

CORPORATE STRATEGY

(Integrated MBA 7th semester)

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Integrated MBA 5 Yrs Syllabus from Admission Batch 2016-17 onwards

7 th Semester	16IMN705	Corporate Strategy	L-T-P 4-0-0	4 Credits	35 hrs
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Course Objective:

1. To learn the major initiatives taken by a company's top management on behalf of corporates, involving resources and performance in business environment.
2. To specify the Organization's mission, vision and objectives and develop policies.
3. To understand the analysis and implementation of strategic management in strategic business units.

Module I :

STRATEGY AND PROCESS : External& Internal Environment – Strategic Advantage Profile (SAP), Environmental Threat Opportunity Profile (ETOP), SWOC Analyses -Conceptual framework for strategic management, the Concept of Strategy and the Strategic Management Process – Stakeholders in business – Vision, Mission, Purpose, Objectives and Goals – Strategic intent – hierarchy of strategy – strategic business unit.

Module II :

INDUSTRY STRUCTURE & COMPETITIVE ADVANTAGE: Industry Analysis - Porter's Five Forces Model-Strategic Groups, Competitive Changes during Industry Evolution-Globalization and Industry Structure - Capabilities and competencies-core competencies-Low cost and differentiation - Generic Building Blocks of Competitive Advantage- Distinctive Competencies-Resources and Capabilities durability of competitive Advantage- Sustainable Competitive Advantage - Case study.

Module III :

STRATEGY IMPLEMENTATION AND EVALUATION : The generic strategic alternatives – Stability, Expansion, Retrenchment and Combination strategies - Business level strategy-Strategy in the Global Environment-Corporate Strategy-Vertical Integration-Diversification and Strategic Alliances -Mergers & Acquisition (Concept) - Strategic analysis and choice – Business Portfolio Analysis – BCG Matrix and GE 9 Cell Model -Mc Kinsey's 7s Framework - Balance Score Card-case study.

Designing Strategic Control Systems- Matching structure and control to strategy-Implementing Strategic change-Politics-Power and Conflict-Techniques of strategic evaluation & control-case study.

Books:

- Strategic Management & Business Policy, Azar Kazmi, TMH,
- Strategic Management, R. Srinivasana, PHI,
- Strategic Management, Haberberg & Rieple, Oxford ,
- An Integrated approach to Strategic Management, Hill & Jones, Cengage ,
- Strategic Management & Entrepreneurship, D.Acharya & A. Nanda, HPH

MODULE -I

BUSINESS ENVIRONMENT

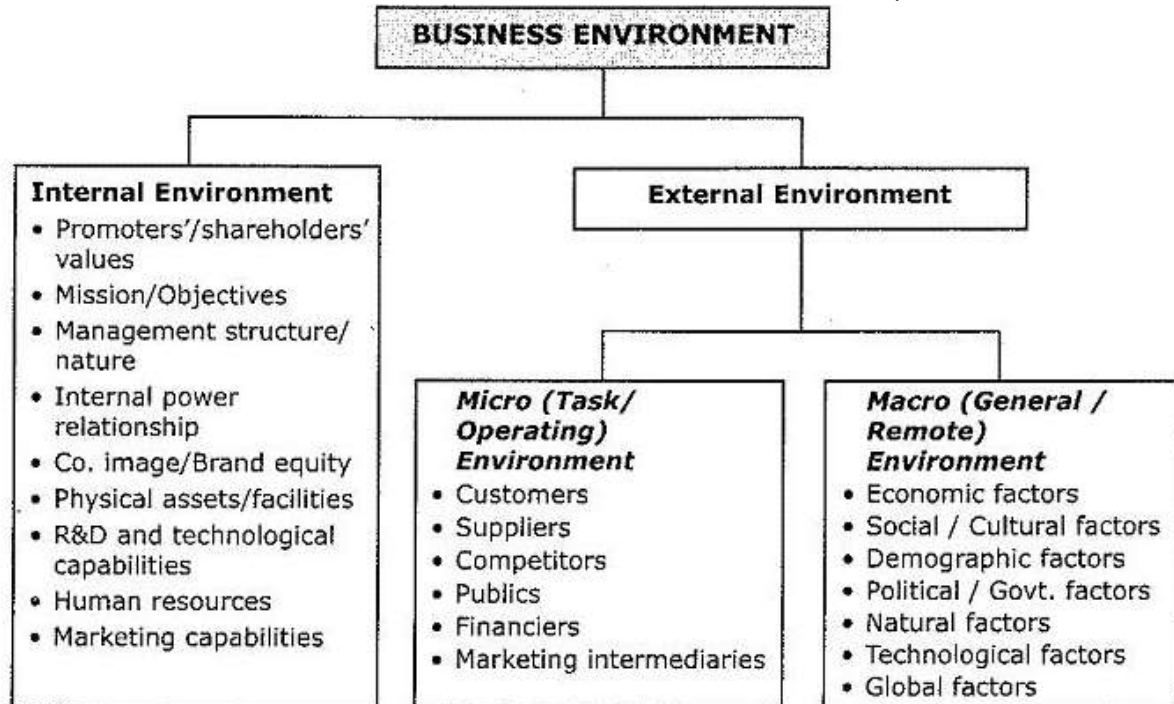
- We live in a **dynamic environment** that changes all the time.
- Businesses must **understand the changes in the environment** and how these changes affect their performance.
- The process of **thinking strategically** requires that managers understand how the structure and competitive dynamics of their industry affect the performance and profitability of their companies.
- **Business environment is an aggregate of all conditions, events and influences that surround and affect it.**
- A business depends on certain internal and external factors.
- Progress, success and survival largely depend upon their capacity and ability to adapt successfully to environmental changes available in surroundings of a business.

Business organizations deal with the environment by undertaking the following transactions:

- They receive **Inputs** from External Environment (Eg: A manufacturer receives raw materials, a stock broker receives financial information)
- Convert them into **Output** (Eg: The manufacturer produces goods from the raw materials, the stock broker interprets the information)
- **Sell to External Environment** (Eg: The manufacturer sells the products, the stock broker gives advice)

Business environment is mainly divided into **two types**:

- 1) Internal environment
- 2) External environment



INTERNAL ENVIRONMENT

- It consists of **conditions and forces within an organization** that affect the organization's management.
- Aspects of the internal environment **include** – the organization's mission, corporate culture, owners and the board of directors, employees, other units of the organization and unions.
- These are factors which can be controlled by the company to a good extent.
- Managing the strengths of internal operations is the key to business success.

Types of Internal Environment:

1. Value System
2. Mission & Objectives
3. Management Structure and Nature
Organisation Structure, Style of functioning
4. Internal Power relationship
5. Human Resources
Quality of HR, Labour Unions

6. Physical Resources and Tech. Capabilities

Physical Assets, Finance (Capital Structure)

7. Company Image & Brand Equity

These are explained as follows:

1. Value system:

- The value system of an organisation means the **ethical beliefs** that guide the organisation in achieving its mission and objective.
- The value system of a business organisation also **determines its behaviour** towards its employees, customers and society at large.

Examples:

- The value system of *J.R.D. Tata*, the founder of Tata group of industries, was its self-imposed moral obligation to adopt morally just and fair business policies and practices which promote the interests of consumers, employees, shareholders and society at large.
- *Infosys* attributes its success to its value system and says “our corporate culture is to achieve our objectives in environment of fairness, honesty, transparency and courtesy towards our customers, employees, vendors and society at large”.

2. Mission & objectives:

- The **objective** of all firms is assumed to be maximization of long-run profits.
- **Mission** is defined as the overall purpose or reason for its existence which guides and influences its business decision and economic activities.
- The-choice of a business domain, direction of its development, choice of a business strategy and policies are all guided by the overall mission of the company.
- For **example**, “to become a world-class company and to achieve global dominance has been the mission of ‘Reliance Industries of India’.
- Similarly “to become a research based international pharma company” has been stated as mission of Ranbaxy Laboratories of India.

3. Organisation structure:

- **Organisation structure** means such things as composition of board of directors, the number of independent directors, the extent of professional management and share-holding pattern.
- An efficient working of a business organisation requires that its organisation structure **should be conducive to quick decision making**.
- Delays in decision making can cost a good deal to a business firm.
- The **board of directors** is the highest decision making body in a business organisation. It takes general policy decisions regarding direction of growth of business of the firm and supervises its overall functioning.
- Therefore, the **managerial capability of the board of directors is of crucial importance** for the functioning of a business firm and for achievement of its overall mission and objectives.

4. Internal power relationship:

- **Corporate culture and style of functioning of top managers** is important factor for determining the internal environment of a company.
- In a **closed and threatening type of corporate culture** the business decisions are taken by top-level managers, while middle level and work-level managers have no say in business decision making.
- There is **lack of trust and confidence** in subordinate officials of the company and secrecy pervades throughout in the organisation.
- As a result, among lower level managers and workers there is **no sense of belongingness to the company**.
- In an **open and participatory culture**, business decisions are taken at lower levels of management, and top management has a high degree of trust and confidence in the subordinates.
- **Free communication** between the top level management and lower-level managers is the rule in this open and participatory type of corporate culture.
- Closely related to corporate culture is the **style of functioning of top management**.
- Some top managers believe in just **giving orders** and want them to be strictly followed without holding consultations with lower level managers.
- This style of functioning is **not conducive** to the adaptability and flexibility in dealing with the changing external environment of business.

5. Human Resources and Labour Unions:

- **Quality of employees (i.e. human resources)** of a firm is an important factor of internal environment of a firm.
- The success of a business organisation depends to a great extent on the **skills, capabilities, attitudes and commitment of its employees**. Employees differ with regard to these characteristics.
- For efficient management of human resources, employees are divided into different groups.
- The manager may pay little attention to the technical details of the job done by a group and **encourage group cooperation** in the interests of a company.
- Due to the importance of human resources for the success of a company these days there is a **special course for managers** how to select and manage efficiently human resources of a company.
- Labour unions are other factor determining internal environment of a firm.
- Unions collectively **bargain** with top managers regarding wages, working conditions of different categories of employees.
- Smooth working of a business organisation requires that **there should be good relations between management and labour union**.
- Each side must implement the terms of agreement reached.
- Sometimes, a business organisation requires restructuring and modernisation.
- In this regard, the terms and conditions reached with the labour union must be implemented in both letter and spirit if cooperation of workers is to be ensured for the reconstruction and modernisation of business.

6. Physical resources and technological capabilities:

- **Physical resources** such as plant and equipment, and **technological capabilities** of a firm determine its competitive strength which is an important factor determining its efficiency and unit cost of production.
- **R and D capabilities** of a company determine its ability to introduce innovations which enhance productivity of workers.
- It is however important to note that rapid technological progress, especially unprecedented growth of information technology in recent years has increased the relative importance of **'intellectual capital and human resources'** as compared to physical resources of a company.



- The growth of Bill Gates **Microsoft** Company and Murthy's **Infosys** Technologies is mostly due to the quality of human resources and intellectual capital than to any superior physical resources.

7. Company image and brand equity:

- **Company image** refers to the goodwill which a company creates over the years of its operation.
- **Brand equity** refers to the popularity which the company has and the proportion of customer which they receive due to this popularity.

Significance of Internal Factors:

The internal factors basically include **the inner strengths and weaknesses**. **Internal factors can affect how a company meets its objectives.**

Some **examples** of areas which are typically considered in internal factors are:

- **Financial resources** like funding, investment opportunities and sources of income.
- **Physical resources** like company's location, equipment, and facilities
- **Human resources** like employees, target audiences, and volunteers
- Access to **natural resources, patents, copyrights, and trademarks**
- **Current processes** like employee programs, software systems, and department hierarchies

EXTERNAL ENVIRONMENT

- It consists of those factors that affect a firm from ***outside of its organisational boundaries***.
- These factors are ***relevant to its operation*** and ***influence the ability to achieve organisational goals***.
- The external factors are outside the organization and ***provide opportunities or pose threats*** to the organization.

External Environment is divided into **two parts**:

- a) **External Micro Environment**: The environment which is close to business and affects its capacity to work is known as Micro Environment.

- b) **External Macro Environment:** It includes factors that create opportunities and threats to business units.

a) External Micro Environment:

- Suppliers
 - Backward integration
- Customers
 - B2C, B2B
 - Wholesalers
 - Retailers
 - Industries
 - Government and Other Institutions
 - Foreigners
- Market Intermediaries
 - Agents, Stockist, Transporters
 - Mktg. Service Agency (Mktg. Research, Consulting, Advt.)
 - Financial Intermediaries
 - Physical Intermediaries
 - Forward Integration
- Competitors
 - Product, Brand, Disposable Income/Budget
- Publics
 - Environmentalists, Media, Consumer rights, Local groups, Citizen associations

These are explained in detail as follows:

- **Suppliers:**
 - ✓ Smooth **supply of inputs** such as raw materials is required for smooth and efficient working of a business.

- ✓ **If supply is uncertain**, the business will have to keep large stock of raw materials which will raise the cost of production and reduce the profit margin.
- ✓ Some companies go for **backward integration** and set up production plants for producing raw materials themselves.
- ✓ Energy input is also important.
- ✓ Many large firms such as **Reliance industries** have their own power generating plants so as to ensure regular supply of electricity for their manufacturing business.
- ✓ It is **not good to depend on a single supplier** only as it can lead to risk and uncertainty.

- **Customers**

- ✓ Customers are the **most important element** of the business enterprise.
- ✓ The main aim of any business is to **attract and retain its customers**. This helps the business to attain long term survival and profitability.
- ✓ Therefore, to increase the level of loyal customers, business enterprise should **carefully observe the needs and wants of the customers** and fulfil them effectively.
- ✓ The business enterprises must also **analyse the changing tastes and preference of the customers** and make changes in its product and services accordingly.

- **Marketing intermediaries:**

- ✓ Marketing intermediaries **include** agents and merchants such as distribution firms, wholesalers, retailers.
- ✓ They are a **link** between the manufacturer and final consumer.
- ✓ Marketing intermediaries are **responsible for stocking and transporting goods from their production site to their destination**, that is, ultimate buyers.
- ✓ There are **marketing service agencies** such as marketing research firms, consulting firms, advertising agencies which assist a business firms in targeting, promoting and selling its products to the right markets.
- ✓ Market intermediaries are beneficial to the organisation only when there is a proper coordination between channel without any hurdle.

- **Competitors:**

- ✓ The organisations which ***manufacture similar products and try to conquer over the market share*** are termed as competitors.
- ✓ To earn more profit and stay competitive, the company needs to ***monitor the competitor's activities and then prepare its future plan.***

- **Publics**

- ✓ **Public**, according to **Philip Kotler** "is any group that has an actual or potential interest in or impact on a company's ability to achieve its objective".
- ✓ **Environmentalists, media groups, women associations, consumer protection groups, local groups, citizens associations** are some important examples of publics which have an important bearing on environment of the firms.
- ✓ **Eg:** Many citizen groups are actively campaigning against cigarette manufactures for their advertising campaigns luring the people to indulge in smoking.
- ✓ Thus, the existence of various types of publics ***influences the working of business firms and compels them to be socially responsible.***

b) External Macro Environment:

The external macro environment determines the **opportunities** for a firm to exploit for promoting its business and also presents **threats** to it in the sense that it can put restrictions on the expansion of business activities. The macro-environment has thus **both positive and negative aspects**.

- **Demographic factors:**

- It is a ***study of perspective of population*** i.e. its size, standard of living, growth rate, age-sex composition, family size, income level (upper level, middle level and lower level), education level etc.
- Every business unit must see these features of population and ***recognize their various needs*** and produce accordingly.

Demographic environment variables are:

- population size, growth rate of population,
- age, composition of the population, life cycle stage
- gender, marital status, family size

- education level,
 - social class, caste, religion, race
 - income, assets ownership, home ownership, employment status, location.
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- For **example**, premium products such as high-end women's clothing usually appeal to women with **higher incomes**.
 - Conversely, people with comparatively **lower incomes** are more sensitive to price and, therefore, may prefer purchasing discount products.
 - People with lower incomes have **less disposable income**. Value is a major determinant in the products they purchase.
 - Hence, a company may best **reach lower-income people** through discount retailers and wholesalers and attract higher-income buyers in specialty retail shops.
 - **Younger people under 35** are often the first consumers to purchase high-tech products like cell phones, electronic books and video games. Certain **buying groups** also have more buying power than others.
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- **Economic factors:**
- These are the **macro-level factors** related to the means of production and distribution of wealth that have an impact on the business of an organization.
 - Economic factors **decide the nature and direction of the economy** in which a firm operates.
 - Strategic decisions are influenced by economic factors, therefore **managers must monitor economic environment continuously**.

Some of the **important economic factors** are:

- The economic stage of the country (agrarian, industrial or post-industrial economy)
- The economic structure adopted (capitalist, socialist or mixed economy)
- Economic policies (industrial, monetary and fiscal policies)
- Economic planning (five year plans, annual budgets, etc.)
- Economic indices (national income, distribution of income, rate and growth of GNP, per capita income, disposable personal income, rate of savings and investments, value of exports and imports, balance of payments, etc.)

- Infrastructural factors (financial institutions, banks, modes of transportation and communication facilities, etc.)

Examples:

- India, despite being the 3rd largest economy in terms of purchasing power parity just after the US and China, still has significant **challenges** such as rising economic disparities, monsoon-dependent agricultural sector, inadequate socio-economic reforms, infrastructural bottlenecks, and a volatile stock market.
- Thus, the **Indian organizations, in their strategic planning**, have to be acutely aware of the diverse economic scenario unfolding before them.
- India still is a **poverty stricken nation** with 270 million poor people. In order to become a developed nation, the corporate sector has to consider the possibilities in serving the economically weaker sections of the society and get involved in various ways for poverty alleviation.

➤ Socio-cultural factors:

- The social factors that affect a firm's business include: **values, beliefs, attitudes, opinion, and lifestyles**.
- These are **developed from** culture, demographic, ecological, religious, education and ethnic conditions.
- The **change in socio-cultural environment** creates a different type of consumers and hence the need for different products and services.
- Entry of large no. of women into workforce, changes in lifestyle, shift in age distribution of population, increased average age life, pace of urbanization, health consciousness, etc. are the changes having a bearing on strategy formulation.

Examples:

- Changes in lifestyle create demand for fashionable items like jeans, cell phones, clubs, amusement parks, etc.
- With increase in the percentage of working women, demand for ready to eat foods is increasing.
- Greater concern for health and fitness has created demand for physical fitness equipment and health foods.

➤ Political and legal factors:



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- Businesses are closely related to the govt. and the ***political philosophy of the govt.*** wields a great influence over business policies.
- **Political factors such as:**
 - ✓ political stability and peace in the country,
 - ✓ foresight of the ruling party and its perspective towards business,
 - ✓ Relation with other countries
 - ✓ Defense and military policies
 - ✓ Centre state relationship in the country
- **Legal factors:**
 - ✓ Laws passed by the govt. and decisions rendered by various commissions and agencies at every level of the govt.
 - ✓ **Examples** include tax laws, anti-trust regulations, employment laws, foreign investment policies, business laws (such as Companies Act 1956, Consumer protection Act 1986, Competition Act 2002, etc.)
- **Technological factors:**
 - Technology consists of the ***type of machines and processes*** available for use by a firm and the way of doing things.
 - The improvement in technology ***raises total factor productivity*** of a firm and ***reduces unit cost of output.***
 - The use of a superior technology by a firm gives it a ***competitive advantage*** over its rival firms.
 - The use of a particular technology by a firm for its transformation process determines its ***competitive strength.***
 - The firms which use ***outdated technologies*** cannot compete globally.

Examples:

- Introduction of “apps” to carry out all kinds of businesses has made life much easier.
- Innovations in medicine, telecommunications and biotechnology.
- Recent advancement in the market of autonomous cars i.e. driverless cars.
- Introduction of Amazon Go (Automated shopping – no checkout lines, no lines – just grab and go!)

➤ **Natural/environmental factors:**

Natural environment is the ultimate source of many inputs such as raw materials, energy which business firms use in their productive activity.

Components of natural environment are:

- **Land resources:** of all natural resources, land is certainly the important. Man and other living beings use it for their habitation.
- **Water resources:** water is a prime natural resource. It is required for satisfying one of the basic needs of humans. Thus, water has become a precious national asset.
- **Forest resources:** forests occupy an important place among natural resources of a country.
- **Mineral resources:** availability of mineral has a unique distinction of influencing the course of economic development of a country.
- **Weather and climatic conditions**

➤ **Global factors (international environment):**

- It is particularly important for industries directly depending on import or exports.
- Form of Govt., Political Ideology, Protectionist Sentiment, Terrorism, Legal System, Govt.'s Attitude towards Foreign Firms.
- **The factors that affect the business are:**
 - ✓ Globalization
 - ✓ Liberalization
 - ✓ Foreign business policies
 - ✓ Cultural exchange

SAP (STRATEGIC ADVANTAGE PROFILE)

- Every firm has strategic advantages and disadvantages.
- For example, large firms have financial strength but they tend to move slowly, compared to smaller firms, and often cannot react to changes quickly. No firm is equally strong in all its functions.
- In other words, ***every firm has strengths as well as weaknesses.***

- Strategists must be aware of the **strategic advantages or strengths** of the firm to be able to choose the best opportunity for the firm.
- On the other hand they must **regularly analyse their strategic disadvantages or weaknesses** in order to face environmental threats effectively.
- A Profile of strategic advantages (SAP) is a **summary statement**, which provides an overview of the advantages and disadvantages in key areas likely to affect future operations of the firm.
- It is a **tool for making a systematic evaluation of the strategic advantage factors**, which are significant for the company in its environment.
- The preparation of such a profile presupposes detailed analysis and diagnosis of the factors in each of the **functional areas** (Marketing, Production, Finance and Accounting, Personnel and Human Resources, R& D).
- These functional areas are listed to **identify** their relative strength and weakness.
- **Positive, neutral and negative signs** are denoted and a **brief description** is written in SAP profile.
- All these described profiles **provide a clear picture** to understand the strategic position of an organization.

INTERNAL AREA		COMPETITIVE STRENGTH OR WEAKNESS
Marketing	+	Overall product range is extensive, and focus is always on customer satisfaction
	-	Channels of distribution are limited to the self-owned branches which cater to limited segments
Research & Development	-	No research and development performed
Operations	+	Strategically located retail outlets
	+	Good sourcing of inputs through a network of suppliers
	-	Facilities are relatively old and outdated
Corporate Resources	0	Company size is about average for the industry
	0	Profits have been consistent but average
	-	Labour turnover is relatively higher
Finance	0	Availability of funds is made easily, but is limited to the internal family resources

Foot note: + indicates strength; 0 indicates neutral; - indicates weakness

Fig. 4: Strategic Advantage Profile of Fashion Textiles

Source: (Adapted from Jauch, L.R. and Glueck, W.F., 1988, p180)

The SAP indicates that the strategists initiate action to cover the gaps and use the company's strengths in the light of environmental threats and opportunities.

SWOC ANALYSIS

- It is a process of analysing the ***strengths, opportunities, weaknesses and challenges/threats*** of an organization.
- Through such an analysis, the ***strengths and weaknesses existing within an organization can be matched with the opportunities and threats*** operating in the environment so that an effective strategy can be formulated.
- An effective organizational strategy is therefore one that capitalises on the opportunities through the use of strengths and neutralizes the threats by minimising the impact of weaknesses to achieve pre-determined objectives.

Strengths:

- What we do well
- Our Advantages
- Assets
- Resources

Internal strengths are the resources or capabilities that help an organization to accomplish its mandates or mission.

Examples: professional staff, adequate resources, leadership, values, physical facilities, talents, linkages or networks, history, reputation, etc.

Weaknesses:

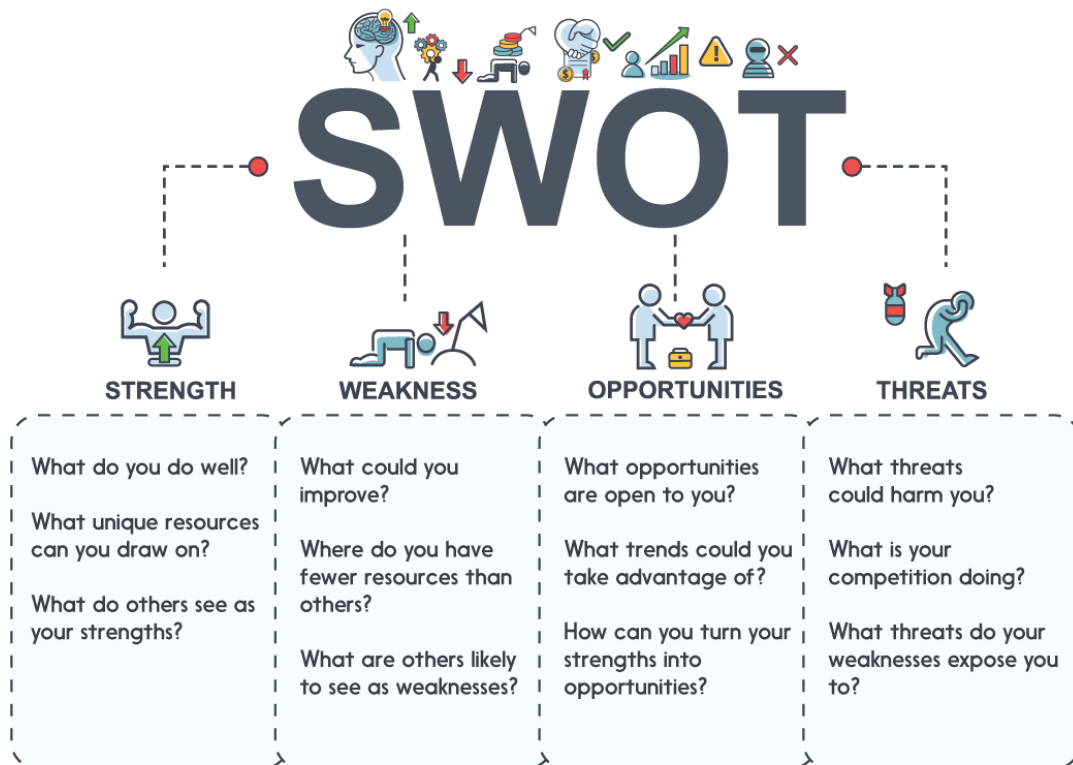
- What could we do better
- External Criticism
- Vulnerabilities
- Internal weaknesses are the deficiencies in the resources and capabilities that hinder an organization's ability to accomplish its mandate or mission.
- Examples: lack of effective communication, absence of clear mission or vision, flawed organisational structure, non-competitive pay structure, performance issues, lack of financial resources, etc.

Opportunities:

- Known
 - Trends
 - Environmental Changes
 - New products
 - New technologies
- External opportunities are outside factors or situations that can affect your organisation in a favourable way.
 - Examples: New funding, political support for a potential project, a chance to modify an outdated mandate, the global economy, changing customer demographics and preferences, technological changes, timing, etc.

Challenges / (Threats):

- Weaknesses
 - External Roadblocks
 - Marketplace changes
 - Economic conditions
- External challenges are outside factors or situations that can affect your organization in a negative way.
 - Examples: lack of state funding, increasing demand for a particular service, management conflicts, global economy, competition, customer preferences, technological changes, social or political trends.



STEPS IN SWOT ANALYSIS

1. **Setting the objectives of the organisation or its unit.**
2. **Identifying the strengths, weaknesses, opportunities and threats.**
3. **Asking 4 questions:**
 - a) How do we maximise our strengths?
 - b) How do we minimise our weaknesses?
 - c) How do we capitalise on the opportunities in our external environment?
 - d) How do we protect ourselves from threats in our external environment?
4. **Recommending strategies that will optimise the answers from the 4 questions.**

Courses of Action on SWOC outcome:

- Build on your Strengths
- Minimize your Weaknesses
- Seize Opportunities
- Counteract Challenges

Sample Strategic SWOT Analysis for a Hospital

Strengths	Weaknesses
• Design of the building. • Geographical location. • History and reputation. • Competent clinical staff members. • Comprehensive services.	• High turnover rates. • Poor internal communication. • Lack of a website (in the era of internet). • Many of the non-clinical staff members lack English language and computer skills. • Lack of any well-recognized accreditation.
Opportunities	Threats
• Acquiring a higher market share after being renovated and JCI-accredited. • An unsaturated market which can tolerate the opening of new branches and/or satellite clinics in strategic locations. • Affiliation with an American hospital /center /group and arrangement for periodic visits of its clinical experts.	• Potential competitors who will enter the market in the near future (whether local or international ones). • Increased power of the healthcare insurance companies which sent us more than 60% of the total cases admitted at our hospital last year.

ETOP (ENVIRONMENT THREAT OPPORTUNITY PROFILE) ANALYSIS

- This is a technique of environmental appraisal/assessment suggested by **Glueck**.
- The preparation of ETOP involves **dividing the environment into different sectors** and then **analysing the impact of each sector** on the organisation.
- A comprehensive ETOP requires **sub-dividing each environmental sector into sub-factors** and then the impact of each sub-factor on the organisation is described in the form of a statement.
- A **summary ETOP** may only show the major factors for the sake of simplicity.

Importance of ETOP analysis

- Helps organisations to identify opportunities and threats
- To consolidate and strengthen the organisation's position
- Helps to understand which sectors have a favourable impact on the organisation
- Helps in formulating appropriate strategies
- Helps in formulating SWOT analysis

Environmental Factors

FACTORS	COULD INCLUDE
Political	international trade, taxation policy
Economic	interest rates, exchange rates, national income, inflation, unemployment, Stock Market
Social	ageing population, attitudes to work, income distribution
Technological	innovation, new product development, rate of technological obsolescence
Environmental	global warming, environmental issues
Legal	competition law, health and safety, employment law

ETOP TWO-WHEELER INDUSTRY EXAMPLE:
ETOP for a Motor Bike company:

Environmental Sectors	Impact of each sector
Social (↑)	Customer preference for motorbike, which are fashionable, easy to ride and durable.
Political (→)	No significant factor.
Economic (↑)	Growing affluence among urban consumers; Exports potential high.
Regulatory (↑)	Two Wheeler industry a thrust area for exports.
Market (↑)	Industry growth rate is 10 to 12 percent per year, For motorbike growth rate is 40 percent, largely Unsaturated demand.
Supplier (↑)	Mostly ancillaries and associated companies supply parts and components, REP licenses for imported raw materials available.
Technological (↑)	Technological up gradation of industry in progress. Import of machinery under OGL list possible.

THE CONCEPT OF STRATEGY

- The word strategy is derived from the **Greek word 'strategos'**, which means generalship – the actual direction of military force.
- Strategy means **"the art of the general"**.

It can also be used loosely to mean a number of things.

A strategy could be:

- A **plan or a course of action** or a set of decision rules making a pattern or creating a common thread;
- The **pattern or common thread related to the organisation's activities** which are derived from the policies, objectives and goals;
- Related to pursuing those activities which **move an organisation** from its current position to a desired future state;



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- Concerned with the **resources** necessary for implementing a plan or following a course of action;
- And connected to the **strategic positioning** of a firm (the way in which a business as a whole distinguishes itself from its competitors and delivers value to specific customer segments);
- The **planned or actual coordination of the firm's major goals and actions**, in time and space that continuously co-align the firm with its environment.

STRATEGIC MANAGEMENT

It is the dynamic process of **formulation, implementation, evaluation, and control of strategies** to realise the organisation's strategic intent.

Characteristics of Strategic Management

- Strategic management co-ordinates and integrates business activities.
- Strategic management strengthens the competitive position.
- Strategic management satisfies customers.
- It works toward achieving performance targets.
- It is adaptive

Need for strategic management

- Due to change
- To provide guidelines
- Research and development
- Probability for business performance
- Systemized decision
- Improves Communication
- Allocation of resources
- Improves Coordination
- Helps the managers to have holistic approach

Importance and Role of Managers in it:

1. Strategic management **integrates** the knowledge and experience gained in various functional areas.
2. It helps to **understand and make sense of complex interaction** in various areas of management.
3. It helps in **understanding how policies are formulated**
4. Managers need to begin by **gaining an understanding of the business environment** and to in control.

STRATEGIC MANAGEMENT PROCESS



STRATEGIC MANAGEMENT PROCESS

A) Establishing the hierarchy of strategic intent:

Strategic intent is the hierarchy of objectives that an organisation sets for itself.

1. Creating and communicating a **vision** (stating what the organisation wishes to achieve in the long run)
2. Designing a **mission** statement (relates the organisation to the society)
3. Defining the **business** (explains the businesses of the organisation in terms of customer needs, customer groups, and alternative technologies)
4. Adopting the **business model** (clarifies how the organisation creates revenues)
5. Setting **objectives** (what is to be achieved in a given time period)

B) Formulation of strategies:

6. It is also called strategic planning. It is the stage in which strategists (managers who are responsible for strategic management in an organisation) think, analyse and plan strategies.
7. Performing **environmental appraisals** (SWOT)
8. Doing **organisational appraisals**
9. Formulating **corporate-level strategies** (strategic decisions to manage a portfolio of businesses)
10. Formulating **business-level strategies** (aim to develop competitive advantage in individual businesses that a company has in its portfolio)
11. Undertaking **strategic analysis** (strategic alliances, mergers and acquisitions)
12. Exercising **strategic choice** (the decision to select from the grand strategies while taking into consideration the firm's objectives)
13. Preparing **strategic plan** (in terms of vision, mission, objectives, action plan and review methods)

C) Implementation of strategies:

It is the "putting into action" phase. The formulated strategies are implemented through a series of administrative and managerial actions.

13. Activating strategies

14. Designing **structure, systems and processes** (designing appropriate organisational structures and systems)
15. Managing **behavioral implementations** (leadership styles for implementing the strategies and other issues like corporate power and politics, corporate culture, business ethics and personal values)
16. Managing **functional implementations** (policies to be formulated in different functional areas)
17. **Putting strategies into operation** (deals with productivity, processes, people and pace of implementing the strategies)

D) Performing strategic evaluation and control:

It involves assessing how effectively the strategies were formulated and are being implemented.

18. Performing strategic evaluation
19. Exercising strategic control
20. Reformulating strategies

STRATEGIC INTENT

- It is a term coined by Hamel and Prahalad.
- It refers to the ***purposes*** the organisation strives for.
- These may be explained in terms of a ***hierarchy of strategic intent***.
- The ***framework*** within which firms operate, adopt a predetermined direction, and attempt to achieve their goal is provided by an overarching strategic intent.
- The ***hierarchy of strategic intent*** covers the vision and mission, business definition, business model, goals and objectives.

Examples:

- Late Dhirubhai Ambani of **Reliance group** is credited with having a strategic intent of making his group a global leader in the field of activity by being the lowest-cost producer of polyester products – a status achieved by relentless pursuit of scale, vertical integration and operational effectiveness.
- Late Parviner Singh of **Ranbaxy group** is considered as a visionary industry leader who worked hard towards the creation of a globally competitive, research based pharma giant.

HIERARCHY OF STRATEGIC INTENT



- **Stretch:** Stretch is a misfit/gap between resources and aspirations.

When a firm doesn't have the resources or capability to take up the position it would like in the market, so it attempts to augment or alter its capabilities to better fit into the market.

Strategic stretch means that the success of firms depends on the ability of companies to 'stretch' their available resources to achieve their objective and intent.

- **Leverage:** It refers to concentrating, accumulating, complementing, conserving and recovering resources in such a manner that meagre resource base is stretched to meet the aspirations.

Example: Microsoft has taken over Nokia's mobile telephone business to add additional competencies to its range.

(A brand leveraging strategy uses the power of an existing brand name to support a company's entry into a new, but related product category)

- **Fit** means positioning the firm by matching its organisational resources to its environment.

A firm positions itself in an environment that suits its resources and capabilities.

This is the most realistic approach, based on SWOT analysis and the marketing mix.

VISION:

- The position that a firm would like to attain in distant future.
- As per **Kotter (1990)**, it is a 'description of something (an organisation, a corporate culture, a business, a technology, an activity) in the future.'

- **El-Namaki (1992)** – mental perception of the kind of environment an individual, or an organisation, aspires to create within a time horizon and the underlying conditions for the actualization of this perception.
- **Miller and Dess (1996)** – category of intentions that are broad, all-inclusive, and forward thinking

Benefits of having a vision:

- Good visions are *inspiring* and *exhilarating*
- Represents a discontinuity, a step function, and a *jump ahead*
- Helps in the *creation of common identity* and *shared sense of purpose*
- Good visions are *competitive, original and unique*, and make sense in the market (as they are practical)
- *Fosters long-term thinking, risk-taking and experimentation.*
- Represents *integrity* – they are truly genuine and can be used to the benefit of people

MISSION

- **Thompson (1997)** – The essential purpose of the organization, concerning particularly why it is in existence, the nature of the business it is in, and the customers it seeks to serve and satisfy.
- **Hunger and Wheelen (1999)** – the purpose or reason for the organisation's existence.

Characteristics of a Mission Statement

1. **It should be feasible:** The mission should be realistic and achievable. Feasibility depends on the resources available.
2. **It should be precise:** A mission statement should not be too narrow so as to restrict the organisation's activities nor should it be too broad to make itself meaningless.
3. **It should be clear:** A mission should be clear enough to lead to action. It should not be designed only for publicity purposes. **For example:** HUL's mission is to 'add vitality to life' leading to various strategic actions of being the largest consumer goods company in India.

4. **It should be motivating:** A mission statement should be motivating for members of the organisation and of society, and they should feel worthwhile working for such an organisation or being its customers.

Eg: A bank which lays great emphasis on customer service is likely to motivate its employees to serve its customers well and to attract clients.

5. **It should be distinctive:** A mission statement which is indiscriminate is likely to have little impact.

Eg: Bajaj Auto adopted its popular mission of providing 'value for money', for years going over to 'inspiring confidence' and now being 'distinctly ahead'.

6. **It should indicate major components of strategy:** A mission statement should indicate the major components of the strategy to be adopted.

Eg: The mission of HCL Infosystems is: "We enable business transformation and enrichment of lives by delivering sustainable world class technology products, solutions and services in our chosen markets thereby creating superior shareholder value".

7. **It should indicate how objectives are to be accomplished:** A mission statement should also provide clues regarding the manner in which the objectives are to be accomplished.

Eg: Oxfam India, in the voluntary sector, seeks to achieve its mission through the empowerment of the poor and marginalised to demand their rights, engagement of non-poor to become active and supportive citizens, advocating for an effective and accountable state.

BUSINESS DEFINITION:

- It seeks to ***explain the business undertaken by the firm***, with respect to the customer needs, target audience, and alternative technologies.
- With the help of business definition, one can ascertain the strategic business choices.
- Each division of the business could have more accurate business definition at the SBU level.

BUSINESS MODEL:

- Business models are often expressed in the form of a question: ***How does the organisation make money?***



- It is about ***ascertaining sources of income, desired customer base and financing details.***

Examples:

- A kirana store owner buys commodities and products at a price and then, applying a mark-up, sells them at retail prices thus earning revenue and profit.
- Bharti Airtel has a highly cost-effective business model through a strategic alliance with Nortel India that hosts contact centre services for subscribers to Bharti's mobile services as well as the broadband and fixed line service. By doing so, Bharti frees itself from the day-to-day responsibilities associated with operating, maintaining and evolving its contact centre network to focus on its core business. Nortel earns revenue on a per call basis. Enhancing customer service thus differentiates Bharti from other telecommunication service providers in the competitive Indian market.

GOALS AND OBJECTIVES:

- Goals denote what an organisation hopes to ***accomplish in future.***
- They represent the ***future state or outcome*** of effort put in now.
- ***Objectives*** are the ends that state specifically how the goals shall be achieved.
- ***Goals*** are generalized whereas ***objectives*** are more concrete and specific.
- ***Goals*** may be qualitative, objectives are quantitative. This way they are measurable and comparable.
- ***Objectives*** play an important role in strategic management. They define the organisation's relationship with its environment, help an organisation pursue its vision and mission, provide the basis for strategic decision-making and provide the standards for performance appraisal.

Characteristics of objectives:

1. **Objectives should be understandable:** They should be understandable by those who have to achieve them.
2. **Objectives should be concrete and specific:** To say that 'our company plans to achieve a 12% increase in sales' is better than stating 'our company needs to increase its sales'.

3. **Objectives should be related to a time frame:** If objectives are related to a timeframe, then managers know the duration within which they have to be achieved.
4. **Objectives should be measurable and controllable:** For example, measuring the attractiveness of a company to work for through measures such as no. and quality of job applications received, staff turnover, etc.
5. **Objectives should be challenging:** Objectives should be set at challenging but not unrealistic levels.
6. **Different objectives should correlate with each other:** If objectives are set in one area disregarding the other areas such an action is likely to lead to problems.
7. **Objectives should be set within constraints:** There are many constraints – internal as well as external – which have to be considered in objective setting.

Eg: organisations may face external constraints like legal requirements, consumer activism and environmental protect.

Issues in objective setting

1. **Specificity:** objectives may be stated at different levels of specificity. This issue is resolved through stating objectives at different levels and prefixing terms such as corporate, general and particular so that it enables performance and evaluation.
2. **Multiplicity:** Too many or too few number of objectives are both unrealistic. Also having objectives with respect to different organisational levels (higher or lower), importance (primary or secondary), ends (survival or growth), functions (marketing or finance) and nature (organisational or personal) leads to multiplicity.
3. **Periodicity:** Objectives are formulated for different time periods and so they have to be integrated with each other. Long term objectives are by nature, less certain and so are stated in general terms. But short term objectives may be more certain and specific.

For eg: a long term objective may be continual profitability. Short term objectives which support this may be return on investment, profit margin, return on net worth, etc. which are computed on a yearly basis.

4. **Verifiability:** Every objective has to be tested on the basis of its verifiability. Sometimes, when it is not possible to quantify each and every objective, qualitative objectives have to be set and these have to be verified.

For eg: A qualitative objective could be “to create a congenial working environment within the factory”. This can be verified through the value judgement of informed



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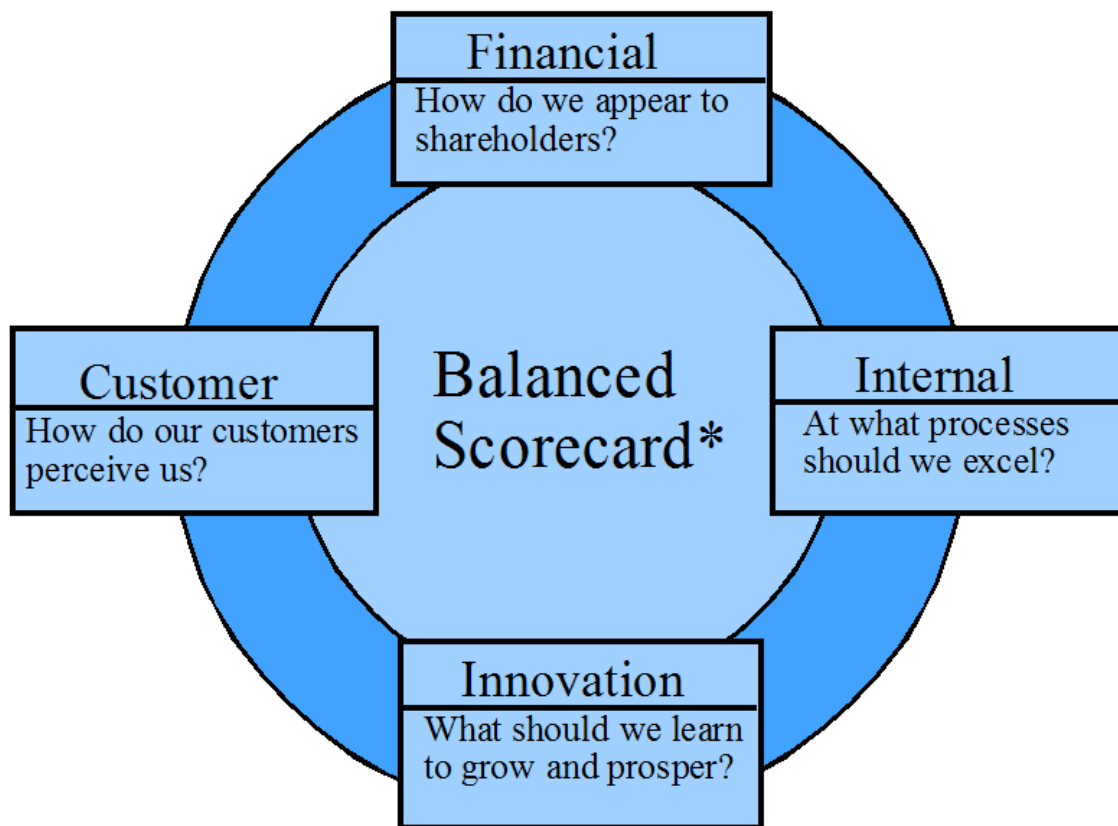
experts. Quantitative measures such as staff turnover, absenteeism, accident rates, productivity figures, etc. could also be used.

5. Quality: Objectives may be judged as good or bad based on their capability to provide a specific direction and basis for evaluating performance.

For eg: A bad objective could be 'to be market leader in the industry'. A better objective could be 'to increase market share to minimum level of 40% of the total with respect to product over a period of the next 2 years and to maintain it thereafter'. This is specific, relates to performance, is measurable and provides a definite direction.

BALANCED SCORECARD APPROACH TO OBJECTIVE SETTING

- It was developed by **Robert S. Kaplan and David Norton** of Harvard Business School.
- It is a **framework** designed to translate an organization's mission and vision statements and overall business strategy into specific, quantifiable goals and objectives and to monitor the organization's performance in terms of achieving these goals.
- As per the Balanced Scorecard concept, the vision and strategy of an organisation should be linked with the following **four perspectives**:
 - a) **Financial perspective:** To succeed financially, how should we appear to our shareholders? *(can be measured through revenues, earnings, return on capital and cash flow)*
 - b) **Customer perspective:** To achieve our vision, how should we appear to customers? *(can be measured through market share, customer satisfaction measures, and customer loyalty)*
 - c) **Internal business perspective:** To satisfy shareholders and customers, what key business processes must we excel at? *(can be measured through productivity indices, quality measures and efficiency)*
 - d) **Learning and growth perspective:** To achieve our vision, how will we sustain our ability to change and improve? *(can be measured through morale, knowledge, employee turnover, usage of best practices, share of revenue from new products, and employee suggestions)*



* Adapted from Tatikonda & Tatikonda Figure 2, p. 51.
<https://maaw.info/ArticleSummaries/ArtSumTatikondaTatikonda98.htm>

It works as follows:

1. The development of the scorecard begins with the **establishment of the organisation's strategic intent** including the vision and mission.
2. The **design** of the scorecard is done identifying the specific measures related to the **four perspectives**. The specific strategies that should be formulated and implemented to realise that vision are determined.
3. Then the following up step involves **mapping the strategy** through identification of organisational activities that are derived from the strategies. Example: achieving financial growth may be expressed in terms of sales growth and revenue growth.
4. Lastly, **metrics that can be used to accurately measure the performance** of the organisation in the specific areas are established. Example: revenue growth may be expressed in terms of sales to new customers, sales of new services or products, or entry into new markets.

Example:

- Assume that your small business wants to become the largest maker of widgets in the country.

- One of the company's main strategies to accomplish this is to increase turnover.
- From a **financial perspective**, you want an increase turnover by 17 percent compared with last year, defining the financial objectives.
- Customers provide that turnover, so they need to receive their deliveries on time, which is the **customer objective**.
- The **internal process objectives** answer the question: What has to be done to ensure customers receive their orders on time?
- Finally, your **innovation objectives** include whatever infrastructure changes are required to accomplish your strategy; for instance, install new production machinery or rearranging office space for team building.

STRATEGIC BUSINESS UNIT (SBU)

- Strategic Business Unit (SBU) implies an **independently managed division of a large company**, having its own vision, mission and objectives, whose planning is done separately from other businesses of the company.
- The vision, mission and objectives of the division are both distinct from the parent enterprise and elemental to the long-term performance of the enterprise.

The Purpose of SBUs

- To **decentralize** initiative to smaller units within the corporation so SBUs can pursue their own distinct strategy
- To allow large corporations to **vary their business strategies** according to the different needs of external markets
- To encourage **accountability** – each SBU can be held responsible for the success or failure of its own strategy.

Characteristics of Strategic Business Unit

- Separate business or a **grouping of similar businesses**, offering scope for autonomous planning.
- **Own set of competitors.**
- A **manager** who is accountable for strategic planning, profitability and performance of the division.

Example:

- LG as a company makes consumer durables. It makes refrigerators, washing machines, air-conditioners as well as televisions.
- These small units are formed as separate SBUs so that revenues, costs as well as profits can be tracked independently.
- Once a unit is given an SBU status, it can make its own decisions, investments, budgets etc.
- It will be quick to react when the product market takes a shift or changes start happening before the shift happens.

Example:

- Bajaj Electricals Ltd. has five major SBUs comprising home appliances, fans, lighting, luminaires and engineering and projects.
- The SBU structure aims to lend greater empowerment to the employees and also bring about a significant accountability for the performance of each SBU with the SBU head and his senior team.

Advantages of SBU

- Strategic Business Unit gives an organization ample opportunities to shape up a promising future and make constructive decisions.
- They give ample opportunities to an organization to identify and make well-informed strategic decisions.
- SBU even offers multiple financial benefits to an organization.
- It improves strategic management in an organization.
- Strategic Business Unit eases out the planning of organizational activities.

Disadvantages of SBU

- Strategic Business Unit faces a lot of difficulties while contacting with the top-level management.
- They can also sometimes be one of the probable causes of unclear situations when it comes to managerial activities.
- SBU can also be one of the probable causes of internal tensions arising due to difficulties in accessing external and internal funding sources.

MODULE - II

PORTER'S FIVE FORCES ANALYSIS

- Porter's 5 forces framework is used for strategic industry analysis. It was **developed in 1979 by Michael Porter**, Harvard Business School professor.
- Michael Porter's five forces of competition can be **used to examine and analyze the competitive structure of an industry** by looking at 5 forces of competition that influence and shape profit potential.
- The **5 forces** are: bargaining power of buyers, bargaining power of suppliers, threat of new entrants, threat of substitute products and competitive/industry rivalry.
- The idea is to look at each of these factors and **determine the degree to which they increase competition in the industry**.
- **If the forces are strong**, then they increase competition. Whereas **if the forces are weak**, then they decrease competition.

- Porter's five forces definition can be utilized by any business. In addition, it can be applied to any industry.



1. Threat of new entrants:

- This force considers **how easy or difficult it is for competitors** to join the marketplace.
- The easier it is for a new competitor to gain entry, the greater the risk is of an established business's market share being depleted.
- The seriousness of the threat depends on the **barriers** to enter a certain industry.
- The higher these barriers to entry, the smaller the threat for existing players.

Major Sources of Entry Barriers:

- Supply side economies of scale:** Spreading the fixed costs over a larger volume of units thus reducing the cost per unit. This **can discourage a new entrant** because they either have to start trading at a smaller volume of unit and accept a price disadvantage over larger companies, or risk coming into the market on a large scale in an attempt to displace the existing market leader.

- **Demand side benefits of scale:** this occurs when a buyers willingness to purchase a particular product or service increases with other people's willingness to purchase it. Also known as **network effect**, people tend to value being in a '**network**' with a larger number of people who use the same company.
- **Customer switching costs:** These are well illustrated by structural market characteristics such as supply chain integration but also can be created by firms. Airline frequent flyer programs are an example.
- **Capital requirements:** clearly the Internet has influenced this factor dramatically. Web sites and apps can be launched cheaply and easily as opposed to the brick and mortar industries of the past.
- **Unequal access to distribution channels:** if there are a limited number of distribution channels for a certain product/ service new entrants may struggle to find a retail or wholesale channel to sell through as existing competitors will have a claim on them.
- **Government policy:** such as sanctioned monopolies, legal franchise requirements, patents, and regulatory requirements.

Example (Airline Industry):

- The threat of new entrants in the **airline industry** can be considered as low to medium.
- It takes quite some upfront investments to start an airline company (e.g. purchasing aircrafts).
- Moreover, new entrants need licenses, insurances, distribution channels and other qualifications that are not easy to obtain when you are new to the industry (e.g. access to flight routes).
- Furthermore, it can be expected that existing players have built up a large base of experience over the years to cut costs and increase service levels.
- A new entrant is likely to not have this kind of expertise, therefore creating a competitive disadvantage right from the start.
- However, due to the liberalization of market access and the availability of leasing options and external finance from banks, investors, and aircraft manufacturers, new doors are opening for potential entrants.
- Even though it doesn't sound very attractive for companies to enter the airline industry, it is NOT impossible. Many low-cost carriers have successfully entered the industry over the years by introducing innovative cost-cutting business models, thereby shaking up original players.

2. Threat of substitutes

A substitute product uses a different technology to try to solve the same economic need. This increases the propensity of customers to switch to alternatives.

Determining factors:

- First, if the consumer's **switching costs are low**, meaning there is little if anything stopping the consumer from purchasing the substitute instead of the industry's product, then the threat of substitute products is high.
- Second, if the **substitute product is cheaper** than the industry's product – thereby placing a ceiling on the price of the industry's product – then a threat of substitutes high risk is the case.
- Third, if the **substitute product is of equal or superior quality** compared to the industry's product, the threat of substitutes is high.
- And fourth, **if the functions, attributes, or performance of the substitute product are equal or superior to the industry's product**.
- On the other hand, **if the substitute is more expensive, of lower quality**, its functionality does not compare with the industry's product, and the consumer's switching costs are high, then a low threat of substitutes occurs. And of course, if there is no close substitute for the industry's product, then the threat of substitutes is low.

A low threat of substitute products makes an industry more attractive. In addition, it ***increases profit potential*** for the firms in the industry.

Conversely, ***a high threat of substitute products makes an industry less attractive.*** It also ***decreases profit potential*** for firms in the industry.

Example:

- In terms of the airline industry, it can be said that the general need of its customers is traveling.
- It may be clear that there are many alternatives for traveling besides going by airplane.
- Depending on the urgency and distance, customers could take the train or go by car.
- Especially in Asia, more and more people make use of highspeed trains such as Bullet Trains and Maglev Trains.

- Furthermore, the airline industry might get some serious future competition from Elon Musk's Hyperloop concept in which passengers will be traveling in capsules through a vacuum tube reaching speed limits of 1200 km/h.
- Taken this altogether, the threat of substitutes in the airline industry can be considered at least medium to high.

3. Bargaining power of buyers/customers:

Bargaining power refers to ***the pressure consumers can exert on businesses*** to get them to provide higher quality products, better customer service, and lower prices.

Strong buyers can pressure sellers to lower prices, improve product quality, and offer more and better services. He can make an industry more competitive and decrease profit potential for the seller.

On the other hand, a **weak buyer**, one who is at the mercy of the seller in terms of quality and price, makes an industry less competitive and increases profit potential for the seller.

Buyer Power is High/Strong if:

- Buyers are ***more concentrated*** than sellers - if there are few buyers and many sellers
- Buyer ***switching costs are low*** - the cost of switching from one seller's product to another seller's product – are low
- Threat of ***backward integration*** is high – customers begin to produce the seller's product themselves
- Buyer is ***price sensitive***
- Buyer is ***well-educated*** regarding the product
- Buyer purchases product in ***high volume*** - if the customer purchases large volumes of standardized products from the seller
- ***Substitutes*** are available

Buyer Power is Low/Weak if:

- Buyers are less concentrated than sellers
- Buyer switching costs are high

- Threat of backward integration is low
- Buyer is not price sensitive
- Buyer is uneducated regarding the product
- Highly differentiated product
- Buyer purchases product in low volume
- Substitutes are unavailable

When conducting Porter's 5 forces buyer power industry analysis, **low buyer bargaining power** makes an industry more attractive and increases profit potential for the seller, while **high buyer bargaining power** makes an industry less attractive and decreases profit potential for the seller.

Example:

- Bargaining power of buyers in the airline industry is high.
- Customers are able to check prices of different airline companies fast through the many online price comparisons websites such as Yatra.com and cleartrip.com.
- In addition, there aren't any switching costs involved in the process. Customers nowadays are likely to fly with different carriers to and from their destination if that would lower the costs.
- Brand loyalty therefore doesn't seem to be that high.
- Some airline companies are trying to change this with frequent flyer programs aimed at rewarding customers that come back to them from time to time.

4. Bargaining power of suppliers:

Supplier power refers to the pressure suppliers can exert on businesses by raising prices, lowering quality, or reducing availability of their products.

When is bargaining power of suppliers high?

- If **suppliers are concentrated** compared to buyers – there are few suppliers and many buyers – supplier bargaining power is high.
- Conversely, if **buyer switching costs** – the cost of switching from one supplier's product to another supplier's product – are high, the bargaining power of suppliers is high.
- If suppliers can easily **forward integrate** or begin to produce the buyer's product themselves, then supplier power is high.
- Supplier power is high if the **buyer is not price sensitive and uneducated** regarding the product.
- If the **supplier's product is highly differentiated**, then supplier bargaining power is high.
- If **substitute products are unavailable** in the marketplace, then supplier power is high.

When is bargaining power of suppliers low?

- Low supplier concentration, low switching costs, no threat of forward integration, more buyer price sensitivity, well-educated buyers, buyers that purchase large volumes of standardized products, and the availability of substitute products indicate that the **bargaining power of suppliers is low**.

Example:

- The bargaining power of suppliers in the airline industry can be considered very high.
- When looking at the major inputs that airline companies need, we see that they are especially dependent on fuel and aircrafts.
- These inputs however are very much affected by the external environment over which the airline companies themselves have little control.
- The price of aviation fuel is subject to the fluctuations in the global market for oil, which can change wildly because of geopolitical and other factors.
- In terms of aircrafts for example, only two major suppliers exist: Boeing and Airbus.
- Boeing and Airbus therefore have substantial bargaining power on the prices they charge.

5. Competitive rivalry:

The ***intensity of rivalry*** among competitors in an industry refers to the extent to which firms within an industry put pressure on one another and limit each other's profit potential.

If rivalry is fierce, then competitors are trying to steal profit and market share from one another.

As a result, this reduces profit potential for all firms within the industry.

Example:

When looking at the airline industry, we see that the industry is extremely competitive because of a number of reasons:

- The entry of low cost carriers,
- The tight regulation of the industry wherein safety become paramount leading to high fixed costs and high barriers to exit, and the fact that
- The industry is very stagnant in terms of growth at the moment.
- The switching costs for customers are also very low.
- Many players in the industry are similar in size leading to extra fierce competition between those firms.
- Taken altogether, it can be said that rivalry among existing competitors in the airline industry is high.

STRATEGIC GROUPS

- It refers to a ***group of companies*** within a particular industry that follow a ***similar strategy*** or ***similar business model***.
- They are identified on the basis of a set of ***strategic dimensions*** such as technological leadership, the degree of product quality, pricing policies, choice of distribution channels, and the degree and type of customer service.
- **Strategic groups:**
 - ✓ Have similar characteristics

- ✓ Have similar market shares
 - ✓ Respond to market trends or competition (threats and opportunities) in similar ways
 - ✓ Offer similar customer service
-
- **Competition** among companies that are in the same strategic group is often aggressive as they are generally trying to win over the same customers.
 - The action of one company will evoke fierce reactions from the rest who don't want to lose their market share in the industry.
 - An industry can consist of one or more strategic groups.
 - **Example:** Strategic groups in the food service industry can be classified as fast food restaurants, fine-dining restaurants, cafes, family restaurants, etc. based on variables such as preparation time, pricing and presentation.
 - Fast food chains for instance differentiate themselves from other strategic groups in terms of their relatively low prices, quick service, variety of food and more.
-
- **Strategic group analysis** serves the purpose of identifying the strategic groups and then analysing the industry from the viewpoint of the differences in the business strategies employed.
 - This helps in a **direct comparison** among the group of firms that compete directly with each other.

For example: The Indian banking industry could be classified into 3 categories – public sector, private sector and foreign banks.

- But this may not be an appropriate classification for the purpose of industry and competitor analysis.
- Hence, one should be careful to group together banks, irrespective of the categories they belong to, in terms of the similarities in their strategies.
- Corporation bank is a public sector bank but seemed to have adopted business strategies quite similar to those adopted by private sector and foreign banks.
- ICICI bank and HDFC bank are pvt. Sector banks that seem similar at a superficial level and yet they are different when it comes to strategic approach adopted. While ICICI



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bank aimed to become a universal bank through attaining a large size, HDFC bank aimed at optimum revenue generation.

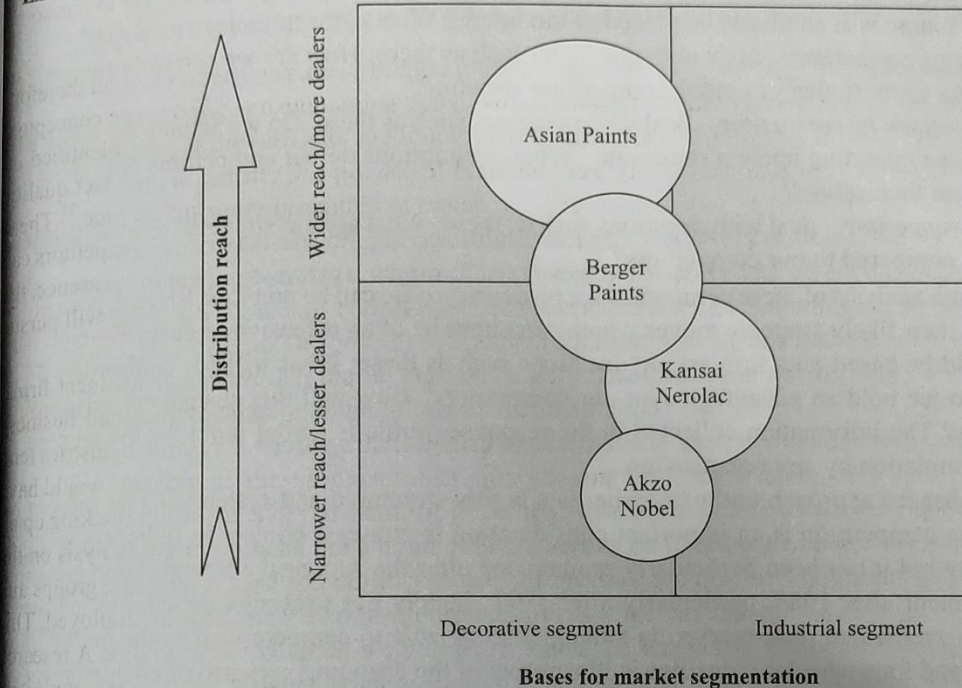
STRATEGIC GROUP MAPPING

- The strategy group map is used as the primary tool in the analysis of strategic groups.
- It helps ***visualize and analyze the competitive positions*** of industry rivals based on variables (common characteristics) relevant to their strategic significance.

How it is done:

- a) Identify your main competitors (services or products they offer, the impact they are making on the market, their future strategies, objectives, and their strengths and weaknesses)
- b) Focus on the top direct rivals.
- c) Identify the strategic characteristics that differentiate the companies
- d) Plot the companies on the graph based on two key attribute variables
- e) Interpret the map and identify future competitive strategies

Exhibit 9.12 Illustration of Strategic Group Mapping for Indian Paints Industry



Note: Distribution reach in terms of number of dealers; size of circle proportional to relative market share in paints industry

COMPETITIVE CHANGES DURING INDUSTRY EVOLUTION

- Industries pass through various stages such as **growth, maturity and decline**.
- The competitive forces act upon these stages and give rise to opportunities and threats for an industry.
- A strategist should be aware of these developments during strategy formulation and anticipate them in advance.

INDUSTRY LIFE CYCLE AND INDUSTRY ENVIRONMENT:

- The industry life cycle model is **used for analysing the effects of industry evolution on competitive forces**.

- Based on this model, the industry environment can be identified as follows:
 - 1) **Embryonic growth industry environment:** An embryonic industry is one which is just beginning to develop. Embryonic industry may evolve due to a company's innovative efforts. Example: Apple computer, Xerox
 - 2) **Growth industries:** New customers enter the market and demand expands rapidly.
 - 3) **Industry shakeout:** Growth stage is not sustained continuously and the industry shakeout stage follows necessarily. Here the demand is saturated (price cutting and price war).
 - 4) **Mature industries:** Growth is very little or nothing.
 - 5) **Declining industries:** Industries enter this stage after the maturity stage. Negative growth is registered due to technological substitutions.

COMPETENCIES, CORE COMPETENCIES AND DISTINCTIVE COMPETENCIES

- Competencies are **special qualities** possessed by an organisation that make them withstand the pressure of competition in the marketplace.
- **Synonymous words** – unique resources, core capabilities, invisible assets or embedded knowledge.
- When an organisation develops its competencies over a period of time and hones them into a fine art of competing with its rivals it tends to use these competencies exceedingly well.
- The capability to use the competencies exceedingly well turns them into core competencies.

CORE COMPETENCIES – a term coined by C.K.Prahalad and Gary Hamel

- It is the key strengths or abilities that a company has developed that give it a competitive edge over its peers and contributes to its long term success.
- In other words, each firm has a specific area in which it does well relative to its competitors, this area of excellence can be reused by the firm in other markets and products, and finally, the area of strength adds value to the consumer.

Core competencies fulfill three criteria:

- Provides potential access to a wide variety of markets.
- Should make a significant contribution to the perceived customer benefits of the end product.
- Difficult to imitate by competitors.

Examples:

- Canon's core competence lies in optics, imaging and microprocessor controls
- Sony's core competence lies in miniaturisation
- Philips core competence lies in optical media
- Honda's core competence lies in engines and power trains
- The core competencies of these corporations have enabled them to operate in diverse markets offering different products.
- Example: **Canon** has entered, and even dominated, diverse markets such as copiers, laser printers, cameras and image scanners.

DISTINCTIVE COMPETENCIES:

- When a **specific ability** is possessed by an organisation exclusively or relatively in large measure, it is called distinctive competence.
- It is any **advantage** a company has over its competitors because it can do something which they cannot or it can do something better than they can.

Examples:

- Superior product quality on a particular attribute, say, a two-wheeler, which is more fuel efficient than its competitor products.
- Creation of a marketing niche by supplying highly specialized products to a particular market segment.
- Differential advantage based on superior R & D skills of an organisation, not possessed by its competitors.

- Access to a low-cost financial source like equity shareholders, willing to invest in an organisation not available to its competitors.
- The difference between the three terms – competencies, core competencies and distinctive competencies, lies in the degree of uniqueness associated with the net synergistic effects occurring within an organisation.

ORGANISATIONAL CAPABILITY

- It is the inherent capacity or potential of an organisation to use its **strengths** and overcome its **weaknesses** in order to exploit **opportunities** and face **threats** in its external environment.
- Also viewed as a **skill** for coordinating resources and putting them to productive use.
- It is a **measurable attribute** (measured using organisational appraisal)
- Strategists wish to know what capacity exists within the organisation to exploit opportunities or face threats in its environment.
- They are also interested in knowing what potential should be developed within the organisation so that opportunities could be exploited and threats could be faced in future.
- Organisational capability is described in terms of **six areas** – finance, marketing, operations, personnel, information management and general management.
- **Financial capability** factors relate to the availability, usage, and management of funds.
- **Marketing capability** factors relate to the pricing, promotion and distribution of products or services.
- **Operations capability factors** relate to the production of products or services and the use of material resources
- **Personnel capability factors** related to the existence and use of human resources and skills.
- **Information technology capability factors** relate to the decision and management of the flow of information from outside, into and within an organisation for the purpose of decision making.

- **General management capability** relates to the integration, coordination and direction of the functional capabilities towards common goals.

COMPETITIVE ADVANTAGE

Occurs when a company is able to achieve a competitive edge with regards to its products, services, strategies, skills, etc. than its competitors.

Can be through

- (a) cost leadership; (b) differentiation

It is something that helps a company stand out from its competitors.

It can be achieved by gaining access to cheaper raw materials, through intellectual property, first mover position, convenience in location, etc.

Example: Google has an advantage over other search engines. Google is best at optimizing searches and has pushed technology beyond what competitors thought was possible.

CORE COMPETENCY VS. COMPETITIVE ADVANTAGE

- A **core competency** is a ***specific skill or expertise*** that can lead to a competitive advantage.
- Your core competency is ***whatever you or your company does that generates revenue.***
- This ***could be the same for others in your industry*** that do the same thing.
- A **competitive advantage** would be ***something that makes you better at providing that service or product***, when compared to others with the same core competency.

Examples:

Volvo:



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Core competency: Ability to research and develop automobiles that offer high protection and safety standards.

Competitive advantage: Providing a differentiated product valued for its high safety standards that surpass its competitors.

Google:

Core competency: Superior capability in software engineering (content indexing); technology/hardware infrastructure.

Competitive advantage: Best at optimizing searches and has pushed technology beyond what the competitors thought was possible. Innovative services: one-stop shop for all internet and computing needs (Google search, Gmail, Gmail blogger, Google Finance, Google Docs, Adsense, Google Chrome, etc.)

Dominos:

Core competency: Home delivery

Competitive advantage: Fresh hot pizza delivered to your doorstep within 30 minutes.

Honda:

Core competency: Engines

Competitive advantage: Highly reliable, fuel efficient cars, lowest costs of manufacturing, brand appeals that are superior and based on the total experience of the customer (faster and cheaper than competitors)

Fogg:

Core competency: Packaging

Competitive advantage: No gas, more perfume liquid.

Building Blocks of Competitive Advantage

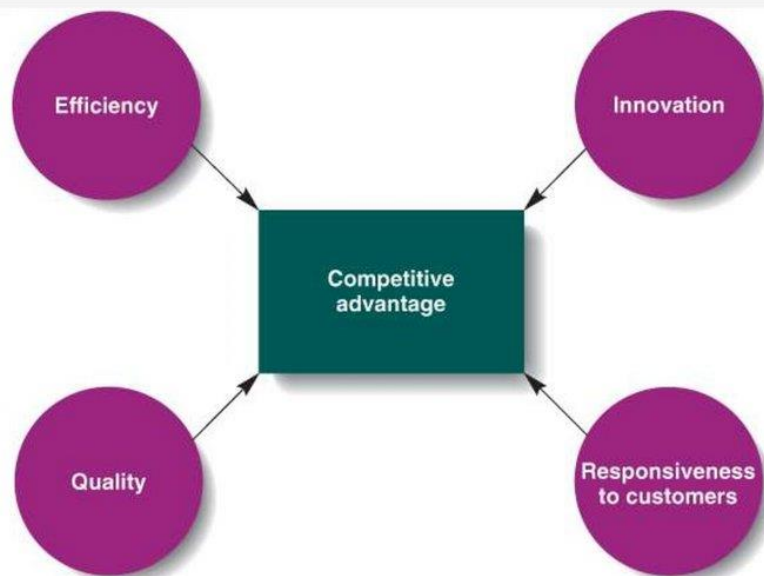


Figure 1.6 1-32

BUILDING BLOCKS OF COMPETITIVE ADVANTAGE

1. Efficiency (superior efficiency enables a company to lower its costs)

- Efficiency = outputs/inputs [To determine how efficiently they are using organizational resources, managers must be able to measure accurately how many units of inputs (raw materials, human resources, and so on) are being used to produce a unit of output. They must also be able to measure the number of units of outputs (goods and services) they produce]
- Employee Productivity: output per employee
- Capital Productivity: Output per unit of investment capital
- High Productivity = greater efficiency and low costs

2. Quality (as Excellence)

- a) Superior Quality: customers perceive attributes of a product to be better than rival's attributes, including: Design, Style, Aesthetic appeal, Features and functions, and / or Level of service that comes with the product
- b) Excellence: when excellence is built into product offering, consumers have to pay more to own or consume the product

Quality (as Reliability)

A product is reliable if it:

- Consistently does the job it was designed for – Does the job well – Rarely, if ever, breaks down
- Less time is spent of defective products and fixing mistakes
- Reliability increases the value a consumer gets from the product and increases the price that the company can charge

3. Innovation

- The act of creating new products or processes
- Innovations give a company something unique that their competitors lack. In the long run, innovation is perhaps the most important part of competitive advantage
- Product Innovation- The development of products that are new to the world or have superior attributes to existing products.
- Process Innovation-The development of a new process for producing products and delivering them.
- Superior innovation can lead to higher prices, particularly in the case of product innovations, or lower unit costs, particularly in the case of process innovations.

4. Customer Responsiveness

If a customer's need is satisfied better by a certain product, the customer will attribute more value to the product.

- More attributed value creates a differentiation and ultimately a competitive advantage

- Superior customer service lets a company charge a higher price

SUSTAINABLE COMPETITIVE ADVANTAGE

Those companies who are able to maintain a competitive advantage for many years are thought to have a sustainable competitive advantage.

- Durable
- Valuable to the firm (exploiting weaknesses and neutralizing threats)
- Unique
- Difficult for competitors to imitate
- Not easily substitutable

Example: The Coca-Cola business model

- It is the best example of a company with sustained competitive advantage, innovation, an extensive business model and an intelligent and substantial distribution network.
- Established in 1892, today, almost 120 years later, Coca-Cola is still going strong and is one of the most sought after drinks.
- Coca-Cola's competitive advantage has proven its sustainability over the last 100 years.
- Secret recipe – tastes better than other cola drinks
- Their ability to continue developing new products and re-invent old ones
- Comprehensive distribution system
- Coca-Cola's production techniques are so well developed that it costs a fraction of the selling price to manufacture their product, resulting in high profit margins.

ACHIEVING SUSTAINABLE COMPETITIVE ADVANTAGE

Low Cost Provider/ Low pricing

- Economies of scale and efficient operations **can help a company keep competition out** by being the low cost provider. Being the low cost provider can be a significant



barrier to entry. In addition, low pricing done consistently can ***build brand loyalty and be a huge competitive advantage*** (i.e. Wal-Mart).

Market or Pricing Power

- A company that has the ***ability to increase prices without losing market share*** is said to have pricing power. Companies that have pricing power are usually taking advantage of high barriers to entry or have earned the dominant position in their market.

Powerful Brands

- It takes a large investment in time and money to build a brand. It takes very little to destroy it. A good brand is invaluable because it causes customers to prefer the brand over competitors. ***Being the market leader and having a great corporate reputation can be part of a powerful brand and a competitive advantage.***

Strategic assets

- ***Patents, trademarks, copy rights, domain names, and long term contracts*** would be examples of strategic assets that provide sustainable competitive advantages. Companies with excellent research and development might have valuable strategic assets.

Barriers to Entry

- Cost advantages of an existing company over a new company is the most common barrier to entry. ***High investment costs (i.e. new factories) and government regulations*** are common impediments to companies trying to enter new markets. High barriers to entry sometimes create monopolies or near monopolies (i.e. utility companies).

Adapting Product Line

- A product that never changes is ripe for competition. A product line that can evolve allows for ***improved or complementary follow up products*** that keeps customers coming back for the “new” and improved version (i.e. Apple iPhone) and possibly some accessories to go with it.

Product Differentiation

- A ***unique product or service builds customer loyalty*** and is less likely to lose market share to a competitor than an advantage based on cost. The quality, number of models, flexibility in ordering (i.e. custom orders), and customer service are all aspects that can positively differentiate a product or service.

Strong Balance Sheet / Cash

- Companies with ***low debt and/or lots of cash*** have the flexibility to make opportune investments and never have a problem with access to working capital, liquidity, or solvency. The balance sheet is the foundation of the company.

Outstanding Management / People

- There is always the intangible of outstanding management. This is hard to quantify, but there are winners and losers. Winners seem to make the right decisions at the right time. Winners somehow motivate and get the most out of their employees, particularly when facing challenges. ***Management that has been successful for a number of years is a competitive advantage.***

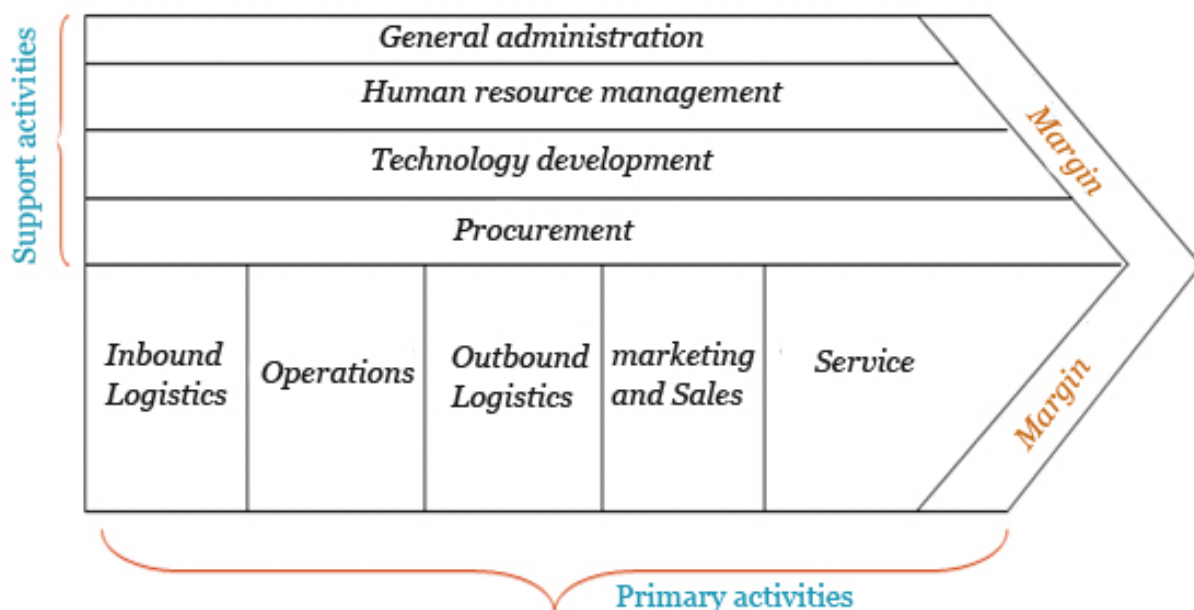
Michel Porter's GENERIC VALUE CHAIN

- A value chain is a set or chain of activities that an organization carries out to create value for its customers. Each activity adds value hence forming a value chain.
- A company takes up a sequence of various activities to perform the task of business and value is added in each activity.

Why is it called Generic?

- Porter proposed a general-purpose value chain that companies can use to examine all of their activities, and see how they're connected.
- These activities called value chain has **5 Primary activities** and **4 Support activities**.

The Value Chain



Primary activities relate directly to the physical creation, sale, maintenance and support of a product or service. They consist of the following:

- Inbound logistics** – These are all the processes related to receiving, storing, and distributing inputs internally. Your supplier relationships are a key factor in creating value here.
- Operations** – These are the transformation activities that change inputs into outputs that are sold to customers. Here, your operational systems create value.
- Outbound logistics** – These activities deliver your product or service to your customer. These are things like collection, storage, and distribution systems, and they may be internal or external to your organization.

- **Marketing and sales** – These are the processes you use to persuade clients to purchase from you instead of your competitors. The benefits you offer, and how well you communicate them, are sources of value here.
- **Service** – These are the activities related to maintaining the value of your product or service to your customers, once it's been purchased.

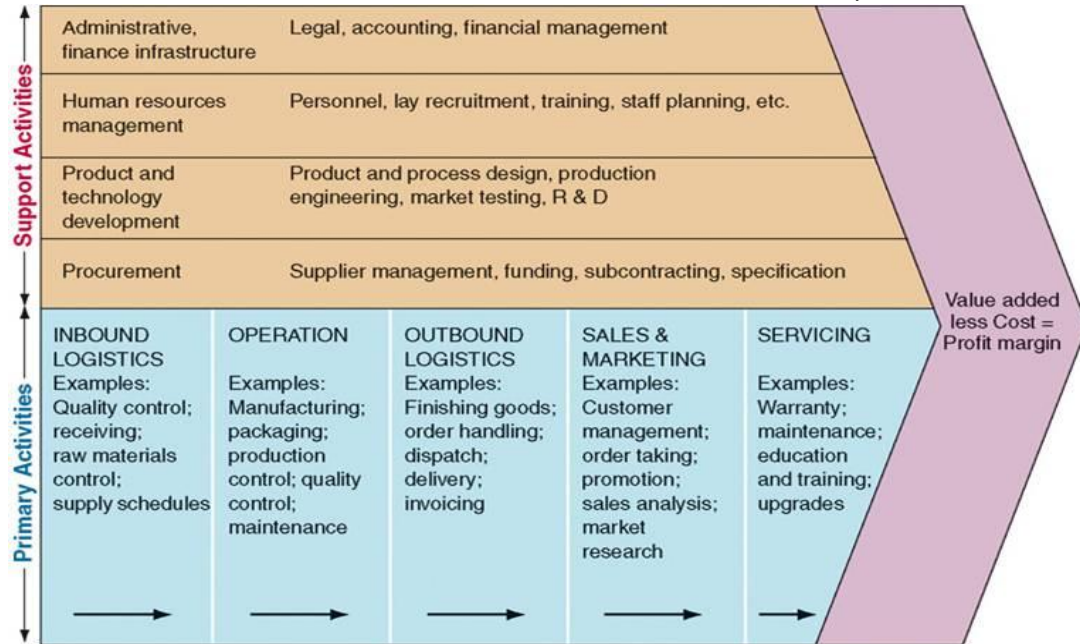
Support activities or Secondary activities support the primary functions above. In our diagram, the dotted lines show that each support, or secondary, activity can play a role in each primary activity.

- **Procurement (purchasing)** – This is what the organization does to get the resources it needs to operate. This includes finding vendors and negotiating best prices.
- **Human resource management** – This is how well a company recruits, hires, trains, motivates, rewards, and retains its workers. People are a significant source of value, so businesses can create a clear advantage with good HR practices.
- **Technological development** – These activities relate to managing and processing information, as well as protecting a company's knowledge base. Minimizing information technology costs, staying current with technological advances, and maintaining technical excellence are sources of value creation.
- **Infrastructure** – These are a company's support systems, and the functions that allow it to maintain daily operations. Accounting, legal, administrative, and general management are examples of necessary infrastructure that businesses can use to their advantage.



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Dr. Ankita Agarwal, Assistant Professor

MODULE - III

CORPORATE STRATEGIES

Corporate level strategies are basically about decisions related to:

- Allocating resources among the different businesses of a firm
- Transferring resources from one set of businesses to others
- Managing and nurturing a portfolio of businesses
- Creating value across businesses in the portfolio

These decisions are taken so that overall corporate objectives are achieved.

- Corporate strategy is about the ***basic direction of the firm as a whole***.
- ***For example***, in case of a small firm having a single business, it could mean the adoption of courses of action that yield better profitability for the firm.
- In case of large, multi-business firm, it could be about managing various businesses for maximising their contribution to the overall corporate objectives and transferring resources from one set of businesses to others such that organisation is able to create value across these businesses for its stakeholders.

GENERIC STRATEGIC ALTERNATIVES

- ***Strategic alternatives*** revolve around the question of ***whether to continue or change the business the enterprise is currently in or improve the efficiency and effectiveness*** with which the firm achieves its corporate objectives in its chosen business sector.
- According to Glueck, there are ***four*** strategic alternatives:
 - a) Stability
 - b) Expansion
 - c) Retrenchment
 - d) Any combination of the above three

They are explained as follows:

a) Stability strategies

The corporate strategy of stability is adopted by an organisation when it ***retains its present strategy*** at the corporate level and ***continues focusing on its present products and markets***.

A few **examples** of this strategy are offering the same products to the same clients, not introducing new products, maintaining market share, and more.

Usually, a company that is satisfied with its current market share or position uses such a strategy. Also, a company following this strategy **does not need any additional resources** and work using the existing expertise of the workforce.

The company here focuses on **incremental improvement**.

Examples:

- A consumer electronics company focuses on providing better after-sales services to the current customers and not on acquiring new customers.
- A packaged tea company provides special service to its institutional buyers apart from its consumer sales through market intermediaries in order to encourage bulk buying and thus improve its marketing efficiency.
- A steel company modernises its plant to improve efficiency and productivity.

Note that all the above companies **do not go beyond what they are doing presently**. They serve the same markets with present products using the existing technology.

Under stability strategies, organisations do not embark on any radical change but just attempt to make operational improvements.

MAJOR REASONS FOR ADOPTING STABILITY STRATEGY:

- It is less risky, involves less changes and people feel comfortable with things as they are.
- The environment faced is relatively stable.
- Expansion may be perceived as being threatening.
- Consolidation is sought through stabilising after a period of rapid expansion.

TYPES OF STABILITY STRATEGY

1. No-change strategy:

This stability strategy is a conscious decision to **do nothing new** i.e. to continue with the present business definition.

When faced with a predictable and certain external environment and stable organisational environment, an organisation decides to continue with its present strategy.

2. Profit strategy:

When an organisation tries to **sustain its profitability with short-term measures**, it adopts a profit strategy.

For example, in a situation where the profitability is drifting lower (due to external factors like economic recession, govt. attitude, competitive pressures, etc.), organisations undertake measures to reduce investments, cut costs, raise prices, increase productivity or adopt some measures to tide over what are assumed to be temporary difficulties.

The organisation assumes that these problems are going to remain only in the short term and the situation would turn favourable after some time. Till such time it is better to lie low and sustain profitability by whatever means possible.

3. Pause/proceed with caution strategy:

A company adopts such a strategy if, in the past, it has enjoyed rapid growth.

By using this strategy, *the company wants to take some rest before pushing for growth again.*

Or, we can say, a company moves cautiously for sometime before pursuing growth.

It is a temporary strategy. A company can use the rest period to make its production more efficient to exploit future opportunities.

b) Expansion Strategies:

- The corporate strategy of expansion is followed **when an organisation aims at high growth** by substantially broadening the scope of one or more of its businesses in terms of their respective customer groups, customer functions and alternative technologies, in order to improve its overall performance.
- Expansion strategies are **also known as growth or intensification strategies.**

Examples:

- A chocolate manufacturer expands its customer groups to include middle-aged and old persons to its existing customers comprising children and adolescents.
- A stock broker's firm offers personalised financial services to high net-worth investors apart from its normal functions of dealing in shares and debentures in order to increase the scope of its business and spread its risks.
- A printing firm changes from traditional letter press printing to desk-top publishing in order to increase its production and efficiency.

REASONS FOR ADOPTING EXPANSION STRATEGIES:

- It may become imperative when the environment demands increase in pace of activity.
- Increasing size may lead to more control over the market vis-à-vis competitors.
- Psychologically, strategists may feel more satisfied with the prospects of growth from expansion: chief executives may take pride in presiding over organisations perceived to be growth-oriented.

c) Retrenchment Strategies:

- A strategy used by corporations **to reduce the diversity or the overall size** of the operations of the company.
- This strategy is often used in order **to cut expenses** with the goal of becoming a more financially stable business.
- Typically this strategy involves withdrawing from certain markets or the discontinuation of selling certain products or services in order to make a beneficial turnaround.
- **There are 3 types of retrenchment strategies:**
 - i. Turnaround strategies
 - ii. Divestment strategies
 - iii. Liquidation strategies

Examples:

- 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 training institution attempts to serve larger clientele through distance learning system and discard its face-to-face interaction methodology of training in order to reduce its expenses and use the existing facilities and personnel more efficiently.

Major reasons for adopting retrenchment strategies:

- The management no longer wishes to remain in business, either partly or wholly, due to continuous losses and the organisation becoming unviable.
- The environment faced is threatening.
- Stability can be ensured by reallocation of resources from unprofitable to profitable businesses.

d) Combination Strategies

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

Major reasons for adopting combination strategies:

- The organisation is large and faces a complex environment.

- The organisation is composed of different businesses, each of which lies in a different industry requiring a different response.

Examples:

- Aditya Birla group of companies is a diversified conglomerate with businesses in several sectors has applied practically all types of corporate strategies in its illustrious history dating back to 1857. It has diversified, divested, acquired, merged and demerged companies and businesses adopting an array of combination strategies.
- Pidilite Industries, the maker of Fevicol adhesives, contemplated expansion through related diversification through extension of its product portfolio across three business segments – adhesives and sealants, construction paints and chemicals and art materials. It divested its speciality chemicals business and acquired M-Seal from the Mahindras. Its international expansion and joint ventures in recent years have been in West Asia, Singapore and Brazil.

TYPES OF EXPANSION STRATEGIES

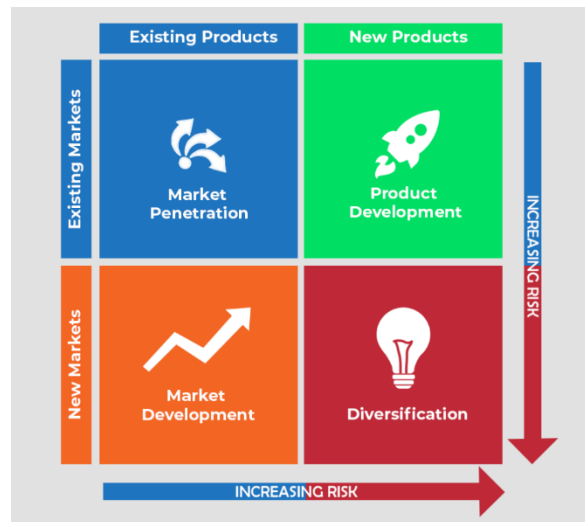
1. Concentration strategies
2. Integration strategies
3. Diversification strategies
4. Internationalisation strategies

1. Concentration strategies:

- It involves **converging resources** in one or more of a firm's businesses in terms of their respective customer needs, customer functions, alternative technologies – either singly or jointly – in such a manner that expansion results.
- Also known as **intensification/growth strategies**.
- The **Ansoff product-market matrix** is used by strategic planners and marketers interested in finding out the growth directions for their organisations.

• *Contd. In the next page.....*

ANSOFF PRODUCT-MARKET MATRIX



ANSOFF MATRIX:

- The Ansoff Matrix, also called the **Product/Market Expansion Grid**, is a tool used by firms to analyze and plan their strategies for growth. The matrix shows **four strategies** that can be used to help a firm grow and also analyzes the risk associated with each strategy.
- The matrix was developed by applied mathematician and business manager, **H. Igor Ansoff**.

The four strategies of the Ansoff Matrix are:

- Market Penetration:** This focuses on increasing sales of existing products to an existing market.
- Product Development:** Focuses on introducing new products to an existing market.
- Market Development:** This strategy focuses on entering a new market using existing products.
- Diversification:** Focuses on entering a new market with the introduction of new products.

i. Market Penetration Strategy:

- In a market penetration strategy, **the firm uses its products in the existing market**. In other words, a firm is aiming to increase its market share with a market penetration strategy.

The market penetration strategy can be executed in a number of ways:

- Decreasing prices to attract new customers
- Increasing promotion and distribution efforts
- Acquiring a competitor in the same marketplace
- For **example**, telecommunication companies all cater to the same market and employ a market penetration strategy by offering introductory prices and increasing their promotion and distribution efforts.

ii. Product Development Strategy:

- In a product development strategy, the firm **develops a new product to cater to the existing market**. The move typically involves extensive **research and development** and expansion of the company's product range. The product development strategy is employed when firms have a strong understanding of their current market and are able to provide innovative solutions to meet the needs of the existing market.

This strategy, too, may be implemented in a number of ways:

- Investing in R&D to develop new products to cater to the existing market
- Acquiring a competitor's product and merging resources to create a new product that better meets the need of the existing market
- Forming strategic partnerships with other firms to gain access to each partner's distribution channels or brand
- For example, automotive companies are creating electric cars to meet the changing needs of their existing market. Current market consumers in the automobile market are becoming more environmentally conscious.

iii. Market Development Strategy:

- In a market development strategy, the firm **enters a new market with its existing product(s)**. In this context, expanding into new markets may mean **expanding into new geographic regions, customer segments, etc.** The market development strategy is most successful if (1) the firm owns proprietary technology that it can leverage into new markets, (2) potential consumers in the new market are profitable (i.e., they possess disposable income), and (3) consumer behavior in the new markets does not deviate too far from that of consumers in the existing markets.

The market development strategy may involve one of the following approaches:

- Catering to a different customer segment
- Entering into a new domestic market (expanding regionally)
- Entering into a foreign market (expanding internationally)

For example, sporting goods companies such as Nike and Adidas recently entered the Chinese market for expansion. The two firms are offering roughly the same products to a new demographic.

iv. Diversification Strategy:

In a diversification strategy, the firm enters a **new market with a new product**.

There are two types of diversification a firm can employ:

1. **Related diversification**: There are potential synergies to be realized between the existing business and the new product/market.

- For example, a leather shoe producer that starts a line of leather wallets or accessories is pursuing a related diversification strategy.

2. **Unrelated diversification**: There are no potential synergies to be realized between the existing business and the new product/market.

- For example, a leather shoe producer that starts manufacturing phones is pursuing an unrelated diversification strategy.

2. Integration Strategies:

- Integration means expanding through combining businesses or activities related to the present business or activity of a firm.
- This can be done in **two** ways:

- i. Horizontal integration
- ii. Vertical integration

i. **Horizontal integration**

- When a firm **acquires another firm operating in the same industry or producing the same line of products**, it is said to follow the strategy of horizontal integration.
- Also known as **takeover, merger or acquisition**.
- This strategy results in a **bigger size organisation** and also leads to a **stronger competitive position** in the industry.
- It may be frequently adopted with a view to expand geographically by buying a competitor's business, to increase the market share, to benefit from economies of scale and to complement strengths.
- The firm does not go beyond its existing business definition and still remains in the same industry serving the same markets and customers through its existing products by means of the same technologies.

Examples:

- A luggage company taking over its rival luggage company.
- A company making cat food adding dog food to its product range (still remains within the animal feed industry).
- The merger of United Western Bank (UWB) with IDBI Bank.

ii. Vertical Integration

- When a firm extends its operations within its supply chain, vertical integration takes place.
- Vertical integration can be of **two types**:

a) Backward integration: Retreating to the source of raw materials

Example: Fabric and garment producers entering into spinning adopt backward integration to ensure supply of good quality yarn.

b) Forward integration: Moving the organisation to the ultimate customer or end user.

Example: Spinning companies getting into weaving and garments manufacturing adopt forward integration.

3. Diversification Strategies

- Diversification involves a substantial change in business definition – singly or jointly – in terms of customer groups, customer functions or alternative technologies of one or more of a firm's businesses.
- There are **2 types** of diversification strategies:

- i. Related Diversification
- ii. Unrelated Diversification

i. Related Diversification:

- It occurs when a firm moves into a **new industry** that has important **similarities** with the firm's existing industry or business lines.
- It is an attractive corporate strategy as it offers the best of both worlds: it enables diversification from its original business as well as keeps it close to it in terms of relatedness.
- Example: Honda, although best known for its cars and trucks, started out in the motorcycle business. Through competing in this business, Honda developed a unique ability to build small and reliable engines. When executives decided to diversify into

the automobile industry, Honda was successful in part because it leveraged this ability within its new business. Honda also applied its engine-building skills in the all-terrain vehicle, lawn mower, and boat motor industries.

Reasons for related diversification:

- Realising financial synergies in terms of transaction cost savings and tax savings.
- Increased market power (eg: offering a complete range of products) and multipoint market contact with the distribution channel partners (eg: using the same retailing outlets) and customers (eg: users of a range of complementary products).
- Economies of scale i.e. increasing the size of operations and economies of scope i.e. using a common base of resources and capabilities for operating varied, but related businesses.
- Realising personnel synergies through utilising human resources with common skill sets and competencies for another business.

ii. Unrelated Diversification:

- It occurs when a firm enters an industry that **lacks any important similarities** with the firm's existing industry or industries.
- Also known as ***conglomerate diversification***.

Examples:

- Aditya Birla group is in a variety of unrelated businesses such as agri-business, carbon black, cement, chemicals, financial services, insulators, mining, retail, telecommunications, textiles, wind power and trading solutions.
- Indian Oil Corporation ventured into retailing that is unrelated to its mainline business of oil.
- Kingfisher (known for its liquor business) venturing into the airlines business with Kingfisher Airlines.

Reasons for unrelated diversification:

- Spreading business risks by investing in different industries.
- Maximising returns by investing in profitable businesses and selling out unprofitable ones.
- Stabilising returns by avoiding economic upswings and downswings through having stakes in different industries.

- Taking advantage of emerging opportunities and encouraging govt. policies.
- Exercising of personal choice by industrialists and managers to create industrial empires by owning businesses in diverse sectors.

Risks of Diversification

- It is a **complex strategy** to formulate and implement (especially unrelated diversification). It demands a very high level of managerial, operational and financial competence to be successful.
- Diversification strategies demand a **wide variety of skills**.
- Diversification **results in decreasing commitment** to a single or few businesses and diverting it to several of them at the same time. This may result in a situation where businesses that need more attention get less and the ones needing little get more.
- It often **does not result in the promised rewards**.
- It **increases the administrative costs** of managing, integrating and controlling a wide portfolio of businesses.

4. Internationalisation Strategies:

- These are types of expansion strategies that require organisations to **market their products or services beyond the domestic or national market**.
- For this, an organisation would have to assess the international environment, evaluate its own capabilities and devise strategies to enter foreign markets.
- The globalisation of production and markets has a profound impact on the corporate strategies of organisations.
- Taking advantage of lower tariff barriers and ease of cross-border investing, organisations can disperse production at locations where they can reap economic advantages.
- Also, organisations can market their products and services across borders owing to the ease of transportation and communication.

Types of International Strategies:

According to **Bartlett and Ghoshal**, there are **4 types** of international strategies:

- i. **International Strategy:** Firms adopt this strategy when they create value by transferring products and services to foreign markets where these products and services are not available. The firm offers **standardised products and services in different countries** with little or no differentiation.



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- ii. **Multidomestic strategy:** Firms adopt this strategy when they try to achieve a high level of *local responsiveness* by *customising* their products and services according to the local conditions present in different countries that they operate in.
- iii. **Global Strategy:** Firms adopt this strategy when they focus on a *low-cost structure* and offer *standardised products and services* across different countries. They leverage on their expertise in providing certain products and services and offer these in an undifferentiated manner at a few favourable locations around the world, at competitive prices.
- iv. **Transnational Strategy:** Firms adopt this strategy when they adopt a *combined approach* of low-cost and high local responsiveness simultaneously for their products and services. This calls for a creative approach to managing the production and marketing of products and services.

Strategic Decisions in Internationalisation

- **Which international markets to enter?**
 - A firm has to carefully assess the expected *benefits* of entering a market, the *costs* that are liable and the *risks* that are likely to be faced.
- **Timing of entry into international markets:**
 - Whether the international entry should be made before earlier than other international companies or later than them. There may be many *first-mover advantages* such as building brand name, building demand, sales revenue and market share, creating entry barriers for other companies.
- **Scale of entry into international markets:**
 - Whether to make a small scale entry or a large scale entry? *Small scale entry* has the advantages of testing the waters before the final plunge is taken and the possibility of reversal of strategic decision if the entry turns out to be unprofitable. *Large scale entry* has the advantages of impacting the local competition significantly in favour of the company and creating a major presence.

TYPES OF RETRENCHMENT STRATEGIES

i) **Turnaround Strategies:**

- Turnaround Strategy is a retrenchment strategy followed by an organization when it feels that the *decision made earlier is wrong and needs to be undone* before it damages the profitability of the company.
- Simply, turnaround strategy is *backing out or retreating* from the decision wrongly made earlier and *transforming* from a loss making company to a profit making company.

When should a firm adopt turnaround strategies?

Following are certain indicators which make it mandatory for a firm to adopt this strategy for its survival. These are:

1. Persistent negative cash flow
2. Negative profits
3. Declining market share
4. Deterioration in physical facilities
5. High turnover of employees and low morale
6. Uncompetitive products or services
7. Mismanagement

Example: Dell is the best example of a turnaround strategy. In 2006, Dell announced the cost-cutting measures and to do so; it started selling its products directly, but unfortunately, it suffered huge losses. Then in 2007, Dell withdrew its direct selling strategy and started selling its computers through the retail outlets and today it is the second largest computer retailer in the world.

Types of turnaround actions:

1. **Pursuing cost efficiencies:** Pursuit of cost efficiencies through improving cash flows is the most prolific of turnaround strategies. Also known as “belt-tightening”.
2. **Undertaking asset retrenchment:** When some assets of the firm are underperforming, it has to be decided whether they could be made efficient, replaced at a justifiable cost or divested.
3. **Focusing on core activities:** Focus on core activities to conserve resources.
4. **Building for the future:** The firm needs to think of the future and initiate steps to position for long-term growth.
5. **Reinvigorating leadership within organisation:** Replacement of the CEO and a part of the top management team is usually done at the start of a turnaround exercise aimed at infusing new vigour in the organisation.
6. **Initiating cultural change:** The aftermath of a turnaround would expect a new set of beliefs and values that require cultural change in the organisation.

Examples:

- Financial Institution, for example, some bank ‘A’ is suffering from losses due to non-performing assets (NPA). NPA is loan given but not yet recovered. This bank ‘A’ will follow turnaround strategy and try to recover its loans by appointing recovery agents.

- Manufacturing company say 'XYZ' is suffering from losses due to excess idle time taken by labour to complete their jobs. The manufacturing company 'XYZ' will follow turnaround strategy to reduce labour inactivity by installing modern machines (automation) to carry on the same work or job.
- Educational institution, for example, 'C' is suffering from losses due to non-registration of students in their courses. This institution 'C' will follow turnaround strategy to reduce losses by providing facilities like e-Registration, conducting online classes, etc. to attract students.

ii) Divestment Strategies:

- Divestment is a **form of retrenchment strategy used by businesses when they downsize the scope of their business activities.**
- Divestment usually involves **eliminating** a portion of a business. Firms may elect to sell, close, or spin-off a strategic business unit, major operating division, or product line.
- It is usually adopted when a turnaround has been attempted but has proven to be unsuccessful.

Reasons for divestment:

1. A business that has been acquired proves to be a mismatch and cannot be integrated within the company.
2. Persistent negative cash flows from a particular business create financial problems for the whole company.
3. Severity of competition and the inability of an organisation to cope with it.
4. Technological upgradation is required, but the organisation is unable to invest in it.
5. Divestment by an organisation may be a part of a merger plan executed with another organisation, where mutual exchange of unprofitable divisions may take place.
6. Inability to handle a large business.

Examples:

- HUL divested its marine foods business to Mumbai based Temptation Foods which is a fruit and vegetables export company. HUL decided to divest as it wanted to get out of all non-core businesses. The company had already sold its seafood processing plant in Andhra Pradesh and shut down operations in Gujarat.

- Tata Group identified their non-core businesses for divestment. Tata Oil Manufacturing Company was divested and sold to HUL as soaps and detergents were not considered a core business for Tatas. The cosmetics company Lakme was divested and sold to HUL as it was found to be non-competitive and would have required substantial investment to be sustained.
- Pharmaceuticals companies of Tatas, Merind and Tata Pharma were divested to Wockhardt.

iii) Liquidation strategies:

- It is the '**last resort**' strategy when the organisation cannot be turned around nor can it be divested as there are no buyers.
- It is a retrenchment strategy that is considered the **most extreme and unattractive** as it involves closing down an organisation and selling its assets.
- The aim is to **recover as much money as possible** before the closure takes place.
- It is considered as the **last resort** because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where an organisation could pursue any future activities and the stigma of failure.

Why is liquidation difficult or undesirable?

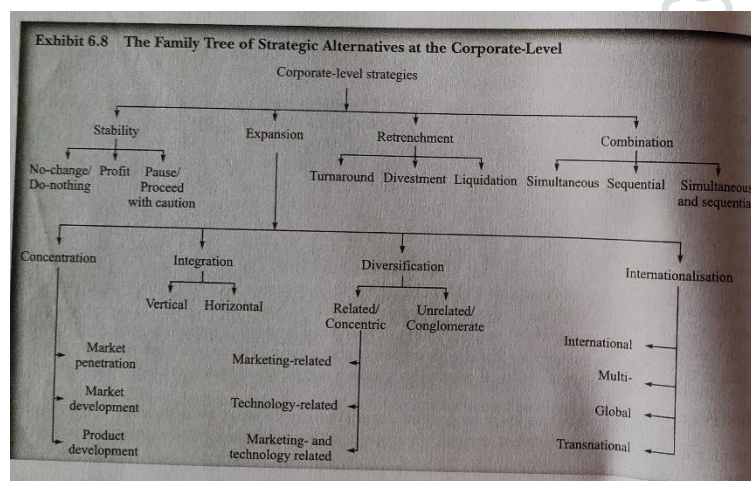
- Many small-scale units and proprietorship and partnership ventures liquidate frequently but medium and large-scale companies rarely liquidate in India due to various reasons.
- The company, govt., banks and financial institutions, trade unions, suppliers and creditors and other agencies are extremely reluctant to take a decision or ask for liquidation.
- While management may hesitate to liquidate due to fear of failure, the govt. may not easily allow liquidation due to political and other risks involved.
- Trade unions would naturally resist the loss of employment of workers.
- Selling assets for implementing a liquidation strategy may also be difficult as buyers are difficult to find.
- The prospect of liquidation creates a bad impact on the company's reputation. For many executives who are closely associated with the liquidated organisation, it may be a traumatic experience.

In India, the legal term for liquidation is "**winding up**".

Companies may be wound up either voluntarily by the company or its creditors and compulsorily by the order of the National Company Law Tribunal (NCLT).

Examples:

- Alpica Finance, an NBFC, was ordered to be liquidated by the Bombay High Court when it defaulted on the outstanding payment to its investors. The liquidation was ordered on a petition by Small Industrial Development Bank of India (SIDBI) which was one of the investors.
- The liquidation of 6 public sector units – Hindustan Photo Films Ltd., Hindustan Machine Tools (HMT) Bearings Ltd., HMT Watches Ltd., HMT Chinara Watches Ltd., Tungabhadra Steel Products Ltd., and Hindustan Cables Ltd. These companies had an employee strength of 3603 to whom a one-time settlement voluntary retirement scheme is going to be offered.



BUSINESS LEVEL STRATEGIES

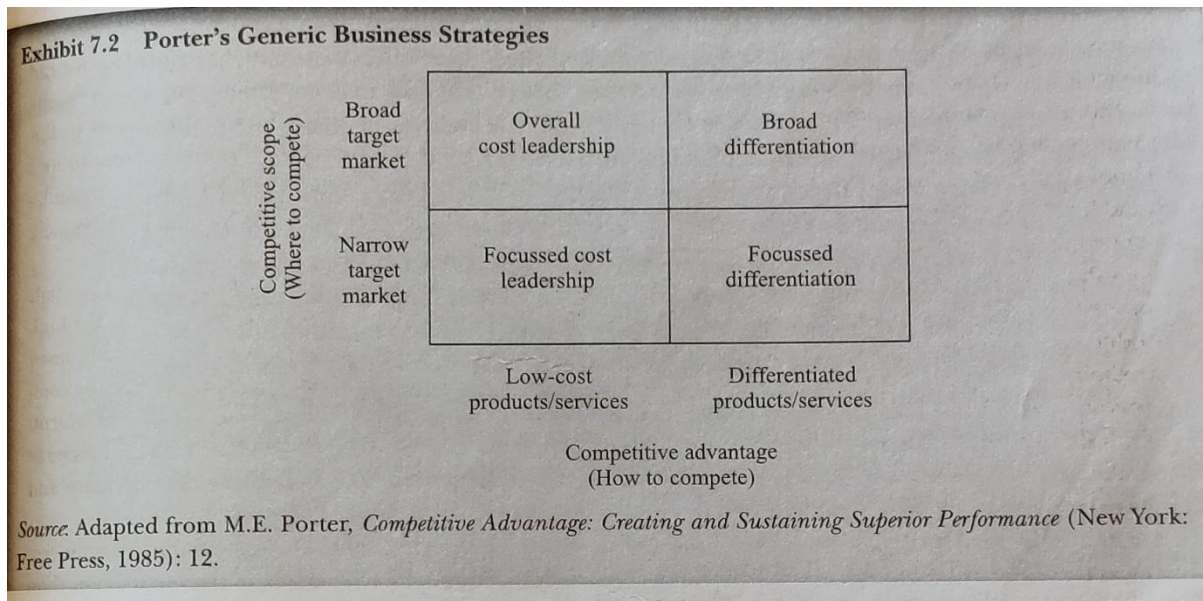
- **Business strategies** are the courses of action adopted by an organisation *for each of its businesses separately* to serve identified customer groups and provide value to customers by satisfaction of their needs.
- In the process, the organisation uses its core competencies to gain, sustain and enhance its strategic or competitive advantage.

PORTER'S GENERIC BUSINESS STRATEGIES

According to **Porter**, business strategies are classified into the following three types:

1. Cost leadership (low cost)
2. Differentiation

3. Focus



1. Cost leadership business strategy:

- When the competitive advantage of an organisation lies in lower cost of products or services relative to what the competitors have to offer, it is termed as cost leadership.
- The organisation *outperforms its competitors by offering products or services at a lower price* than they can since it produces them at low costs.
- When all organisations offer products at comparable price, the cost leader organisation earns higher profit owing to the low cost of its products.

Examples:

- **Amul**, the country's largest cooperative, operates in the branded ice cream market on the lower-cost platform. It has the backing of a large cooperative dairy network whose constituents are located across the country and an efficient supply chain in place for procurement of high quality milk. Amul ice cream can be found just about everywhere including STD booths, kirana shops, chemists and bakers who stock the ice cream in deep freezers.
- **Tata Steel** consistently benchmarks itself against global standards in terms of cost competitiveness. The company strives to use its resource advantage in captive iron ore mines within India and then finishing steel close to the points of consumption anywhere in the world thus saving on transportation costs that are substantial for an item such as steel.
- **IKEA** – focused on reducing costs by getting customers to assemble furniture.

Each of these organisations relies on its inherent strengths to lower the cost of its product and emerges as a lower cost producer vis. a vis. other rivals in the industry. The lower cost capability is then leveraged to achieve competitive advantage.

2. Differentiation Business Strategy:

- This strategy is adopted *when the competitive advantage of a company lies in its special features incorporated into the product/service* which is demanded by customers who are willing to pay for it.
- The organisation outperforms its competitors who are not able/willing to offer the special features that it can and does.
- A differentiated product stands apart in the market and is distinguishable by customers for its special features and attributes.
- A differentiator organisation *can charge a premium price* for its products/services, gain additional customers who value differentiation and command customer loyalty.

Examples:

- **Orient Fans**, a company within the Kolkata based C.K.Birla group, offers premium ceiling fans based on superior technology and product innovation and is a major exporter to many global buyers including Walmart of the U.S.
- **Gati**, a logistics services provider in India, positions itself as a technology-driven company delivering premium value to customers. It differentiates its services with tangibles such as wide coverage, risk insurance offer for shipments, refund on failure to deliver on time, door-to-door pick-up and delivery, time-bound operations, online tracking and safer transportation.

3. Focus Business Strategy:

- Focus business strategies, essentially *rely on either cost leadership or differentiation but cater to a narrow segment* of the total market.
- Thus, in terms of the market, focus strategies are *niche* strategies.

Examples:

- Pustak Mahal's **Rapidex** series of books, aimed at the niche market of Indians seeking to learn English, is a low-priced publication keeping in view the highly price-sensitive target audience and book piracy by smaller players in the unorganised sector. It provides various vernacular speakers in the Indian languages an opportunity to learn English through the self-learning mode.
- Plus size clothing brand – **ALL**
- **Sensodyne**

- The focus strategy has **two variants** – differentiation focus and cost focus.
- These two strategies differ only from differentiation and cost leadership in terms of their competitive scope.
- Examples of companies with a **differentiation focus** are – Omega, Prada and Mercedes Benz.
- Examples of companies with a **cost focus** strategy are – Claire's (seeks to appeal to young women by selling inexpensive jewellery, accessories and ear piercings. The firm has more than 3000 locations and has stores in 95% of U.S. shopping malls), Home Depot (Brings continuous changes in the product designing and packaging to satisfy the customers' psychological expectations and maximize value for money).

STRATEGIC ALLIANCES

- A strategic alliance is formed when two or more companies join forces to achieve a mutual benefit.
- The idea is to help both the partners share knowledge, pool resources and add profit to their bottom lines.
- According to Mehta and Samanta, strategic alliances are an arrangement for 'cooperation between two or more independent firms involving shared control and continuing contributions by all partners for mutual benefit'.
- **Ex., In the beverage industry, Nestle works with Coca- Cola to gain access to the other's distribution channels.** In the computer hardware industry, Toshiba and Samsung have formed a strategic alliance for manufacturing advanced memory chips. Google and NASA together developing Google Earth, Tata and Singapore Airlines jointly forming Vistara, ICICI Bank and Vodafone India entering into a strategic alliance to launch "m-pesa".

REASONS FOR STRATEGIC ALLIANCES

- **(i) To gain access to foreign markets** – in the pharmaceutical industry, Pharmacia and Pfizer have formed an alliance for smooth market entry to accelerate the acceptance of a new drug.
- **(ii) To reduce financial risks** – IBM, Toshiba and Siemens have entered into an alliance to share the fixed costs of developing new microprocessors.
- **(iii) To bring complementary skills** – Intel formed an alliance with Hewlett-Packard (HP) to use HP's capability to develop Pentium microprocessors.
- **(iv) To reduce political risks** – Maytag, a U.S company entered into alliance with Chinese appliance maker RSD to gain access to China.

- **(v) To achieve competitive advantage** – GM and Toyota established joint venture by name Nummi Corporation.
- **(vi) To set technological standards** – Philips entered into an alliance with Matsushita to manufacture and market the digital compact cassette.
- **(vii) To shape industry evolution** – Lucent Technologies and Motorola entered into an alliance to develop a new generation of Digital signal processing chips that is designed to power next- generation cellular phones and other consumer electronics.

TYPES OF STRATEGIC ALLIANCES

1. Procompetitive alliances (low interaction/low conflict):

- These are generally interindustry , vertical value-chain relationships between manufacturers and suppliers or distributors.
- Although firms work closely to develop or improve products and processes, the type of cooperation requires low levels of organizational interaction.
- Moreover, the firms tend not to be rivals.
- **Examples:** *General Motors and Hitachi* working together to develop an electronic car, *Telco Ltd. and Cummins Engine Company* Incorporated where the joint venture is set to manufacture diesel engines for Telco vehicles in Jamshedpur.

2. Non-competitive alliances (high interaction/low conflict):

- These are intra-industry partnerships between non-competitive firms.
- Such alliances can be entered upon by firms that operate in the same industry yet do not perceive each other as rivals.
- Their areas of activity do not coincide and they are sufficiently dissimilar to prevent feelings of competitiveness arising.
- **Examples:** Non-competitive alliance between *Ranbaxy Laboratories Limited and M/S Eli Lilly* of the US where the joint venture is to manufacture and market Lilly brands in the Indian market; strategic alliance between *IDBI Bank and Andhra Bank* to increase their ATM reach so that the customers of both banks are able to use the services currently being offered such as cash withdrawal and balance enquiry.

3. Competitive alliance (high interaction/high conflict):

- These are partnerships that bring two rival firms in a cooperative arrangement where intense interaction is necessary.
- These alliances may be intra or inter-industry.

- **Examples:** *General Motors and Toyota* jointly manufacturing cars in California, *Siemens and Philips* jointly developing a one-megabyte chip, *Motorola and Toshiba* which jointly plan to manufacture microprocessors in Japan, *Ford and Nissan* jointly manufacturing vans in the U.S., joint venture between *Raymond Industries and Clarity Denim* Industries of Italy to manufacture denim fabric, joint venture between *Videocon*

and Sansui, where Videocon shall use for five years the technology as well as brand name of Sansui to enter the European market.

4. Precompetitive alliance (low interaction/high conflict):

- These partnerships bring two firms from different, often unrelated industries to work on well-defined activities such as new technology development, new product development or creating awareness about new products or ideas for acceptance among the potential customers.
- **Examples:** *DuPont and Sony's* cooperative development of optical memory-storage products is an example. Working together, the two firms, neither of which possesses the technological or market knowhow to succeed alone, expect to develop a product they will subsequently manufacture and market independently; *NIIT and Microsoft* have a strategic alliance wherein Microsoft offers technology such as cloud computing and certification while NIIT takes up training of IT professionals. These are complementary areas of benefit for both partners. Microsoft gets entry into the vast Indian market for technology and certification products and NIIT gets the backing of an IT global technology leader and credibility for certification.

SUCCESS FACTORS FOR STRATEGIC ALLIANCE

The success factors of strategic alliances are:-

- Have a clear strategic purpose;
- Find a fitting partner with compatible goals and complementary capabilities;
- Identify likely partnering risks and deal with them when the alliance is formed;
- Allocate tasks and responsibilities to each partner;
- Create incentives for cooperation to minimize differences in corporate culture;
- Minimize conflicts among partners by clarifying objectives and avoiding direct competition in market place;
- Comprehensive cross- cultural knowledge should be ensured in an international alliance;
- Exchange human resources to maintain communication and trust;
- Operate with long- term time horizons;

- Develop multiple joint products so that any failures are counterbalanced by successes;
- Share information to build trust and keep projects on target. Monitor customer responses and service complaints;
- Be flexible and willing to renegotiate the relationship of environmental changes and new opportunities;
- Agree upon an 'exit strategy' when the alliance is judged a failure.

STRATEGIC CHOICE

- It is the decision to select from among the grand strategies considered, the strategy which will best meet the enterprise's objectives.

FOUR STEPS IN THE PROCESS OF STRATEGIC CHOICE:

1. Focusing on strategic alternatives
2. Analysing the strategic alternatives
3. Evaluating the strategic alternatives
4. Choosing from among the strategic alternatives

1. Focusing on the strategic alternatives:

- Focusing on alternatives could be done by visualizing the future state and working backwards. This is done through a gap analysis.
- A company sets objectives for a future period of time, say 3 to 5 years and then works backward to find out where it can reach through the present level of efforts. By analysing the difference between the projected and desired performance, a gap could be found.

2. Analysing the strategic alternatives:

- It involves **narrowing down** the strategic choice to a **few feasible alternatives** and thoroughly analysing them.
- Such analysis has to rely on certain factors called as **selection factors**.
- Selection factors can be divided into **2 groups: the objective and subjective factors**.
- **Objective factors** are based on analytical techniques and are hard facts or data used to facilitate a strategic choice. They could also be termed as rational or normative factors. For example, market share, expressed as a percentage of the total market share, of a company's business in its industry.

- **Subjective factors** are based on one's personal judgement, collective or descriptive factors. For example, the perception of a company's top management regarding the prospects of business in the next 2 to 3 years.

3. Evaluating the strategic alternatives:

- This step involves **bringing together** the analysis done on the basis of objective and subjective factors.
- Rumelt suggests **4 tests** for evaluating strategies:
 - ✓ **Consistency:** The strategy must not present mutually inconsistent goals and policies.
 - ✓ **Consonance:** The strategy must represent an adaptive response to the external environment and the critical changes occurring within it.
 - ✓ **Advantage:** The strategy must provide for creation and maintenance of strategic advantage.
 - ✓ **Feasibility:** The strategy implementation may not be expected to use more resources nor create attendant problems arising out of implementation.

4. Choosing from the strategic alternatives:

- One or more strategies have to be chosen for implementation.
- A **blueprint** has to be made that will describe the strategies and the conditions under which they would operate.
- Besides the chosen strategies, some **contingency strategies** would also have to be devised.

STRATEGIC ANALYSIS

- It is the **investigation of the objective factors** being considered in the process of strategic choice.
- Strategic analysis helps in answering the following **questions**:
 - ✓ Which industries to enter and which ones to leave?
 - ✓ Which businesses to create/acquire/divest?
 - ✓ Which products and markets to retain/grow/divest?

TOOLS & TECHNIQUES FOR STRATEGIC ANALYSIS

Strategic analysis can be done at **two levels**:

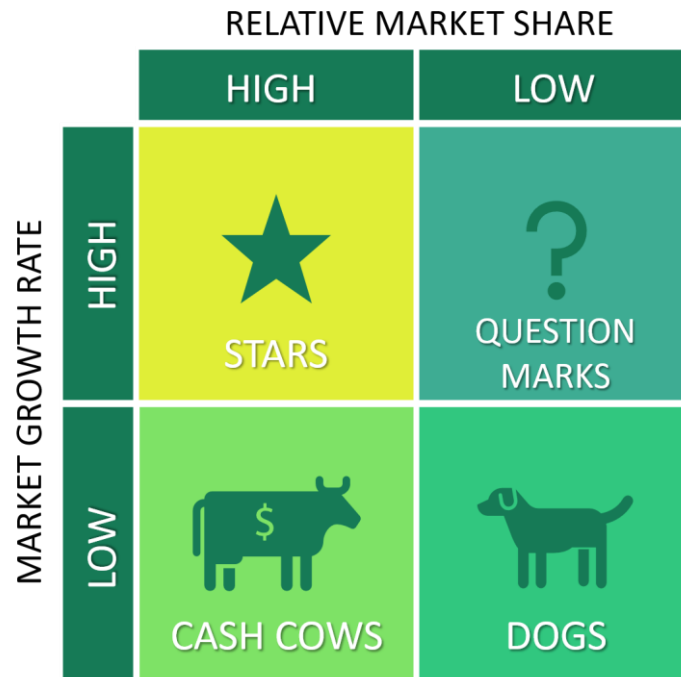
1. Corporate level strategic analysis
2. Business level strategic analysis

1. Corporate portfolio analysis:

- Corporate portfolio analysis is a **set of techniques** that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio.
- It is primarily in multi-product and multi-business firms **used for competitive analysis and strategic planning**
- The **main advantage** of this analysis is that resources could be targeted at the corporate level to those businesses that possess the greatest potential for creating competitive advantage.
- Corporate portfolio analysis can be done using **two techniques**:
 - a) BCG Matrix
 - b) GE Nine-cell Matrix

BCG MATRIX

- BCG Matrix is a tool used to help corporations with **analyzing their business units or product lines**.
- The growth-share matrix aids the company in deciding **which products or units to either keep, sell, or invest more in**.
- The BCG growth-share matrix contains **four distinct categories**: "dogs," "cash cows," "stars," and "question marks."
- The matrix plots a company's offerings in a four-square matrix, with the **y-axis** representing the rate of market growth and the **x-axis** representing relative market share. It was introduced by the Boston Consulting Group in 1970.
- **Relative market share** – is the ratio of the market share of the concerned product or business unit in the industry divided by the share of the market leader
- **Market growth rate** – is the percentage of market growth, by which sales of a particular product or business unit has increased



1. Stars – high market growth, high relative market share

Stars are products that enjoy a **relatively high market share** in a strongly growing market.

They are potentially **profitable** and may grow further to become an important product or category for the company.

The firm should focus on and invest in these products or business units.

The general **features** of stars are -

- High growth rate means they need heavy investment
- High market share means they have economies of scale and generate large amount of cash
- But they need more cash than they generate

The high growth rate will mean that they **will need heavy investment** and will therefore be **cash users**. Overall, the **general strategy is to take cash from the cash cows to fund stars**. Cash may also be invested selectively in some problem children (question marks) to turn them into stars. The other problem children may be milked or even sold to provide funds elsewhere.

Over the time, all growth may slow down and the stars may eventually become cash cows. If they cannot hold market share, they may even become dogs.

2. Cash Cows – Low market growth, high market share

These are the product areas that have high relative market shares but exist in low growth markets.

The **business is mature** and it is assumed that **lower levels of investment will be required**.

On this basis, it is therefore likely that they **will be able to generate both cash and profits**. Such

profits could then be **transferred to support the stars**.

The general **features** of cash cows are –

- They generate both cash and profits
- The business is mature and needs lower levels of investment
- Profits are transferred to support stars/question marks
- The danger is that cash cows may become under-supported and begin to lose their market

Although the market is no longer growing, the cash cows may have a relatively high market share and bring in healthy profits. No efforts or investments are necessary to maintain the status quo. Cash cows **may however ultimately become dogs if they lose the market share**.

3. Question Marks – high market growth, low market share

Question marks are also called **problem children** or **wild cats**.

These are products with **low relative market shares in high growth markets**.

The high market growth means that **considerable investment may still be required** and the low market share will mean that such products will have **difficulty in generating substantial cash**.

These businesses are called question marks because the **organization must decide whether to strengthen them or to sell them**.

The general **features** of question marks are –

- Their cash needs are high
- But their cash generation is low
- Organization must decide whether to strengthen them or sell them

Although their market share is relatively small, **the market for question marks is growing rapidly**. Investments to create growth may yield big results in the future, though this is far from certain. Further investigation into how and where to invest is advised.

4. Dogs – Low market growth, low market share

Dogs – These are products that have **low market shares in low growth businesses**.

These products **will need low investment** but they are **unlikely to be major profit earners**.

In practice, they **may actually absorb cash** required to hold their position. They are often regarded as **unattractive** for the long term and **recommended for disposal**.

The general **features** of dogs are –

- They are not profit earners
- They absorb cash
- They are unattractive and are often recommended for disposal.

Turnaround can be one of the strategies to pursue because many dogs have bounced back and become viable and profitable after asset and cost reduction. The **suggested strategy** is to **drop or divest the dogs when they are not profitable**. If profitable, do not invest, but **make the best out of its current value**. This may even mean selling the division's operations.

PROS AND CONS OF BCG MATRIX

Advantages –

- It is easy to use
- It is quantifiable
- It draws attention to the cash flows
- It draws attention to the investment needs

Limitations –

- It is too simplistic
- Link between market share and profitability is not strong
- Growth rate is only one aspect of industry attractiveness
- It is not always clear how markets should be defined
- Market share is considered as the only aspect of overall competitive position
- Many products or business units fall right in the middle of the matrix, and cannot easily be classified.
 - BCG matrix is thus a **snapshot of an organization at a given point of time** and **does not reflect businesses growing over time**.

GE NINE CELL MATRIX

- This matrix was developed in 1970s by the *General Electric Company* with the assistance of the consulting firm, *McKinsey & Co.*, USA. This is also called GE multifactor portfolio matrix.
- The GE matrix has been developed *to overcome the obvious limitations of BCG matrix*. This matrix consists of *nine cells (3X3)* based on *two key variables*:

i) Business strength

ii) Industry attractiveness

- The *horizontal axis represents business strength* and the *vertical axis represents the industry attractiveness*.

GE Nine Cell Matrix

Industry Attractiveness	Business Unit Strength		
	Strong	Average	Weak
High	Grow	Grow	Hold
Medium	Grow	Hold	Harvest
Low	Hold	Harvest	Harvest

- Business strength** is measured by considering factors such as:
 - ✓ Relative market share
 - ✓ Profit margins
 - ✓ Ability to compete on price and quality

- ✓ Knowledge of the customer and market
- ✓ Competitive strengths and weaknesses
- ✓ Technological capability
- ✓ Calibre of management
- **Industry attractiveness** is measured considering such factors as :
 - ✓ Market size and growth rate
 - ✓ Industry profit margin
 - ✓ Competitive intensity
 - ✓ Economies of scale
 - ✓ Technology
 - ✓ Social, environmental, legal and human aspects

PROCESS OF GE NINE CELL MATRIX

- First, the business unit's industry attractiveness and unit strength are calculated by **identifying the key factors** related to each and then **assigning a value** to each factor.
- The values are derived by **assigning weights to each factor** that has been listed. This weight could be anything between 0.01 (not important) and 1.0 (extremely important) which has to be assigned to each factor.
- Once the weight is allocated to the factors, the next step is to **rate each one of them**. Values can be selected between 1 to 5 or between 1 to 10. In this, 1 shows the low attractiveness of the industry / weak strength, wherein, the scoring of 5 or 10 represents the high industry attractiveness / superior strength.
- Once the weights and ratings are ready, a **final or total score** is calculated which is the aggregate of the weighted score of all factors for each business unit. Weighted scores are determined by multiplying ratings and weights.
- By using the total score, companies can compare the industry attractiveness of each SBU.
- Now, after getting a score on industry attractiveness and competitive strength for each business unit, the next step is to **position them on the matrix**. A circle should represent each business unit that indicates the market size of each business unit as compared to other business units.
- The next step includes **analyzing the strategic possibilities** for business units.
- **Three zones**, of 3 cells each, are made, denoting different combinations represented by **green, yellow and red** colours.

- For this reason, the GE matrix is also known as the ***stoplight strategy matrix***.
- Based on the ***green zone***, the signal is ***“go ahead”***, to grow and build, indicating expansion strategies. **(INVEST/EXPAND)**
- Businesses in the green zone attract major investment.
- For the ***yellow zone***, the signal is ***“wait and see”***, indicating hold-and-maintain type of strategies aimed at stability and consolidation. **(SELECT/EARN)**
- For the ***red zone***, the signal is ***“stop”***, indicating retrenchment strategies of divestment and liquidation or rebuilding approach for adopting turnaround strategies. **(HARVEST/DIVEST)**

ADVANTAGES AND DISADVANTAGES OF GE NINE CELL MATRIX

Advantages –

- 1) It used 9 cells instead of 4 cells of BCG
- 2) It considers many variables and does not lead to simplistic conclusions
- 3) High/medium/low and strong/average/low classification enables a finer distinction among business portfolio
- 4) It uses multiple factors to assess industry attractiveness and business strength, which allow users to select criteria appropriate to their situation

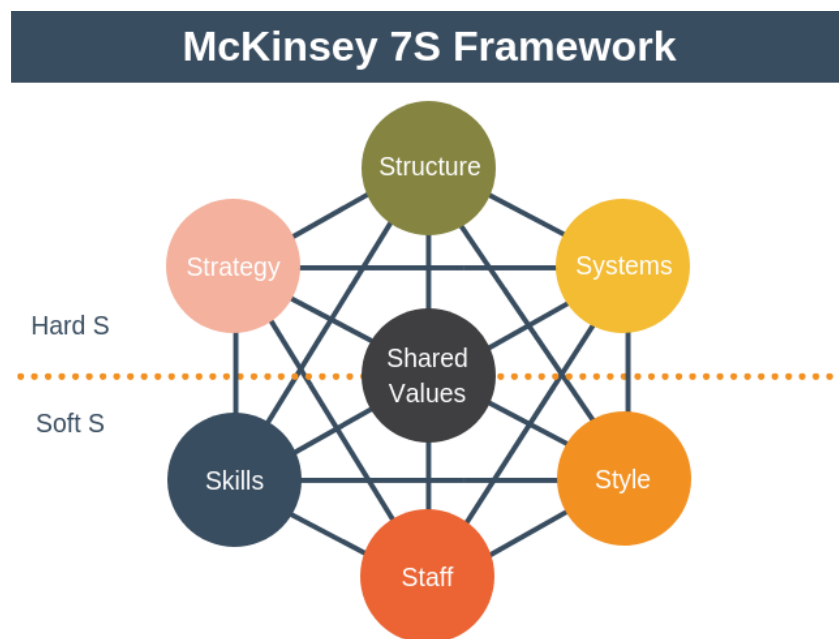
Limitations –

- 1) It can get quite complicated and cumbersome with the increase in businesses
- 2) Though industry attractiveness and business strength appear to be objective, they are in reality subjective judgements that may vary from one person to another
- 3) It cannot effectively depict the position of new business units in developing industry
- 4) It only provides broad strategic prescriptions rather than specifics of business policy

MC KINSEY 7S FRAMEWORK

- McKinsey 7s model was **developed in 1980s** by McKinsey consultants Tom Peters, Robert Waterman and Julien Philips.
- The **goal** of the model was to show how 7 elements of the company: Structure, Strategy, Skills, Staff, Style, Systems, and Shared values, can be aligned together to achieve effectiveness in a company.

- The key point of the model is that **all the seven areas are interconnected** and a **change in one area requires change in the rest** of a firm for it to function effectively.
- The McKinsey model represents the **connections** between seven areas and divides them into 'Soft Ss' and 'Hard Ss'. The shape of the model emphasizes interconnectedness of the elements.



USES OF THE MC KINSEY 7S FRAMEWORK

- To facilitate organizational change.
- To help implement new strategy.
- To identify how each area may change in a future.
- To facilitate the merger of organizations.
- In McKinsey model, the seven areas of organization are divided into the 'soft' and 'hard' areas.
- **Strategy, structure and systems** are **hard elements** that are much **easier to identify and manage** when compared to soft elements.
- On the other hand, **soft areas**, although harder to manage, are the **foundation of the organization** and are more likely to create the **sustained competitive advantage**.

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

Hard Ss:

- **Strategy** is a plan developed by a firm to achieve sustained competitive advantage and successfully compete in the market. In general, a sound strategy is the one that's clearly articulated, is long-term, helps to achieve competitive advantage and is reinforced by strong vision, mission and values.
- **Structure** represents the way business divisions and units are organized and includes the information of who is accountable to whom. In other words, structure is the organizational chart of the firm. It is also one of the most visible and easy to change elements of the framework.
- **Systems** are the processes and procedures of the company, which reveal business' daily activities and how decisions are made. Systems are the area of the firm that determines how business is done and it should be the main focus for managers during organizational change.

Soft Ss:

- **Skills** are the abilities that firm's employees perform very well. They also include capabilities and competences. During organizational change, the question often arises of what skills the company will really need to reinforce its new strategy or new structure.
- **Staff** element is concerned with what type and how many employees an organization will need and how they will be recruited, trained, motivated and rewarded.



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- **Style** represents the way the company is managed by top-level managers, how they interact, what actions do they take and their symbolic value. In other words, it is the management style of company's leaders.
- **Shared Values** are at the core of McKinsey 7s model. They are the norms and standards that guide employee behavior and company actions and thus, are the foundation of every organization.
- Placing **shared values** in the centre of the model emphasizes that these values are central to the development of all the other critical elements.

The model states that the seven elements need to balance and reinforce each other for an organization to perform well.

CHECKLIST QUESTIONS FOR THE MC KINSEY 7S FRAMEWORK

Strategy:

- What is our strategy?
- How do we intend to achieve our objectives?
- How do we deal with competitive pressure?
- How are changes in customer demands dealt with?
- How is strategy adjusted for environmental issues?

Structure:

- How is the company/team divided?
- What is the hierarchy?
- How do the various departments coordinate activities?
- How do the team members organize and align themselves?
- Is decision making and controlling centralized or decentralized? Is this as it should be, given what we're doing?
- Where are the lines of communication? Explicit and implicit?

Systems:

- What are the main systems that run the organization? Consider financial and HR systems as well as communications and document storage.
- Where are the controls and how are they monitored and evaluated?
- What internal rules and processes does the team use to keep on track?

Shared Values:

- What are the core values?
- What is the corporate/team culture?
- How strong are the values?
- What are the fundamental values that the company/team was built on?

Style:

- How participative is the management/leadership style?
- How effective is that leadership?
- Do employees/team members tend to be competitive or cooperative?
- Are there real teams functioning within the organization or are they just nominal groups?

Staff:

- What positions or specializations are represented within the team?
- What positions need to be filled?
- Are there gaps in required competencies?

Skills:

- What are the strongest skills represented within the company/team?
- Are there any skills gaps?
- What is the company/team known for doing well?
- Do the current employees/team members have the ability to do the job?
- How are skills monitored and assessed?

7S MODEL CAN BE USED IN TWO WAYS:

1. Considering ***the links between each of the S's*** one can ***identify strengths and weaknesses*** of an organization. No S is strength or a weakness in its own right, it is only its degree of support, or otherwise, for the other S's which is relevant. Any S's that harmonises with all the other S's can be thought of as strength and weaknesses
2. The model highlights ***how a change made in any one of the S's will have an impact on all the others***. Thus if a planned ***change is to be effective***, then ***changes in one S*** must be accompanied by ***complementary changes in the others***.

DESIGNING STRATEGIC CONTROL SYSTEMS

- Strategic controls are intended to ***steer the company towards its long-term strategic direction.***
- ***Strategic control*** is concerned with tracking the strategy as it is being implemented, detecting problems or changes in the premises and making necessary adjustments.
- Strategic control is related to that aspect of strategic management through which an organization ensures ***whether it is achieving its objectives*** contemplated in the strategic action. If not, ***what corrective actions are required*** for strategic effectiveness?

The importance of strategic control:

- Achieving **Operational efficiency**
- Maintaining focus on **Quality**
- Fostering **Innovation**
- Ensuring **Responsiveness to Customers**

FOUR MAJOR TYPES OF STRATEGIC CONTROL

1. Premise control:

- Every strategy is founded on certain ***assumptions*** relating to ***environmental and organisational forces.***
- Certainly some of these forces or factors are very sharp and ***any change in them is sure to affect the strategy to a great extent.***
- Hence, ***premise control*** is a must ***to identify the key assumptions*** and ***keep track of any change*** in them in order to assess their impact on strategy and, therefore, its implementation.
- For ***example***, a company may base its strategy on important assumptions related to environmental factors (such as favourable govt. policies), industrial factors (such as changing nature of competition), etc.
- Premise control serves the purpose of ***continually testing the assumptions*** to find out whether they are still valid or not.
- This ***enables the strategists to take corrective action at the right time*** rather than continuing with the strategy.

2. Implementation control:

- The implementation of a strategy results in a series of plans, programs and projects. **Resource allocation** is done for achieving this.
- Implementation control is aimed at **evaluating** whether the plans, programs and projects are actually guiding the organisation towards its pre-determined objectives or not.
- If, at any time, it is felt that the commitment of resources to a plan, program or project would not benefit the organisation as envisaged, they have to be revised.
- In this manner, implementation control **may lead to strategic rethinking**.

3. Strategic surveillance:

- Strategic surveillance **monitors the environment** for a broad range of events inside and outside the organisation that might affect the course of strategy.

4. Special alert control:

- It is based on a mechanism for **rapid response and immediate reassessment** of strategy in the light of sudden and unexpected events.
- 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 a sudden fall of a govt. at the central or state level, instant change in a competitor's posture, an unfortunate industrial disaster, a breach in information security or a natural catastrophe.

STRATEGIC CONTROL PROCESS

1. Setting Performance Standards:

- Every function in the organizations begins with plans which specify **objectives or targets** to be achieved.
- In the light of these, **standards** are established which are **criteria against which actual results are measured**.
- For setting standards for control purposes, it is important to **identify clearly and precisely the results which are desired**. Precision in the statement of these standards is important.
- After setting the standards, it is also important to **decide about the level of achievement or performance** which will be regarded as good or satisfactory.

- The desired level of performance should be **reasonable and feasible**. The level should have some amount of flexibility also, and should be stated in terms of range—maximum and minimum.

2. Measuring Actual Performance:

- The step involves measuring the performance in respect of a work **in terms of control standards**.
- The presence of standards implies a corresponding ability to **observe and comprehend the nature of existing conditions** and to ascertain the degree of control being achieved.
- The measurement of performance against standards should be on a **continuous basis**, so that **deviations may be detected in advance of their actual occurrence** and **avoided by appropriate actions**.
- Appraisal of actual or expected performance becomes an easy task, if standards are properly determined and methods of measuring performance can be expressed explicitly.

3. Analysing Variance:

- The third major step in control process is the **comparison of actual and standard performance**.
- It involves two steps – **(i) finding out the extent of variations, and (ii) identifying the causes of such variations**.
- When adequate standards are developed and actual performance is measured accurately, any variation will be clearly revealed.
- **When the standards are achieved, no further managerial action is necessary** and control process is complete.
- However, standards may not be achieved in all cases and the extent of variations may differ from case to case. **When the variation between standard and actual performance is beyond the prescribed limit, an analysis is made of the causes of such a variation**.
- For controlling and planning purposes, ascertaining the causes of variations along with computation of variations is important because such analysis helps management in taking up proper corrective actions.

4. Taking Corrective Actions:

This is the last step in the control process which requires that actions should be taken to maintain the desired degree of control in the system or operation.

Such actions may be on the following lines:

- a. Improvement in the performance by taking suitable actions if the performance is not up to the mark; or
- b. Resetting the performance standards if these are too high and unrealistic; or
- c. Change the objectives, strategies, and plans if these are not workable.

LEVELS AND TYPES OF STRATEGIC CONTROL

The various levels of strategic control are:

a) Corporate level control:

- Top level management set controls which provide context for the divisional level managers.

b) Divisional level control:

- They set controls which provide context for the functional managers.

c) Functional level control:

- Done by the managers of each department. They set controls which provide context for the first level managers.

d) First level control:

- Done by the first line managers. They set controls which provide context for the workers.

Types of control systems

- The various types of the control systems are, **Financial, Operations and Behavioural Controls.**

a) Financial Controls

- Primary purposes of every business is to earn a profit. Managers need **two specific financial controls** include budgets and financial ratio analysis.
- **i) Budgets** act as a planning tool and control tools as well. They provide managers with quantitative standards against which to measure and compare resource consumption.
- **ii) Financial ratios** are calculated by taking numbers from the organization's primary financial statements the income statement and the balance sheet.

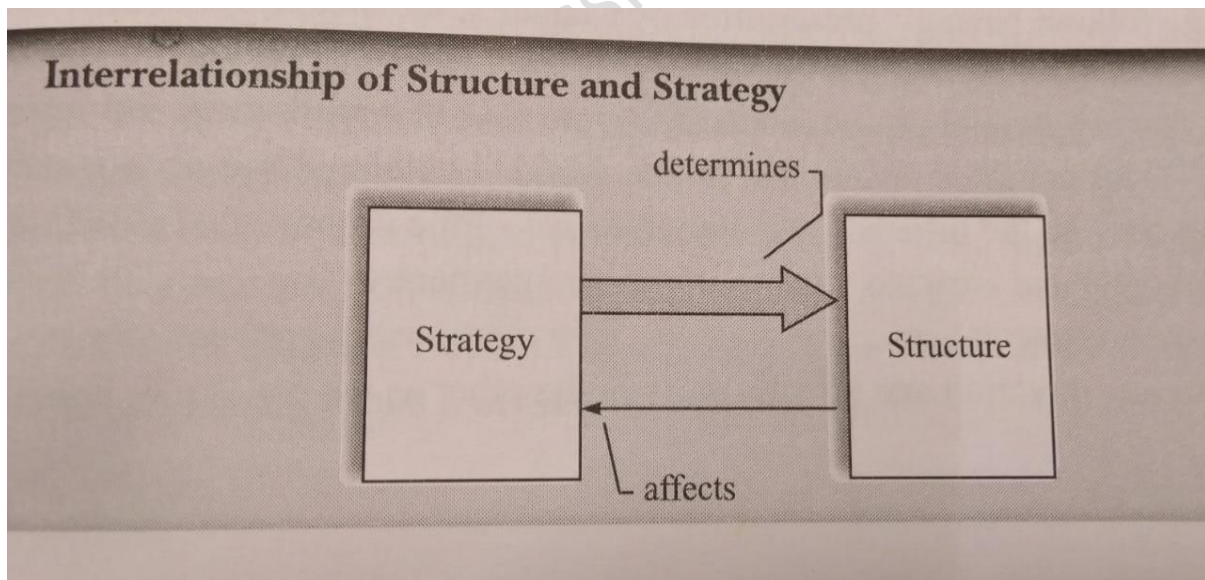
b) Operations Controls:

- Techniques under operations management are used. However, **two operations control tools** deserve elaboration: TQM control charts and EOQ model.
- i) Control charts:** measurements over a period of time with statistically determined upper and lower limits. To verify if a specific process is staying within predefined limits
- ii) The EOQ model:** how much inventory to order and how often to order, to balance four costs associated with ordering and carrying inventory.

c) Behavioral Controls:

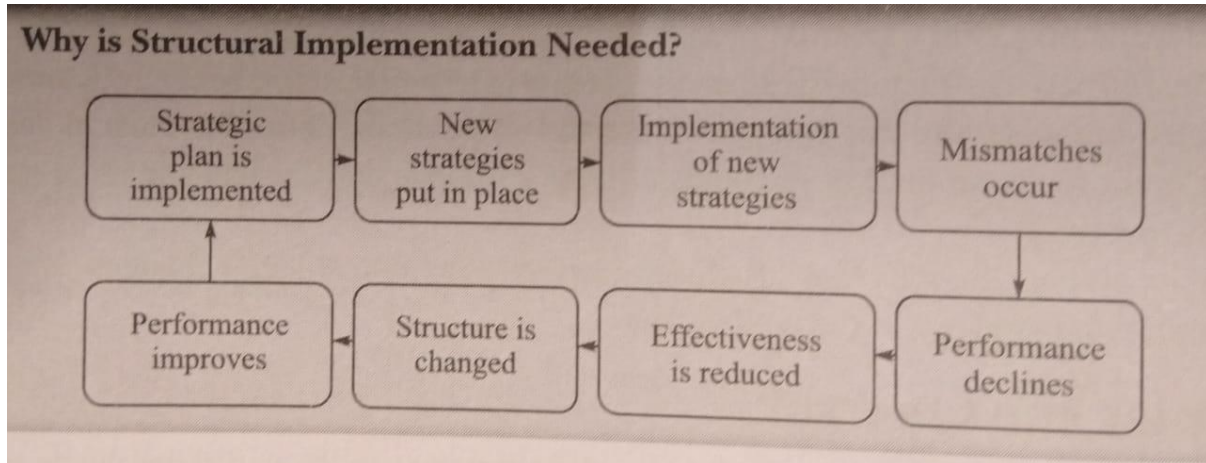
- Three explicit ways that managers control employee behavior: direct supervision, performance appraisals, and discipline.
- i) Direct supervision:** overseeing of employees' work performance and correcting problems as they occur. It is also known as MBWA (management by walking around).
- ii) Performance appraisal:** to arrive at objective personnel decisions.
- iii) Discipline:** attendance, on-the-job behaviors, dishonesty, and outside activities).

MATCHING STRUCTURE AND CONTROL TO STRATEGY



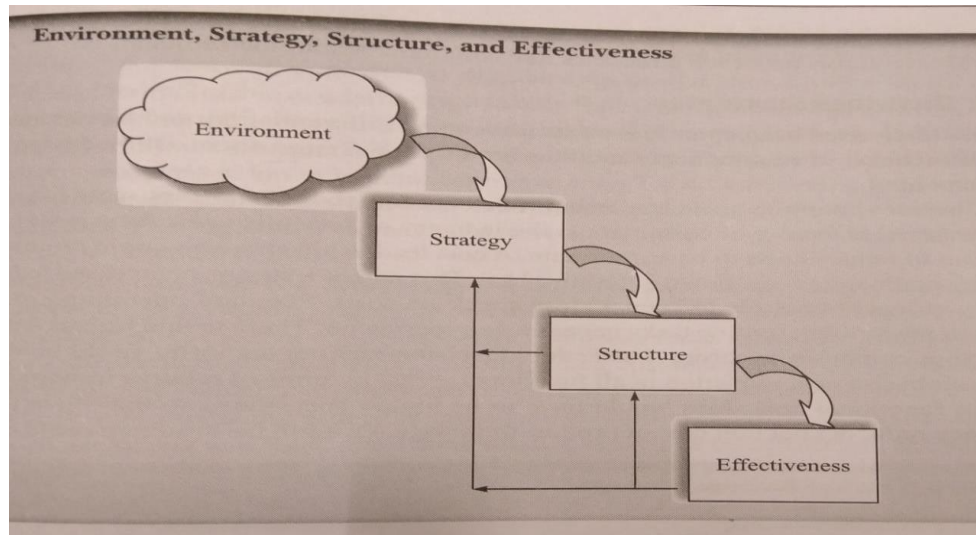
- Strategy **determines structure** in a major way.
- It does this by providing the **necessary infrastructure** and **administrative mechanisms** that enable implementation of the chosen strategy.
- The structure **conversely impacts the strategy** but to a lesser extent.

- The structure once established, **might support or preclude** the selection of some types of strategies and thereby affect the strategic choice.
- Ideally, the structure of an organisation **should** be such that it enables smooth implementation of chosen strategies, supports operational flexibility to improvise and revamp as implementation moves on, and facilitates choice of future strategies.



- The **two-way relationship** among strategy and structure helps us to understand what structural implementation is.
- It is the **continual process** of matching the structure of an organisation with its chosen strategy.
- When an organisation implements a new or revised strategic plan, **new or modified strategies** are put in place.
- The implementation of these strategies starts taking place. As strategies are implemented, **mismatches** may occur due to many reasons. For eg., interdepartmental conflicts may arise.
- As a consequence of this, the **performance declines leading to a reduction in effectiveness**.
- When the **structure is changed appropriately** to resolve the problems, performance improves leading to better effectiveness.
- This **cyclical process** goes on as new strategies are implemented.

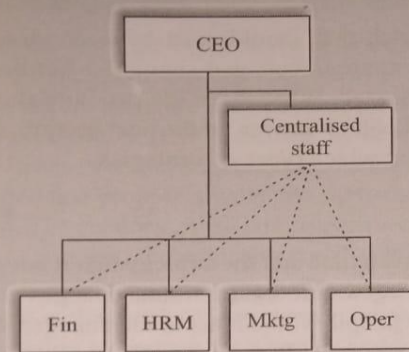
RELATIONSHIP BETWEEN ENVIRONMENT, STRATEGY, STRUCTURE AND EFFECTIVENESS



- There is a relationship between the environment, strategy and structure.
- Changing environment impacts strategy, which in turn, determines the form of structure to have.
- The relationship between strategy and structure is spanned by environment in one direction and effectiveness in the other.

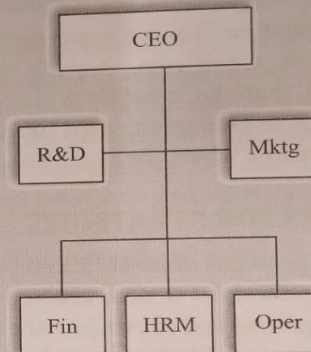
STRUCTURES FOR BUSINESS STRATEGIES

Exhibit 11.9 Structures for Business Strategies



Organisation design for attaining cost leadership

- Efficiency orientation
- Strong central authority
- Tight cost controls
- Detailed control reports
- Standard operating procedures
- Highly efficient procurement and distribution systems
- Close supervision
- Routine tasks
- Limited or no employee empowerment



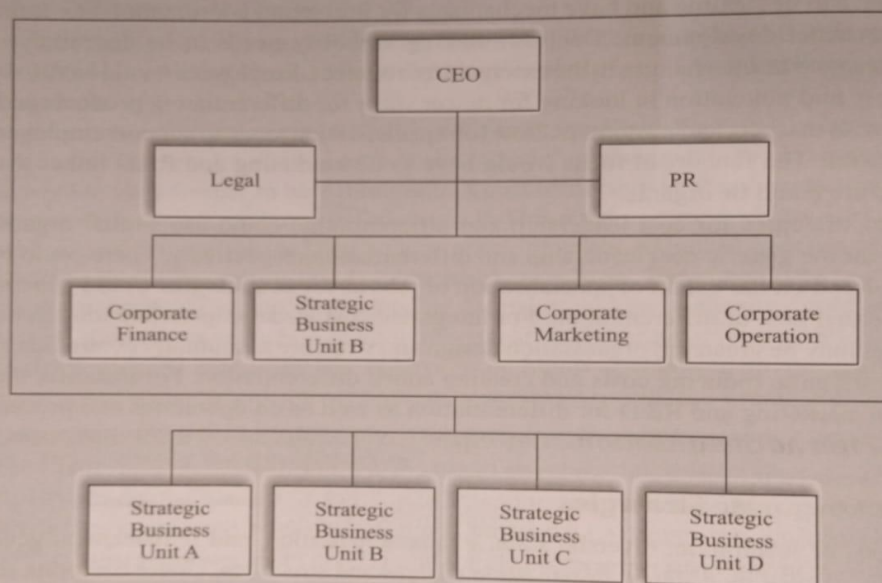
Organisation design for attaining differentiation

- Learning orientation
- Flexible, loosely-knit organisation
- Stress on horizontal coordination than vertical control
- Strong capability in R&D
- Lots of leeway for employees to be creative and innovative
- Rewards for risk-taking
- Broad guidelines to performance of activities
- Liberal amount of employee empowerment

STRUCTURES FOR CORPORATE STRATEGY (RELATED DIVERSIFICATION)

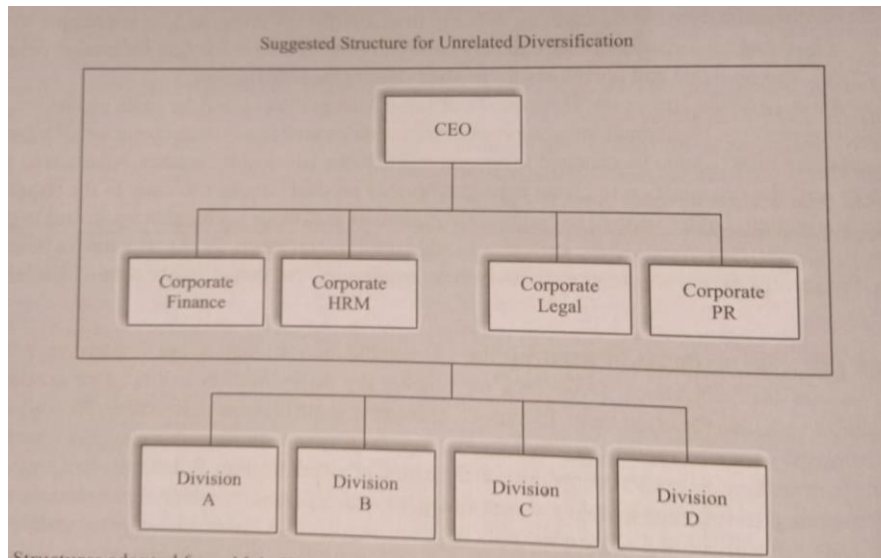
Exhibit 11.10 Structures for Corporate Strategies

Suggested Structure for Related Diversification



- Related diversification would create the requirement of retaining linkages among functions and departments within the organisation so that synergies can play a role in creating economies of scope.

STRUCTURES FOR CORPORATE STRATEGY (UNRELATED DIVERSIFICATION)



- Unrelated diversification implemented mainly through multidivisional structure could ignore linkages among functions and departments in favour of divisional autonomy to pursue a different line of business.

STRUCTURES FOR CORPORATE STRATEGY (INTERNATIONALISATION STRATEGIES)



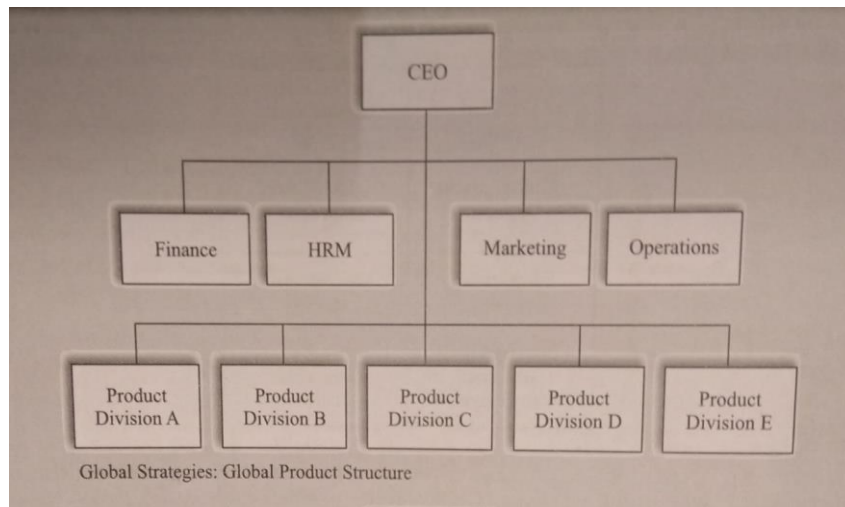
- There are four types of internationalisation strategies – international, multi domestic, global and transnational.
- Each of these internationalisation strategies creates its own requirements for organisation design and structure.

STRUCTURE FOR IMPLEMENTING INTERNATIONAL STRATEGIES



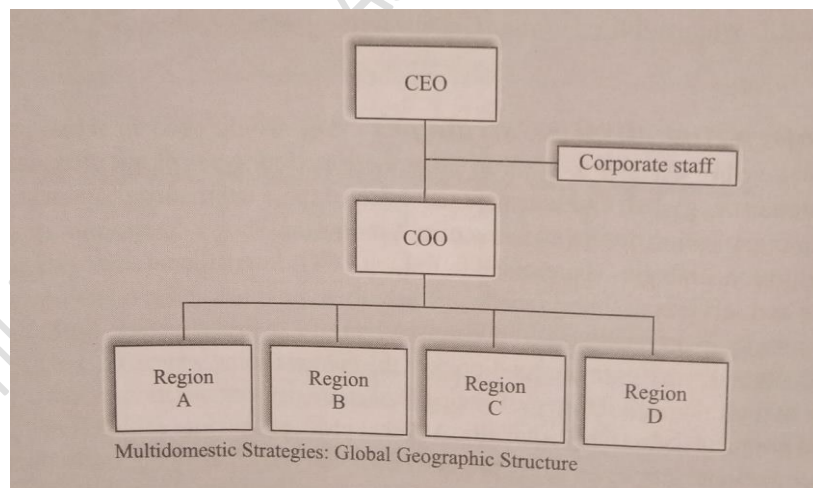
- International strategies that create value by transferring products and services to foreign markets where these products and services are not available could be implemented by setting up an international division as a part of a hybrid structure.

STRUCTURE FOR IMPLEMENTING GLOBAL STRATEGIES



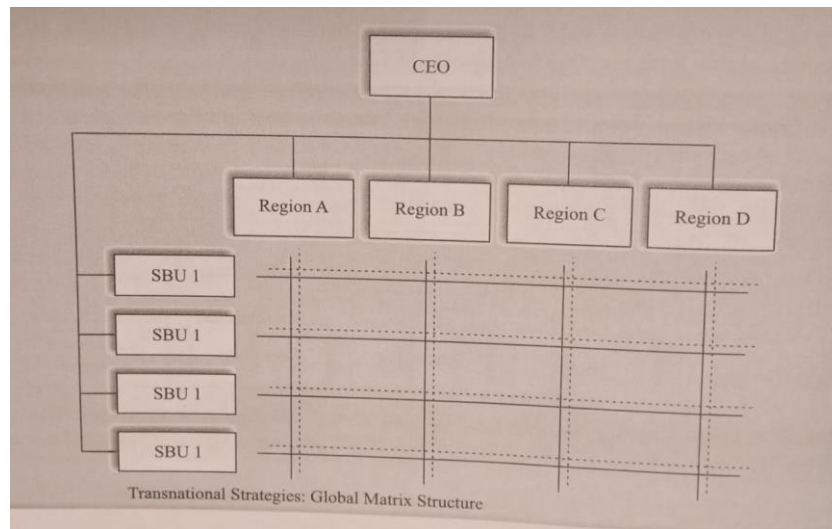
- Using global strategies, organisations adopt a low cost approach to offer standardised products and services globally.
- A global product structure could serve the need of a global strategy.

STRUCTURE FOR IMPLEMENTING MULTI DOMESTIC STRATEGY



- Multi domestic strategies try to match the products and services to the conditions of the markets being served.
- Global geographic structure could serve the need of multi domestic strategy.

STRUCTURE FOR IMPLEMENTING TRANSNATIONAL STRATEGIES



- Transnational strategies being the most complex and challenging international strategies that seek to combine local responsiveness and low-cost approaches may have to rely on the global matrix structure.

IMPLEMENTING STRATEGIC CHANGE

Change occurs at three levels:

- 1. Individual level:** Individual level changes may take place due to changes in job assignment, transfer of an employee to a different location or the changes in the maturity level of a person which occurs over a passage of time.
- 2. Group/team level:** The groups in the organisation can be formal groups or informal groups. Formal groups can always resist change for example, the trade unions can very strongly resist the changes proposed by the management. Informal groups can pose a major barrier to change because of the inherent strength they contain. Changes at the group level can affect the work flows, job design, social organisation, influence and status systems and communication patterns.
- 3. Organisation level:**
 - a. These involve major programmes that affect both individuals and groups, are generally made by senior management and are seldom implemented by only a single manager.
 - b. These changes occur over long periods of time and require considerable planning for implementation. For example, reorganization of the organizational structure and responsibilities, revamping of employee remuneration system, or major shifts in an organization's objectives.

MAJOR TYPES OF STRATEGIC CHANGE

a) Re-engineering: It is also known as Business Process Reengineering (BPR). It is fundamental rethinking and radical redesign of business process to achieve dramatic improvements in critical, contemporary measures of performance such as cost, quality, service and speed. The strategist must completely think how the organization goes about its business. Instead of focusing on company's functions strategic managers make business process the focus of attention.

b) Restructuring: It is the second form of change to improve the firm's performance. There are two basic steps to restructuring. First, an organization reduces its level of differentiation and integration by eliminating divisions, departments or levels in the hierarchy. Second, an organization downsizes by reducing the number of its employees to reduce operating cost.

c) Innovation: It is the process by which organizations use their skills and resources to create new technologies or goods and services so they can change and better respond to the needs of their customer. Innovation can be done with the help of research and development department.

STAGES IN THE CHANGE PROCESS



STAGES IN THE STRATEGIC CHANGE PROCESS

- i) **Determine the need for change:**
In this step the strategic managers must recognize a gap between actual performance and desired performance, use a SWOT analysis to define the company's present state and then determine its desired future state.
- ii) **Determine the obstacles to change:**
Obstacles may prevent a company from reaching its desired future state. Conflict is also major setback to change and managers must seek ways to resolve the conflict to implement strategic change successfully.
- iii) **Implement change:**
Strategic managers play organizational politics to overcome obstacles to change, resolve conflicts and bring about strategic change, resolve conflicts and bring about strategic change. To play politics, managers must have power.
- iv) **Evaluate change:**
Strategic managers need to evaluate the results of each change process and use this analysis to define the organization's present condition so that they can start the next change process.

REASONS FOR CHANGE AND FORCES BEHIND

- Organizations that seek to create and sustain competitive advantage should be ready to change and implement the proposed changes.
- The **major forces** for change are;
 - technical obsolescence and technical improvements; political, economic, and social events; globalization; increase in organizational size, complexity, and specialization; greater strategic awareness and skills of managers and employees; and competitive dynamics.
- The **level of change** could be at;
 - values, culture, or styles of management; objectives, corporate strategy, or organization structure; competitive strategies, systems, and management roles; and functional strategies or organization of tasks.
- It is crucial to clarify the level of change and tackle needs and problems appropriately.

POWER

Power is the capacity to influence the behavior of others. There are different sources of power. They are broadly divided into (a) interpersonal sources and (b) structural sources.

(a) Interpersonal sources of power:

- i) **Reward power:** It arises from the ability of managers to reward positive outcomes.
- ii) **Coercive power:** It arises from the ability of managers to penalise negative outcomes.
- iii) **Legitimate Power:** It arises from the ability of managers to use position to influence behaviour.
- iv) **Expert power:** It arises from the managers' knowledge, competence, and expertise that is acknowledged by others.
- v) **Referent Power:** It arises from the ability of managers to create liking among subordinates due to charisma or personality.

(b) Structural sources of power:

Structural sources of power are ***related to the division of labor and position in different teams and departments work assignments, locations and roles***. The positions in hierarchy naturally result in a variety of situations in which there is unequal access to information, resources, and

decision making. Any of the situational factors could be a source of power in an organization, which include knowledge, resources, decision making and networks.

- i) **Knowledge power** – This power is from knowledge-information and know-how that exists in an organization.
- ii) **Resources power** – Organizations need a variety of resources, including human resources, money, equipment, materials, supplies, and customers, to survive.
- iii) **Decision-making power** – Decisions in organizations often are made sequentially, with individuals, groups, or teams participating.
- iv) **Network power** – Managers and departments that have connecting links with other individuals and departments in the organization will be more powerful than those who don't.

POLITICS

- **Corporate politics** is the 'carrying out of activities not prescribed by policies for the purpose of influencing the distribution of advantages within the organisation'.

Political behavior is of two types:

1. Legitimate - It includes normal every day's politics.

- Complaining to one's superiors
- By passing the chain of command
- Forming coalitions
- Obstructing organizational policies through excessive adherence to rules
- Developing contacts outside through professional activities

2. Illegitimate – It includes influences that are extreme and violate the implied "rules of the game."

- Disruption,
- Whistle blowing,
- Symbolic protest such as wearing unorthodox dress and
- Groups of employees cumulatively calling in sick.

FACTORS OF POLITICAL BEHAVIOUR

Some of these factors are individual and derived from the unique qualities of the employees in the organization and others are derived from the organization's internal culture or environment.

a) Individual factors:

- **Need for power and high expectations of success** - Some managers who are status and ego driven often resort to politics to gain access to power corridors.
- **Machiavellianism** - Machiavellians are people who use dishonesty and opportunism in interpersonal relations and manipulate others for their own purpose.
- **Locus of control** - Locus of control refers to the extent to which individuals believe that they can control events that affect them.

(b) Organizational factors

- **Reallocation of resources** – when organizations downsize the changes many stimulate conflict and politicking to have advantage in allocation.
- **Advancement or promotion** – people resort to politics for quickly getting advancement or promotion in their careers
- **Low trust** – A low trust within the organization can increase political behavior, which can become illegitimate also.
- **Role ambiguity** – When there is confusion in the scope and functions, employees resort to politicking to have a favorable situation.

CONFLICT (IN THE ORGANISATION)

Conflict is defined as a situation when the goal directed behavior of one group blocks the goal-directed behavior of another. Conflict is necessary for organizational change as it strikes at the root of the sources of organization inertia.

Sources of Organizational Conflict:

a) Differentiation

-Differences in subunit orientations

b) Task relationships

-Overlapping authority

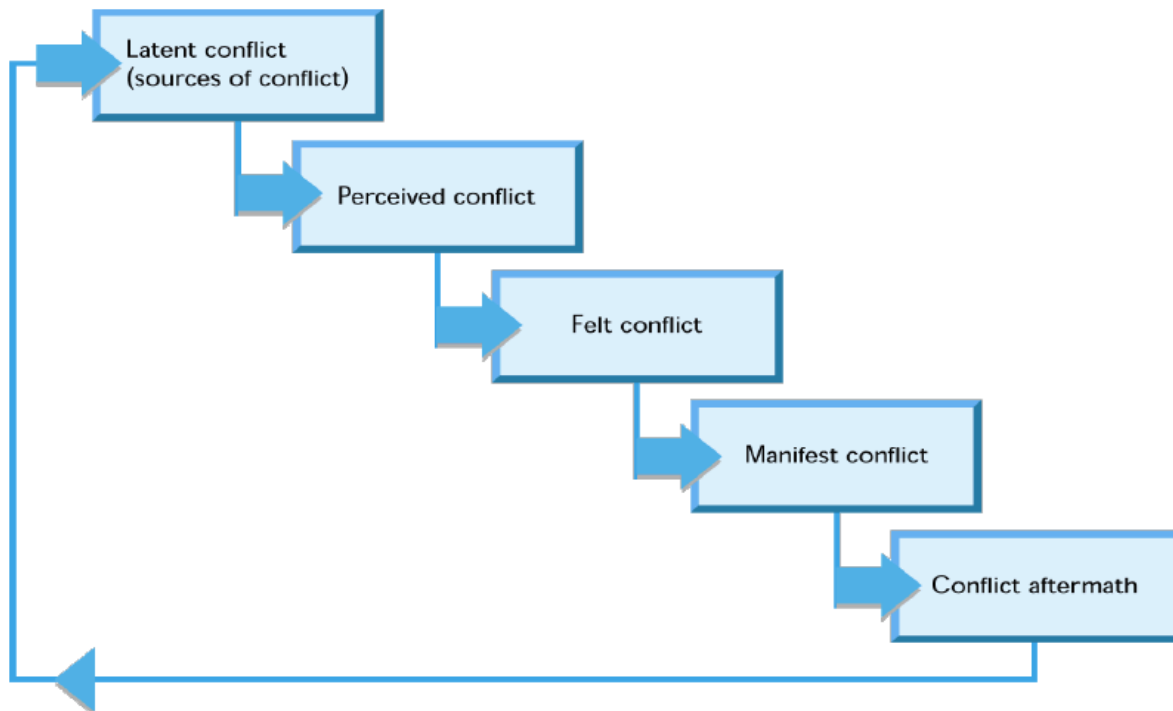
-Task interdependencies

-Incompatible evaluation systems

c) Scarcity of resources

-Distributing sources

STAGES IN THE CONFLICT PROCESS:



Conflict is a dynamic process that does not usually appear suddenly. In fact, conflict generally passes through several stages:

- 1. Latent conflict** - At this stage, the basic conditions for conflict exist but have not been recognized by the involved parties.
- 2. Perceived conflict** - The basic conditions for conflict are recognized by one or both of the parties.
- 3. Felt conflict** - Internal tensions begin to build in the involved parties, but the conflict is still not out in the open.
- 4. Manifest conflict** - The conflict is out in the open and the existence of the conflict becomes obvious to other parties who are not involved.
- 5. Conflict aftermath** - The conflict is stopped by some method. How the conflict is stopped established new conditions that lead either to a new conflict or to more effective cooperation between the involved parties.

A particular conflict situation does not necessarily pass through all of the stages. In addition, the parties who are involved in the conflict may not be at the same stage at the same time. For

example, it is entirely possible for one party to be at the manifest stage, while one party is at the perceived stage.

CONFLICT RESOLUTION STRATEGIES

Using authority when the function, which has equal power and authority, cannot solve the conflict themselves, the CEO or corporate office interferes and imposes a solution.

- Changing controls
- Changing task relationship
- Implementing strategic change
- Changing the strategy [successful turnaround]

TECHNIQUES OF STRATEGIC EVALUATION AND CONTROL

1. Evaluation techniques for strategic control:

- a) **Strategic momentum control:** These types of evaluation techniques are aimed at assuring that the assumptions on the basis of which strategies were formulated are still valid and what needs to be done in order to allow the organisation to maintain its existing strategic momentum.
- b) **Strategic leap control:** Where the environment is relatively unstable, organizations are required to make strategic leaps in order to make significant changes, by helping to define the new strategic requirements and to cope with emerging environmental realities.

2. Evaluation techniques for operational control:

Operational control is aimed at allocation and use of organisational resources. The techniques of operational control are:

- a) **Internal analysis** consists of value chain, quantitative and qualitative analysis.
- b) **Comparative analysis** consists of historical analysis, industry norms and benchmarking.
- c) **Comprehensive analysis** consists of key factor rating, business intelligence systems and balanced scorecard.
- d) **Special purpose techniques** are of network techniques, MBO, parta system, MOU system and evaluation studies in NGOs.



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- e) The **auditing techniques** are of social and environmental audit.

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