience curve in developing its strategy, it needs to consider potential competitor reactions to this.

Exhibit 9 : Experience Curve Analysis



8. Porter's Five Force Analysis

Michael Porter described a concept that has become known as the "Five Forces Model". This concept involves a relationship between competitors within an industry, potential competitors, suppliers, buyers and alternative solutions to the problem being addressed. The model originated from Michael E. Porter's 1980 book "Competitive Strategy: Techniques for Analyzing Industries and Competitors." Since then, it has become a frequently used tool for analyzing a company's industry structure and its corporate strategy. Five forces are:

• **Threat of New Entrants -** The easier it is for new companies to enter the industry, the more cutthroat competition there will be. Factors that can limit the threat of new entrants are known as barriers to entry. Some examples include: Existing loyalty to major brands, Incentives for using a particular buyer, High fixed costs, Scarcity of resources, High costs of switching organizations and Government restrictions or legislation.

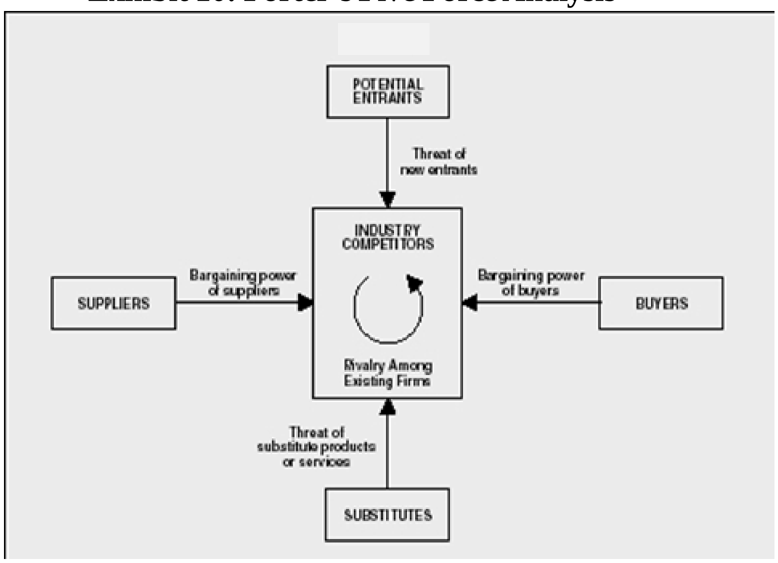
• **Power of Suppliers -** This is how much pressure suppliers can place on a business. If one supplier has a large enough impact to affect a company's margins and volumes, then it holds substantial power. Here are a few reasons that suppliers might have power: There are very few suppliers of a particular product, there are no substitutes, switching to another product is very costly, the product is extremely important to buyers • - can't do without it, the supplying industry has a higher profitability than the buying industry.

• **Power of Buyers -** This is how much pressure customers can place on a business. If one customer has a large enough impact to affect a company's margins and volumes, then the customer hold substantial power. Here are a few reasons that customers might have power: Small number of buyers, purchases large volumes, switching to another (competitive) product is simple, the product is not extremely important to buyers, customers are price sensitive.

• **Availability of Substitutes -** If the cost of switching is low, then this poses a serious threat. Here are a few factors that can affect the threat of substitutes: The main issue is the similarity of substitutes. For example, if the price of coffee rises substantially, a coffee drinker may switch over to a beverage like tea, if substitutes are similar, it can be viewed in the same light as a new entrant.

• **Competitive Rivalry -** This describes the intensity of competition between existing organizations in an industry. Highly competitive industries generally earn low returns because the cost of competition is high. A highly competitive market might result from: Many players of about the same size; there is no dominant organization, little differentiation between competitors products and services, a mature industry with very little growth; companies can only grow by stealing customers away from competitors.

Exhibit 10: Porter's Five Force Analysis



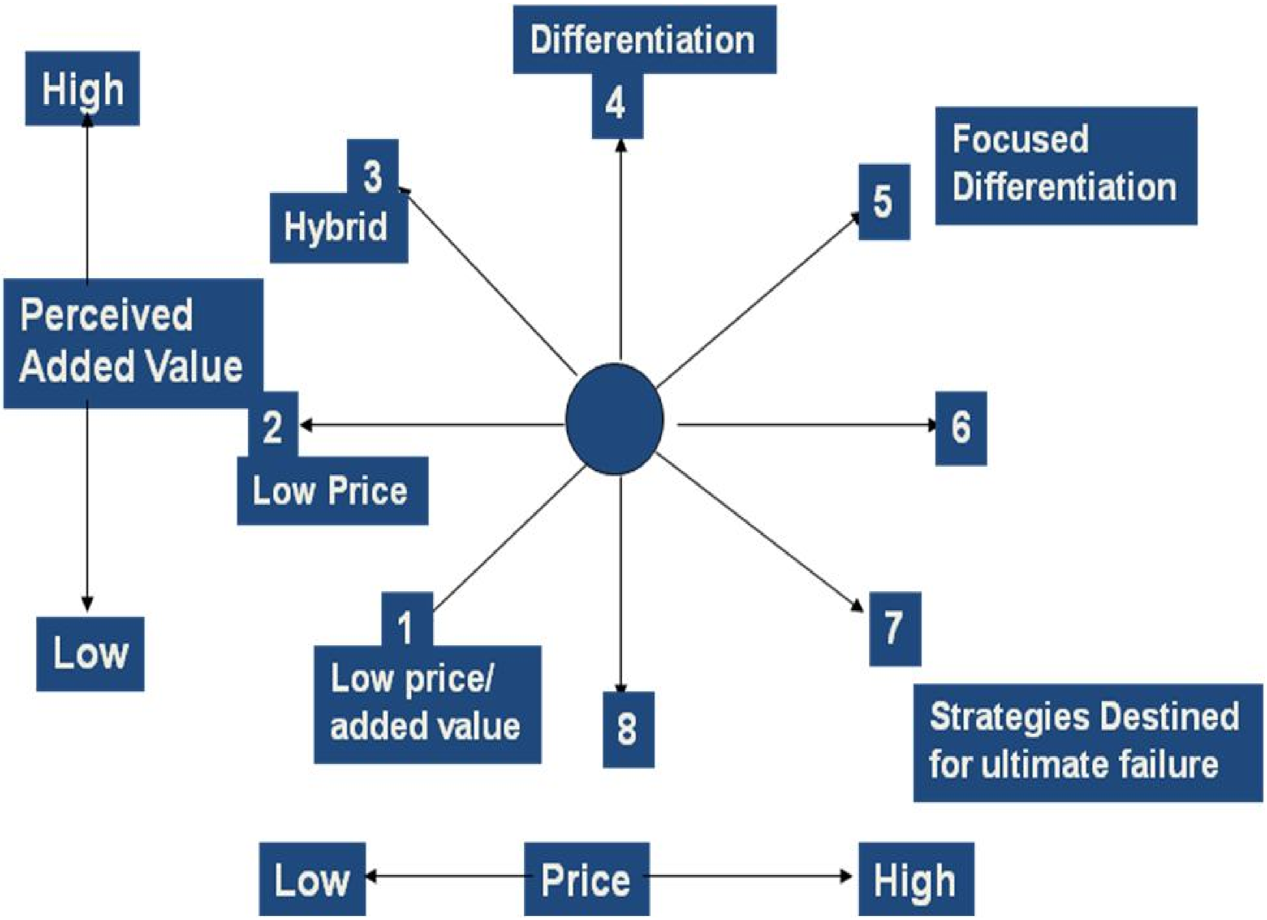
Several attempts have been made to provide theoretical frameworks for making strategic choices. One that was highly infiuential when first devised was the concept of Generic Strategies. Porter suggested that the most fundamental choices facing any business are the scope of the markets that it attempts to serve and how it attempts to compete in these chosen markets.

The scope can either be broad tackling the whole market—or narrow—tackling only a particular part of the market. He also suggested that there were only two effective ways of competing in a market. Companies achieve competitive advantage either by having the lowest product cost or by having products which are different in ways which are valued by customers. If the scope is narrow, the distinction between cost and differentiation becomes unimportant so Porter defined just three 'generic' strategies—cost leadership, differentiation, and focus.

In the Porter view of generic strategy, the worst crime (weakest strategy) is being 'stuck in the middle', that is, being muddled in either of the two dimensions. Porter's Generic Strategy model has been extended into the Strategy Clock. This allows for combinations of the original generic strategies. The important addition is the 'hybrid' strategy that is an optimal balance between price and the added value perceived by the customer. This coincides with experience when purchasing household goods. The offerings may often fall into three broad categories. There are 'cheap' offerings which give minimal facilities and appeal to customers to whom price is the most important issue.

At the other end of the scale are the 'luxury' offerings that have demonstrably high quality or numerous features and appeal to customers who want the best and the most differentiated. In the middle are the 'good-value' offerings that compromise between the two extremes by offering a good trade-off between price and value. This category often accounts for a sizeable percentage of the total market.

Exhibit 11: Strategy Clock



9. Grand Strategy Mix

Grand Strategy Matrix has emerged into a powerful tool in devising alternative strategies. This matrix is basically based on four important elements:

• Rapid Market Growth

• Slow Market Growth

• Strong Competitive Position

• Weak Competitive Position

These elements form a four quadrant matrix in which all organizations can be positioned in such a way that identification and selection of appropriate strategy becomes an easy task. Moreover, this matrix helps in adopting the best strategy based on the current growth and competitive state of the organization. A large scale organization segregated into many divisions can also plot its divisions in this four quadrant Grand Strategy Matrix for formulating the best strategy for each division.

Exhibit 12: Grand Strategy Mix

RAPID MARKET GROWTH

WEAK COMPETITIVE POSITION	STRONG COMPETITIVE POSITION
Quadrant II 1. Market development 2. Market penetration 3. Product development 4. Horizontal integration 5. Divestiture 6. Liquidation	***Quadrant I*** 1. Market development 2. Market penetration 3. Product development 4. Forward integration 5. Backward integration 6. Horizontal integration 7. Concentric diversification
Quadrant III 1. Retrenchment 2. Concentric diversification 3. Horizontal diversification 4. Conglomerate diversification 5. Liquidation	***Quadrant IV*** 1. Concentric diversification 2. Horizontal diversification 3. Conglomerate diversification 4. Joint ventures

SLOW MARKET GROWTH

Quadrant I

- Excellent strategic position
- Concentration on current markets/products
- Take risks aggressively when necessary

Quadrant II

- Evaluate present approach
- How to improve competitiveness
- Rapid market growth requires intensive strategy

Quadrant III

- Compete in slow-growth industries
- Weak competitive position
- Drastic changes quickly
- Cost & asset reduction (retrenchment)

Quadrant IV

- Strong competitive position
- Slow-growth industry
- Diversification to more promising growth areas

10. Quantitative Strategic Planning Matrix (QSPM)

Other than ranking strategies to achieve the prioritized list, there is only one analytical technique in the literature designed to determine the relative attractiveness of feasible alternative actions & this technique is the QSPM, which objectively indicates which alternative strategies are best. It is a technique designed to determine the relative attractiveness of feasible alternative actions

There are six steps to developing a QSPM:

I Make a list of the organization's key external opportunities/threats and internal strengths/weaknesses in the left column of the QSPM.

II Assign weights to each key external and internal factor.

III Examine the matrices and identify alternative strategies that the organization should consider implementing.

IV Determine the Attractiveness Scores (AS).

V Compute the total AS.

VI Compute the sum Total AS.

Exhibit 13 : Quantitative Strategic Planning Matrix (QSPM)

		Strategic Alternatives		
Key External Factors	**Weight**	**Strategy 1**	**Strategy 2**	**Strategy 3**
Economy				
Political/Legal/Governmental				
Social/Cultural/Demographic /Environmental				
Technological				
Competitive				
Key Internal Factors				
Management				
Marketing				
Finance/Accounting				
Production/Operations				
Research and Development				
Computer Information Systems				
Sum total A.S.				

AS 1 to 4 and blank if factor does not effect strategy: TAS = Weight x AS

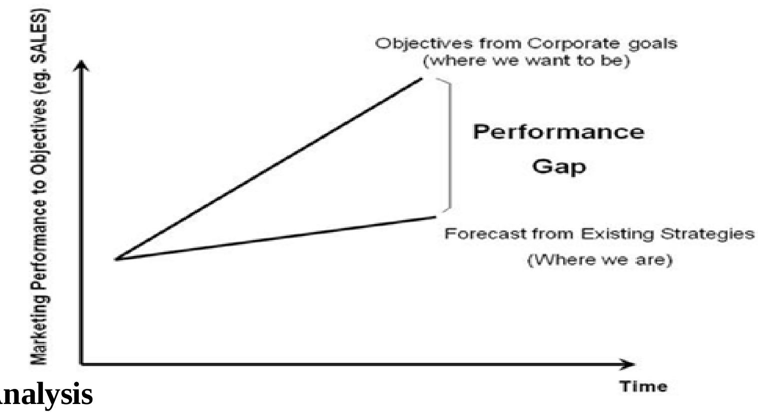
A positive feature of the QSPM is that sets of strategies can be examined sequentially or simultaneously. Another positive feature of the QSPM is that it requires strategists to integrate pertinent external and internal factors into the decision process. Developing a QSPM makes it less likely that key factors will be overlooked or weighted inappropriately. The QSPM is not without some limitations. First, it always requires intuitive judgment. Second, it can only be as good as the prerequisite information and matching analyses upon which it is based.

11. Gap Analysis

The Gap analysis can affect the choice of a strategic alternative greatly as it describes the gap between present and predicted future performance. An organization sets objectives for a future period of time like 3 years or 3-5 years and then it tries to find out by doing analysis that where it can reach through the present level of efforts. Then the difference between desired level and predicted level through present performance is analysed.

Gap analysis is a very useful tool for helping marketing strategists to decide upon marketing strategies and tactics. Again, the simple tools are the most effective. It tells the strategists that if the gap is not wide they can use stability strategies whereas if gap is large means past performance was not satisfactory and other feasible alternatives should be chosen. There's a straightforward structure to follow. The first step is to decide upon how you are going to judge the gap over time. It is also called need-gap analysis, needs analysis, and needs assessment.For example, by market share, by profit, by sales and so on. Gap analysis is a technique for determining the steps to be taken in moving from a current state to a desired future-state. It begins with listing of characteristic factors (such as attributes, competencies, performance levels) of the present situation ("what is"), then cross-lists factors required to achieve the future objectives ("what should be") and then highlights the 'gaps' that exist and need to be 'filled'.

Exhibit 14: Gap Analysis



12. Competitor Analysis

Competitor Analysis is an important part of the strategic planning process. Competitor analysis has several important roles in strategic planning. It helps management understand their competitive advantages/ disadvantages relative to competitors. It also generates understanding of competitors' past, present (and most importantly) future strategies. It provides an informed basis to develop strategies to achieve competitive advantage in the future and helps in forecasting the returns that may be made from future investments (e.g. how will competitors respond to a new product or pricing strategy? Davidson (1997) described how the sources of competitor information can be neatly grouped into three categories:

Recorded Data: This is easily available in published form either internally or externally. Good examples include competitor annual reports and product brochures.

Observable Data: This has to be actively sought and often assembled from several sources. A good example is competitor pricing.

Opportunistic Data: To get hold of this kind of data requires a lot of planning and organisation. Much of it comes from discussions with suppliers, customers and, perhaps, previous management of competitors.

Exhibit 15 : Competitor Analysis

There are four diagnostic components to a competitor analysis: future goals and objectives, current strategy, assumptions and capabilities. Understanding these four components will allow an informed prediction of the competitor's response profile. The vital components of the basic framework for competitor analysis are as under-

Future Goals: The knowledge of goals will allow the competitors to predict the basic moves of the company.

Current Strategy: Knowledge of current strategy of company will reveal the short run and mid run goals. These goals are revealed in the annual shareholder reports, interviews with analysts, statements by managers and through press releases.

Objectives: The knowledge of a competitor's objectives facilitates a better prediction of the company's reaction to different competitive moves. If a company's objective is non-financial and wants to earn long term profits, then that company might participate in a cut-throat price competition in which no organization will earn profit.

Assumptions: A competitor's managers hold different assumptions about their organization and their industry. An understanding of these assumptions helps in defining the moves that they will consider. A competitor's assumptions may be based on a number of factors, which include past experience with the product, regional factors, industry trends, rules of thumb, beliefs about its competitive position.

Resources and capabilities: Analyzing a competitor's resources and capabilities can be done in a similar manner as in SWOT analysis. This will reveal what are the resources and capabilities and how these resources and capabilities can be put to the use and what is the resultant product that might be released. The analysis can be taken further by evaluating or predicting the company's next moves with regard to mobilizing resources for a sustainable growth rate. The ability to react quickly to the changing situations and market conditions can also be evaluated. Some organizations have heavy momentum and may continue to be in their present position for many years.

Though all analytical techniques have limitations yet they are highly helpful in assimilating and organizing information in a way that enhances strategic decision making. As long as strategists do not allow analytical tools to dictate decisions, such techniques are helpful. Emphasize to strategists that discussion of the implications of the various matrices for a particular organization is exceptionally important. Strategists must go beyond the numbers to the meaning and implications.

8.8 Contingency Strategies

Contingency strategies are formulated to deal with natural uncertainties and changes, which are part of business. Sometimes these changes are dramatic and drastic so need alterations or modifications. The selected strategy is the best for a particular scenario only, but when components of the organization's environment change beyond a level, the chosen strategy needs to be altered. Contingency strategies can promote a strategist's ability to respond quickly to key changes in the internal and external bases of an organization's current strategy. If underlying assumptions about the economy turn out to be wrong and contingency strategies are ready then mangers can make appropriate changes promptly.

In some cases, external or internal conditions present unexpected opportunities. When such opportunities occur, contingency strategies could allow an organization to quickly capitalize on them. Linneman and Chandran reported that contingency strategy formulating gave users, such as DuPont, Dow Chemical, and Emerson Electric, there major benefits; (1) It permitted quick response to change, (2) it prevented panic in crisis situations, and (3) it made managers more adaptable by encouraging them to appreciate just how variable the future can be. They suggested that effective contingency strategy formulating involves a seven-step process.

I Identify both beneficial and unfavorable events that could possibly derail the strategy or strategies.

II Specify trigger points. Calculate about when contingent events are likely to occur.

III Assess the impact of each contingent event. Estimate the potential benefit or harm of each contingent event.

IV Develop contingency strategies. Be sure that contingency strategies are compatible with current strategy and are economically feasible.

V Assess the counter impact of each contingency strategy. That is, estimate how much each contingency strategy will capitalize on or cancel our its associated contingent event. Doing this will quantify the potential value of each contingency strategy.

VI Determine early warning signals for key contingent events. Monitor the early warning signals.

VII For contingent events with reliable early warning signals, develop advance action strategies to take advantage of the available lead time.

Thus, any radical changes in the external and internal environment of the organization, which were not anticipated, create a need for different strategic alternatives. For this purpose strategists formulate contingency strategies to respond to the environmental disquiet or upset.

8.9 Summary

Strategic choice is the third logical element of the strategy process and has a central role. The process of choice can only be described as deciding between different alternatives. There are likely to be possible alternatives about products and services and about market segments defined by both customer need and geography. There will also be alternatives based on what resources and capabilities are needed and how to build these—implementation alternatives. The various alternatives are likely to be inter-related so it is necessary to identify a small number of strategic alternatives made up of appropriately related alternatives. Strategic choice involves comparing strategic alternatives both logically and politically. Strategic alternatives have to be suitable, acceptable, and feasible. If there is more than one strategic alternative that meet these tests, they will need to be compared.

It is simplistic to treat strategic choice just as the logical comparison of strategic alternatives. The process of decision is also political. There are various factors which affect the choice of a strategic alternative. These factors involve External Constraints, Information Constraints, Competitive Reaction, Time Constraints, Cultural Constraints and Managerial Choice Factors. There are various techniques to help strategists in developing alternatives and analysing them. Different techniques of corporate level strategic analysis are BCG Matrix, GE Nine-cell Matrix, Hofer’s Product Market Evolution Matrix, Shell’s Directional Policy Matrix and SPACE Matrix whereas to analyse business-level strategies are TOWS Matrix , Experience Curve Analysis, Porter’s Industry Analysis, Competitor’s Analysis and Gap Analysis. Corporate Portfolio Analysis is a set of techniques that helps the strategists in taking decisions with regard to individual products or businesses in an organization. Contingency strategies are formulated to take into account unforeseen events occurring during strategy implementation so that if required corrective actions could be taken.

8.10 Key Words

- **Strategic Choice-** Strategic choice is the decision to select from among the alternatives the strategy which will best meet the enterprise’s objectives.

- **Strategic Choice Process-** It is process of decision-making which involves setting objectives, generating alternatives, selecting the best alternative out of them and finally implementing that chosen alternative.
- **The BCG Matrix-** The Boston Consulting Group's Product Portfolio Matrix is developed in 1963 by Bruce Henderson is a tool for formulating alternative strategies based on two dimensions i.e. competitive position and market growth. Divisions in the BCG Matrix are called question marks, stars, cash cows, and dogs.
- **Question Marks-** These are those products or services which have low relative market share but can compete in high-growth industry.
- **Stars-** Stars have high relative market share and high growth rate. These are best long-run opportunities for growth & profitability.
- **Cash Cows-** Cash Cows generate a large amount of cash because they have high relative market share, and compete in low-growth industry.
- **Dogs-** Dogs are those products or services which have low relative market share & compete in slow or no market growth. They create a weak internal & external position.
- **GE Nine-cell Matrix-** GE Nine-cell Matrix is a portfolio planning method which was developed by General Electrics. It has a 3×3 grid with nine cells and generalises the axes of the matrix as Industry Attractiveness and Business Unit Strength.
- **Hofer-Schendel Matrix-** The Hofer-Schendel matrix takes into account the concept that changes in basic competitive positions are easier to accomplish at certain stages in the evolution of an industry than others and concentrates on positioning existing SBU's on the product-market evolution matrix thereby establishing an ideal future portfolio.
- **SPACE Matrix-** The SPACE Matrix is another important tool. Its four-quadrant framework indicates whether aggressive, conservative, defensive, or competitive strategies are more appropriate for a given organization. Depending on the type of organization, numerous variables could be chosen in each of the dimensions represented on the axes of it.
- **TOWS Matrix-** The TOWS Matrix is an important matching tool that helps strategists in developing four types of strategies: SO strategies, WO strategies, ST strategies, and WT strategies.
- **Porter's Five Forces Model-** Michael Porter described a concept that has become known as the "five forces model". This concept involves a relationship between competitors within an industry, potential competitors, suppliers, buyers and alternative solutions to the problem being addressed.
- **Grand Strategy Matrix-** Grand Strategy Matrix has emerged into a powerful tool in devising alternative strategies. This matrix is basically based on four important elements- Rapid Market Growth, Slow Market Growth, Strong Competitive Position and Weak Competitive Position.
- **Quantitative Strategic Planning Matrix (QSPM)-** It is an analytical technique in the literature designed to determine the relative attractiveness of feasible alternative actions and objectively indicates which alternative strategies are best.
- **Gap Analysis-** Gap analysis is a technique for determining the steps to be taken in moving from a current state to a desired future-state.

- **Competitor Analysis-** Competitor Analysis helps management understand their competitive advantages/disadvantages relative to competitors. It also generates understanding of competitors' past, present (and most importantly) future strategies.
- **Contingency Strategies-** Contingency strategies are formulated to deal with natural uncertainties and changes, which are part of business.

8.11 Self Assessment Test

1. What do you understand by strategic choice?
2. What is the process of strategic choice?
3. What is a strategic alternative and what choices an organization have for developing different strategic alternatives?
4. Explain different factors affecting strategic choices.
5. What are Managerial Choice Factors? How do they affect strategic choice?
6. Give different criteria of evaluating strategic alternatives.
7. What do you mean by Question Marks, Stars, Cash Cows and Dogs? What are their
8. strategic implications?
9. Explain GE Nine-cell Matrix.
10. Define the concept of Directional Policy Matrix.
11. How to construct a SPACE Matrix to determine an organization's strategic position?
12. Explain Porter's model for strategic choice.
13. Describe QSPM analytical technique of determining the relative attractiveness of
14. feasible strategic alternatives.
15. What is Gap Analysis and how does it help in choosing an appropriate strategy?
16. What do you understand by Contingency strategies? Why are they needed?
17. Describe the major techniques used by strategists for analysing a Corporate Portfolio.
18. Discuss the relevance of industry and competitor analysis's to the strategic choice process.

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Unit - 9 : Activating Strategies

Unit Structure:

9.0 Objectives

After studying this unit, you shall be able to understand :-

- The interrelationship that exists between the formulation and implementation of strategies.
- The forward and the backward linkages.
- The various aspects of strategy implementation.
- The project implementation, its management and the various phases of project implementation.
- The procedural implementation and its various elements of the government's regulatory framework.
- The understanding of the legal context in which the regulatory framework operates.
- The importance of resource allocation mainly focussed at financial resources.
- The approaches to resource allocation.
- The various means of resource allocation.
- The factors affecting resource allocation.
- The basic foundation on which the implementation of strategy rests.

9.1 Introduction

The best of strategies fail if they are not implemented earnestly. The task of strategic planning - whereby concrete strategies and plans are formulated lays the foundation for the success of any organization. But putting the plan into action is an equally important job of the strategists. Thus, formulating the right strategies and then implementing them effectively is what the strategists strive to achieve.

Implementing the strategies require that the strategists focus on several issues. These aspects form the foundation for the tasks of strategy implementation. These are :

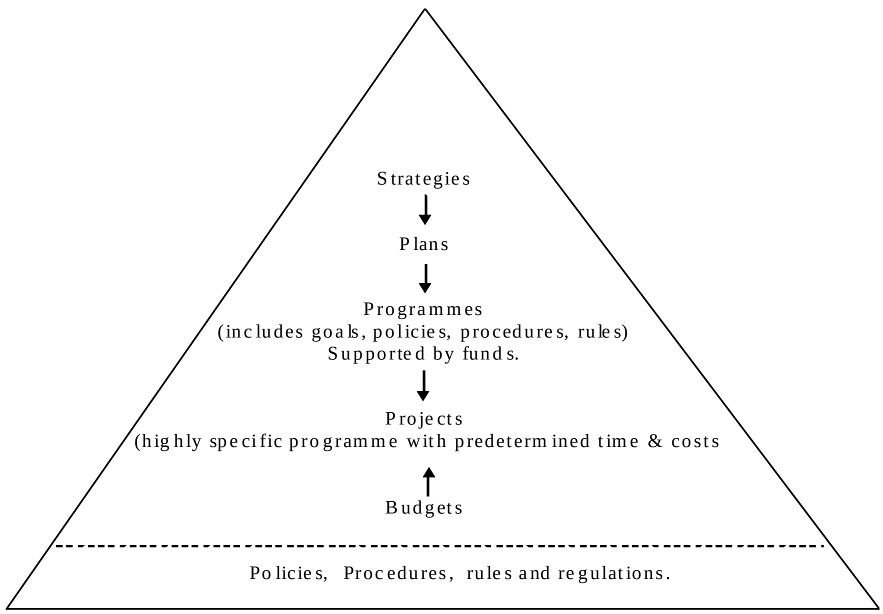
- **Project Implementation** - Any strategy leads to a number of plans, programmes and projects. Project implementation deals with a number of steps starting from conception to clean-up.

- **Procedural Implementation** deals with the different aspects of the regulatory framework that Indian companies have to consider. The regulatory framework deals with legislation, government polices, administrative orders and procedures laid down for the working of the corporate sector in India.

- **Resource Allocation** - Issues dealing with procurement, approaches, means, factors and the difficulties in resource allocation. The resources include financial, physical and manpower resources.

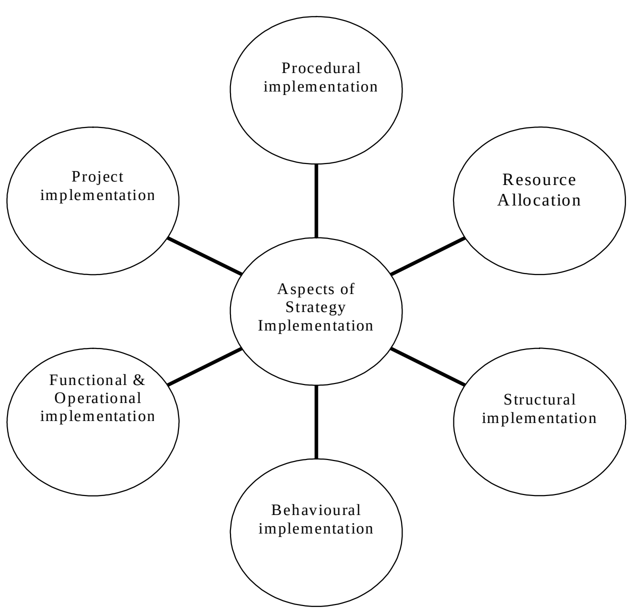
Strategies, by themselves, do not lead to action. They are, in a sense, a statement of intent. It is through the implementation tasks that the strategies are realized. Activating strategies is, hence, an important task of strategists which require wide range of knowledge, skills, attitudes and abilities.

The strategiests devise a strategic plan which proposes the manner in which the strategies could be put into action. The implementation structure is somewhat as depicted below.



The Pyramid of Strategy Implementation

- Implementation of Strategies is not limited to the formulation of plans, programmes and projects. The various aspects of strategy implementation are as under:



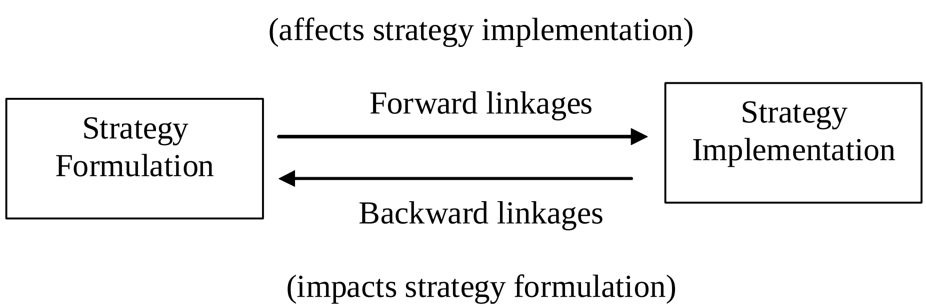
Project implementation, procedural implementation and Resource allocation are the basic foundation on which the strategy implementation is based. Once these issues are taken up; the organization is all set for implementing strategies which requires structural, behavioural and functional implementation.

9.2 Interrelationship between Formulation and Implementation

The interrelationship between formulation and implementation of strategies needs to be understood before the other issues involved in implementing strategies are taken up. The division of strategic management into different phases is only for the purpose of orderly study. In actual proactice, the formulation and implementation processes are intertwined. Two types of linkages exist between these two phases of strategic management: Forward Linkages and Backward Linkages.

Forward Linkages - The formulation of new strategies or modified strategies leads to a number of changes in operation alizing the formulated strategies. For instance, the organizational structure has to undergo a change in light of the requirements of a modified or new strategy. Clearly, the strategies formulated provide the direction to implementation. In this way, the formulation of strategies has forward linkages with their implementation.

Backward Linkages - Just as implementation is determined by the formulation of strategies the formulation process is also affected by factors related with implementation. For instance, the past strategic actions (implementation) also determine the choice of strategy (formulation). Thus, it is clear that the formulation and implementation processes are interdependent.



9.3 Project Implementation

The Project Management Institute of the US defines a project as "a one-shot, time limited, goal oriented, major undertaking requiring the commitment of varied skills and resources." A project passess through various phases before a set of tasks can be accomplished.

A project passes through different phases, as discussed below -

1. **Conception Phase** - This phase is an extension of the strategy formulation phase of strategic management. The project ideas that are conceived have to be allocated priorities on the basis of which they will be chosen for further development.

2. **Definition Phase** - After a set of projects have been identified and arranged according to the priority, they have to be subjected to a preliminary project analysis which examines the marketing, technical, financial, economic and ecological aspects. The results are documented in the form of a project feasibility report. After the project definition phase, the project is cleared for implementation. But before being implemented, the project has to be further planned.

3. **Planning and Organising Phase -** Detailed planning which results into a project structure deals with creating the organisation and manpower, systems and procedures, and so on, which would enable the project manager to implement the project.

4. **Implementation Phase -** The detailed engineering, order placement for equipments and material awarding contracts, civil and other types of construction, and so on, have to be undertaken during the implementation phase leading to the testing, trial, and commissioning of the plant.

5. **Clean-up Phase -** The final phase in project implementation deals with disbanding the project infrastructure and handing over the plant to the operating personnel.

It is to be noted that the above phases in projects are more relevant to new plants that are being set up to implement expansion and diversification strategies. But for other minor projects less detailed process, may be followed. Before a strategy can be implemented, a number of procedural formalities have to completed. The next section deals with the procedural aspects of strategy implementation.

9.4 Procedural Implementation

Any organization which is planning to implement strategies needs to follow the procedural framework which consists of a number of legislative enactments and administrative orders, besides the policy guidelines issued by the Government of India from time to time. The regulatory elements to be reviewed are as below :

- **Formation of a Company**

The formation of a company is governed by the provisions of the Companies Act, 1956 and consists of promotion, registration, and flotation.

Promotion - Steps taken for the purpose of registration and floatation.

Registration- Registering Memorandum of Association & Articles of Association to sustain certificate of incorporation.

Floatation - Raising of Capital.

- **Licensing Procedures**

The system of planning (or planned development) rests on three policy documents consisting of Industrial Policy Resolution, 1956, Industries (Development and Regulation) Act (IRDA), 1951, and the statement of 1978, 1980, 1982 and 1999. One of the significant liberalisation measures in the post-1991 period has been to abolish industrial licensing,yet, the industries which require to obtain licenses have to follow the licensing procedure for which the applicant has to approach the Secretariat for Industrial Assistance (SIA), which is a common secretariat for receiving and processing all types of applications related to industrial projects.

- **SEBI Requirements**

The SEBI Act, 1992, replaced the Capital Issues Control Act, 1956, to deal with the capital market. It had already been in existence since 1988 and became a statutory body in 1992. According to the SEBI Act, the SEBI has three objectives : to protect the interests of investors in securities, to promote the development of the securities market, and to regulate the securities market. For the purpose of strategy implementatuion, this Act is relevant so far as the provision of financial resources is concerned. Besides, this Act also affects mergers and amalgamations as they regulate the capital reorganisation plans for mergers.

- **Monopolies and Restrictive Trade Practices (MRTP) Requirements**

The major implication of the MRTP Act with regard to strategy implementation arose from its power to prevent the concentration of economic power. However, the present state of the Act is mainly toward the prevention of monopolistic, restrictive, and unair trade practices. The control and regulation of monopolies has nearly been done away with.

- **Foreign Collaboration Procedures**

Many strategic alternatives (for instance, expansion/diversification into high technology industries) call for foreign collaboration and investment. The government policy, in general, allows foreign investment and collaboration on a selective basis in priority areas, export-oriented or high-technology industries, and permitting existing foreign investment in non-priority areas. All proposals to set up projects with foreign collaboration require prior government approval. The regulatory framework deals with the need for foreign technology, royalty payments, terms and conditions for collaboration agreements, and foreign investment. The procedural aspects of foreign collaboration include preliminary evaluation by the promoter, obtaining industrial license (if necessary), obtaining clearance under the MRTP Act, applying for foreign collaboration to the concerned agency, applying for import of capital goods (if required), finalisation of agreement, and clearance from the RBI.

- **Foreign Exchange Management Act (FEMA) Requirements**

The Foreign Exchange Management Act (FEMA) replaced the Foreign Exchange Regulation Act (FERA), 1973 in June 2000. The FEMA, 2000 has substantially liberalised provisions and rules related to the maintenance of dollar accounts by exporters, remittance of foreign exchange for visits abroad, agency commission, export claims, reduction in export value, reimbursement of expenses incurred on dishonoured export bills, consular fee, and so on.

- **Import and Export Requirements**

Strategy implementation in areas such as modernisation, expansion, and diversification requires the consideration of import and export requirements. It is important for strategists to understand the rationale for the development and regulation of imports and exports. The matter of exports and imports has a substantial number of procedural aspects and associated documentation work. Specialised knowledge and advice is required to follow the procedures which are quite detailed and comprehensive.

- **Patenting and Trademarks Requirements**

Patents, trademarks, copyrights, designs, and so on, are assuming greater significance in the Indian industry owing to international environmental changes. The major impact on these issues is of the WTO requirements related to the Trade Related Aspects of Intellectual Property Rights (TRIPs). The increasing competitiveness means that it is necessary to know the rights and privileges, and the legal procedures for protecting products and ideas. Familiarity with the law related to these issues has, therefore, become essential for strategy implementation.

- **Labour Legislation Requirements**

An essential part of procedural implementation in any project as well as in a going concern is that of labour legislation. For the companies, labour constitutes a significant resource for the purposes of strategy implementation. For the government, the protection of labour interest has long been held to be a major responsibility of the State. The matter of procedural implementation regarding labour legislation has a significant bearing on the implementation of strategies in the areas of objective-setting, strategic choice, social responsibility, formulation and implementation of human resource management, and operational strategies.

- **Environmental Protection and Pollution Control Requirements**

The issue of physical environment has attained global and national importance owing to a variety of reasons. Overuse and misuse of the basic life support systems and natural resources like air, land, water, flora and fauna, and non-renewable sources, such as, oil and natural gas, are cited as major factors leading to environmental and ecological degradation. Project implementation, particularly in the case of process-based and chemical industries, requires adherence to the procedures laid down for environmental protection and pollution control.

- **Consumer Protection Requirements**

In the course of strategy implementation, companies are increasingly required to conform to legislative measures to protect the consumers. The growth of consumerism and consumer awareness, coupled with growing competition, makes it imperative that companies conform to the procedures laid down in the law regarding consumer protection. Besides the law, there is also the social requirement of being perceived as a consumer-friendly organisation. The issues of consumer protection is highlighted in the procedural implementation at the level of business and operational strategies, and in the implementation of functional policies related to oeprations, quality, and marketing.

- **Procedures for Availing Benefits from Incentives and Facilities**

Project implementation to put a strategy into action requires a consideration of various incentives, subsidies, and facilities. It is beneficial for entrepreneurs to be aware of these so that due advantage can be taken of these. From the point of view of strategic management, all the above measures undertaken by the government are highly relevant for business organisations. Strategic decision-making has to take these factors into account in objective-setting, strategic choice, and strategy implementation.Project and procedural implementation results in the necessary infrastructure and the required permission for an organisation to proceed with other aspects of strategy implementation. The first issue that a strategist is called upon to deal with is resource allocation and this is the subject matter of the next section.

9.5 Resource Allocation

Resources are essential to implement the strategies. The best of strategies can fail in absence of adequate resources. Resource allocation deals with the procurement and commitment of financial, physical, and human resources to strategic tasks for the achievement of organisational objectives. Resource allocation is both a one-time and a continuous process. When a new project is implemented, it would require the allocation of resources. An on-going concern would also require a continual infusion of resources. Strategy implementation should deal with both these types of resource allocation.

The different types of resources-financial, physical, and human-are derived from different sources. But finance is generally considered to be the primary source as it is used for the creation and maintenance of other resources. There are two types of finances. Normely long term and short term Both the types of resources can be procured from the internal and external sources. **Internal sources** include retained earnings, depreciation provisions, taxation provisions, and other types of reserves, like, development rebate and investment allowance reserves. **External sources** consist of capital market sources, such as equity and loans (generally for long-term finance) and money market sources, such as bank credit, hire-purchase debt, trade credit, instalment credit and fixed deposits (generally for short-term finances). Having procured financial resources, the strategists set out to implement the strategies in right earnest. The first task is to distribute the resources within the organisation to different SBUs, divisions, departments, functions, tasks and individuals. The next section looks at the approaches that could be adopted for resource allocation.

- **Resource Allocation**

Strategic budgeting is one of the most common technique used for resource allocation. Strategic budgeting is an iterative process involving a multilevel, organisation wide effort and, therefore, needs to carry the approval of all concerned. It takes into account strategic factors, such as - environmental changes and their impact on strategy implementation corporate core competencies and their probable effect on the capabilities and competencies of the organization required to achieve objectives.

Preparing Strategic Budget : An Interactive Process: Besides, strategic budgets, there are also some other means of resource allocation. Some of them are:

BCG Based Budgeting : SBU's (Strategic business units) are identified as 'Star', 'question marks', cash cows and dogs and then resources are allocated accordingly.

PLC Based budgeting : Here resources are allocated according to the different stages in the product life cycle.

Capital budgeting : Resource allocation for new projects or products or for restructuring and modernisation, capital budgeting can be used for resource allocation.

Zero-based budgeting : Zero-based budgeting (ZBB) is an operations planning and budgeting process that requires each strategist to justify resource allocation demand, not on the basis of the previous years' budget, but on "ground zero", which is based on a fresh calculation of costs each time a plan is to be implemented. The strategic plan is divided into operational plans, goals, and activities. Resource requirements are calculated every time a budget is prepared. ZBB can be used for effective resource allocation among competing units on the basis of strategic priority since costs are related to benefits for each strategic task undertaken.

Parta System : The parta system is an indigenous form of control device used for exercising management control. Though essentially parta is a control tool used for the daily assessment of net cash inflow from operations, before tax and dividends, the budgeted parta is a pre-determined amount agreed upon between the chairperson of the company and the business unit incharge. The total parta system is a daily budgeting and reporting system.

9.6 Factors Affecting Resource Allocation

Resource allocation deals with the commitment and distribution of resources. Since resoruces are almost always scarce, the process of resource allocation is quite complex. The basic question before the strategists is how to allocate scarce resources to competitive strategic tasks that will lead to the accomplishment of organisational objectives and the realisation of strategic intent. It would be easier for strategists to allocate resources if the strategic priorities are clear. But setting clear priorities practically is often a daunting task. This is so because a variety of factors affect the process of resource allocation.

- ***Objectives of the Organization*** - Objectives can be both - official (explicit) or operative (implicit). Employees of any organization tend to judge the importance given by strategists to tasks on the basis of the amount of resource allocated to them operative objectives tend to affect the pattern of resource allocation to the maximum extent.

• ***Preference of dominant strategists***- The dominant strategists - most often the CEO-tend to affect the process of resource allocation. Their preferences are reflected in the way the resources get allocated.

• ***Internal Politics***- Resources are often misconstrued as power. Those departmental units which are able to attract more resources are perceived as being more powerful. Executives who are in a position to affect the process of resource allocation in their favour are perceived to be more effective. These perceptions make resource allocation a rational-political process. Internal politics within the organisation, therefore, affects the process of resource allocation.

• ***External influences*** - A part from internal politics, external influences also affect resource allocation. These influences arise due to government policy and stipulations, the demands of external shareholders, financial institutions, community, and others.

If we look back at the factors described above, it is easy to recognise that in the absence of clear strategic priorities, the process of resource allocation could be distorted to a great extent. In fact, the absence of clear strategic priorities is often the reason why the process of resource allocation gets distorted. We refer below to some of the difficulties faced in resource allocation.

9.7 Difficulties in Resource Allocation

The major difficulty arises due to scarcity of resources. Physical, Financial and Human resources are hard to find. Procurement of finance is a difficult task and the cost of capital acts as a further constraint. Physical assets, such as land, machinery and equipment have to be procured by the firms at competitive prices which in itself is a challenge. Human resources, although in abundance in India, poses a problem due to lack of skills that are specially required. Even professionals in the field of information technology, advertising, insurance and telecom are scarce which poses problems for firms in resource allocation. Within organizations also, there is a problem of resource allocation amongst various SBU's departments and divisions. Overstatement of needs is another frequent problem in a bottom-up approach to resource allocation. 'Budget battles' may ensue if resource allocation affects vested interests.

Finally, the CEO has a major role to play in managing the process of resource allocation. Strategic management, based on a participative mode, and the communication of the strategic plan to all executives creates a congenial environment where the resource allocation decisions may be taken amicably.

9.10 Summary

Strategy implementation is a complex phenomena. It encompasses a host of interrelated factors which deals with issues related to project implementation, procedural implementation and resource allocation to start with, it then takes into account behavioural, structural and functional implementation issues which are imperative for the success of any organization. The interrelationship has been described in terms of two types of linkages that exist: the forward and the backward linkages. From these, it should be clear that the forumulation and implementation processes are interdependent. Any strategy leads to a series of plans, programmes, and projects. The process of strategy implementation starts with project implementation. Whether big or small, projects pass through the phases of conception, definition, planning and organising, implementation, and clean-up. Procedural implementation is concerned with the major elements of the government's regulatory framework within which Indian companies operate.

The final aspect discussed in this unit is of resource allocation. This deals with the procurement and commitment of financial, physical, and human resources to strategic tasks for the achievement of organisational objectives. In procurement of resources we focus our discussion on finance, as it is considered the primary resource. The procurement of finance is done from long-term and short-term sources. Long-term finance is required for the creation of capital assets. Short-term finance is for working capital. Both types of finances can be procured from the internal-generated funds, as well as, and from external sources, such as, the capital markets.The main instrument for resource allocation is a budget. Broadly, there could be three approaches to resource allocation: the top-down approach where resources are distriubted through a process of segregation down to the operating levels, bottom-up approach where resources are allocated after a process of aggregation from the operating level, and the third approach of strategic budgeting that is a mix of these two and involves an interative from of strategic decision-making between different levels of mangement. There are several means of resource allocation, chief among them being the strategic budgeting. Other means are BCG-based budgeting, PLC-based budgeting, capital budgeting, zero-base budgeting (ZBB), and the parta system. There are four important factors that affect resource allocation. These are the objectives of the organisation, preference of dominant strategists, internal politics and external influences. The difficulties in the resource allocation process arise due to a scarcity of resources, restrictions on generating resources for newer units and those with a greater potential for growth, and an overstatement of needs. It is pointed out that the CEO plays a major role in resource allocation, and strategic management, based on a participative mode and the communication of the strategic plan to all executives creates a congenial environment where the resource allocation decisions may be taken amicably.

9.9 Key Words

- **Project Implementation -** A project is a one shot time limited, goal directd, major undertaking, requiring the commitment of varied skills and resources. The project is implemented through various phases - conception, definition, planning & organizing, implementation and, clean up phase.
- **Procedural Implementation** - Procedural implementation is concerned with adhering to the procedures rules, regulations and legislative enactments issued by the Government of India, while implementation of projects.
- **Forward Linkages -** The impact of strategy formulation on the implementation and operationalizing of strategies is referred to as forward linkages.
- **Backward Linkages -** The factors related to implementation also affects the formulation of strategy. The impact of implementation on formulation of strategy is referred to as backward linkages.
- **Resources Allocation** - Resource allocation deals with the procurement and commitment of financial, physical, and human resources to strategic tasks for the achievement of organisational objectives.
- **Long Term Finance -** Financial requirements for the creation of capital assets for a duration of more than one financial year.
- **Short Term Finance -** Financial requirements for the purpose of working capital for a duration of less than one financial year.
- **Strategic Budgeting -** Strategic budgeting is one of the most common technique used for resource allocation. Strategic budgeting is an iterative process involving a multilevel, organisation wide effort and, therefore, needs to carry the approval of all concerned.
- **BCG Based Budgeting -** SBU's (Strategic business units) are identified as 'Star', 'question marks', cash cows and dogs and then resources are allocated accordingly.
- **PLC Based Budgeting -** Here resources are allocated according to the different stages in the product life cycle.

- **Capital Budgeting -** Resource allocation for new projects or products or for restructuring and modernisation, capital budgeting can be used for resource allocation.
- **Zero Based Budgeting -** Zero-based budgeting (ZBB) is an operations planning and budgeting process that requires each strategist to justify resource allocation demand, not on the basis of the previous years' budget, but on "ground zero", which is based on a fresh calculation of costs each time a plan is to be implemented.
- **Parta System -** The parta system is an indigenous form of control device used for exercising management control.The total parta system is a daily budgeting and reporting system.

9.10 Self Assessment Test

1 Discuss the interrelationship that exists between the formulation and implementation of strategis. Provide examples of such an interrelationship.

2 What is a project ? What are the different phases through which projects are implemented ?

3 Describe the major elements of the government regulatory framework within which Indian companies work. What are the implications of each of these elements for strategy implementation ?

4 Resource allocation issues are quite complex in nature. What are the challenges for the strategists in allocating resources ?

5 What is a 'strategic budget' ? How is it prepared ? Besides, strategic budget, what other budgeting techniques are available to a strategist ?

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Unit - 10 : Structural Implementation

Unit Structure :

10.0 Objectives

After studying this you should be able to understand:

- The concept of Structure, its relationship with environment and strategy.
- The various structural designs, their characteristics , advantages and disadvantages .
- The understanding of the types of structures, their features and importance.
- The interrelationship of organizational design and change.
- The various organizational systems and their role in strategy implementation.

10.1 Introduction

Structure and Strategy are two of the most intrictably related concepts. The organizationstructure has a tremendous impact on implementation of strategy. Besides taking into consideration the concepts and techniques related to organizational structure design and change, an exposition of the critical interrelationship that exists between strategy and structure has been focused upon in this unit. How to adapt structural factors to the requirements of strategy is also an important aspect which has been accounted for.

This unit starts with an understanding of the term 'structure' in the context of strategic management, followed by an explanation of different structural mechanisms. Structure is intimately related to strategy and environment, and this relationship is discussed, followed by a description of the four stages of development that delineate how an organisation matures from a simple to a complex structure. The section on organisational design and change deals with the process of development of organisation structure, and how changes have to be brought about so that the structure continues to satisfy the requirements of strategy. Six organisational systems of information, control, appraisal, motivation, development, and planning are described in the last section.

10.2 Structural Mechanisms

An organization structure is the way in which the tasks and subtasks required to implement a strategy are arranged. These inter relationships as depicted, serves the skeleton of the organization.Several mechanisms that support the structure, forms the 'flesh and blood' which brings life to an organization.The structure needs to be created, redesigned and restructured to keep it relevant to the needs of the strategies that have to be implemented. A number of activities have to be performed in an organization on a continuing basis for the effective functioning, which results into various mechanisms. These mechanisms can be termed as "Hardware" and "Software"

Hardware :

- Defining the major tasks required to implement a strategy.
- Grouping tasks on the basis of common skill requirements.
- Subdivision of responsibility and delegation of authority to perform taks
- Coordination of divided responsibility.

Software :

- Design and administration of the information system.
- Design and administration of the control system.
- Design and administration of the appraisal system.
- Design and administration of the motivation system.
- Design and administration of the development system.
- Design and administration of the planning system.

The first four mechanisms constitute the 'hardware' which relates to the creation of structure .The remaining mechanisms constitute the 'software' of structural implementation. Leadership style, corporate culture and other related issues are also other major aspects of implementation. An understanding of the interrelationships between environment, strategy and structure is essential. Strategy is the interface between the external environment and the internal resources of the organization. It finds the fit between the opportunities and threats that exist in the external environment and the internal resources that an organization possesses.

For implementing the strategy, special requirements are necessitated which are provided by the structure. Hence, we see that there exists an interrelationship between structure, strategy and environment. And since, environment is dynamic, structure also needs to be linked to the stage of development that an organization exists at a given piont of time.We see that the starategy, structure and environment influence each other and a change in anyone of them have an impacton the other.

10.2.1 Stages of Development of Structure

As an organization grows in size and diversity, it moves from a simple to complex organizational form. This concept is akin to that of a product life cycle.The life cycle of organizations can be divided into four stages, those are not distinct and may overlap, moving from the simplest form to the complex one.

Simple ⟷ **Complex**

STAGE I	STAGE II	STAGE III	STAGE IV
- Small Scale entreprenural in nature - Simple objectives, operations & management - Strategies are mostly expansion type	- Bigger in size - Wider scope of operations - Functional specialization or process orientation - Strategies range from stability to expansion	- Large & widely scattered - Each dimension is semi-autononous, linked to head quarters - Strategies are either stability or expansion	- Most complex - Multiplant Multiproduct diversified. - Corporate level strategies give direction and policy guidelines to SBU Level

The stages of development theories present a convenient way to understand the way the structure may evolve as the organisation moves from one stage to the next. But, in practice, many variations may occur. It is not necessary that all organisations should pass through every stage of development. Nor does every organisation exhibits the characteristics of exclusively one stage.

10.3 Structural Forms

There are several types of structures that are found in organizations. Each of these are discussed below:

(i) Entrepreneurial Structure

The entrepreneurial structure is the most elementary form of structure and is appropriate for an organisation that is owned and managed by one person. A small-scale industrial unit, a small proprietory concern, or a mini-service outlet may exhibit the characteristics of organisations which are based on an entrepreneurial structure. These organisations are single-business, product, or service firms that serve local markets.The owner-manager looks after all decisions, whether they are day-to-day operational matters or strategic in nature.

(ii) Functional Structure

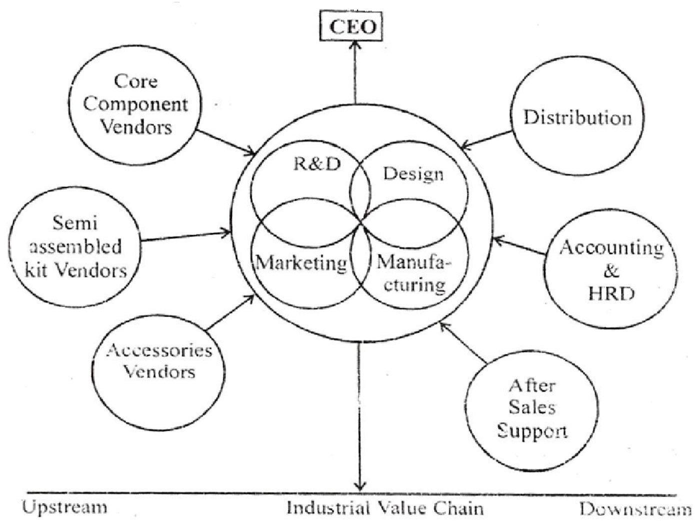
The specialization of skills is both according to the line and staff functions. The functional structure seeks to distribute decision making & operational authority along functional lines.

(iii) Divisional Structure

In a divisional structure work is divided on the basis of product lines, type of customers served, or geographic area covered, and then separate divisions or groups are created and placed under the divisional-level management. Within divisions, the functional structure may still operate.

(iv) Network Structure

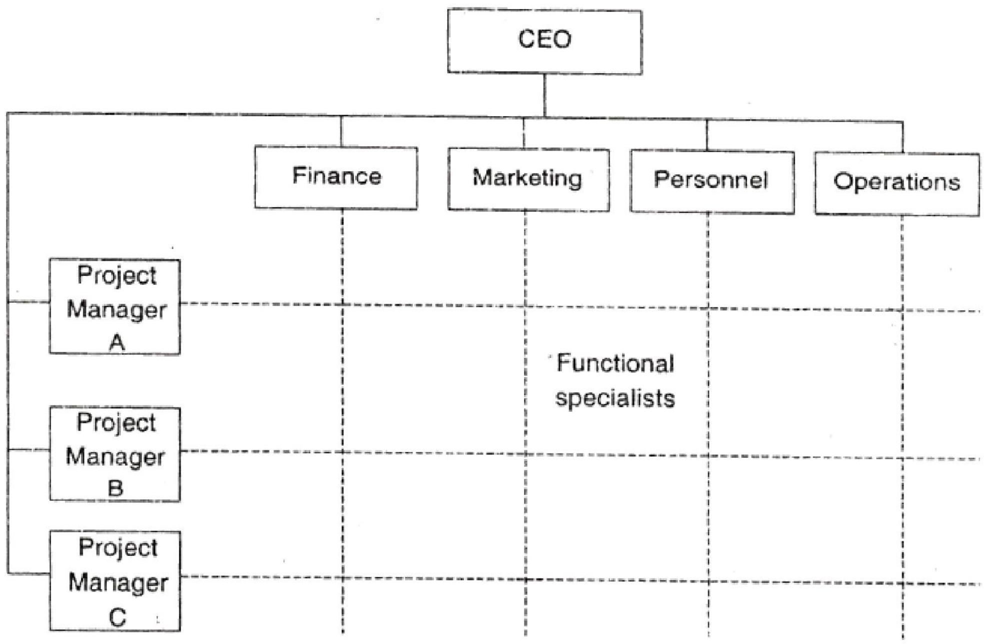
The increasing volatility of the environment, coupled with the emergenc of knowledge-based industries, has led to the creation of a network structure. It is also known as the "spiders webb structure" or the "virtual organization". This structure is highly decentralised and organised around customer groups or geographical regions. The network structure is most suited to organisations that face a continually changing environment requiring quick response, high level of adaptability, and strong innovations skills. This structure makes extensive use of the outsourcing of support services required to produce and market products or services. There are few internal resources and a network structure firm relies heavily on outsiders who are specialised in their respective areas.



(V) Matrix Structure

In large organisations, there is often a need to work on major products or projects, each of which is strategically significant. The result is the requirement of a matrix type of organisation structure. Essentially, such a type of structure is created by assigning functional specialists to work on a special project or a new product or service. For the duration of the project, the specialists from different areas form a group or team and report to a team leader. Simultaneously, they may also work in their respective parent departments. Once the project is completed, the team members revert to their parent departments.

Matrix Organisational Structure



(vi) SBU Structure

(Strategic Business Unit (SBU) has been defined by Sharplin as " any part of a business organisation which is treated separately for strategic management purposes". When organisations face difficulty in managing divisional operations due to an increasing diversity, size and number of divisions, it becomes difficult for the top management to exercise strategic control. Here, the concept of an SBU is helpful in creating an SBU-organisational structure.)

The SBU Structure

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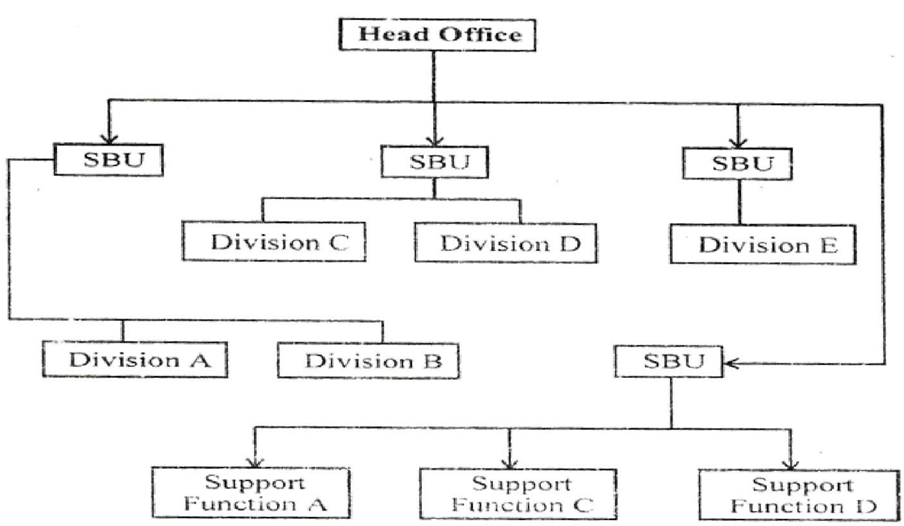

This section has been devoted to our understanding of the various forms of structures which can be used for designing overall organisation structures and systems. These structures are, however, just building blocks and it is up to the strategists within organisations to decide which way to use them. During the implementation of strategy, a strategist may often be faced with issues like the choice of structural components and the manner in which these components could be brought together to design an overall structure that satisfies the requirements of existing or proposed strategies.

10.4 Organizational Design and Change

One of the most difficult task for any organization is to decide which type of structure would satisfy the requirements of a particular strategy. In general, the rule is that the structure has to be based on those functions and activities that are critical from the view point of strategy. Two important issues, hence, need to be discussed-

- **Organizational Design**

We take up organizational design in this section. The external and internal environments affect structural design in different ways. An organisation which faces a stable environment may use a functional structure since there is less need for interdepartmental coordination and communication, and innovation. On the other hand, a volatile environment demands a rapid-response capability, flexibility and quick decision-making. Such demands can be better met by the creation of a divisional or a matrix type of structure. The internal environment may also affect the structure in a similar fashion. A bureaucratic, slow-moving organisation may work better with a functional structure while a dynamic and innovative organisation may have to use a divisional structure. In sum, it could be said that there is no one absolutely correct way to organise, and the organisational design has to be based on the particular needs of the organisation at a given time.

The needs of an organisation can be derived from its mission and objectives which are the key activities to be performed. Organisational design, therefore, starts with the identification of such key activities. The sequence of steps followed in organisational design could be described as below:

1. Identification of key activities necessary to be performed for the achievement of bojectives and the realisation of the mission through the formulated strategy.
2. Grouping of activities that are similar in nature and which need a common set of skills to be performed.
3. Choice of structure that could accomodate the different group of activities.
4. Creation of departmens, divisions, and so on, to which the groups of activities could be assigned.
5. Establishing an interrelationship between different departments for the purpose of coordination and communication.

The above five steps lead to the development of an organizatinal design. But, besides these, there are few other issues which have to be considered before the task of organizational design is over. These are: (i) The span of management - refers to the ways in which activities can be grouped. (ii) Line and staff relationship - describe the way in which authority is dispersed within the organization structure. (iii) The use of committees and group decision making - is often done as an organizational device.

When they are constituted formally on a permanent basis, the committees work on the basis of specially delegated authority and responsibility. Other similar forms of group decision-making as well as group functioning are the teams, task forces, project units, liaison group etc. Another important aspect related to organizational structure design is the change taking place related to it world wide.

The major ideas in this context are - restructureing, reorganization, reengineering, delayering and flatter structures. Restructuring and reorganisation refer to changing the organisation structure in line with the change in the environment and strategies. Reengineering or business process reengineering is the fundamental rethinking and radical redesign of business processes to achieve dramatic gains in area such as cost, quality, service, and speed. Delayering is reducing the number of levels in the organisational hierarchy with a view to facilitate better control and communication within the organisation. Flatter structures result due to delayering.

Some of the changing structural characteristics of organisations are encapsulated below :

Traditional Organisational Design	Emerging Organisational Design
One large firm	Small business units having cooperative relationships
Vertical communication patterns	Horizontal communication patterns
Centralised top-down decision-making	Decentralised participative decision-making
Vertical integration	Outsourcing and virtual organisations
Work-/quality-based teams	Autonomous work teams
Functional work teams	Cross-functional work teams
Minimum training	Extensive training
Individual-focussed sepcialised job design	Value-Chain team-focussed job design

The above description theoretical basis used by the strategists to design an organisational structure that would suit the requirements of a particular strategy. The skills of strategists are put to test when they design an appropriate organisational structure. Again, a more rigorous test is faced when the existing structure has to be changed to suit the requirements of a modified or new strategy. We take up this issue in the following subsection.

Organisational Changes

Right at the outset, it must be pointed out that organisational change takes place along two broad dimensions. The first type of change is related to modifications in strutural relationshipsand may entail the creation or disbandment of departments or managerial positions. The second type of change relates to the concomitant behavioural modifications that are essential to absorb the impact of organisational changes. The first and second cases are akin to normal and informal organisations respectively. While formal organisational changes are mainly administrative in nature and can be brought about by the means of organisational planning and implementation, the informal organisation changes are more complex and evolve as a response to formal organisational changes. In all, organisational changes go beyond mere structural modifications and encompass the issues of how people would react to the changed situation, how the new relationships would be managed, and in what manner would the cohesiveness of the organisation be maintained.

10.5 Organizational Systems

The organisational structure provides the mechanisms for the distribution of authority and responsibility within the organisation among different organisational units and positions. Since the organisation has to perofrm a set of tasks designed to achieve its objectives, a need arises to evolve systems that would bind the different units and positions so that the performance of activities takes place in a coordinated manner. types of organisational systems while laying special emphasis on the role that each of these systems play in strategy implementation. The organisational systems are described as below:

- **Information Systems**

A structure subdivides the total responsibility while the information system serves to coordinate the divided responsibility. If a strategy is to be effetively implemented, organisational arrangements that provide the information to managers to perform their tasks and relate their work to others are necessary. The information system, therefore, serves two important purposes: It enables the managers to know what they need to grasp in order to perform their tasks and coordinate their activities with others.

A broader term 'Management Information System' (MIS) is used to denote the organisational arrangement designed to aid managers in performing their activities. In the design and administration of the information system, strategists have to concern themselves with the need to have appropriate organisational arrangement that will support the implementation of a particular strategy. Strategists have to be aware of the implications of strategic changes on the requirement of the information system, as this system provides the foundation for the design and administration of the other organisational systems.

- **Control Systems**

Control has traditionally been considered as a major management function. While controlling, the manager essentially ensures that the implementation of strategy takes place according to predetermined plans.

Basically, control operates in a cyclical manner viewed as a four-step process consisting of : (i) Establishing standards, (ii) Measuring actual performance, (iii) Evaluating actual performance against standards, and (iv) Determining corrective action to bring performance in line with the predetermined goals.

In practice, there are several issues that strategists have to consider so that the control system works effectively and satisfies the requirements of the strategy being implemented. The first issue is the need for a control system. Controls are , devices to enforce strategic behaviour so that the organisation, as an entity, moves towards the predetermined goals. All types of organisations - successful or failing - need controls.

Another important issue is the type of controls to be used. Controls may be'classiified as formal (or direct) and informal (or indirect or social) controls. Formal are prescribed in nature, quantitative & objective data is used to measure performance eg : financial controls , Informal emergent in nature, based on subjective and qualitative data eg : adherance to ethical standards. Besides the types of controls, strategists have to consider the issue of integrating the formal and informal controls. Since both types of controls are important, they have to be used by strategists in tandem. Generally, at lower levels, more of formal control is exercised as compared to higher levels, where informal controls are needed.

- **Appraisal Systems**

The appraisal system performs the critical role of evaluating managerial performance in the light of organizational objectives. Appraisal provides a valuable input for salary determination, rewards, incentives, promotions, placement & development, hence, from the point of view of strategy implementation, several issues regarding appraisal system need to be considered by the individual managers, groups and divisions. These are: It is better to use multiple criterion as the former provides better evaluations of performance. It is essential to have a judicious mix of both, quantitative and qualitative factors so that the results of the appraisal are reliable and valid.

Relevance of the appraisal systems to the nature of strategy is important aspect that needs to be considered. For instance, stability strategies typically stress on improving efficiency in current operations and would require appraisal methods that primarily use objective criteria. On the other hand, expansion strategies aim at performance improvement in the long-run and short-term inefficiency may have to be overlooked. An appraisal method that uses objective criteria and evaluates short-range performance is likely to be inappropriate. The real need may be for a broad-based appraisal method that takes into account long-range performance. The third major issue before strategists is the procedure of appraisal. Who makes the appraisal ? When and how the results would be used ? The objective of appraisal should be clearly laid down for making the appraisal system work effectively.

- **Motivation System**

The motivation system plays a positive role in inducing strategically desired behavior so that managers are encouraged to work towards the achievement of organizational objectives. Also, motivation helps to neutralize the inconsistency between individual and organizational goals. The motivation system plays a positive role in inducing strategically desired behavior so that managers are encouraged to work towards the achievement of organizational objectives. Incentives play a major role in motivation. It could be either monetary or non monetary . Strategists have to deal with the complex issue related to the design and administration of a motivation system, as it is an important organizational arrangement to induce strategically desired behavior.

There are no set rules to decide the quantum and nature of incentives and much depends on an organization's ability and willingness to provide money, its culture, the industry in which it exists, the general living and economic conditions, and the statutory obligations. Within organizations, the condition is to maintain a parity among managers who perform similar work or carry nearly equal responsibility, and to differentiate between the unequal grades of employees.

Strategic and structural changes are likely to have an impact on the design and administration of the motivation system In simple, small organization, more of informal motivation system exists, whereas, as organization grow in size and become complex, more of formal systems for motivation develop. Also, at lower levels, monetary incentives are more motivating as compared at higher levels, where non monetary incentives are more effective.

- **Development System**

Management development is considered to be a ‘’process of gradual, systematic improvement in the knowledge, skills, attitudes, and performance of those individuals in an organization who carry management responsibilities.The strategic aim of a development system is to\see that the new experience is provided in the light of strategic tasks required for the implementation of strategy. Changes in strategy or the adoption of a new strategy results in a modified set of strategic tasks. The development system has to be activated in such a manner that it prepares the managers to perform this modified set of tasks. It can be seen that the development system performs a vital function in strategy implementation.

Practically, the development system may consist of:

Recruitment of personnel, if not available within the organisation, to handle the emerging strategic tasks Education and training of managers through internal and external training programmes to impart knowledge, skills, and attitudes to managers for the perrformance of strategic tasks, Career planning and development of managers to prepare them to perform future strategic tasks Organisational development in the form of planned intervention to ensure a “smooth transition from one strategic phase to the next and minimise resistance to change

- **Planning System**

The role .of the planmng system, per se, does not include implementation as it is mainly related to the formulatIon of strategy. But forward linkages between the formulation of strategy and the implementatlon of plans do exist. It is generally felt that when managers, who are ultimately responsible for the implementation of plans are actively involved in the formulation of strategies, the probability of successful implementation is enhanced.

Strategists are concerned with the mechanisms of the planning system and the way it should be changed to suit the requirements of a new or modified strategy. Thus, it is important-to adapt the planning system to the requirements of the strategy that is to be implemented. While structural implementation deals with the structure and systems there is annother related dimension that concerns the concomittant behavioural modifications that are essential to absorb the impact of organisational.

10.6 Summary

This chapter has dealt with an extremely impoitant aspect of strategy implementation, that is, structural implementation. Structure and systems constitute the first isssue that strategists have to encounter in strategy implementation. Structure in the context of strategic management is the way-in which the tasks and subtasks required to implement a strategy are arranged. The relationnship of structure and strategy creates its own special requirements that should be satisfied by the structure. There is a relationship between the environment, strategy, and structure. Changing environment impacts strategy which, in turn, determines the type of structure to have. Strategy and structure affect each other though the forward impact is more visible. Stages of development is another issue that has been dealt with attempting to explain how an organisation matures from simplicity to complexity in terms of structure. There are several alternatives of structural designs that could be used to create an organisational structure. Six major types of structures: entrepre-neurial, functional, divisional, SBU, matrix, and network are available as basic buildding blocks of structure. Each of these structures have their own set of advanntages and disadvantages. There is no unanimity with regard to the type of structure that satisfies the requirements of a particular strategy. The section on organisational design and change offers some insights as to how the special needs of an organisation could be assessed to decide what type of structure would be the most suitable. Organisational design is based on the key activities derived out of the mission and objectives. The five steps required for organisational design are of identitying key activities, grouping of similar activities that need a common set of skills to be performed, choice of structure that could accommodate the differrent groups of activities, creation of departments, divisions, and so on to which the group .of activities could be assigned, and establishing interrelationship between dIfferent departments for the purpose of coordination and communication. The task of organisation design also requires a consideration of issues, such as, the span of management, basic departmentation, line and staff relationships, and the use of committees and group decision-making. Emerging ideas related to organisational design are of restructuring, reorganisation, reengineering, delayering, and flatter structures. Organisational systems like information, control, appraisal, motivation, development, and planning form the core of any structure. Each of these systems play a significant role in strategy implementation. Their design has to come from a consideration of the requirements of the strategy being implemented. In implementation, these systems have to be changed to suit the requirements of a new or modified strategy.

10.7 Key Words

- **Structure:** An organization structure is the way in which the tasks and subtasks required to implement a strategy are arranged. These inter relationships as depicted, serves the skeleton of the organization.

- **Entrepreneurial Structure:** It is the most elementary form of structure, owned and managed by one person, generally single business firms serving local markets.

- **Functional Structure:** The specialization of skills is both according to the line and staff functions. The functional structure seeks to distribute decision making & operational authority along functional lines.

- **Divisional Structure:** In a divisional structure, work is divided on the basis of product lines, type of customers served, or geographic area covered, and then separate divisions or groups are created and placed under the divisional-level management. Within divisions, the functional structure may still operate.

- **Network Structure:** This structure is highly decentralised and organised around customer groups or geographical regions.The network structure is most suited to organisations that face a continually changing environment requiring quick response, high level of adaptability, and strong innovations skills.

- **Matrix Structure:** In large organisations, there is often a need to work on major products or projects, each of which is strategically significant. Essentially, such a type of structure is created by assigning functional specialists to work on a special project or a new product or service. :

- **SBU Structure:** In large organisations, there is often a need to work on major products or projects, each of which is strategically significant. Essentially, such a type of structure is created by assigning functional specialists to work on a special project or a new product or service.

- **Multi Company Structure:** Organization structure where a number of subsidiary companies exist simultaneously is a multi company structure.

  Restructuring Restructuring and Reorganisation: Refers to changing the organisation structure in line with the change in the environment and strategies.

- **Reengineering:** Reengineering or business process reengineering is the fundamental rethinking and radical redesign of business processes to achieve dramatic gains in area such as cost, quality, service, and speed.

- **Delayering:** Delayering is reducing the number of levels in the organisational hierarchy with a view to facilitate better control and communication within the organisation. Flatter structures result due to delayering.

- **Information System:** A structure subdivides the total responsibility while the information system serves to coordinate the divided responsibility.

- **Control System:** Control has traditionally been considered as a major management function. While controlling, the manager essentially ensures that the implementation of strategy takes place according to predetermined plans.

- **Appraisal System:** The appraisal system performs the critical role of evaluating managerial performance in the light of organizational objectives.Appraisal provides a valuable input for salary determination, rewards, incentives, promotions, placement & development,

- **Motivation System:** The motivation system plays a positive role in inducing strategically desired behavior so that managers are encouraged to work towards the achievement of organizational objectives and helps to neutralize the inconsistency between individual and organizational goals.

- **Development System:** Management development is considered to be a process of gradual, systematic improvement in the knowledge, skills, attitudes, and performance of those individuals in an organization who carry management responsibilities Information system

10.8 Self Assessment Test

1. Describe the manner in which structure mechanisms operate in an organization.

2. Discuss the implications of structure vis - a - vis stages of development of an organization.

3. Select few companies of your choice. Find out what type of structure do m
they use. List the advantages and disadvantages of their structures.

4. Discuss the importance of strategic changes for the following : organizational systems
a) Information System:
b) Control System
c) Appraisal System
d) Motivation System
e) Development System
f) Planning System

5. What do you understand by organizational design ? What steps should be followed by organization for designing organizations? Also, enumerate the emerging organizational design characteristics.

10.9 References

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Unit - 11 : Behavioural Implementation

Unit Structure:

11.0 Objectives

After studying this unit, you shall be able to understand:

- The various aspects of strategy implementation that have an impact on the behaviour of strategists in implementing the chosen strategies.
- The major issues which are important in behavioural implementation. These are - leadership, corporate culture, politics and use of power, personal values and ethics and social responsibility.
- The understanding of the various aspects of all the above issues, their impact on strategists and strategies and their overall influence on strategic implementation.

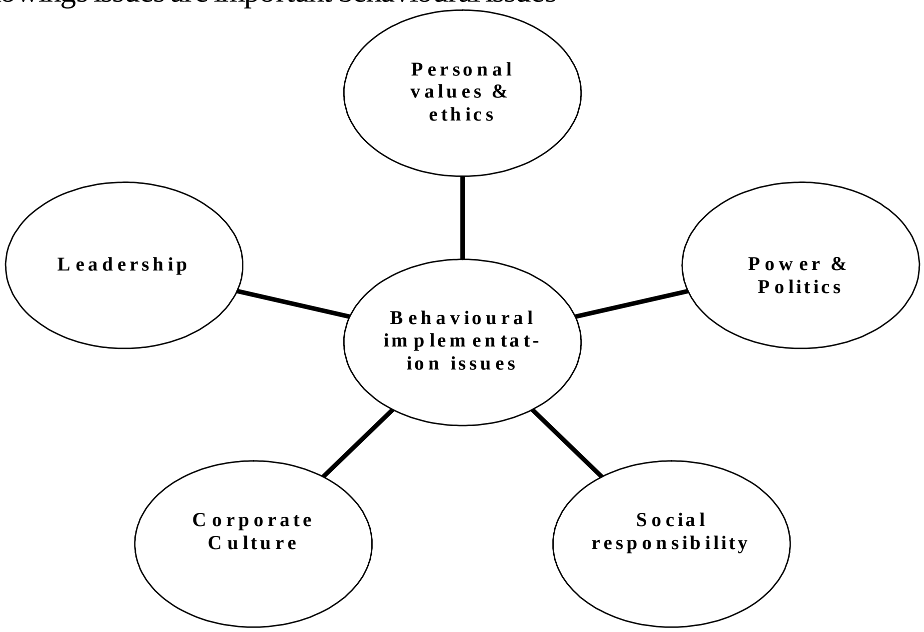
11.1 Introduction

Structural implementation, as we have studied in the previous unit, is the foundation for the successful implementation of any strategy. But, if the behavioural implementation issues are not handled properly in any organisation, it is quite sure that the best of strategies will fail. Hence, the various aspects, dimensions and components of behavioural issues need a complete understanding.

The increasing complexities of business, the growing importance of human resources and emergence of knowledge economy have all led to the orgnisations take a more serious consideration of behavioural implementation issues. Leadership issues ranging from the style of leadership, development of strategists, career planning and development, and succession planning are critical for the survival and success of any organisation. Corporate culture has a significant impact on corporate life and no effort concerning strategy implementation can be successful, if culture is not strategy supportive. The use of politics and power is constantly increasing inthe organisations in a positive sense. They are being used strategically in the process of strategy implementation, hence, the understanding of power and political issues has become necessary for the strategists. Personal values and ethics and social responsibility issues are also important issues which impinge upon the implementation of strategies.

11.2 Behavioural Implementation

Behavioural implementation issues concern both, the individuals, as well as, the organisation. Although, the organisation as a whole is responsible for strategic management, yet the individuals as strategists also play a significant role in the process of strategic implementation. Hence, whereas, leadership issues, personal values and ethics and the use of power and politics are some important behavioural concerning individuals, the corporate culture and social responsibility issues are equally significant for the organisation as a whole. In sum, the followings issues are important behavioural issues -



11.3 Leadership Implementation

The role of appropriate leadership in strategic success is highly significant in strategic success. Leadership plays a critical role in the success and failure of an enterprise and it has been considered one of the most important elements affecting organisational performance. It is through effective leadership that the organisational goals and objectives of the organisation are accomplished. For a leader to be effective, he should possess the following qualities -

- Develop new qualities to perform effectively.
- Be a visionary, willing to take risks, and be highly adaptable to change.
- Exemplify the values, goals, and culture of the organisation, and be aware of the environmental factors affecting the organisation.
- Pay attention to strategic thinking and intellectual activities.
- Adopt a collective view of leadership in which the leader's influence is dispersed across all levels of the organisation.
- Lead by empowering others and place an increasing emphasis on statesmanship.
- Adopt a new perspective on power to build subordinates' sklls and confidence to make them agents of change.
- Create leadership at lower levels and facilitate the transformation of followers into leaders.
- Delegate authority and place emphasis on innovation.

- **Leadership - Style & Strategy**

The style adopted by a strategist relates to the basic leadership functions of leading and motivating. The leadership style also changes as the environment changes and when the strategies change. Whatsoever, leadership plays a crucial role in strategy implementation. Leaders help organisations cope with change, assure that the follow up through of the policies occurs as planned. For this the leaders put the right people in the right places so that the implementation of the strategies is done as desired. Changes in current leadership is required if the ability, experience education and personality of the Strategist does not match the new strategy to be implemented.

Different leadership styles become appropriate under different strategic options which need implementation. Leadership styles could be autocratic on the one hand, to transformational on the other. The willingness of the leader to delegate authority and develop appropriate controls will determine his leadership style. This will depend on the extent to which the -

- Superiors have confidence in his subordinates.
- Freedom of expression of ideas by the subordinates.
- Freedom of dialogue between both the boss and his employees.

- **Strategists**

Like other personnel, strategists have to be developed before they can take up the task of strategy formulation and implementation. It is the responsibility of the top management to oversee the development of strategists. In this way, one aspect of leadership implementation relates to the development of strategists. The ways in which strategists are developed within companies vary from organisation to organisation.These issues, however, are important for the top management in developing strategists.

The choice of future strategists has to be made by the top management with great care. Business organisations in India are multinational, family-owned, and professionally-managed private companies and type may differ in their policies with regard to the development of strategists. But, the guiding principle is to spot talented professionals and groom them for the future desired position.

Career planning and development of future strategists may be done through the means of a formal or an informal approach. It is also possible to adopt a combinatiion of the formal and informal approaches where the potential executives may be exposed to training and development programmes, followed by individual guidance and counselling by senior executives in the organisation.

Succession planning can be relied upon as a technique for the development of future strategists. The top positions are very few in number and there are a number of executives who aspire for these positions. While the choice of strategists and their career planning and development may help an organisation in building a reservoir of talent, succession planning enables the top management to prepare contingency plans to replace existing key managers whenever the need arises.

Hence, it becomes crucial for organizations to have a second line of talent lined up who could assume leadership as & when required. The functions of leadership cannot be performed solely by occupying top positions but by exerting leadership in several areas. For instance, strategists are called upon to make a significant contribution towards developing an appropriate corporate culture, managing corporate politics, exemplifying personal values, and helping the organisation discharge its social responsibilities.

11.4 Corporate Culture

The culture of an organisation often distinguishes good ones from the bad. The well-managed organisations apparently have distinctive cultures that are, in some way, responsible for their ability to successfully implement strategies. Every corporation has a culture (which often includes several subcultures) that exerts powerful influences on the behaviour of managers.

The culture of any organisation is the set of important assumptions - often unstated, that members of an organisation share in common. These are generally referred to as beliefs and values.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 unveil the composition of the corporate culture of any organisation.

11.4.1 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". "Cuture 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.

Distinction between Strong and Weak Cultures

Strong Culture	Weak Culture
• Explicit set of principles and values. • Widely shared values & norms across the organizational hierarchy. • Creative and entrepreneurial environment. • Strong commitment, loyalty and sense of identity by the employees.	• Many subcultures exist. • Few values and norms are shared. • Politicized organizational • Environments lack of creativity and dynamism and organizational complacency. • Lack of commitment, loyalty and sense of identity by the employees.

Factors that contribute to building up of a strong culture are -

1) Strong influential leadership which creates desirable values.

2) Sincere and dedicated commitment throughout the organisation.

3) Genuine concern for the well being of all stakeholders in an organisation.

11.4.2 Strategy Culture Relationship

Managerial behaviour arising out of corporate culture, can either facilitate or obstruct the smooth implementation of strategy. The basic question before strategists, therefore, is how to create a strategy-supportive corporate culture. In other words, a major role of the leadership within an organisation is to create an appropriate strategy - culture fit.

The strategists have four approaches to create a strategy-supportive culture :

1. **To ignore corporate culture** - The first approach may be followed when it is nearly impossible to change culture. This is advisable when strategic changes are enforced in a short duration, and change in culture may be traumatic for members of an organisation.

2. **To adapt strategy implementation to suit corproate culture** - It is easier to change implementation to suit the requirements of corporate culture. This is possible because the behavioural aspects of implementation offer a range of flexible alternatives to strategists in terms of structure, systems, and processes. These variables could be manipulated to subserve the interests of corporate culture. However, each situation in the organisation would call for an innovative solution and would test the capabilities of managers as strategists.

3. **To change the corporate culture to suit strategic requirements** - Although, it is extremely difficult to change corporate culture, yet in some cases it may be imperative. For instance, the post-liberalisation spate of takeovers and acquisitions in the Indian industry led to a situation where many erstwhile multinational subsidiaries were taken over by family business groups. This led to a process of cultural transition. But such a transition may be brought about by a careful understanding of existing culture, making strategic tasks explicit, assessing risks of culture change, enhancing managerial capability to imbibe changes, and, most importantly, exhibiting a strong, assertive leadership.

4. **To change the strategy to fit the corporate culture** - Rather than changing culture to suit strategy, it is better and more economical to consider the cultural dimension while formulating strategy in the first place. However, if an impregnable cultural barrier is faced after strategy implementation, it may be better to abandon the strategy or use a combination of cultural and strategy change.

11.5 Corporate Politics and Power

All corporate cultures include a political component and therefore, all organisations are political in nature. Managerial behaviour cannot be purely rational and, hence, an understanding is to be required of how politics works and the use of power is to be made.

Power is defined as “the ability to influence others” and politics is related to the use of power. Generally, politics and power are viewed negatively, but they can be used in organizations in a positive sense to achieve organisational goals & objectives. For using them positively, the strategists should know when to use politics and power to get things done and when to show politics and encourage harmony.

Power within an organisation is derived from five types of sources -

- **Reward power** arises from the ability of managers to reward positive outcomes.
- **Coercive power** arises from the ability of managers to penalise negative outcomes.
- **Legitimate power** arises from the ability of managers to use position to influence behaviour.

- **Referent power** arises from the ability of managers to create a liking among subordinates due to charisma or personality.
- **Expert power** arises from the manager's competence, knowledge, and expertise that is acknowledged by others.

Politics is concerned with the use of power and relates to managing coalitions, consensus-building, and the creation of commitment to organisational purpose and mission. Political considerations and use of power, therefore, are a part of behavioural implementation by strategists. Political considerations affect which type of objectives take precedence over others and what strategy the firm has to choose.

Generally there is even more politics in implementing strategy than in formulating it. In implementation, politics and power affect a number of elements. The nature of strategy implementation requires consensus-building, managing coalitions, and creating commitments. It also requires conflict resolution and balancing of interests.

A strategic use of politics and power becomes even more critical where strategy changes are to be made. Experience has repeatedly affirmet that by having an understanding of the use of politics and power, strategists can perform the tasks of strategic management better. Therefore, it is imperative to make strategy changes with a judicious use of politics and power as discussed below:

- First of all, to accept the inevitability of politics being there in the organisation.
- To understand how an organisation's power structure works, who wields real power and influence, and who are the individuals and groups whose opinions carry weight and cannot be disregarded.
- To be sensitive and alert to political singals emanating from different parts of the organisation.
- To know when to tread softly and rely on coalition management and consensus-building, and when to push through decisions and actions, selectively and judisciously.
- To lead strategy and not to dictate it, being patient till a consensus emerges.
- To let most negative decisions emerge as a group consensus rather than as a directive from the top.
- To gather support for acceptable proposals and to let the unacceptable ideas die a natural death.
- To reward organisational commitment and penalise negative or indifferent attitudes.
- To practice principled politics and use openness and honesty to counter unprincipled politics.

Although corporate politics and use of power are inherent in every organisation, yet strategists often forget the distinction between use of politics and power for the benefit of self, organisation or the society.

11.6 Personal Values amd Business Ethics

Personal values and a sense of business ethics can help a strategist to distinguish between moral and amoral use of politics and power as a means to attain organisational goals. In this context, the following questions are important -

What are personal values and business ethics ? Why and how are they important ? And what is the relation of values and ethics to strategy ?

Values are personal in nature (e.g. a belief in providing customer satisfaction and being a good paymaster) while ethics is a generalised value system (e.g. avoiding discrimination in recruitment and adopting fair business practices). Business ethics can provide the general guidelines within which strategic management can operate. Values, however, offer alternatives to choose from.

Business ethics operates as a system of values and "is concerned primarily with that relationship of business goals and techniques to specifically human ends. 'Specifically human ends' means viewing the needs and aspirations of individuals not merely as individuals but as a part of society. It also means realisation of the perosonal dignity of human beings.

A major task of leadership is to inculcate personal values and impart a sense of business ethics to the organisational members. At one end, values and ethics shape the corporate culture and dictate the way how politics and power will be used and, at the other end, clarify the social responsibility of the organisation. The twin issues of personal values and business ethics have come to occupy centre stage in management. There is an increasing awareness around the world about ethical practices is business. Corporate Governance issues are very prominent and has attracted worldwide attention as a means to induce ethical behaviour in business. It has been observed that excellent organisations excel on the basis of superordinate goals - a set of values and aspirations and corporate culture. Strategists, therefore, have to provide the right values and ethical sense to the organisations they manage.

11.6.1 Values, Ethics and Strategy

The intentions of individuals, that is, their 'purity of mind' as decision-makers within an organisation matter a lot in strategic management. There has to be a right connection between values, ethics, and strategy. It is imperative that strategists take strategic decisions not only on the basis of purely economic reasons but also consider values and ethics.

Business ethics has traditionally been considered to integrate core values, such as, honesty, trust, respect, and fairness into strategic management, policy-making, practising management, and decision-making. A significant change is occurring in considering business ethics as central to managing organisations. Companies are formulating value-based, globally-consistent codes for ethical understanding and appropriate decision-making at all levels even as they face immense external challenges. In fact, business ethics is being identified as a major source of competitive advantage.

Companies recognised as ethical organisations are able to attract investment and human capital, retain talent, differentiate themselves in the markets, and create a perception of being customer-friendly. Hence, a major set of tasks in strategy implementation is to create consistency among the business values and ethics and the proposed strategy. This is done through inculcating the right set of values, reconciling divergent values, and modifying values that are not consistent with the strategy. Consistency between business ethics and the proposed strategy can be done through -

Inculcating the right set of values - The right set of values could be derived from the corporate culture, the philosophy and traditions of the organisation.

Inculcating the right set of values - The right set of values could be inculcated through creating awareness amongst employees, communicating them and incorporating the values through employee training and educational programmes. Example setting by top management and consistent nurturing of values within the organisation through their integration into policies, practices and actions.

Reconciling divergent values - Strategists have to reconcile divergent values and modify values in the light of strategic requirements and environmental considerations.

Modify values to create consistency - Values have to be modified to create consistency with strategy implementation.

A judicious use of politics and power, redesigning of corporate culture, and making systematic changes in organisations can help to modify values gradually.

11.7 Social Responsibility and Responsiveness

Strategic planning, through environmental and organisational appraisals, provides answers to what an organisation might and can do. Personal values justify what an organisation **wants to do**. Social responsibility, along with business ethics, tells what an organisation **ought to do**. The social responsibility issues have to be foregrounded during strategy implementation.

There are different views with regard to social responsibility of business. On one extreme business is viewed as merely economic in nature and has no social obligations, but the other view favours that the business has to be socially responsible. In practice, however, the economic goals and social responsibility objectives need not be contradictory to each other and should be achieved simultaneously.

Even though social responsiblity is not given servious attention and there is not much evidence of a formal policy being followed by Indian comapnies in discharging social responsibility. There is an obvious need to have a greater social responsiveness for, good social responsibility like ethics, also means good business.

Social responsiveness may be considered as the level of interest exhibited by an organisation in discharging social responsibility. The top management takes the major decisions regarding the choice of social concerns, definition of the scope of activities, and resource allocation to social responsibility functions which are based on the views, opinions, personal values, and considerations of the business ethics of the top management. The top management should seek to align its social responsiveness with strategic management. By such an alignment it social responsiveness in all the phases of strategic management right from formulation of vision, objectives strategy planning to strategy implementation.

The role of the board of directors is crucial in generating a high level of social responsiveness. The top management while developing the strategic intent should consider social responsibility and integrate it with the prupose and corporate philosophy of the organisation. Social responsibility issues need to be considered in all the phases of strategic management. Environmental appraisal, should help an organisation's strategists to forecast social concerns and issues that need urgent attention. Orgnanisational appraisal should assist the strategists in assessing corporate competence to tackle the social problems and help the top management in setting the priorities of social responsiveness. The choice of strategic alternatives could be guided by these priorities. The selection fo corporate - and business - level strategies should take into account the social responsibility aspects too. When it comes to strategy implementation, social responsiveness would seek to alter the pattern of resource allocation. All in all, it can be said that social responsiveness can be operationalised and activated by aligning it with the strategic management process. The quality of social responsiveness can also be considerably enhanced by doing so.

11.8 Summary

In this unit we have taken up several issues relevant to the behavioural aspects of strategy implementation. Leadership is seminal to the formulation as well implementation of strategy. The chosen strategy has a significant impact on leadership style and straegists have to adapt their style to suit the requirements of a particular strategy. The development of strategists is the responsibility of the top management and they do it through exercising a choice of strategists and their career planning and development, and succession planning. Corporate culture is composed of beliefs and values that the members of an organisation share in common. These have a significant impact on corporate life and no effort concerning strategy implementation can be successful if culture is not strategy-supportive. By relating strategy to culture, meaningful approach to creating a good strategy-culture fit can be evolved. Four approaches to creating a strategy-supportive culture are described. The use of politics and power is exercised in a positive sense. Strategists should understand corporate politics and use of power be made to facilitate the implementation of strategy. Politics and power affect a number of elements in the strategic management process. Among these, strategy implementation requires consensus-building, managing coalitions, and creating commitment. It also needs conflict resoultion and balancing of interests. A number of approaches are suggested to make a strategic use of politics and power in strategy implementation.Personal values and business ethics seek to prevent an indiscriminate use of power politics within organisations. Strategy has a moral component that is often realised by strategists but is found to be difficult to operationalise.Through behavioural implementation, it is possible to modify and reconcile divergent personal values of dominant stakeholders within organisations. To impart a practical basis to the discharge of social responsibility, strategists have to define the scope and then proceed to align social responsiveness to the process of strategic management. For this to take place, social responsiveness is to be interlinked to all the phases of strategic management.

11.9 Key Words

- **Behavioural Implementation -** Those aspects of strategy implementation that have an impact on the behaviour of strategists in implementing the chosen strategies.
- **Leadership Style -** Describes how top managers behave in leading and motivating their organisations to achieve their desired ends.
- **Career Planning & Development -** A mechanism which helps an organisation in building a reservoir of talent through training, designing career goals and path and other human resource development techniques.
- **Succession Planning** - Enables the top management to prepare contingency plans to replace existing key managers whenever the need arises.
- **Corporate Culture** - is the set of important assumptions - often unstated - that members of an organisation share in common. Beliefs and values create corporate culture.
- **Beliefs** - They are assumptions about reality and are derived and reinforced by experience.
- **Values** They are assumptions about ideals that are desirable and worth striving for.
- **Power -** They is the ability to influence others. It can be derived from five types of sources - Reward power, Coercive power, Legitimate power, Referent power and Expert power.
- **Politics -** is concerned with the use of power and relates to managing coalitions, consensus building and the creation of commitment to organisational purpose and mission.
- **Values -** Refer to a conception of what an individual or groups regard as desirable. A value is a view of life and a judgement of what is desirable which is very much a part of person's personality and a group's morale.
- **Ethics -** It is the study of how personal moral norms apply to activities and goals of a commercial enterprise. It is concerned primarily with the relationship of business goals and techniques to specifically human ends.
- **Social Responsiveness -** It is the level of interest exhibited by an organisation in discharging soical responsibility.

11.10 Self Assessment Test

1 "Behavioural implementation issues are significantly as important as other issues during strategy implementation". What are the major behavioural issues ? Explain.

2 What are the major issues involved in development of strategists in an organisation ? Discuss.

3 What do you undertstand by Corporate culture ? What is it composed of ? What is the impact of culture on corporate life ? Explain.

4 What are the major strategies available to a strategist to create a strategy supportive culture ? Discuss.

5 "Politics and Power can be used strategically to attain organisational goals". Do you agree ? How can organisations do so ? Explain.

6 A major task in strategy implementation is to create consistency among the business values and ethics and the proposed strategy. How can it be done ? Discuss.

7 Write short notes on - (i) Social responsibility.(ii) Social responsiveness.

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Unit - 12 : Operational Implementation

Unit Structure:

12.0 Objectives

After studying this unit, you shall be able to understand :-

- The importance of Functional plans and policies and their role in implementation of the chosen strategy.
- The concept of vertical and horizontal fit and various types of functional policies.
- The nature, need and development of functional plans and policies.
- Financial plans and policies and significant decision areas for the same.
- Major issues related to marketing plans and policies.
- The influence of strategies on operational plans and policies.
- The plans and policies related to the personnel function.
- The Management of the flow of information from within and outside into an organisation.
- Integration of the functional plans.
- Operational effectiveness.

12.1 Introduction

Strategies operate at three levels - Corporate, SBU and Functional levels. The corporate level deals with choice of business and resource allocation, the SBU level focuses on the way to compete and create competitive advantage. But, it is through the functional plans and policies that the strategies are put into action. This unit focuses on the major issues concerning functional and operational implementation.

Functional implementation is carried out through functional plans and policies in five different functional areas. Operational implementation is performed in four areas of operational effectiveness. The emphasis is on relating the functional area plans and policies and operational implementation, and the changes to be made in those, to the strategic changes.

The discussion on each functional area plan and policy - financial, marketing, operations, personnel, and information management - is based on the functional capability factors in the subareas as identified. Another important issue relates to the integration of functional plans and policies. Five of the major considerations for strategists are indentified and discussed so that an effective integration can take place. Finally, focus on operational implementation in terms of the operational effectiveness areas of productivity, processes, people, and pace has been included as concluding part of this unit.

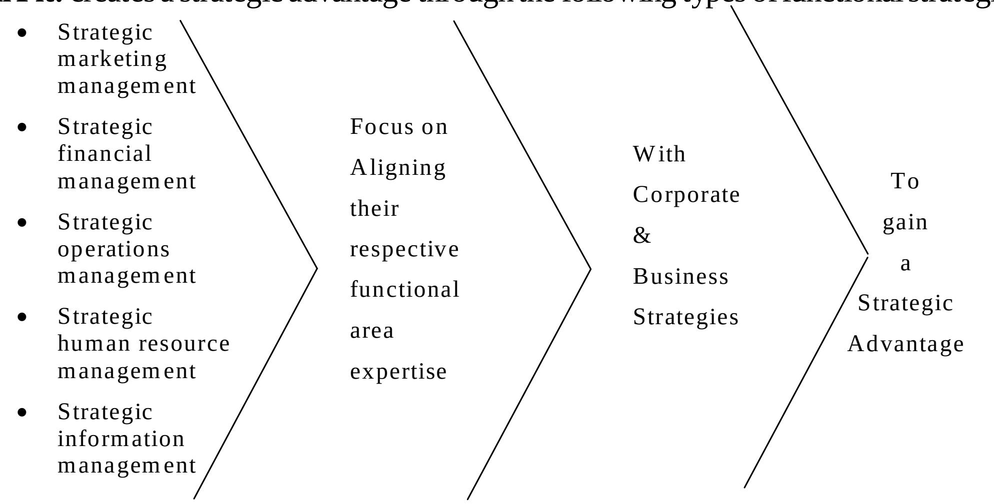
12.2 Vertical and Horizontal Fit

Functional strategy deals with a plan for each functional area in an organization; allocation of resources within that functional area and finally, a coordination between them for an optimal contribution to the achievement of the business and corporate level objectives. Functional strategies are derived from business and corporate strategies and are implementated through functional and operational implementation.

Veritical and Horizontal Fit

A key task of strategy implementation is to align or fit the activities and capabilities of an organization with its strategies. Strategies operate at different levels and there has to be congruence and coordination among these strategies. Such a congruence is the vertical fit. Then, there has to be congruence and coordination among the different activities taking place at the same level. This is the horizontal fit. When a lower-level strategy, such as a functional strategy, is aligned with a higher level strategy, in this case the business strategy, then a vertical fit takes place. The vertical fit alone is not sufficient to integrate the strategic network. It is also essential to create a horizontal fit at the level of individual functional strategies. it means that the different functional areas of marketing, finance, operations, personnel, and information management and all the operational activities perofrmed in these areas should not work at cross-purpose and should be aligned to each other. In this manner, the vertical fit leads to functional strategies and their implementation, and the horizontal fit leads to operational implementation.

Vertical Fit: creates a strategic advantage through the following types of functional strategies:



Horizontal Fit The consideration of horizontal fit means that there has to be an integration of the operational activities undertaken to provide a product or service to a customer. These have to take place in the course of operational implementation - an approach by which an organization achieves operational effectiveness. When an organization performs value-creating activities optimally and in a way which is better than its competitors, it results in operational effectiveness.

- The considerations of vertical fit and horizontal fit help to explain why integration is necessary for the different subsets of functional strategies. Functional strategies are not implemented directly. They have to be defined in terms of plans and policies. So, functional implementation takes place through functional plans and policies. Now we shall look at functional plans and policies in the next section.

12.3 Functional Plans and Policies

The effectiveness of strategic management depends critically on the manner in which strategies are implemented. In this section, we look at the following aspects:

Nature of Functional Plans and Policies

Functional strategies operate on a level below the business strategies. There might be several subfunctional areas within functional strategies. For e.g. : within marketing function, there could be several sub-functions as, product development, advertising and sales promotion, market research, and so on.

Functional strategies defined in terms of functional plans and policies 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.

Functional Plans and Policies is felt in an organization due to the following reasons:

- The strategic decisions are implemented by all the parts of an organisation.
- There is a basis available for controlling activities in the different functional areas of a business.
- 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 discretionary framework within which decisions need to be taken.
- Similar situations occurring in different functional areas are handled by the functional managers in a consistent manner.
- Coordination across the different functions takes place where necessary.

Development of Functional Plans and Policies

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. 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, mostly through a formal process, published formally. 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 objectives as well as subjective factors. Then functional plans and policies will affect, and are affected by, the resource allocation decisions.

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 set of functional areas. Second, the discussion of functional plans and policies that follows is only indicative and not exhaustive because functional managers in each area formulate plans and policies in much greater detail than is possibly discussed here. Therefore, for each functional area, only the major issues and decisions have been highliged.

12.4 Financial Plans and Policies

The financial plans and policies of an organisation relate to three significant decisions -

- **Sources of Funds**

Plans and policies related to the sources of funds deal with financing or capital-mix decisions. Plans and policies have to be made for the following majro factors : capital structure; procurement of capital and working capital borrowings; reserves and surplus as sources of funds; and the relationship with lenders, banks, and financial institutions. These plans and policies are important since they dtermine how financial resources will be made available for the implementation of strategies. Organizations have a range of alternatives regarding the sources of funds. Broadly, they could be external or internal means of financing. External financing includes - share capital, loans, bonds debentures etc. Internal financing can be done through retained earnings, personal borrowings, reserves and surplus.

- **Usage of Funds**

Plans and policies for the usage of funds deal with investment or asset-mix decisions. The important factors that are relevant here are : capital investment, fixed-asset acquisition, current assets, loans and advances, dividened decisions, and the relationship with sharehoders. Usage of funds is important since it relates to the efficiency and effectiveness of resource utilisation in the process of strategy implementation. Other factors for the usage of funds are also considered by companies to attract and retain the shareholder's interest. Payout policies for dividends and bonus distribution play an important role in the usage of funds.

- **Management of Funds**

The management of funds is an important area of financial plans and policies. It basically deals with decisions related to the systemic aspects of financial management. The major factors for which plans and policies related to the management of funds have to be made are : the systems of finance, accounting, and budgeting; management control system; cash, credit, and risk management; cost control and reduction; and tax-planning and advantages. The management of funds can play a pivotal role in strategy implementation as it aims at the conservation and optimum utilisation of funds - objectives which are central to any strategic action. In fact, good management of funds often creates the difference between a strategically successful and unsuccessful company. Financial plans and policies, however, present a dilemma before management. The priorities of a management may often conflict with those of the shareholders. It is the responsibility of the strategists to minimise such conflict.

12.5 Marketing Plans and Policies

Plans and policies related to marketing have to be formulated and implemented on the basis of 4 Ps' of the marketing mix, that is, product, pricing, place (distribution), and promotion. The major issues and decisions relate to these marketing-mix factors.

Product

Product denotes the goods and services that an organisation offers to its target markets. Plans and policies related to products and markets need to be formulated and implemented on the basis of characteristics, such as, quality, features, choice of models, brand names, packaging, and so on. Strategies dictate the manner in which product and market characteristics would be defined. Thus, competitive strategies may be implemented by stressing on high quality, and better and more features, and assured services. This is applicable to both, the consumer goods companies, as well as, industrial products manufacturers.

Pricing

Price denotes the money that customers pay in exchange for goods and services. To the seller, it represents the returns of its efforts, whereas, to a buyer, price is the value that is assigned to the satisfaction of its needs and wants. Several price characteristics, such as, discount, mode of payment, allowances, payment period, credit terms, and so on, are important determinants of pricing plans and policies. The policy of setting high or low prices for their products is used extensively by companies as a competitive tool. Prince is often used as a determinant of market segmentation, which forms the basis for creating different models of the same product. The market for soaps, for instance, is divided into the high-priced and low-priced market segments which has implications for all the other factors in the marketing mix apart from pricing. It helps in implementing marketing policies, such as, market penetration or partial retrenchment from markets.

Place

Place (or distribution) is the process by which goods or services are made available to the customers. The channels to be used; transportation, logistics, and storage inventory management; coverage of markets; and so on are important distribution issues. The success of market-oriented strategies, in todays competitive environment, rests on the efficiency and effectiveness of the distribution system. Supply-chain management and customer-relationship management help companies to perform their distribution activities more efficiently. Retailing is an emerging business in India.

Promotion

Promotion deals with the marketing communication intended to convey the company's, and its product's or service's image to prospective buyers. A promotional mix consists of four activities: advertising, personal selling, sales promotion, and publicity. Promotional plans and policies have to consider the basic question of what promotional mix to adopt so that promotional activities can be used to implement strategies. The nature of product/service, the competitive scenario, and cost considerations impact the choice of the promotional tools.

Integrative and Systemic Factors

Factors such as marketing mix, segmentation, targeting, positioning, company image, marketing organisation, marketing system, marketing management information system, and so on are important integrative and systemic factors which contribute to building a strong marketing presence over a period of time. The environmental trends have are impact on the marketing plans and policies to a large extent.

Some of the major trends that influencing the marketing, policies and plans of the Indian companies are -

- Growing competition due to entry of a host of Multinationals.
- Increasing choice to the consumer.
- Falling margins and cut throat competition.
- Global quality standards force companies to deliver better products.
- Consumers demand value for money.

An important fact which needs to be considered at this point is that product decisions in marketing cannot be taken without considering its pricing, distribution, and promotional aspects. Neither can pricing decisions be taken without considering the other factors in the marketing mix. This is a what we call the horizontal fit, that needs to be created for the integration of functional plans and policies.

12.6 Operations Plans and Policies

The operational plans and policies are affected by the strategies of the organization. The strategies adopted affect the nature of the product/service, the nature of the market served and the manner in which market is to be served. All these collectively influence the operations system structure and the objectives which are used to determine the operations plans and policies.

There are three important components of operations plans and policies, namely -

Production System -

The capacity, location, layout, product or service design, work systems, degree of automation, extent of vertical integration, and other such factors relate to the production system. Strategy implementation would have to take into account the production system factors as the latter involve decisions which are long-term in nature and influence not only the operations capability of an organisation but also its ability to implement strategies and achieve objectives.

Operations Planning and Control -

Aggregate production planning; materials supply, inventory, cost, and quality management; and maintenance of plant and equipment are important considerations for formulating plans and policies related to operations planning & control. Here, the aim of strategy implementation is to see how efficiently resources are utilised and in what manner the day-to-day operations can be managed in the light of long-term objectives.

Research and Development -

Plans and policies for R&D deal with product development, personnel, and facilities, level of technology used, technology transfer and absorption, technological collaboration and support, and so on. R&D occupies an important position in operations management in the Indian context as companies have access to multiple sources of technology, including foreign sources from developed countries. R&D is used in strategy implementation as a foundation for implementing strategies like product development and diversification. R&D is also used as a competitive strategic tool.

12.7 Personnel Plans and Policies

Policy areas related to personnel function takes into account there aspects as under:

Personnel System - Plans and policies related to the personnel system deal with factors like manpower planning, selection, development, compensation, communication, and appraisal. The importance of such plans and policies lies in the role that personnel systems play in providing and maintaining human resources.

They also are vital for motivating the human resources and creating quality consciousness in the organization, which are both essential to effective strategy implementation.

Organisational and Employee Characteristics include factors, such as, the corporate image, quality of managers, staff and workers, the image of the organisation as an employer, availability of development opportunities for employees, working conditions, and so on. Plans and policies related to these factors have to be formulated if strategies have to be implemented properly and for the creation of an appropriate environment for strategy implementation.

Industrial Relations - The environmental factors impinge upon the industrial relations of an organization of which a few important ones are attitude of the government; rules and regulations related to unions and workers; unionism, political interference; and so on. Within this framework, companies have several options with regard to the plans and policies related to industrial relations which deals with issues such as, management relationship, collective bargaining, safety, welfare and security, employee satisfaction and morale, and so on.

12.8 Information Management Plans and Policies

Information capability factors relate to the design and management of the flow of information from within and outside into an organisation. The value of information as a tangible resource and as a source of strategic advantage has been recognised by organizations. From being a peripheral function dealing with routine activities like payroll accounting and bulk communication, information management is now being viewed as a distinct functional area within organisations, which, if managed properly, can augment their capability to develop strategic advantage. In this section we take up the different factors within information management systems to demonstrate how these can play a role in strategy implementation.

Acquisition and Retention of Information

Plans and policies with regard to the processing and synthesis of information deal with factors such as the sources, quantity, quality, and timelines of information; retention capacity; and security of information.

Procesing and Synthesis of Information

Plans and policies formulated for the processing and synthesis of information deal with factors such as database management, computer systems, software capability, and ability to sythesise information.

Retrieval and Usage of Information

The retrieval and usage of information deals with factors such as availability and appropriateness of information formats, and the capacity to assimilate and use information.

Transmission and Dissemination of Information

The plans and policies with regard to the transmission and dissemination of information deal with factors, such as, speed, scope, width, and depth of coverage of information, and willingness to accept information.

Integrative, Systemic and Supportive Factors

The last set of factors dealing with the integrative, systemic, and support factors such as the availability of IT infrastructure, its relevance and compatibility to oranisational needs, upgadation of facilities, willingness to invest in state-of-the-art systems, availability of computer professionals, and top management support.

With this we complete our discussion on the functional plans and policies. But the functional areas and their individual components do not operate in isolation. The different factors interact within one functional area.

Then, at a higher level, one functional area interacts with all the other functional areas. This calls for an integration among the functional areas: within as well as across functions. We take up this issue in the next sectiion.

12.9 Integration of Functional Plans and Policies

Functional tasks are derived from the key activities that have to be performed for the implementation of the corporate and business strategies. The functional areas in any organisation are therefore, based on the segregation of the key activities. But what has been segregated will have to be brought together, since all activities are performed to achieve the overall objectives of any organisation. Integration of functional plans and policies provides the means for such an aggregation. Although, there are no specific methods or techniques that cause integration to take place, yet strategists can be guided by certain considerations described below -

- **Need for Internal Consistency**

The need for internal consistency arises due to the segregation of key organisational tasks. Internal consistency in the various functional plans and policies ensures that the different functional areas do not work at cross-purpose but operate in tandem with each other. Absence of internal consistency may lead to a suboptimal implementation of strategy.

- **Relevance to Development of Organisational Capability**

The development of organisational capability, specially in terms of strategic or competitive advantages, is relevant to the integration of functional plans and policies. Synergistic effects occur across functional areas, and core competencies emerge as a result of the concentration of resources to the areas where an organisation wishes to build up strategic advantages. An integrated approach to functional plans and policies is necessary to achieve organizational objectives.

- **Making Trade-off Decisions**

The formulation and implementation of functional plans and policies involves trade-off decisions. This is due to the inherent nature of the functional areas. Marketing-orientation in functional plans and policies is in some ways contradictory to operations-orientation. Marketing would typically emphasise low-volume, specialised production, while operations efficiency would demand large-volume production with lesser product variety. Strategists have to realise that some sacrifice in one or more functional area(s) is imperative if emphasis is laid on other functional areas. In fact, the integration of functional plans and policies serves to minimise contradictions due to trade-off decisions and optimise the overall implementation of strategy.

- **Determination of Intensity of Linkages**

The intensity of linkages that exist between the different functional areas are an important consideration in determining the level of coordination that should exist between different functional areas. For instance, a strategy which is built upon high-technology superior-quality products requires close contact between the R&D, product development, and production departments. Like-wise, a strategy based on low-cost, mass-consumer items would require a higher level of coordination between marketing and operations. A point worth noting is that the intensity of linkages is not constant and may vary with the requirements of strategy from time to time.

- **Timing of Implementation of Plans and Policies**

Integration of functional plans and policies is dependent on the timing of their implementation. The different functional plans and policies have, therefore, to be implementated at the appropriate time so that they synergize with each other.

12.10 Operational Implementation

Operational implementation is the approach adopted by an organization to achieve operational effectivness. It deals with the nitty gritties of strategy. Just like a war is won ultimately on the basis of ammunition and supplies rather than grand strategies alone, the success of corporate and business strategies crucially depends on how operational implementation is done and in what way operational effectiveness is achieved.

- **Operational Effectiveness**

Porter considers operational effectiveness as necessary but not sufficient to the success of strategy. He explains the term as "performing similar activities better than rivals perform them. Operational effectiveness includes but is not limited to efficiency. It refers to any number of practices that allows a company to better utilize its inputs by, for example, reducing defects in products or developing better products faster."

Managers are constantly developing new philosophies, theories and practices that help them in improving operational effectiveness. A huge number of practices are already being used by organizations world wide and it is almost impossible to discuss all them here. Rather, the section that follows, attempts to draw the attention to the critical areas of operational implementation and point out some representative practices which are focussed around four P's -

Productivity is frequently expressed mathematically as the ratio of the quantity of output to the quantity of input. Inputs are resources (such as finance, raw materials, machinery and equipment, information, time or management). Outputs are the products and services.

Processes are courses of action used for operational implementation. Processes are often implemented through methods. These methods are systematic and orderly procedures, and consist of sequential steps implemented in a chronolgical order. The purpose of all processes is to achieve optimum utilisation of resources.

People are the stakeholders in the organisation. The significant people are the investors, employees, suppliers, and customers. The significant people are the investors, employees, suppliers, and customers. Among these, employees play a direct and central role in operational implementation.

Pace is the speed of operational implementation and is measured in terms of time. Efficiency is the parameter often used to express the pace of operational implementation. Efficiency is the amount of work done (or performance) per unit time.

For each of these 4 P's, an overview of the management practices which leads to operational effectiveness is listed below :

(a) Productivity

The modern practices of productivity enhancement are an amalgam of the traditional methods, variations made upon the traditional methods, and new methods. They are:

Just-in-time manufacturing is a Japanese productivity technique designed to tackle cost reduction from a systemwide perspective. It requires fewer suppliers who supply small quantities in a perfectly-timed arrangement, resulting in practically no inventory.

Cycle time reduction - This technique aims at minimising the time taken for the allocated work to be done at each workstation on an assembly line.

Group technology is a way of organising and using data in a manner which helps in avoiding duplication of design and manufacturing a variety of products.

Mass customisation attempts to blend the desirable attributes of mass production and customised production.

Concurrent Engineering and processing involves integrated, simultaneous design of products or services and their related processes, including manufacturing and support.

Optimised production technology a computer-based system for careful management of materials and resources so that the output is maximised and inventories are reduced.

Flexible manufacturing system is a compouter-controlled process technology suitable for producing batches of a variety of high quality products quickly.

As a practice for operational implementation, productivity is significant for all types of strategies but is specially relevant to business strategies of cost-leadership, differentiation, and focus. Through cost control, it can achieve cost leadership, whereas, through Flexible Manufacturing Systems, it aims to achieve differentation.

(b) Processes

Processes have an overwhelming presence in management. The functional areas of marketing, finance, operations, human resources management, and information management operate on the basis of well-established processes. The modern practices related to processes are several. Among these the major comprehensive processes are business process reengineering, enterprise-wide resource planning, quality management processes, benchmarking, value chain, and supply-chain management. Quality management systems, aid in the operational implementation of quality management processes. Michael Proter's value-chain analysis helps in examining all the activities that a firm performs and how they interact resulting in process improvements.

Business Process reengineering, deals with the fundamental rethinking and redesigning of business processes to achieve dramatic improvements in cost, quality, service, and speed.

Enterprisewide resource planning are software packages that link the isolated information centres into an integrated enterprisewide structure of functional and activity databases.

Benchmarking is the process to find the best performers in an area so that one could match one's own performance with them, and even surpass them.

Supply-chain management encompasses the whole value-chain to manage the procurement of a whole range of inputs that are required to produce a product or service so that the process can be performed in an integrated and optimum manner.

Outsourcing is a concept where portions of value-chain activities are commissioned to external suppliers on the basis of economic analysis, so that the firm's own focus remains on its core competence. Processes, as practices for operational implementation, are significant for all types of strategies. Since process improvement is the basic purpose of all new processes, there are several benefits of lower cost, better quality, lesser wastage, lower production time, and higher productivity. So processes are relevant for operational implementation of all types of business strategies.

(c) People

Operational implementation with regard to people management includes not only the people - the employees - within, but also people outside, such as, the customers, suppliers, and the society at large. The content of operational implementation, therefore, takes into account activities related to all these stakeholders.

Practices such as job-enrichment, empowerment, team-building, multiskilling, knowledge-worker, human capital, intellectual capital, organisational learning, and knowledge management constribute to operational effectiveness.

Some of the major practices related to people management in the contemporary context are -

Strategic recruitment and selection encompasses manpower planning and scientific selection processes to have the right match between employee and job requirements.

Performance management includes a number of activities retaled to application of behavioral sciences in designing motivational systems, team building, empowerment, effective communication skills, negotiation techniques, and career planning and development.

Training and Development is done through an increasing emphasis on creativity and innovation, multiskilling, cross-cultural training and creating a learning organization.

Performance appraisal, retention management and **Separation management** are few other practices which contribute to operational effectiveness.

Besides the people within, companies also focus on people outside the organization i.e. customers, investors, bankers and all toher stakeholders, including society at large by becoming more socially responsive.

(d) Pace

The final area that we take up for discussion is the pace. By this is meant the speed of operational implementation. This area is important since time is now recognised as being of essence to strategy implementation. In terms of value-chain, pace can be seen as performing every activity faster than the rivals so that strategic advantage results. Operational implementation makes it possible to speed up activities. Some of the major concepts related to speed which leads to operational effectiveness are - Time study, Network analysis and activity charts which helps in timely project execution and is a source of saving on cost overruns.

Technological support has made it possible to use time saving devices. But, by far, the most significant technology that quickens the pace of operational implementation is IT. The potential of a convergence of IT, telecommunication, and consumer electronics technology is being realised in the form of greater interactivity.

The implications of the developments in information management are tremendous and exciting for operational implementation. IT is augmenting immensely the capability of organisations to enhance their operational effectiveness to a very large extent.

Operational Implementation Practices

Given such a wide array of practices, methods, and techniques for enhancing operational effectiveness in the areas of productivity, processes, people, and pace, the managers have a difficulty in choosing which of these to pick up to use in operational implementation. The guiding principle is that managers need to derive the areas of improvement from the requirements of the strategy that they are implementing. Organisational analysis can serve as a starting point for indentifying the areas where functioning needs to be improved. Having done that, the technique can then be chosen and applied accordingly.

It is important to remember that any technique has a history, background, context, and requirements. A technique cannot be applied blindly. There are essential pre-requisites to applying a technique and then there are the consequences. A proper understanding of all these aspects is necessary in applying a technique. For instance, there is enough information available regarding the management principles, theory, concepts, and models working behind a technique. On the one hand, managers need to be aware of these to enhance their understanding and gain a comprehensive assessment of the usage of a technique. On the other, managers need to have an in-depth understanding of their organisation. A match of what the organisation needs and what the technique has to offer has to be made.

12.11 Summary

Strategies operate at different levels and the coordination among these strategies is known as the vertical fit. The coordination among the different activities taking place at the same level is the horizontal fit. Vertical fit leads to the alignment of the functional areas to the requirements of a strategy. Horizontal fit leads to the alignment of the activities taking place at the working level and is done through operational implementation. Operational implementation is the approach adopted by an organisation to achieve operational effectiveness. When an organisation performs value-creating activities optimally and in a way better than its competitors can perform, it results in operational effectiveness. Functional strategies are defined in terms of functional plans and policies to implement business strategies. Plans are made to select a course of action while policies are required to act as guidelines to action. Functional plans and policies, therefore, are in the nature of tactics to make a strategy work. Functional plans and policies are developed to ensure that strategic decisions are implemented by all the parts of an organisation. Financial plans and policies are set in terms of the sources, usage, and management of funds. Marketing plans and policies are made in terms of segmentation, targetting, positioning and the areas of marketing mix of product, price, place, and promotion. Operations plans and policies into account the production system, operations planning and control, and R&D. Personnel plans and policies are based on the personnel system, organisational and employee characteristics, and industrial relations. Information management plans and policies are formulated on the various aspects of acquisition and retention, processing and synthesis, retrieval and usage, transmission and disseminatioin, and the integrative, systemic and supportive factors. Development of functional plans and policies takes into account four factors, namely - the need for internal consistency, relevance to organisational capability, trade-offs, intensity of linkages, and timing of functional plans and policies so that effective integration takes place. Operational implementation is based on the operational effectiveness in the areas of productivity, processes, people, and pace. Operational effectiveness is performing similar activities within an organisation better than the rivals perform those. Productivity is the measure of the relative amount of input needed to secure a given amount of output. Processes are courses of action used for operational implementation. People are the stakeholders in the organisation. The significant people are the investors, employees, suppliers, and customers. Pace is the speed of operational implementation and is measured in terms of time. Efficiency is the parameter often used to express the pace of operational implementation. Each of these four areas of operational effectiveness has a range of management techniques and methods which are used by managers for achieving operational effectiveness according to one's specific requirements.

12.12 Key Words

- **Vertical Fit -** Strategies operate at different levels and there has to be congruence and coordination among these strategies. Such a congruence is the vertical fit

- **Horizontal Fit -** The congruence and coordination among the different activities taking place at the same level is known as the horizontal fit.

- **Plans & Policies -** Functional strategies are defined in terms of functional plans and policies to implement business strategies. Plans are made to select a course of action while policies are required to act as guidelines to action. Functional plans and policies, therefore, are in the nature of tactics to make a strategy work.

- **Operational Unplementation** - Operational implementation is the approach adopted by an organisation to achieve operational effectiveness. When an organisation performs value-creating activities optimally and in a way better than its competitors can perform, it results in operational effectiveness.

- **Operational Effectiveness -** Performing similar activities better than rivals perform them. Operational effectiveness includes but is not limited to efficiency. It refers to any number of practices that allows a company to better utilize its inputs.

- **Productivity** - is frequently expressed mathematically as the ratio of the quantity of output to the quantity of input. Inputs are resources (such as finance, raw materials, machinery and equipment, information, time or management). Outputs are the products and services.

- **Processes -** are courses of action used for operational implementation. Processes are often implemented through methods. These methods are systematic and orderly procedures, and consist of sequential steps implemented in a chronolgical order. The purpose of all processes is to achieve optimum utilisation of resources.

- **People -** are the stakeholders in the organisation. The significant people are the investors, employees, suppliers, and customers. The significant people are the investors, employees, suppliers, and customers. Among these, employees play a direct and central role in operational implementation.

- **Pace -** is the speed of operational implementation and is measured in terms of time. Efficiency is the parameter often used to express the pace of operational implementation. Efficiency is the amount of work done (or performance) per unit time.

- **FMS -** Flexible manufacturing system is a compouter-controlled process technology suitable for producing batches of a variety of high quality products quickly.

- **Business Process reengineering -** deals with the fundamental rethinking and redesigning of business processes to achieve dramatic improvements in cost, quality, service, and speed.

- **Enterprise Resource Planning -** are software packages that link the isolated information centres into an integrated enterprisewide structure of functional and activity databases.

- **Benchmarking -** is the process to find the best performers in an area so that one could match one's own performance with them, and even surpass them.

12.13 Self Assessment Test

1 What do you undersitand by vertical and horizontal fit ? Explain with an example.

2 Describe the major concerns of financial, marketing, operations, personnel and information management plans and policies. Point out the significance of each of the functional area plan and policies for strategy implementation.

3 Discuss the nature and need of functional plans and policies. Also state how are they developed.

4 What do you understand by operational implementation ?

5 What is operational effectiveness ? What are the areas of OE ?

6 Write short notes on - major practices related to -

1) Productivily
2) Processes
3) People
4) Pace

7 Describe the major consideration before a strategiest for the integration of functional plans and policies.

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Unit - 13 : Strategic Evaluation and Control

Unit Structure:

13.0 Objectives

After studying this unit, you shall be able to understand:

- The nature and importance of Strategic Evaluation.
- The various participants and their role in Strategic Evaluation and Control.
- The barriers in Evaluation and the requirements for effective Evaluation.
- The importance and types of Strategic Control.
- Operational Control and the differences between Strategic and Operational Control.
- The process of Evaluation, the four elements and their Interrelationship.
- The techniques for Strategic Evaluation and Control
- The techniques of Operational Evaluation and Control.
- Role of organizational systems in Evaluation.

13.1 Introduction

Understanding of the nature and importance of strategic evaluation sets the stage for discussing the various issues involved in strategic evaluation and control. The various participants involved in evaluation are also of importance for a better understanding of strategic evaluation and control. Strategic evaluation operates at two levels: strategic and operational. At the strategic level, the focus is more on the consistency of strategy with the environment. At the operational level, the effort is directed at assessing how well the organisation is pursuing a given strategy. Although, the idea of strategic control is of a relatively recent origin, yet a few important types of strategic control are practiced - premicse, implementation, strategic surveillance and special alert contro. Operational control consists of four inter-related sub processes - setting standards, measuring performance, analysing deviations and taking corrective action.A few important techniques to exercise strategic and operational control have come into practice which are quite effective. The role of different organisational systems have an impact on the evaluation process.

13.2 Nature and Importance of Strategic Evaluation

• Nature of Strategic Evaluation

Strategic evaluation and control can be defined as the process of determining the effectiveness of a given strategy in achieveing the organisational objectives and taking corrective action wherever required. Hence, we can say that the nature of strategic evaluation and control process is : To test the effectiveness of strategy, To keep the organization on the right track, and To trace the problems that occur in the implementation of strategy. It answers two sets of questions :

Generalised arching questions as -

(i) Are the assumptions on which the strategy has been formulated, correct ?

(ii) Is the strategy effective in achieving organisational goals ?

(iii) Are the managers performing the right tasks ?

(iv) Should the strategy be reformulated ?

Oprational questions as:

(i) How is organisation performing ?

(ii) Are the strategies implemented well in time ?

(iii) Is there a proper utilisation of resources ? And if not, what can be done for doing so ?

• Importance of Strategic Evaluation

During the process of strategic management, there is a segregation of key managerial tasks. Individual managers perform only a small portion of the overall operations and hence, the importance of strategic evaluation lies in :

- Its ability to coordinate the tasks performed by individual managers, and also groups, division or SBUs, through the control of performance. In the absence of coordinating and controlling mechanisms, individual managers may pursue goals which are inconsistent with the overall objectives of the department, division, SBU or the whole organisation.
- To motivate employees, it is essential that there is a proper feedback, so that appraisal can be done and good performance rewarded.
- Strategic evaluation helps to keep a check on the validity of a strategic choice. Strategic evaluation determines the effectiveness of strategy.
- During the course of strategy implementation managers are required to take a number of decisions. Strategic evaluation can help to assess whether the decisions match the intended strategy requirements.
- Strategic evaluation, through its process of control, feedback, rewards, and review, helps in a successful completion of the strategic management process.
- The process of strategic evaluation provides a considerable amount of information and experience to strategists that can be useful in new strategic planning.
- Last, but not the least, strategic evaluation and control also helps to overcome resistance to change, communicate new strategic agenda, formalizing beliefs and creating a corporate culture by laying down boundaries of acceptable behaviour.

13.3 Players in Strategic Evaluation

A host of players play an important role in strategic evaluation and control. The various players and the roles that they play are described below :

PARTICIPANTS	ROLES
1) Shareholders	Limited role, because individual shareholding is too small they are concerned about security and returns.
2) Board of Directors	Formal role of screening executive decisions in the light of environmental business and organizational implications.
3) Chief executives	Ultimately responsible for all administrative aspects of strategic evaluation and control. They are also evaluated on the basis of their performance.
4) SBU or Profit Centre Heads.	Evaluation at their level and also facilitate evaluation by corporate level executives.
5) Financial Controllers/ Company Secretaries/ External & Internal Auditors	Responsible for operational control based on financial analysis, budgeting and reporting.
6) Audit and Executive Committees	Responsible for continuous screening of performance.
7) Middle level managers	Providers of information and feedback. Also receive directions from above to take corrective action.

13.4 Barriers in Evaluation

There are five major types of barriers in evaluation :

1) **Degree of Controls** : There is always a dilemma regarding the degree of control i.e. too much v/s too little. Too much control may impair the ability of managers, adversely affect initiative and creativity, and create unnecessary impediments to efficient performance. On the other hand, too less control may make the strategic evaluation process ineffective and redundant.

2) **Difficulties in Measurement** : There are certain inherent difficulties in measurment during the process of evaluation. These difficulties mainly relate to : Reliability and validity of measurement techniques used for evaluation, Lack of quantifiable standards against which performance is measured, Inability of timely and valid information, Control system may be not uniform.

3) **Resistance to Evaluation** : The evaluation process involves controlling the behaviour of individuals and, hence is likely to be resisted by managers.

4) **Short Term View** : Managers often tend to rely on short-term implications of activities and try to measure the immediate results. Often, the long-term impact of performance on strategy is ignored, as it is the easy way out and taking the longterm implications into account may seem to be too tedious.

5) **Relying on efficiency versus effectiveness** : Efficiency is 'doing the things rightly' while effectiveness is 'doing the right things'. Measuring the wrong parameters may lead to a suitation where the right type of performance does not get rewarded. In fact, sometimes performance that does not really contribute to the achievement of objectives may be rewarded if assessed on the basis of efficiency alone.

13.5 Requirements for Effective Evaluation

The basic issue in the evaluation is that control should be dictated by strategy below are certain guidelines which forms the basis for making controls effective are given below:

- Control should involve only the minimum amount of information as too much information tends to clutter up the control system and creates confusion.
- Control should monitor only managerial activities and results even if the evaluation is difficult to perform.
- Controls should be timely so that corrective action can be taken quickly.
- Long-term and short-term controls should be used so that a balanced approach to evaluation can be adopted.
- Controls should aim at pin pointing exceptions. The 80:20 principle, where 20 per cent of the activities result in 80 per cent of achievement, needs to be emphasised. Getting focused on the activities that do not really add to achievement makes the evaluation ineffective.
- Rewards for meeting or exceeding standards should be emphasised so that manager are motivated to perform Unnecessary emphasis on penalties tend to pressurise the managers to rely on efficiency rather than effectiveness.

13.6 Types of Control

There are following types of strategic controls:

Premise Control

Every strategy is based on certain assumptions about environmental and organisational factors. Some of these factors are highly significant and any change in them can affect the strategy to a large extent. Premise control is ncessary to identify the key assumptions, and keep track of any change in them so as to assess their impact on strategy and its implementation. Premise control serves the purpose of continually testing the assumptions to find out whether they are still valid or not, so that corrective action at the right time may be taken. The responsibility for premise control can be assigned to the corporate planning staff who can identify key assumptions and keep a regular check on their validity.

Implementation Control

The implementation of a strategy results in a series of plans, programmes, and projects for the implementation of which resource alloocation is done. Implementation control is aimed at evaluating whether the plans, programmes, and projects are actually guiding the organisation towards its predetermined objectives or not. If not, then they have to be revised which leads to strategic rethinking. Implementation control may be put into practice through the identification and monitoring of strategic thrusts. Another method of implementation control is milestone review, through which critical points in strategy implementation are identified in terms of events, substantial resource allocation, or their completion times.

Strategic Surveillance

The premise and implementation types of strategic controls are specific in nature. Strategic surveillance, on the other hand, is aimed at a more generalised control aimed to monitor a broad range of events inside and outside the company that are likely to threaten the course of a firm's strategy. Strategic surveillance can be done through a broad-based, general monitoring on the basis of selected information sources to detect events that are likely to affect the strategy of an organisation. A lot of information captured through organisation learning and knowledge management system can be used for strategic surveillance.

Special Alert Control

Special alert control is based on a trigger mechanism. Whenever sudden and unexpected events occur, special alert control triggers an immediate response and reassessment of strategy is made in the light of those changed circumstances. Special alert control can be exercised through the formulation of contingency strategies and assigning the responsibility of handling unforeseen events to crisis management teams. Examples of such events can be the sudden fall of a government, instant change in a competitior's posture, an unfortunate industrial disaster, or a natural catastrophe. To conclude, it can be said that the focus of strategic control is to continually assess the changing environment and detect those events which can siginficantly affect an organisation's course of strategic action.

Operational Strategic Control

Operational Control is aimed to see that the implementation of strategy takes place smoothly. It aims at the allocation of resources to the right tasks and activities. This is done through evaluation of the performance of organisational units, such as, divisions, SBU's and so on to assess their contribution to the achievement of organisational objectives.

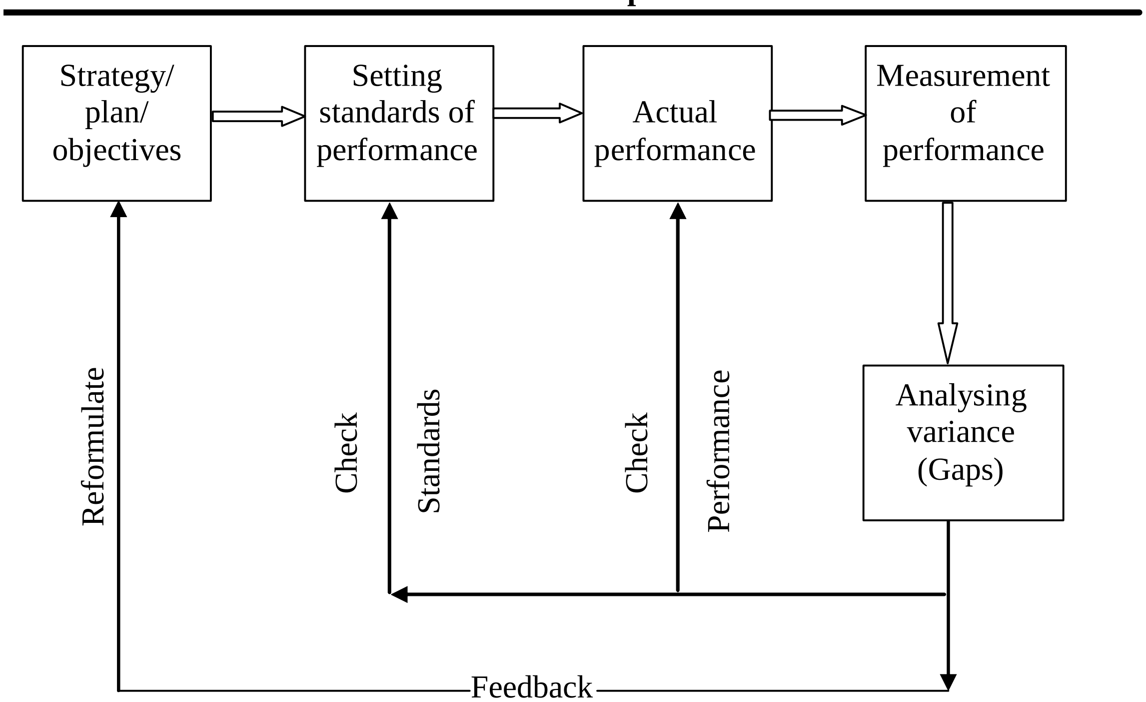
The major differences between strategic and operational control are:

	Attributes	*Strategic Control*	*Operational Control*
1.	Basic question	"Are we moving in the right direction"? Deals with Effectiveness.	"How are we performing ? Deals with 'Efficiency'.
2.	Aim	Proactive, continuous questioning of the basic direction of strategy.	Allocation and use of organizational resources.
3.	Main purpose	Organisation's future direction	Action control
4.	Focus	External environment	Internal organisation
5.	Time horizon	Long-term	Short-term
6.	Exercise of control	Exclusively by top management, may be through lower-level support	Mainly by executive or middle level management on the direction of the top management
7.	Main techniques	Environmental scanning, information gathering, questioning and review, scenario building, contingency planning.	Budgets, schedules, and MBO

13.7 Process of Control

In the first place, the strategy, plans and objectives result in a set of performance standards. It is against these standards that the actual performance is evaluated. The comparison between the actual and standard performance leads to the analysis of variance. Feedback from this analysis results in either a check on performance, revaluation of standards, or the reformulation of strategy, plans or objectives. Operational control aims at checking performance and then adjustment of standards. The reformulation of strategy is usually performed on the basis of strategic control, especially implementation control.

The Evaluation Process for Operational Control



The evaluation process for operational control consists of four inter-related steps -

Setting of Standards

Strategists encounter the following three questions while dealing with standard setting :

- What Standards to set ?
- How to set these standards ?
- In what terms do we express these standards ?

The basic approach which can be used to set standards is -

1. Find out the key performance areas by analyzing the key managerial tasks.
2. For each of these key performance area, standards are set.
3. To evaluate, performance indicators are then decided upon. They are set on the basis of both-
   - Quantitative (objective) as well as, qualitative (subjective) criteria.
   - Operational control can be effectively exercised through a combination of quantitative and qualitative criteria.

Quantitative Criteria

The creteria that are used for performance evaluation is generally financial in nature - like net profit, return on equity, return on capital, earnings per share, dividend rates, production costs, market share etc..There are two ways by which performance evaluation can be done on the basis of quantitative criteria-

1) Comparison of the organisations performace with its past achievements.

2) Comparison of the organizations performance with the industry average or that of major competitors.

Qualitative Criteria

Qualitative criteria play a major role in strategic control for evaluating strategy before implementation but these can be used in operational control too. Subjective assessment of the factors like capabilities, core competencies, risk-bearing capacity, strategic clarity, flexibility, and workability requires special set of qualitative criteria. Glueck and Jauch have suggested three sets of qualitative criteria : consistency, appropriateness and workability. Consistency tests strategy with respect to objectives, environmental assumptions, and internal conditions. Appropriateness assesses the strategy from the viewpoint of resources capabilities, risk preference, and time horizon. Lastly, workability checks strategy with regard to its feasibility and stimulation.

2. Measurement of Performance

Standards of performance act as the benchmark against which the actual performance is to be compared. The information system is the key element in any measurement exercise. Operationally, measuring is done through the accounting, reporting, and communication systems. A variety of evaluation techniques (indicated in the next section) are used for measurement. Besides, a few other important aspects of measurment are the difficulties, timing, and periodicity in measuring. For several activities, it is difficult to set standards and measure performance. Also, while it is easy to measure individual performance, it is not so to assess departmental performance.

Timing of measurement : Timing relates to the point of time at which evaluation has to take place. Whereas, delay in measurement can defeat the purpose of evaluation, measuring before time cannot serve the purpose either. It is better to measure at critical points in a task schedule which could be at the end of a definable activity or the conclusion of a task.

Periodicity in measurement : A related issue to timing is periodicity, which deals with the issue of "how often to measure". Normally, financial statements like budgets, balance sheets, and profit and loss accounts are prepared every year so the periodicity is on an annual basis. But there might be several functions, like production and marketing, where measurement will have to be done in shorter duration, possibly on a monthly or a weekly basis.

3. Analysing Variances

After measurement of actual performance and its comparison with standard or budgeted performance the following three situatations may arise :

1. **The actual performance matches the budgeted performance**. This situation is ideal but not realistic. In practice, the actual performance rarely matches the budgeted performance and are specified range of tolerance limits between which the results may be accepted satisfactorily. So, actual performance which lies within established tolernace limits are acceptable.

2. **The actual performance is more than the budgeted perofmance**. This situation indicates superior performance. But exceeding the target continually should be considered as unusual and a check needs to be made to test the validity of standards and the efficacy of the measurement system.

3. **The actual performance is less than the budgeted performance**. This situation is alarming as it indicates a shortfall in achievement. The strategists need to pinpoint the areas where performance is below standard and go into the causes of deviation. Corrective action is taken on the basis of the analysis of the causes of deviation.

To find the causes of deviations, the following questions are asked -

- Is the cause of deviations internal or external ?
- Is the cause random or was it expected ?
- Is the deviation temporary or permanent ?
- Are the strategies (and plans and objectives) still valid ?
- Does the organisation have the capacity to respond to the change needed ?

4. Taking Corrective Action

Performance can be affected adversely due to a number of factors such as distortions in resource allocation, inappropriateness of structure and systems, and wrong leadership and motivational styles. If the evaluation process shows that performance is consistently lower than expected, an in-depth analysis and diagnosis of the factors that might be responsible for bad performance has to be under taken. Taking corrective action for checking performance is, therefore, a significant part of the day-to-day activities of managers.

Checking of standards is done when it is felt that there is nothing significantly wrong with performance. Sometimes the standards are high as compared to organisational capabilits and hence they need to be modified. The standards can also be very low as compared to organisational capabilities which could be much higher. In such a case also, standards need to be checked. Reformulating strategies, plans and objectives are the most infrequentlly used corrective action. Strategic, rather than operational, control leads to the conclusion whether strategies need reformulation. A remodelling of plans leads to new resource allocation pattern and subsequent changes in strategy implementation.

13.8 Techniques of Strategic Evaluation and Control

The essence of strategic control is to continually assess the changing environment to detect events that may significantly affect the course of an organisation's strategy. Techniques for strategic control could be classified into two groups on the basis of the type of environment faced by the organisations.

1. Strategic Momentum Control

As the name suggests, these type of control aims at finding out what needs to be done in order to allow the organisation to maintain its existing strategic momentum. For this it checks whether the assumptions on the basis of which the strategy was formulated are still valid or not. Strategic momentum control can be done by using the following three techniques -

(i) **Responsibility Control Centres** -They are form the core of management control systems and are of four types : revenue, expense, profit, and investment centres. Each of these centres is designed on the basis of the measurement of inputs and outputs.

(ii) **Analysing Success Factors** - Managing on the basis of the CSFs, the strategists can continually evaluate the strategies to assess whether or not these are helping the organisation to achieve its objectives.

(iii) **The generic strategies approach** to strategic control is based on the assumption that the strategies adopted by a firm similar to another firm are comparable. Based on such a comparison, a firm can study why and how other firms are implementing strategies and assess whether or not its own strategy is following a similar path. Firms within a strategic group, often within the same industry, and sometimes in other industries too, tend to adopt similar strategies.

2. Strategic Leap Control

Where the environment is relatively unstable, organisations are required to make strategic leaps and make significant changes in order to define the new strategic requirements and to cope with changed environmental conditions. There are four techniques of evaluation used to exercise strategic leap control : strategic issue management, strategic field analysis, systems modelling, and scenarios.

(i) **Strategic issue management** is aimed at identifying one or more strategic issues and assessing their impact on the organisation. A strategic issue is "a forthcoming development, either inside or outside of the organisation, which is likely to have an important impact on the ability of the enterprise to meet its objectives. By managing on the basis of strategic issues, the strategists can avoid being overtaken by surprising environmental changes and design contingency plans to shift strategies whenever required.

(ii) **Strategic field analysis-** This approach is a way of examining the nature and extent of synergies that exist or are lacking between the components of an organisation. Strategists can either assess the ability of the firm to take advantage of the existing synergies, or they can evaluate the firm's ability to generate synergies where they do not exist.

(iii) **Systems modelling** is based on computer-based models that simulate the essential features of the organisation and its environment. Through this it exercises pre-action control.

(iv) **Scenarios** are perceptions about the likely environment a firm would face in the future. It enables organisations to focus strategies on the basis of forthcoming developments in environment.

13.9 Techniques of Operational Control

Operational control is aimed at the allocation and use of organisational resources. Evaluation techniques for operational control, therefore, are based on organisational appraisal rather than environmental monitoring, as is the case with strategic control. The classification of evaluation techniques can be done as follows :

A Internal Analysis

I. Value Chain Analysis : It helps in segregating the total tasks of a firm into identifiable activities which are evaluated for effectiveness.

II. Quantitative Analysis : They are the most used methods for evaluation for operational control because of its case of evaluation and verifiability of the assessment done. A few important methods used are ratio analysis, Economic value added, Activity based costing etc. A few non-quantitative techniques are also used such as computation of absenteeism, market ranking, rate of advertising recall, total cycle time of production, service call rate, or number of patents registered per period. Many more techniques can be evolved by firms to suit their specific requirement.

III. Qualitative Analysis supplements the quantitative analysis by including those aspects which are not possible to measure on the basis of figures and numbers. The methods that could be used for qualitative analysis are based on intuition, judgement, and informed opinion. Techniques like surveys and experimentation can be used for the evaluation of performance for exercising operational control.

B Comparative Analysis

The focus of comparative analysis is on the comparison of the performance of a firm with its own past performance, or with other firms.

I. Historical analysis is a frequently used method for comparing the performance of a firm over a given period of time and enables a firm to note how the performance has taken place over a period of time and to analyse the trend or pattern.

II. Industry norms is a comparative method for analysing performance that has the advantage of making a firm competitive in comparison to its peers in the same industry. It enables a firm to bring its performance at least up to the level of other firms and become more competitive.

III. Benchmarking - The best practices are the benchmarks that are adopted by a firm as the standards to exercise operational control. Through this method, performance can be evaluated continually till it reaches the best practice level. In order to excel, a firm shall have to exceed the benchmarks. In this manner, benchmarking offers firms a tangible method to evaluate performance.

C Comprehensive Analysis

This analysis adopts a total approach rather than focussing on one area of activity, or a function or department.

I. Balanced scorecard method is based on the identification of four key performance measures of customer perspective, internal business perspective, innovation and learning perspective, and the financial perspective. This method is a balanced approach to performance measurement as a range of parameters are taken into account for evaluation.

II. Key factor rating is a method that takes into account the key factors in several areas and then sets out to evaluate performance on the basis of these. It takes a wholistic view of the performance areas in an organisation.

Besides the above techniques four other techniques that are used by some companies to assess performance are the network techniques, parta system, management by objectives, and the memorandum of understanding.

I. The Parta System is an indigenous system adopted usually by Marwari firms to keep track of daily cash generation. "Parta is the pre-determined budget of the net cash inflows from operations before tax and dividend. The parta is decided in advance between the family group and company head, and actual performance is compared to this budgeted parta on a daily basis, thus making parta an effective operational control device.

II. Network Techniques such as programme evaluation and review technique (PERT), critical path method (CPM), and their variants, are used extensively for the operational controls of scheduling and resource allocation in projects.

III. Management by Objectives (MBO) is a system, proposed by Drucker, which is based on a regular evaluation of performance against objectives which are decided upon mutually by the superior and the subordinate. By the process of consultation, objective-setting leads to the establishment of a control system that operates on the basis of commitment and self-control. Thus, the scope of MBO to be used as an operational control is quite extensive.

IV. Memorandum of Undrstanding - Memorandum of Understanding (MoU) is "an agreement between a public enterprise and the Government, represented by the addministrative ministry in which both parties clearly specify their commitments and responsibilities. Having done that, the enterprises are evaluated on the basis of the MoU. Though an MoU is usually thought of as a technique used solely in the context of public enterprises, its use can be extended to any situation where an external agency is required to evaluate a firm's performance.

13.10 Organizational System in Evaluation

The process of strategic evaluation and control does not operate in isolation; it works on the basis of the different organisational systems that are used to implement strategies. The six organisational systems : information, control, appraisal, motivation, development, and planning have an important role to play in the evaluation process. A brief discussion of their various roles is as follows :

Information System

Evaluation is done by comparing actual performance with standards. The measurement of performance is done on the basis of reports generated through the information system. Several of the techniques described in the previous section, whether for strategic surveillance or financial analysis, are based on the use of an information system to provide relevant and timely data to managers to allow them to evaluate performance and strategy, and initiate corrective action. The increased use of IT enables organisations to generate information that is more useful for the evaluation and control purposes.

Control System

The control system, is at the heart of any evaluation process, and is used for setting standards, measuring performance, analysing variances, and taking corrective action. The central role of the control system in evaluation has already been discussed in previous sections.

Appraisal System

The appraisal system actually evaluates performance as a part of the wider control system. When the performance of managers is appraised, it is their contribution to the organisational objectives which is measured and hence, provides the basis for the control system to work.

Motivation System

The central role of the motivation system is to induce strategically desirable behaviour so that managers are encouraged to work towards the achievement of organisational objectives and that deviations do not occur. The motivation system plays a significant role in ensuring that deviations do not occur, or if they do, then they are corrected by the means of rewards and penalities. Performance checks, which are a feedback in the evaluation process are done through the motivation system.

Development System

The development system prepares the managers for performing strategic and operational tasks. The performance of the managers is appraised through the appraisal system which points out to the deficiencies in their knowledge, skills and attitude. The development system helps in the removal of these deficiencies and initiate and implement corrective action.

Planning System

In the planning system, the issue related to "planning for evaluation" is dealt with questions such as the following:

- Who will perform evaluation ?
- How will the information generated be used ?
- How much resources will be required ?
- To what extent will control be exercised so that it is cost-effective ?
- What administrative systems will be required to support the evaluation system ?
- The evaluation process also provides feedback to the planning system for the reformulation of strategies, plans, and objectives. Thus. he planning system closely interacts with the evaluation process on a continual basis.

13.11 Summary

The nature of strategic evaluation is judgemental. Evaluation, helps strategists to know whether thier strategy is in consonance with the environment and whether the performance of tasks would lead to the achievement of objectives. The reasons for the importance of evaluation are several : need for feedback, appraisal and reward, check on the validity of strategic choice, congruence between decisions and intended strategy, successful culmination of the strategic management process, and creating inputs for new strategic planning. There are various participants in evaluation, including the board of directors, CEOs, SBU heads, financial controller, and audit committees. The five major types of barriers in evaluation are : the limits of control, difficulties in measurement, resistance to evaluation, tendency to rely on short-term assessment, and relying on efficiency versus effectiveness. Evaluation operates at two levels : strategic and operational. Strategic control aims at a continuous assessment of the changing environment vis-a-vis strategy. It can be exercised through - Premise control to test the assumptions on the basis of which strategy is formulated. Implementation control to assess whether or not the different aspects of implementation eed any change.Strategic surveillance to monitor the environment. Special alert control to create rapid-response ability to meet unexpected changes. There are several techniques available for exercising strategic control and operational control. Strategic control may be carried out through strategic momentum control and strategic leap control systems. Operational control is done through techniques involving internal analysis, comparative analysis, and comprehensive analysis.The six organisational systems of information, control, appraisal, motivation, development, and planning play differing, but significat roles in strategic evaluation and control.

13.12 Key Words

- **Strategic Evaluation & Control** - Process of determining the effectiveness of a given strategy in achieveing the organisational objectives and taking corrective action wherever required.
- **Premise Control** - Premise control serves the purpose of continually testing the assumptions to find out whether they are still valid or not, so that corrective action at the right time may be taken.
- **Implementation Control** - Implementation control is aimed at evaluating whether the plans, programmes, and projects are actually guiding the organisation towards its predetermined objectives or not.

- **Strategic Surveillance -** Strategic surveillance is aimed at a more generalised control aimed to monitor a broad range of events inside and outside the company that are likely to threaten the course of a firm's strategy.
- **Special Alert Control -** Special alert control is based on a trigger mechanism. Whenever sudden and unexpected events occur, special alert control triggers an immediate response and reassessment of strategy is made in the light of those changed circumstances.
- **Operational Control** - Operational Control is aimed to see that the implementation of strategy takes place smoothly. It aims at the allocation of resources to the right tasks and activities.
- **Strategic Momentum Control -** As the name suggests, these type of control aims at finding out what needs to be done in order to allow the organisation to maintain its existing strategic momentum.
- **Strategic Leap Control -** Where the environment is relatively unstable, organisations are required to make strategic leaps and make significant changes in order to define the new strategic requirements and to cope with changed environmental conditions.
- **Balanced Scorecard -** Balanced scorecard method is based on the identification of four key performance measures of customer perspective, internal business perspective, innovation and learning perspective, and the financial perspective. This method is a balanced approach to performance measurement as a range of parameters are taken into account for evaluation.
- **Key Factor Rating -** Key factor rating is a method that takes into account the key factors in several areas and then sets out to evaluate performance on the basis of these. It takes a wholistic view of the performance areas in an organisation.

13.13 Self Assessment Test

1 Write a detailed note on the nature, purpose and importance of strategic evaluation.

2 What roles do various players have in the evaluation process ?

3 What are the major barriers in the evaluation process ? How can these barriers be avoided ?

4 What is strategic control ? What are its major types ?

5 Differentiate between strategic and operational control

6 What are the major steps in the evaluation process ? Discuss at length.

7 Discuss the major types of techniques of strategic evaluation & control.

8 Write a detailed note on techniques available for operational control.

9 "The process of strategic evaluation & control does not operate in isolation, it works on the basis of the different organisational systems that are used in implementing strategies". Comment.

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Unit - 14 : Applying Strategic Management

Unit Structure:

14.0 Objectives

After studying this unit, you shall be able to understand :-

- Why strategy cases need to be different.
- Various approaches to case analysis - group discussion and individual presentation.
- An effective preparation for case analysis and discussion.
- How to make a written analysis of a case.
- The necessity of undertaking an industry analysis.
- Making a presentation of the case.

14.1 Introduction

In the previous units, a detailed discussion on various concepts, techniques and process of strategic management has been taken. What all has been learnt in theory, now needs to be put to practice. Unless and unitl, the strategic management process is put to practice in real business situations, it serves only a peripheral purpose. In fact, it is applicability of the strategic management process which leads to the success or failure of an organisation. The case method is a powerful decision making tool. By analyzing the cases, the organisations get acquainted with the industry in which it operates. The other companies with which a firm competes. The specific and general business environment for a number of firms, and The government policies & regulatory framework within which firms operate.

14.2 Case Study Method

Strategy cases need to be slightly different from other functional area cases for the following reasons:

1. Strategy cases helps translate the theoretical learning to practical life situations. Since there is no "correct" answer in a strategy case, the accuracy of the case analysis depends on the corelation between case facts and the tools of analysis used.

2. Strategy cases are more about an intellectual discipline and goal clarity than others. It is on this basis of intellectual discipline that one is able to bring into focus the efficacy of the tools that have been applied.

3. Strategy cases are about decision making rather than solving problems. Where as the functional area cases focus primarily on the problem-solution mode, the strategy area cases deal with making a choice based on the data and the recommendations of the tools of analysis that have been used.

4. Again, because there is not one unique solution, strategy solutions are based on the analytical skills of the strategist as also the appropriateness of tools used. Decision variables based on the BCG matrix may yield different solutions to that based on Porters 5 forces model. Hence, the successful strategist uses multiple tools to generate multiple options and takes the most logical and consistent solution.

5. Last but not the least, strategy cases reflect a holistic understanding of not only the firm, or the industry, but also the entire social-political and economic environment facing the firm. Culture for example may play a very important part in determining the strategic choice. For example, inventory management will be regarded as an operational decision in Europe. In India, given levels of market uncertainty, it may assume strategic importance.

14.3 Case Analysis Approaches

Broadly, two approaches can be adopted for case analysis by management and training institutions : Individual Presentation and Group Discussion.

Individual presentation can be done through written and oral means. Depending on the type of methodology adopted, institutions can make use of presentation and group discussion approaches either singly or jointly. The main role of the instructor in case analysis is to stimulate the class or training group to share insights, observations, and thoughts about the case. The major role that participants in case analysis play is to analyse cases and make presentations.

The major guidelines for an effective preparation for case analysis are as follows :-

1. Read the case once for familiarity so that you get a 'feel' of the situation described in the case.

2. Read the case again for grasping the facts. Make notes underline and jot down important points.

3. Evaluate the situation described in the case. Attempt to gain an understanding of the objectives, strategies, policies, problems, causes of problems, issues, and the roles of key individuals.

4. Prepare the environmental threats and opportunities profile (ETOP), and strategic advantages profile. (SAP)

5. Think of strategic alternatives and suggest the 'best' option and support your proposal with facts, reasons, and arguments.

6. Propose a comprehensive plan for strategy implementation. Keep in mind the feasibility of implementing your suggested strategy, considering the availability of resources, and whether or not the strategic changes will be manageable.

7. Evaluate your proposal; state the quantitatives and qualitative criteria for evaluating strategy and state the assumptions you have made in arriving at conclusions. Suggest contingency plans should your assumptions prove not to be wholly correct.

8. Prepare notes for oral and written presentation, or for participating in group discussions, or for attempting the case in the test or examination.

The guidelines given above are not meant to be rigidly followed. Rather each case would call for a unique approach. Not all cases require a comprehensive analysis as suggested above. Some cases are short and need specific analysis pertaining to only one or two aspects of strategic management. But it is good to know the right approach to follow, specially if one is attempting a case analysis for the first time.

14.4 Written Analysis of Cases

Frequently, while doing a case discussions one is required to make written analysis of cases. In doing so it is important to keep in mind the guidelines already suggested for preparation of the case discussion. Besides, additional care in making the written analysis of a case should also be taken as under:

1. Keep the written analysis simple but do not overlook major issues.
2. Adopt a nice style of writing. Use headings, labels, and topic sentences, and put the whole structure in an integrated and logical manner.
3. Include analysis based on techniques wherever relevant. ETOP, SAP, ratio analysis, portfolio analysis, and so forth, are some of the techniques that can be used for good results.
4. Specifically state the assumptions of the time of making recommendations, provide supporting evidence, and benchmarks for evaluation.
5. Provide a summary, in a page, of the major issues and recommendations made by you.

14.5 Oral Presentation and Group Disucssion

Another popular approach to case analysis is of making an oral presentation with regard to oral presentation of cases, some points have to be kept in mind. Some guidelines that can help to make a good oral presentation are as follows:

1) Plan well in advance because oral presentation is a difficult - but rewarding experience.
2) Do not commit the mistake of reading out a written analysis of case. Oral presentation has to be even more precise and convincing. There is not much time available for making lengthly analysis and arguments.
3) Use teaching aids such as Blackboard, overhead Projector, Powerpoint demonstration, and so on, to present charts and diagrams for enhancing the value of your presentation.
4) Rehearse your presentation and be prepared to handle questions from the instructor and fellow participants.

Almost all management education institutions in India admit students by a selection process that has group discussion as one of the elements. Selection and recruitment of management trainees and middle-level managers by companies also may be based on group discussion.

Group discussion for strategic management case analysis offers an excellent opportunity to participants to hone communication skills and develop a feeling of team work. Also, group discussion is a more realistic process as most strategic decisions are acually made by managers in a group setting. Group discussion is based on the premise that pooling of knowledge, expertise, and experience of participants can benefit every one.

Here are a few guidelines by which one can make an effective analysis and participate effectively in group discussions:

1. Preparing the case thoroughly by all participants is an essential prerequisite for effective discussion. So make sure you have all the facts fefore participating in a group discussion.

2. A preliminary small group discussion could be informally had before the actual discussion takes place.

3. Group discussion involves challenging someone else's position or defending one's own. This has to be done on the basis of facts, figures, reason, and logic, and not by being aggressive.

4. Keep the principles of effective inter-group behaviour in mind : be communicative and participative; expect and tolerate dissenting views; contribute rather than just talk; and learn to work as a team.

5. Group discussion offers a chance to realise that it is not good to adopt rigid stances (a firm stand is, of course, different from a rigid stance). Do not be afraid to express your views, but at the same time realise that ultimately group performance is tied to the performance of individual members.

With these guidelines in mind, it is possible to make effective use of the group discussion approach to case analysis.

14.6 Industry Analysis

Case analysis is done for organisations while industry analysis is of a whole industry. Industry analysis is done on the basis of an industry profile, which is actually a case of the industry. The typical contents of an industry profile are :-

- History of the industry,
- Stages of life cycle,
- Major companies or players,
- Buyer-side and demand-side patterns and conditions,
- State of competition,
- Capital requirements,
- Technology level,
- Role and impact of government policies,
- Skills and resources ability, and
- Future prospects.

The purpose of industry analysis is three-fold:

1. To identify strategic issues and problems facing the industry.

2. To indentify the strengths, weaknesses, opportunities, threats, key success factors, and other strategically relevant aspects of an industry.

3. To evaluate a business's competitive position and future prospects.

In fact, while preparing case analysis, it is desirable to perform a preliminary industry analysis. This provides a good idea to what alternatives a company has; what prospects does each of the alternatives have; and what would be the best strategic alternative for a company. Industry analysis can also help in supporting strategic choice with a wider information base and greater in-depth understanding of industry and competitive factors.

14.7 Sources for Cases in Strategic Management

1. ***Institutional Sources*** : There are instituions such as Indian Institute of Management, Ahmedabad and Administrative Staff College of India, Hyderabad, that provides case material on payment.

2. ***Journals*** : While there is no specialised journal for business policy and strategic management there are journals that often carry case studies related to issues directly or indirectly related to the subject. Chartered Financial Analyst, ICFAI Reader, Indian Journal of Training and Development, Indian Management, Prestige Journal of Management and Research, and Vikalpa are the names of some such journals.

3. ***Periodicals*** : Magazines such as Business India carry several types of interesting industry and corporate reports. Though these reports are not written for the purpose of case analysis, they can be adapted suitably for use in case discussion. Other magazines such as Business World and Business Today, in addition, carry a regular feature of case studies followed by its analysis. Newspapers such as The Economic Times, The Financial Express, Business Line, and Business Standard give extensive coverage and special supplements on industries and companies that can be used for case analysis.

4. ***Books*** **:** Recent years have seen some effort towards publishing books containing cases in business policy and strategic management.

14.8 Solving a Case Study

Your answer should have -

(i) Concept (Topic to which the case addresses)
(ii) Diagramatic, flow charts
(iii) Written Anlysis of Case

A summary of the steps to be followed while solving a case is given below :

STEP 1 : Situation Analysis -

This is just like a summary. It should identify the functional area (marketing, HR etc.) and the concept (topic). Around 3/4th or 1 page should be written about this part.

STEP 2 : Problem Identification -

Identification of the problem has to be very specific i.e. pin pointed. If there seem to be more than one major problem, number them. This part should be around 5-6 line.

STEP 3 : Identify the Cause of the Problem -

The main reasons of the problem (2-3 lines). The causes of the problem shall guide the solution of the case. Hence, they should be clearly stated.

STEP 4 : Facts -

List those facts which have to be included while analysis (one page).

STEP 5 : Assumptions -

Try to complete the picture, i.e. try and assume the obvious policies, demographics, cultural and social aspects which in way lays down the boundaries of the case.

STEP 6 : SWOT Analysis -

Opportunities and threats are due to external factors. Strengths and weaknesses are due to internal organisational factors.

Opportunities and Threats	Strengths and Weakness
Eco-Legal	Finance
Human Resources	
Social -	
Technological	Marketing
	R & D
Political -	Production
	Location

Note : (1) SWOT analysis is very important for marketing cases. It may not be very relevant for HRM, OB, OTP etc.

(2) The sequence of steps 4, 5, 6 depends on the case material, i.e. the sequence can be changed, and secondly, it is not compulsory also to include all the steps (depending on the case).

STEP 7 : Decision Criteria -

If there are some constraints given in the case on which the company has no hold, or if something on which the company can't compromise it becomes a decision criteria (such facts which can't be neglected while making a final decision) (2-3 lines).

STEP 8 : Generation of Alternatives -

Generate around 3-4 alternatives. Number the alternatives. (½ page approx.)

STEP 9 : Evaluation of Alternatives -

Evaluate each alternative one by one (Pros and cons of each alternative with respect to your resource availability). (3-4 pages). Select the best alternative and write it as recommendation.

Final Note : The implementation of the chosen alternative would require a realignment of 7's (structure, strategy, systems, staff, skills, style, shared values) for which the top management should be prepared.

Case Study I

Doordarshan

DD is the India's premier public service broadcaster with more than 1,000 transmitters covering 90% of the country's population across on estimated 70 million homes. It has more than 20,000 employees managing its metro and regional channels. Recent years have seen growing competition from many private channels numbering more than 65, and the cable and satellite operators (C & S). The C & S network has reached nearly 30 million homes and is growing at a very fast rate.

DD's business model is based on selling half – hour slots of commercial time to the programme producers and charging them a minimum guarantee. For instance, the present tariff for the first 20 episodes of a programme is Rs.30 lakhs plus the cost of production of the programme. In exchange the producers get 780 seconds of commercial time that he can sell to advertisers and can generate revenue. Break-even point for producers, at the present rates, thus is Rs.75,000 for a 10 second advertising spot. Beyond 20 episodes, the minimum guarantee is Rs.65 lakhs for which the producers has to charge Rs.1,15,000 for a 10 second spot in order to break-even. It is at this point the advertisers face a problem – the competitive rates for a 10 second spot is Rs.50,000. Producers are possessive about buying commercial time on DD. As a result the DD's projected growth of revenue is only 6-10% as against 50-60% for the private sector channels. Software suppliers, advertisers and audiences are deserting DD owing to its unrealistic pricing policy. DD has three options before it. First, it can privatize, second, it could remain purely public service broadcaster and third, it can take a middle path.

The challenge seems to be to exploit DD's immense potential and emerge as a formidable player in the mass media.

i. What is the best option, in your view, for DD?

ii. Analyze the SWOT factors that DD has.

iii. According to you which is the best performed option and why?

Answer

Since it is a close ended case, we shall take up the first two steps before answering the specific questions as asked in the case.

Situation Analysis

Doordarshan has been a premier public service broadcaster for a number of years. It has more than 1,000 transmitters covering 90% of the country's population across on estimated 70 million homes. It has more than 20,000 employees managing its metro and regional channels. Lately, the competition has increased tremendously due to increasing number of private channel operators. The Cable & Satellite network has reache nearly 30 million homes and is growing at a very fast rate. DD's business model is based on selling half – hour slots of commercial time to the programme producers and charging them a minimum guarantee. As a result the DD's projected growth of revenue is only 6-10% as against 50-60% for the private sector channels. Software suppliers, advertisers and audiences are deserting DD owing to its unrealistic pricing policy. DD has three options before it.

- First, it should privatize,
- Second it should remain purely public service broadcaster and
- Third, a middle path.

The challenge is to capitalize on its existing potential and emerge as a leader in the mass media, taking into consideration its existing situation.

Problem Identification:

The main problem is that DD has not been able to foresee the competitive scenario and change its pricing policies which have made it unprofitable.

Answers to the Questions:

(i) For several years Doordarshan was the only broadcaster of television programmes in India. After the opening of the sector to the private entrepreneur (cable and satellite channels), the market has witnessed major changes. The number of channels has increased and also the quality of programmes, backed by technology, has improved. In terms of quality of programmers, opportunity to advertise, outreach activities, the broadcasting have become popular businesses. Broadcasters too have realized the great business potential in the market. But for this, policies need to be rationalized and not only in term of quality of programmes but also innovation in other area. This would not come by simply going to more areas or by allowing bureaucratic set up to continue in the organization. Strategically DD needs to undergo a policy overhaul. DD, out of three options, namely privatization, public service broadcaster or a middle path, can choose the third one, i.e. a combination of both. The whole privatization is not possible under the diversified political scenario. Nor it would be desirable to hand over the broadcasting emotively in the private hand as it is a great means of communication of many socially oriented public programmers. The government could also think of creating a corporation (as it did by creating Prasar Bharti) and provide reasonable autonomy to DD. So far as its advertisement tariff is concerned that can be made fairly competitive. However, at the same time cost of advertising is to be compared with the reach enjoyed by the doordarshan. The number of viewers may justify higher tariffs.

(ii) The SWOT analyses involve study of strengths, weaknesses, opportunities and threats of an organization.

SWOT factors that are evidently available to the Doordarshan are as follows:

S – Strengths

- More than 1000 transmitters.
- Covering 90% of population across 70 million homes against only 30 million home by C & S.
- More than 20,000 employees.

W – Weaknesses

- Rigid pricing strategy.
- Low credibility with certain sections of society.
- Quality of programmes is not as good as of C & S network

O– Opportunities

- Infrastructure can be leased out to cable and satellite channel.
- Digital terrestrial transmission.
- Regional focused channels.
- Allotment of time slots to other broadcasters.

T – Threats

- Desertion of advertisers and producers may result in loss of revenues.
- Due to quality of program the reach of C & S network is continuously expanding.
- As the C& S network need the trained staff, some employees of DD may switchover and take new jobs.
- Best of the market-technology is being used by the private channels.

(iii) It is suggested that DD should adopt a middle path. It should have a mix of both the options. It should economize on its operational aspects and ensure more productivity in terms of revenue generation and optimum use of its infrastructure. Wherever, the capacities are underutilized, these may be leased out to the private operations. At the same time quality and viewership of programmes should be improved.

Bureaucracy may affect new strategic initiatives or make the organization less transparent. Complete privatization can fetch a good sum and may solve many of the managerial and operational problems. However, complete public monopoly is not advisable because that denies full exploitation of the avenue for social and public use by the government. The government will also lose out as it will not be able to take advantage of rising potential of the market.

PTC –Venturing into Snacks Segment

In 2006-07 PTC Food division decided to enter the fast growing (20-30% annually) snacks segment, which was altogether new to it. It had only one national competitor-Trepsico's Trito. After year its wafer snack brand- Ringo, fetched 20% market share across the country. Ringo's introduction was coincided with the cricket world cup. The wafer snacks market is estimated to be around Rs. 250 crores.

The company could take the advantage of its existing distribution network and also source potatoes from farmers easily. Before PTC decided to enter the market, a cross-functional team made a customer survey through a marketing research group in 14 cities of the country to know about the snacks eating habits of people. The result showed that the customers within the age-group of 15-24 years were the most promising for the product as they were quite enthusiastic about experimenting new snack taste. The company reported to its chefs and the chefs came out with 16 flavors with varying tastes suiting to the targeted age-group.

The company decided to target the youngsters as primary target on the assumption that once they are lured in, it was easier to reach the whole family. Advertising in this category was extremely crowded. Every week two-three local products in new names were launched, sometimes with similar names. To break through this clutter the company decided to bank upon humor appeal.

The Industry sources reveal that PTC spent about Rs. 50 crores on advertisement and used all possible media including print and electronic along with the creation of its own website, Ringoringoyoungo.com with offers of online games, contests etc. Mobile phone tone downloading was also planned which proved very effective among teenagers. The site was advertised on all dotcom networks. Em TV, Shine TV, Bee TV and other important channels were also used for its advertisement along with FM radio channels in about 60 cities with large hoardings at strategic places.

Analysts believe that Ringo's success story owes a lot to PTC's widespread distribution channels and aggressive advertisements. Humor appeal was a big success. The 'Ringo' was made visible by painting the Railway bogies passing across the States. It has also been successful to induce Lovely Brothers' Future Group to replace Trito in their Big-Bazaar and chain of food Bazaars. PTC is paying 4% higher margin than Trepsico to Future group and other retailers.

Ringo is giving Trepsico a run for its money. Trito's share has already been reduced considerably. Retail tieups, regional flavours, regional humour appeals have helped PTC. But PTC still wants a bigger share in the market and in foreign markets also, if possible.

Answer the following questions:

a. What is SWOT Analysis?

b. What are the strengths of PTC?

c. What are the weaknesses of PTC for entering into the branded snacks market?

d. What kind of marketing strategy was formulated and implemented for Ringo?

What else need to be done by Ringo so as to enlarge its market?

Answer

Situation Analysis:

PTC Food division entered the fast growing (20-30% annually) snacks segment in 2006-07, which was estimated to be around Rs. 250 crores. Its major competitor was-Trepsico's Trito. After a year its wafer snack brand- Ringo, fetched 20% market share across the country The Company could take the advantage of its existing distribution network and also source potatoes from farmers easily. Before PTC decided to enter the market, a cross-functional team made a customer survey which showed that the customers within the age-group of 15-24 years were the most promising for the product as they were quite enthusiastic about experimenting new snack taste. The company, therefore, came out with 16 flavors with varying tastes suiting to the targeted age-group.

It used humor appeal for its advertising to break through the clutter, for which it spent about Rs. 50 crores using all possible media. It also created its own website—Ringoringoyoungo.com with offers of online games, contests etc. All other means of mobile marketing were also used, along with FM radio channels in about 60 cities with large hoardings at strategic places.

Ringo's success story owes a lot to PTC's widespread distribution channels and aggressive advertisements. The efforts to increase the visibility of 'Ringo' were also made by painting the Railway bogies passing across the States. It also paid 4% higher margin than Trepsico to Future group and other retailers. Ringo is giving Trepsico a tough competition by effective retail tie-ups, regional flavors, regional humor appeals . But PTC still wants a bigger share in the market and in foreign markets also, if possible.

Problem Identification:

After the initial success, PTC wants to increase its market share in the Domestic markets and would also like to enter foreign markets.

Answers to the Questions:

(a) SWOT Analysis is a tool used by organization for resolving strategic options for the future. The term SWOT refers to the analysis of strength, weaknesses, opportunities and threats facing a company. Strengths and weaknesses are identified in the internal environment, whereas opportunities and threats are located in the external environment.

Strength: Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitor.

Weakness: A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.

Opportunity: An opportunity is a favorable condition in the external environment which enables the organization to strengthen its position.

Threat: An unfavorable condition in external environment which causes a risk for, or damage to the organization position.

(b) Strengths of PTC:

i. PTC has an existing distribution network that is used to its advantage.

ii. The company has strengths in the area of procurement of potato, which is the raw material to make the wafers.

iii. Financially the company is very strong as they are spending 50 crores on advertising in a market wroth 250 crores.

iv. The company has diverse flavors of wafers in its portfolio that are according to the different

tastes of the target group.

v. PTC has done good bargaining deals with food bazaars and food chains.

vi. The cross-functional team of PTC made a virtuous marketing research.

(c) Weaknesses are inherent limiting factors of an organization. They are internal by nature to the working of the organization. The case study does not clearly mention the points that can conclusively be weaknesses of the company. However, a deeper analysis will bring out that the company is totally new to the snacks business and is highly aggressive in its approach. The experience in the food business may not result in the required competencies in the business of chips.

Seemingly, the company has also gone overboard in its advertisement expenditure. It may be that the margins justify expenditure of 20% in value of the total market size of Rs.250 crores. Otherwise, the company may come into financial difficulties. Creating market may also be difficult as already there are many players who are trying to get attention of existing and new customers.

The business is already cluttered with regional and national players and is highly competitive. Further, the company is relying highly on a particular on young segment of the population i.e. youngsters. This segment can be highly receptive to the new products and the company may lose them easily to the competitors.

(d) Formulation and implementation of marketing strategy was as under:

The Product: To launch its snack product, an easy to remember brand name RINGO was decided upon. To understand the snackage eating habits of Indian customer a large survey was undertaken. Chefs on the basis of the market survey came out with sixteen flavors. The target group was identified as youngsters of 15-24 years.

The Promotion: The Company spent about Rs.50 crore on marketing communication. Different Media including print, electronic and outdoor advertising were put to use. Appeal used was that of humor. A huge visibility through point-of-sale was also arranged. Promotion policy was very aggressive considering that 50 crores were spent in a market of 250 crores.

The Place: Getting Trito replaced by Ringo in Big-Bazaar and food bazaar chain of stores was a great success for PTC. To motivate a higher margin than the Trepsico was provided for. PTC even otherwise has extensive distribution network.

A perfect blend of marketing mix has made it possible to go so far and so early. Since the marketing strategy has remained successful, they need to carry it forward. However, they also need to keep a restrain on promotion as spending huge amount of money on marketing for a share in the market of 250 crores seems to be too high. Such an expensive campaign is only suitable if the company is able to increase the market size considerably. To achieve this it requires competencies. Otherwise, it might be difficult to sustain high expenditure over a very long period of time.