Strategic Management - A Capsule for Quick Revision

It is been the endeavour of the Board of Studies to provide holistic education to the students of Chartered Accountancy course. The education pedagogy adopted is mix of traditional methods and use of modern technology to make education convenient to the students and they have better assimilation of concepts. Covering vast subjects is a time consuming exercise. Keeping this in mind the Board of Studies is releasing capsules in the Students' Journal that will help the students to quickly revise the subjects. At the same time, it may be kept in mind that these are not replacement of the study material. Reading of Study Material is absolute essential. This capsule on strategic management, first in the series, cover chapters 1, 2 and 3 under the new syllabus of Intermediate Examination. Students of earlier scheme may also refer to the relevant portions in the write-up.

Chapter 1 : Introduction to Strategic Management

Business Policy

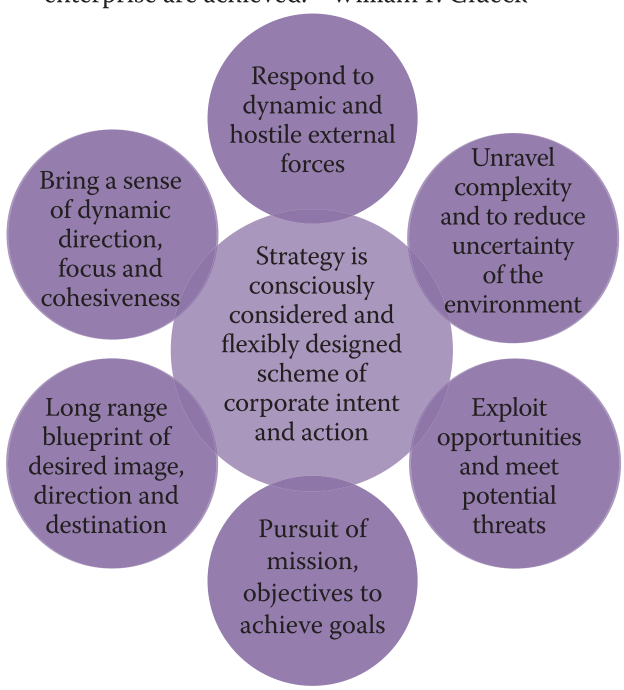
- Origin of business policy can be traced back to early twentieth century.
- Harvard Business School introduced an integrative course in management aimed at the creation of general management capability among business executives.
- The study of the functions and responsibilities of senior management, the crucial problems that affect success in the total enterprise, and the decisions that determine the direction of the organization and shape its future. - **Christensen**
- Business Policy presents a framework for understanding strategic decision making. Such a framework enables a person to make preparations for handling general management responsibilities effectively.

What is Management?

Management as key group	Management as set of functions	Management
In-charge of organisational affairs. Making organisation a purposeful and productive entity. Brings together/ integrates the resources.	The functions include Planning, Organising, Directing, Staffing and Control. Determine goals and activities Helps in allocation of tasks and resources	Management is an influence process to make things happen, to gain command over phenomena, to induce and direct events and people in a particular manner.

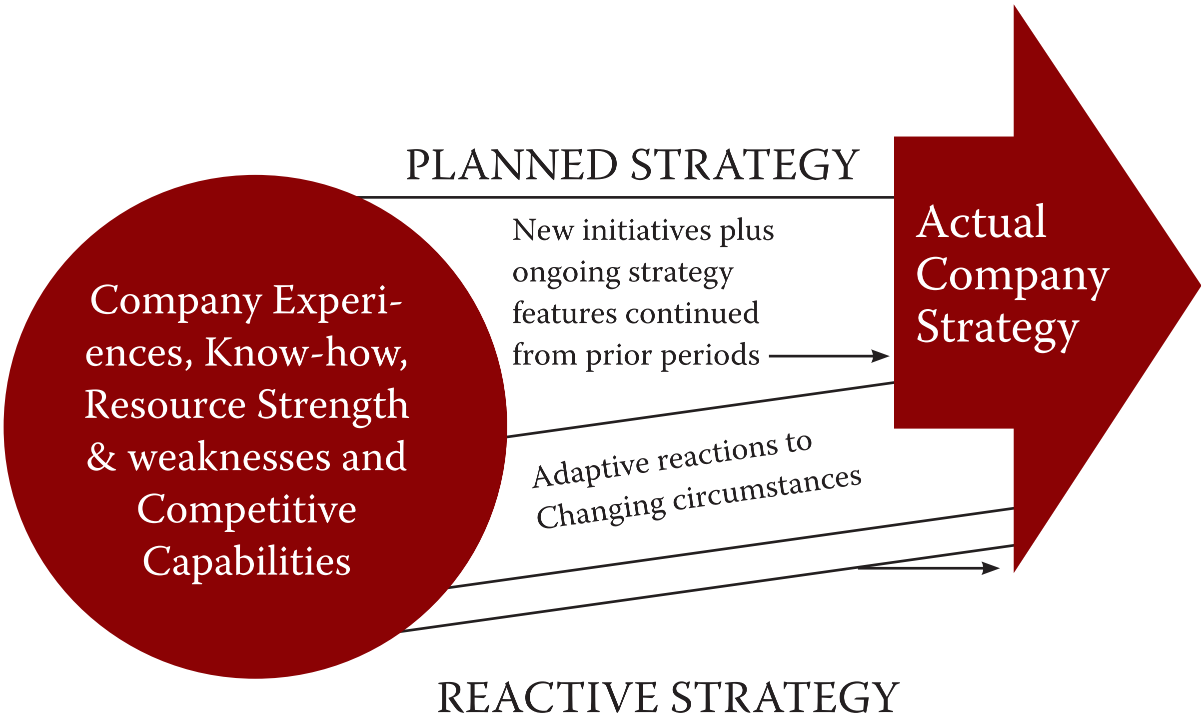
Concept of Strategy

- The common thread among the organization's activities and product-markets that defines the essential nature of business that the organization has or planned to be in future. - Igor H. Ansoff
- A unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved. - William F. Glueck



Strategy - Partly proactive and partly reactive

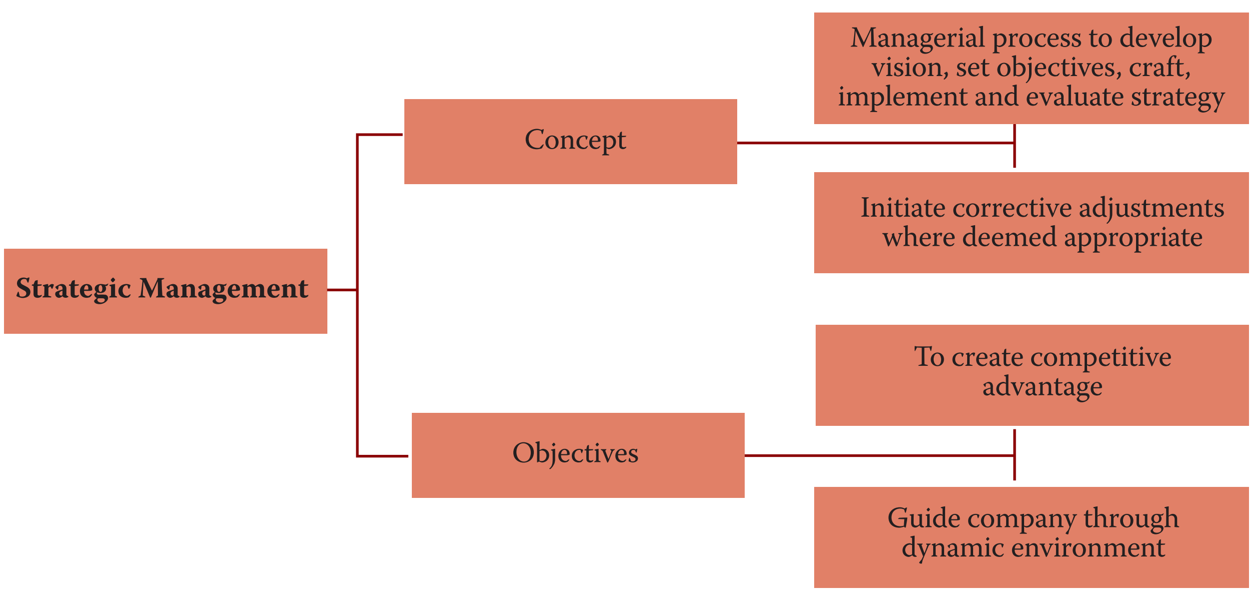
- Proactive actions on the part of managers to improve the company's market position and financial performance
- Reactions to unanticipated developments and fresh market conditions



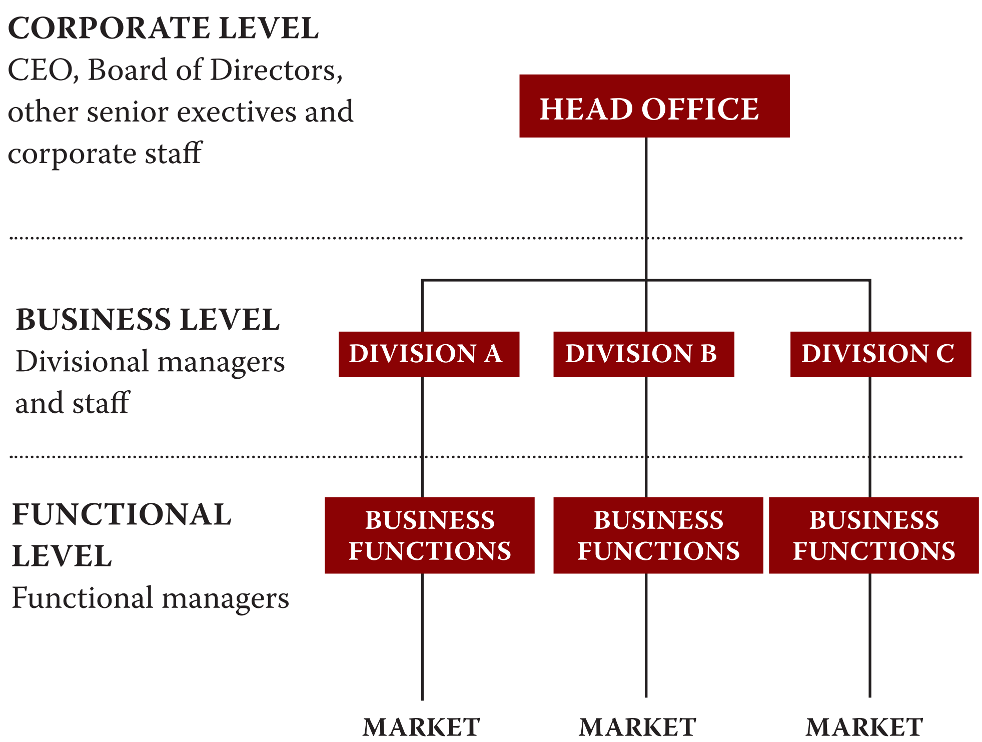
A Company's Actual Strategy Is Partly Planned & Partly Reactive

Strategic Management

Developing the company's vision, environmental scanning (both external and internal), strategy formulation, strategy implementation and evaluation and control.



Strategic Levels in Organisations



Levels of Strategic Management

Strategic Management in Government and Not-for-profit Organisations

- There are many organizations that do not have any commercial objective of making profits.
- They are set up for social, charitable, or educational purposes.
- There are not-for-profit and government organizations that outperform many private firms in managing their affairs.
- Often function as a monopoly, produce a product or service that offers little or no measurability of performance.
- Dependent on outside financing.

Educational Institutions

- Significant change in the competitive climate
- Adopting different strategies for attracting best students
- There are interactions between Academic institutions and industries
- Online education is new phenomena

Medical Organizations

- Advances in the diagnosis and treatment of diseases
- Providing better facilities and services to the patients
- Diversification - hospitals opening pathological labs
- Better collaboration with physicians

Governmental agencies and departments

- Formulating, implementing, and evaluating strategies
- Efficient and effective utilization of resources
- Public funds are used.
- Several government organizations are making significant surpluses
- Little freedom to alter missions or redirect objectives.
- Legislators and politicians can have direct or indirect control.
- Issues get discussed and debated in the media and legislatures.

Chapter 2 : Dynamics of Competitive Strategy

Competitive Strategy

An organization must identify its position relative to the competitors in the market. Competitive strategy generates competitive advantage, increase the loyalty of customers and beat competition. A competitive strategy consists of:

- Attract customers.
- Withstand competitive pressures.
- Strengthen an organization's market position.

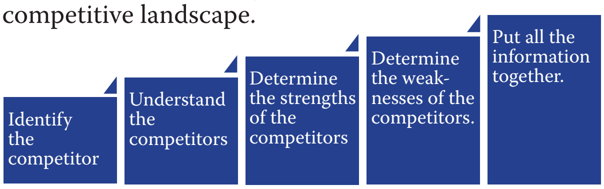
Having a competitive advantage is necessary for a firm to compete in the market.

Competitive Landscape

Competitive landscape relates to identifying and understanding competitors

It permits the comprehension of vision, mission, core values, niche market, strengths and weaknesses of competitors.

Competitive intelligence is required to understand competitive landscape.

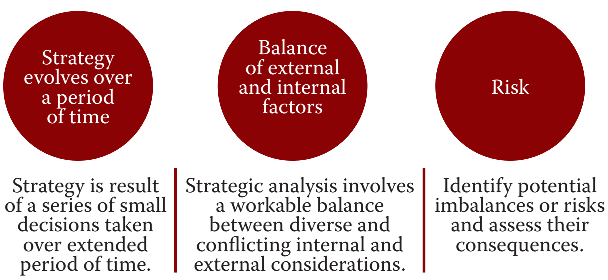


Steps to understand the Competitive Landscape

Strategic Analysis

Proper diagnosis of the company's situation is necessary for managerial preparation for deciding on a sound long-term direction, setting appropriate objectives, and crafting a winning strategy. The analytical sequence is from strategic appraisal of the external and internal situation, to evaluation of alternatives, to choice of strategy. Two most important situational considerations are:

(1) industry and competitive conditions and
(2) an organisation's own competitive capabilities, resources, internal strengths, weaknesses, and market position.



Issues to consider for Strategic Analysis

Strategic Risks	Time: Short-term	Time: Long-term
External	Errors in interpreting the environment cause strategic failure	Changes in the environment lead to obsolescence of strategy
Internal	Organizational capacity is unable to cope up with strategic demands	Inconsistencies with the strategy are developed on account of changes in internal capacities and preferences

Strategic Analysis

External Analysis

Customer Analysis:
Segments, Motivations, unmet needs.

Competitor Analysis:
Strategic groups, performance, obectives, strategies, culture, cost structure.

Market Analysis:
Size, growth, profitability, entry barriers.

Environmental Analysis:
Technological, government, economic, cultural, demographic.

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Opportunities, threats, trends, and strategic, uncertainties

Internal Analysis

Performance Analysis:
Profitability, sales, customer satisfaction, product quality, relative cost, new products, human resources.

Determinants Analysis:
Past and current strategies, strategic problems, organizational Capabilites and constraints, Financial resources, strengths, and weaknesses.

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Strategic strengths, weaknesses, problems, constraints and uncertainties

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Strategy Identification & Selection

- **Identify strategic alternatives**
- **Select strategy**
- **Implement the operating plan**
- **Review strategies**

Framework of Strategic Analysis

Industry and Competitive Analysis

Industry and competitive analysis provides a way of thinking strategically about any industry's overall situation and drawing conclusions about whether the industry represents an attractive investment for organisational funds.

Issues in Industry and Competitve Analysis	Dominant Economic Features of the Industry	Factors to consider include size, of market, its growth rate, position in life cycle, rivals, buyers, profitability, capital requirement, etc.
	Nature and Strength of Competition	Delving into the industry's competitive process to discover what the main sources of competitive pressure are and how strong each competitive force is.
	Triggers of Change	There are driving forces that impact and bring changes in the industry's structure and competitive environment. Analyzing driving forces involves identifying what the driving forces are and assessing their impact.
	Strategic Group Mapping	It is done by comparing the market positions of each competitor separately or for grouping them into like positions in an industry
	Likely Strategic Moves of Rivals	To outmanoeuvre rivals organisations need to monitor actions, strategies, and anticipate likely moves of competitors.
	Key Success Factors	They are strategy elements, product attributes, resources, competencies, competitive capabilities, and business outcomes that affect ability to prosper and lead to competitive success or failure.
	Prospects and Financial Attractiveness of Industry	Strategists assess industry outlook carefully, decide whether industry and competitive conditions present an attractive business opportunity for the organisation or whether its growth and financial prospects are gloomy.

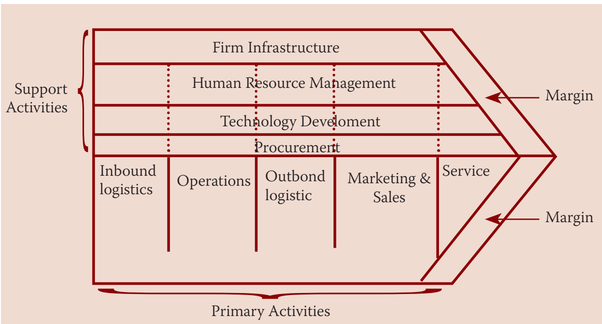
Core Competence

C.K. Prahalad and Gary Hamel *defined core competency as the collective learning in the organization, especially coordinating diverse production skills and integrating multiple streams of technologies.* Capabilities that are ***valuable, rare, costly to imitate, and non-substitutable*** are core competencies.

C.K. Prahalad and Gary Hamel identified major core competencies in three areas **- competitor differentiation, customer value and application.**	**Competitor differentiation**	Competence that is unique and difficult for competitors to imitate.
	Customer value	A fundamental benefit for the end customer that has real impact.
	Application of competencies	Competence must be applicable to whole organization and can open up potential market to be exploited.

Value Chain Analysis

Value chain analysis has been widely used as a means of describing the activities within and around an organization, and relating them to an assessment of the competitive strength of an organization (or its ability to provide value-for-money products or services). The primary activities of the organization are grouped into five main areas: inbound logistics, operations, outbound logistics, marketing and sales, and service. For an organisation it is important to identify those competences which critically underpin the organization's competitive advantage. These are known as the core competences and will differ from one organization to another.

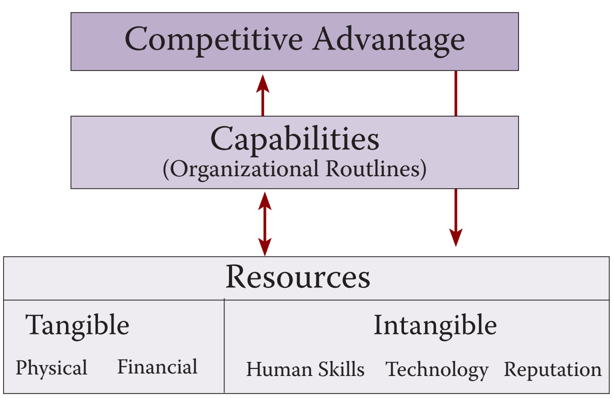


Value Chain (Michael Porter)

Competitive Advantage

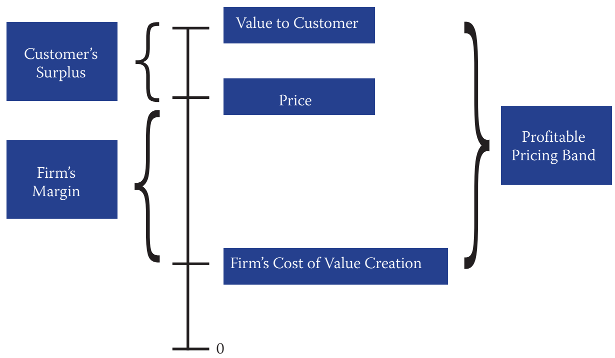
Competitive advantage allows a firm to gain an edge over rivals when competing. 'It is a set of unique features of a company and its products that are perceived by the target market as significant and superior to the competition.'

Competitive advantages and the differences they create in the firm's performance are often strongly related to the resources firms hold and how they are managed. Resources and capabilities are not inherently valuable, but they create value when the firm can use them to perform certain activities that result in a competitive advantage.



Value Creation

The concept of value creation was introduced primarily for providing products and services to the customers with more worth. Value is measured by a product's features, quality, availability, durability, performance and by its services for which customers are willing to pay.



Thus, we can say that the value creation is an activity or performance by the firm to create value that increases the worth of goods, services, business processes or even the whole business system.

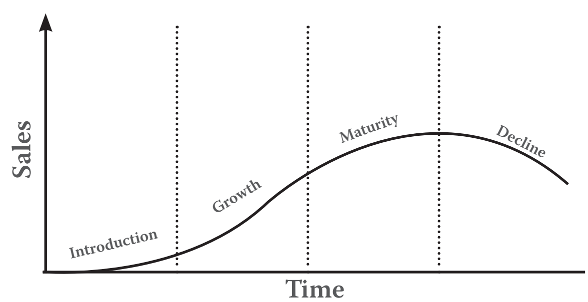
Portfolio Analysis

Experience Curve

Experience curve is akin to a learning curve which explains the efficiency increase gained by workers through repetitive productive work. Experience curve is based on the commonly observed phenomenon that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production. The concept of experience curve is relevant for a number of areas in strategic management.

Product Life Cycle

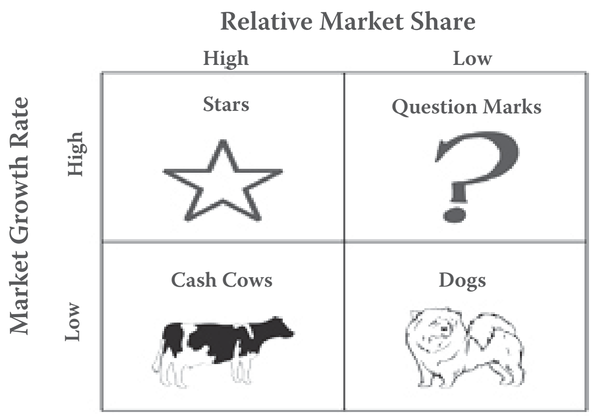
Product life cycle (PLC) an S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages of introduction (slow sales growth), growth (rapid market acceptance) maturity (slowdown in growth rate) and decline (sharp downward drift).



Product Life Cycle

Boston Consulting Group (BCG) Growth-Share Matrix

BCG helps to classify different businesses on a two-dimensional growth-share matrix



BCG Growth-Share Matrix

- **Stars** are products or SBUs that are growing rapidly.
- **Cash Cows** are low-growth, high market share businesses or products.
- **Question Marks** are low market share business in high-growth markets.
- **Dogs** are low-growth, low-share businesses and products.

Ansoff's Product Market Growth Matrix

A useful tool to decide product and market growth strategy.

	Existing Products	New Products
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Ansoff's Product Market Growth Matrix

- **Market penetration** refers to a growth strategy where the business focuses on selling existing products into existing markets.
- **Market development** refers to a growth strategy where the business seeks to sell its existing products into new markets.
- **Product development** refers to a growth strategy where business aims to introduce new products into existing markets.
- **Diversification** refers to a growth strategy where a business markets new products in new markets.

ADL Matrix

The ADL matrix is a portfolio analysis technique that is based on product life cycle. The approach forms a two dimensional matrix based on stage of industry maturity and the firms competitive position, environmental assessment and business strength assessment. Stage of industry maturity is an environmental measure that represents a position in industry's life cycle. Competitive position is a measure of business strengths that helps in categorization of products or SBU's into one of five competitive positions: dominant, strong, favourable, tenable and weak.

General Electric Matrix ["Stop-Light" Strategy Model]

The strategic planning approach in this model has been inspired from traffic control lights. The lights that are used at crossings to manage traffic are: **green for go, amber or yellow for caution, and red for stop**. This model uses two factors while taking strategic decisions: **Business Strength and Market Attractiveness.**

Market Attractiveness / Business Strength	Strong	Average	Weak
High	Invest/ Expand	Invest/Expand	Select/Earn
Medium	Invest/ Expand	Select/Earn	Harvest/Divest
Low	Select/Earn	Harvest/Divest	Harvest/Divest

The GE Portfolio Matrix

SWOT Analysis

To enable management create a firm-specific business model that will best align, fit, or match an organisational resources and capabilities to the demands of the environment		
	Strength	Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitors.
	Weakness	A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.
	Opportunity	An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position.
	Threat	A threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position.

TOWS Matrix

Heinz Weihrich developed a matrix called TOWS matrix by matching strengths and weaknesses of an organization with the external opportunities and threats. The incremental benefit of the TOWS matrix lies in systematically identifying relationships between these factors and selecting strategies on their basis. Thus TOWS matrix has a wider scope when compared to SWOT analysis. TOWS analysis is an **action tool** whereas SWOT analysis is a **planning tool**.

External Elements	Internal Elements: Organizational Strengths	Internal Elements: Organizational Weaknesses
Environmental opportunities (and risks)	SO Maxi-Maxi	WO Mini-Maxi
Environmental Threats	ST Maxi-Mini	WT Mini-Mini

SO (Maxi-Maxi)
The strengths can be used to capitalize or build upon existing or emerging opportunities.

ST (Maxi-Mini)
ST is a position in which a firm strives to minimize existing or emerging threats through its strengths.

WO (Mini-Maxi)
The firm needs to overcome internal weaknesses and make attempts to exploit opportunities to maximum.

WT (Mini-Mini)
A firm facing external threats and internal weaknesses may have to struggle for its survival.

Globalization

For a company globalization means two things: (a) the company commits itself heavily with several manufacturing locations around the world and offers products in several diversified industries, and (b) the company's ability to compete in domestic markets with foreign competitors.

- It is a conglomerate of multiple units in different countries but linked by common ownership.
- Multiple units draw on a common pool of resources.
- The units respond to some common strategy.

Chapter 3 : Strategic Management Process

Strategic Planning

Strategic Planning is the process of determining the objectives of the firm, resources require to attain these objectives and formulation of policies to govern the acquisition use and disposition of resources. Strategic uncertainty is a key construct in strategy formulation.

Strategic Decision Making

Decision making is a managerial process of selecting the best course of action out of several alternatives. According to Jauch and Glueck "**Strategic decisions encompass the definition of the business, products to be handled, markets to be served, functions to be performed and major policies needed for the organisation to execute these decisions to achieve the strategic objectives.**"

The major dimensions of strategic decisions

- Strategic decisions require top-management involvement.
- Strategic decisions involve commitment of organisational resources.
- Strategic decisions necessitate consideration of factors in the firm's external environment.
- Strategic decisions are likely to have a significant impact on the long-term prosperity of the firm.
- Strategic decisions are future oriented.
- Strategic decisions usually have major multifunctional or multi-business consequences.

Strategic Intent

Strategic intent provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives. Strategic intent could be in the form of vision and mission statements for the organisation at the corporate level. It could be expressed as the business definition and business model at the business level of the organisation.

1. **Vision**: Vision implies the blueprint of the company's future position.

2. **Mission**: Mission delineates the firm's business, its goals and ways to reach the goals.

3. **Business Definition**: It seeks to explain the business undertaken by the firm, with respect to the customer needs, target markets, and alternative technologies.

4. **Business Model**: Business model, as the name implies is a strategy for the effective operation of the business, ascertaining sources of income, desired customer base, and financial details.

5. **Goals and Objectives**: These are the base of measurement. Goals are the end results, that the organization attempts to achieve. On the other hand, objectives are time-based measurable targets, which help in the accomplishment of goals.

The vision, mission, business definition, and business model explain the philosophy of the organisation but the goals and objectives represent the results to be achieved in multiple areas of business.

Elements of Strategic Intent

Vision

A Strategic vision is a road map of a company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

Essentials of a strategic vision

- There is challenge in developing a strategic vision that is creative and future directed.
- Forming a strategic vision is an exercise in intelligent entrepreneurship.
- A well-articulated strategic vision creates enthusiasm in organisation.
- Vision statement illuminates the direction in which organization is headed.

Mission

A company's mission statement is typically focused on its present business scope – "who we are and what we do". Mission statements broadly describe an organizations present capabilities, customer focus, activities, and business makeup.

Following points are useful while writing a mission of a company:

- A role of mission statement is to give the organization its own special identity, business emphasis and path for development to make it unique.
- A company's business is defined by what needs it is trying to satisfy, which customer groups it is targeting, the technologies it uses and the activities it performs.
- Good mission statements are unique to the organization for which they are developed.

Purpose

Both mission and purpose go hand in hand, they can be used together while maintaining the basic difference between them. Mission refers to the particular needs of the society. **Purpose relates to what the organization strives to achieve in order to fulfil its mission to the society.**

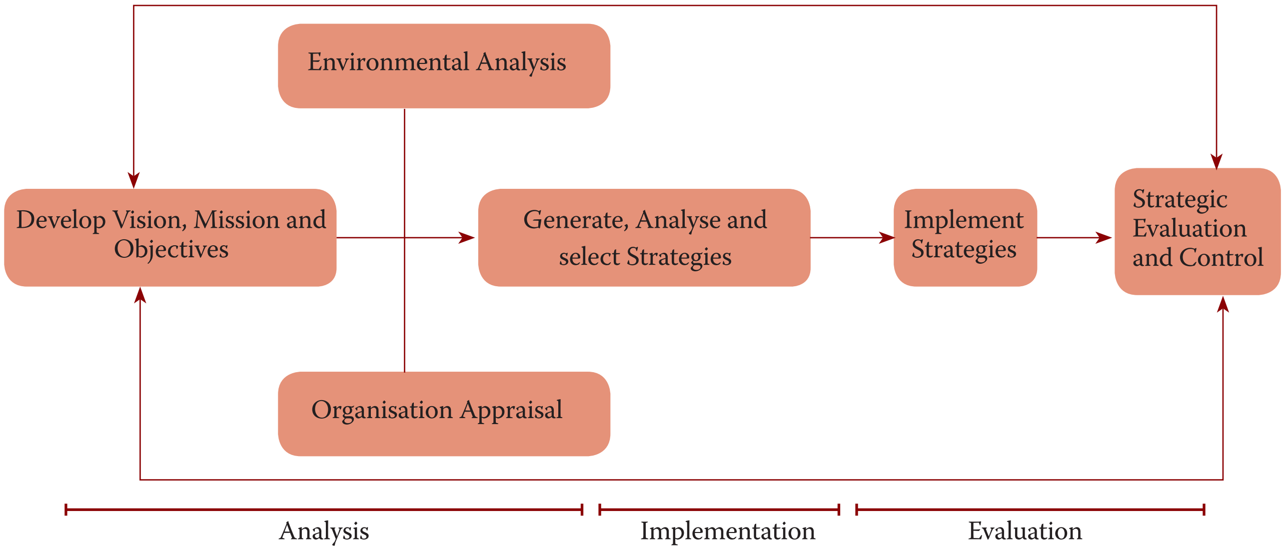
Goals and Objectives

Goals are open-ended attributes that denote the future states or outcomes. Objectives are close-ended attributes which are precise and expressed in specific terms. Thus, the objectives are more specific and translate the goals to both long term and short term perspective.

Objectives should be quantitative, measurable, realistic, understandable, challenging, hierarchical, obtainable, and congruent among organizational units. Objectives are short-term and long-term. Long term **objectives are subdivided into short term such as monthly, weekly or daily objectives.**

Strategic Management

The strategic management process is dynamic and continuous. It involves strategy formulation, implementation, and evaluation The strategic management process can best be studied and applied using a model.



Strategic Management Model

The strategic management consist of following stages

1. **Strategic vision, mission and objective:** First a company must determine what directional path the company should take and what changes in the company's product – market – customer – technology – focus would improve its current market position and its future prospect. Deciding to commit the company to one path versus another pushes managers to draw some carefully reasoned conclusions about how to try to modify the company's business makeup and the market position. Corporate goals and objectives flow from the mission.

2. **Environmental and organizational analysis:** The stage would reveal organisational strengths and weaknesses which could be matched with the threats and opportunities in the external environment. External environment of a firm consists of economic, social, technological, market and other forces which affect its functioning. Organisational analysis involves a review of financial resources, technological resources, productive capacity, marketing and distribution effectiveness, research and development, human resource skills and so on.

3. **Formulating strategy:** The stage involves identifying strategic alternatives, in depth analysis and choosing the most appropriate alternative which will serve as strategy of the firm.

4. **Implementation of strategy:** Implementation and execution is an operations-oriented, activity aimed at shaping the performance of core business activities in a strategy-supportive manner. Good strategy execution involves creating strong "fits" between strategy and organizational capabilities, between strategy and the reward structure, between strategy and internal operating systems, and between strategy and the organization's work climate and culture.

5. **Strategic evaluation and control:** Assessing periodically that organisation is moving towards achieving its strategic intent is desirable. The final stage of strategic management process – evaluating the company's progress, assessing the impact of new external developments, and making corrective adjustments – is the trigger point for deciding whether to continue or change the company's vision, objectives, strategy, and/ or strategy-execution methods.

STRATEGIC MANAGEMENT – A CAPSULE FOR QUICK REVISION

In the August 2017 issue, the Capsule for quick recap of IIPCC/Intermediate Paper 7B: Strategic Management broadly covers the topics of strategic management discussed in detail in Chapter 1 to 3 of the Study Material. In continuation, the capsule on this subject published in this issue covers the remaining Chapters 4 to 8 of the Study Material. Kindly note that this capsule would be beneficial for both Intermediate and IIPCC of Paper 7B: Strategic Management.

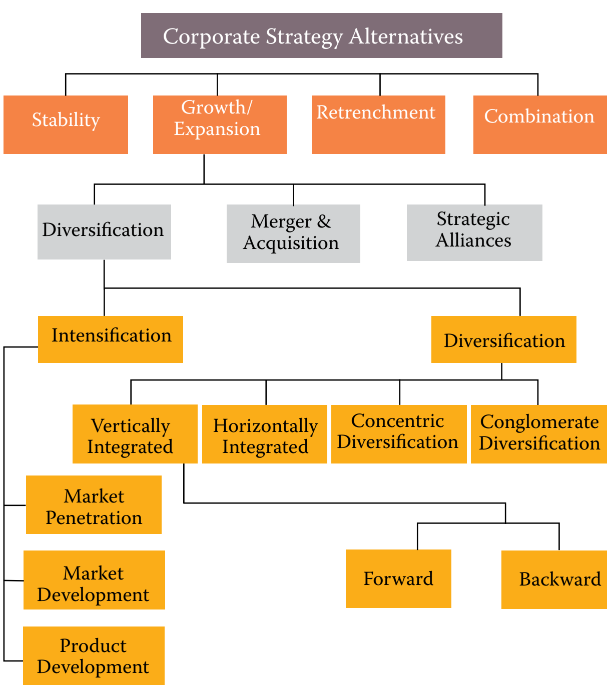
It may be kept in mind that the capsule is not the replacement of the Study Material. Reading of Study Material is absolute essential. This capsule is intended to assist you in the process of revision of concepts discussed in the Study Material.

CHAPTER 4 : CORPORATE LEVEL STRATEGIES

Strategies are formulated at different levels of an organization – corporate, business and functional. Corporate level strategy occupies the highest level of strategic decision making and covers actions dealing with the objective of the firm, acquisition and allocation of resources and coordination of strategies of various SBUs for optimal performance.

We can classify the different types of strategies on the basis of levels of organisation, stages of business life cycle and competition.

Basis of Classification	Types
Level	Corporate Level Business Level Functional Level
Stages of Business Life Cycle	Entry/Introduction Stage - Market Penetration Strategy Growth Stage - Growth/Expansion Strategy Maturity Stage - Stability Strategy Decline Stage - Retrenchment/Turnaround Strategy
Competition	Competitive Strategies - Cost Leadership, Differentiation, Focus Collaboration Strategies - Joint Venture, Merger & Acquisition, Strategic Alliance



The corporate strategies a firm can adopt may be classified into four broad categories. The basic features of the corporate strategies are as follows:

Strategy	Basic Feature
Stability	The firm stays with its current businesses and product markets; maintains the existing level of effort; and is satisfied with incremental growth.
Expansion	Here, the firm seeks significant growth-maybe within the current businesses; maybe by entering new business that are related to existing businesses; or by entering new businesses that are unrelated to existing businesses.
Retrenchment	The firm retrenches some of the activities in some business (es), or drops the business as such through sell-out or liquidation.
Combination	The firm combines the above strategic alternatives in some permutation/ combination so as to suit the specific requirements of the firm.

Stability Strategy

A stability strategy is pursued by a firm when:

- It continues to serve in the same or similar markets and deals in same or similar products and services.
- The strategic decisions focus on incremental improvement of functional performance

Stability strategy is not a 'do nothing' strategy. It involves keeping track of new developments to ensure that the strategy continues to make sense. This strategy is typical for those firms whose product have reached the maturity stage of product life cycle. Small organizations may also follow stability strategy to consolidate their market position and prepare for the launch of growth strategies.

Growth/Expansion Strategy

Growth/Expansion strategy is often characterised by significant reformulation of goals and directions, major initiatives and moves involving investments, exploration and onslaught into new products, new technology and new markets, innovative decisions and action programmes and so on. Expansion also includes diversifying, acquiring and merging businesses.

- **Expansion through diversification**

Diversification is defined as entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge. For some firms, diversification is a means of utilising their existing facilities and capabilities in a more effective and efficient manner.

Expansion or growth strategy can either be through intensification or diversification: Igor Ansoff gave a framework as shown which describes the intensification options available to a firm.

Market Penetration Increase market share Increase product usage Increase the frequency used Increase the quantity used Find new application for current users	**Basic Feature** Add product features, product refinement Develop a new-generation product Develop new product for the same market
Market Development Expand geographically target new segments	**Diversification involving new products and new markets** Related / Unrelated

Product-Market Expansion Grid

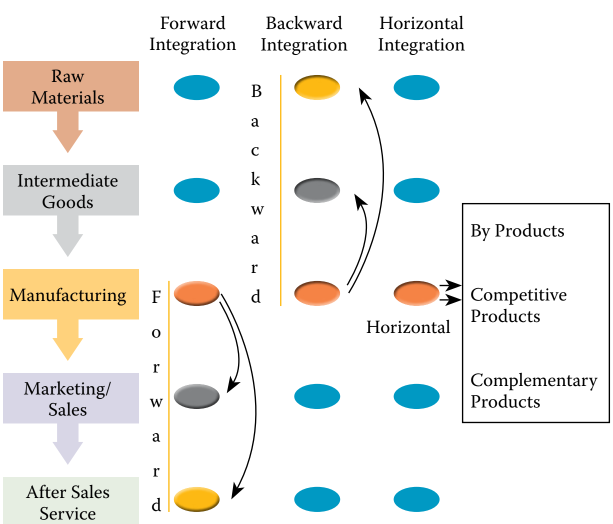
(a) Intensification

- **Market Penetration:** Highly common expansion strategy is market penetration/concentration on the current business. The firm directs its resources to the profitable growth of its existing product in the existing market.
- **Market Development:** It consists of marketing present products, to customers in related market areas by adding different channels of distribution or by changing the content of advertising or the promotional media.
- **Product Development:** Product development involves substantial modification of existing products or creation of new but related items that can be marketed to current customers through establish channels.

(b) Diversification

Diversification endeavours can be related or unrelated to existing businesses of the firm. Based on the nature and extent of their relationship to existing businesses, diversification endeavours have been classified into four broad categories:

(i) Vertically integrated diversification
(ii) Horizontally integrated diversification
(iii) Concentric diversification
(iv) Conglomerate diversification



Diversification

(i) **Vertically integrated diversification:** In vertically integrated diversification, firms opt to engage in businesses that are related to the existing business of the firm. The firm remains vertically within the same process sequence moves forward or backward in the chain and enters specific product/process steps with the intention of making them into new businesses for the firm.

Forward and Backward Integration:

Forward integration is moving forward in the value chain and entering business lines that use existing products.

On the other hand, backward integration is a step towards creation of effective supply by entering business of input providers.

(ii) **Horizontal Integrated Diversification:** Through the acquisition of one or more similar business operating at the same stage of the production-marketing chain that is going into complementary products, by-products or taking over competitors' products.

RELATED DIVERSIFICATION	UNRELATED DIVERSIFICATION
Exchange or share assets or competencies by exploiting • Brand name • Marketing skills • Sales and distribution capacity • Manufacturing skills • R&D and new product capability • Economies of scale	• Investment in new product portfolios. • Employment of new technologies. • Focus on multiple products. • Reduce risk by operating in multiple product markets. • Defend against takeover bids. • Provide executive interest.

Related vs. Unrelated Diversification

(iii) **Concentric Diversification:** Concentric diversification too amounts to related diversification. In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing.

(iv) **Conglomerate Diversification:** In conglomerate diversification, no such linkages exist; the new businesses/ products are disjointed from the existing businesses/products in every way; it is a totally unrelated diversification.

- **Expansion through Mergers and Acquisitions**

Acquisition or merger with an existing concern is an instant means of achieving the expansion. Merger and acquisition in simple words are defined as a process of combining two or more organizations together.

❖ Merger is considered to be a process when two or more companies come together to expand their business operations. In such a case the deal gets finalized on friendly terms and both the organizations share profits in the newly created entity.

- When one organization takes over the other organization and controls all its business operations, it is known as acquisitions. In this process of acquisition, one financially strong organization overpowers the weaker one.

Types of Mergers

1. **Horizontal merger**: Horizontal mergers are combinations of firms engaged in the same industry.
2. **Vertical merger**: It is a merger of two organizations that are operating in the same industry but at different stages of production or distribution system.
3. **Co-generic merger**: In Co-generic merger two or more merging organizations are associated in some way or the other related to the production processes, business markets, or basic required technologies.
4. **Conglomerate merger**: Conglomerate mergers are the combination of organizations that are unrelated to each other. There are no linkages with respect to customer groups, customer functions and technologies being used.

• Expansion through Strategic Alliance

A strategic alliance is a relationship between two or more businesses that enables each to achieve certain strategic objectives which neither would be able to achieve on its own. The strategic partners maintain their status as independent and separate entities, share the benefits and control over the partnership, and continue to make contributions to the alliance until it is terminated.

Retrenchment/Turnaround Strategy

(i) **Retrenchment Strategy**: It is followed when an organization substantially reduces the scope of its activity.

(ii) **Turnaround Strategy**: Retrenchment may be done either internally or externally. For internal retrenchment to take place, emphasis is laid on improving internal efficiency, known as turnaround strategy.

(iii) **Divestment Strategy**: Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful.

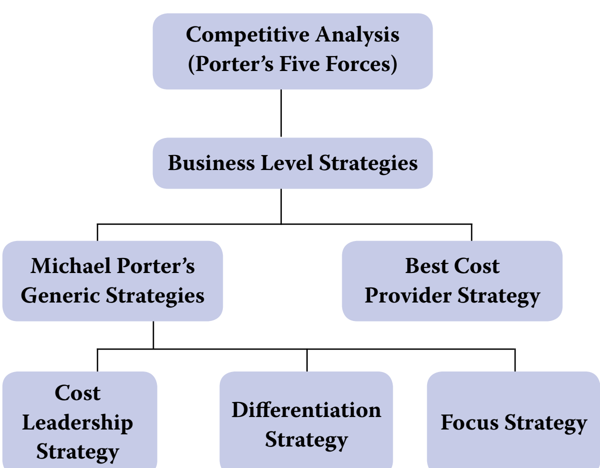
(iv) **Liquidation Strategy**: A retrenchment strategy considered the most extreme and unattractive is liquidation strategy, which involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where a firm could pursue any future activities, and the stigma of failure.

Combination Strategy

The above strategies are not mutually exclusive. It is possible to adopt a mix of the above to suit particular situations. An enterprise may seek stability in some areas of activity, expansion in some and retrenchment in the others. Retrenchment of ailing products followed by stability and capped by expansion in some situations may be thought of. For some organizations, a strategy by diversification and/or acquisition may call for a retrenchment in some obsolete product lines, production facilities and plant locations.

CHAPTER 5 : BUSINESS LEVEL STRATEGIES

An organization's core competencies should be focused on satisfying customer needs or want in order to achieve organisational objectives. This is done through business-level strategies. Business level 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 the customers by satisfaction of their needs. In the process, the organisation uses its competencies to gain, sustain and enhance its strategic or competitive advantage.



Porter's Five Forces Model –Competitive Analysis

Michael Porter believes that the basic unit of analysis for understanding is a group of competitors producing goods or services that compete directly with each other. It is the industry where competitive advantage is ultimately won or lost. It is through competitive strategy that the organisation attempts to adopt an approach to compete in the industry.

A powerful and widely used tool for systematically diagnosing the significant competitive pressures in a market and assessing the strength and importance of each is the Porter's five-forces model of competition. This model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market:

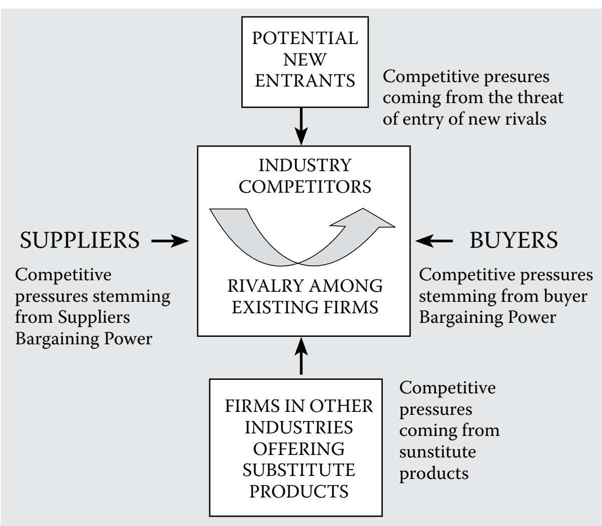
- Competitive pressures associated with the market manoeuvring and jockeying for buyer patronage that goes on among *rival sellers* in the industry.
- Competitive pressures associated with the threat of *new entrants* into the market.
- Competitive pressures coming from the attempts of companies in other industries to win buyers over to their own *substitute products*.
- Competitive pressures stemming from *supplier* bargaining power and supplier-seller collaboration.
- Competitive pressures stemming from *buyer* bargaining power and seller-buyer collaboration.

The strategists can use the five-forces model to determine what competition is like in a given industry by undertaking the following steps:

Step 1: Identify the specific competitive pressures associated with each of the five forces.

Step 2: Evaluate how strong the pressures comprising each of the five forces are (fierce, strong, moderate to normal, or weak).

Step 3: Determine whether the collective strength of the five competitive forces is conducive to earning attractive profits.

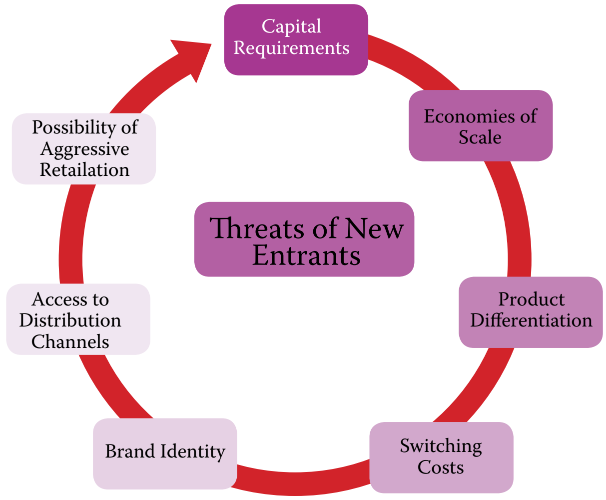


Porter's Five Force Model of Competition

Porter's five forces model is one of the most effective and enduring conceptual frameworks used to assess the nature of the competitive environment and to describe an industry's structure. The interrelationship among these five forces gives each industry its own particular competitive environment. By applying Porter's five forces model of industry attractiveness to their own industries, the manager can gauge their own firm's strengths, weaknesses, and future opportunities.

Threat of New Entrants

New entrants are always a powerful source of competition. They can reduce industry profitability because they add new production capacity and can substantially erode existing firm's market share positions. To discourage new entrants, existing firms can try to raise barriers to entry. Common barriers to entry include:



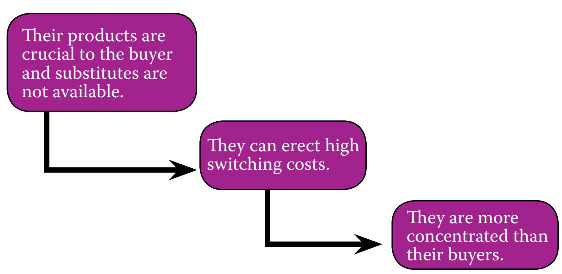
Bargaining Power of Buyers

Buyers of an industry's products or services can sometimes exert considerable pressure on existing firms to secure lower prices or better services. This leverage is particularly evident when:

- Buyers have full knowledge of the sources of products and their substitutes.
- They spend a lot of money on the industry's products i.e. they are big buyers.
- The industry's product is not perceived as critical to the buyer's needs and buyers are more concentrated than firms supplying the product. They can easily switch to the substitutes available.

Bargaining Power of Suppliers

Suppliers can influence the profitability of an industry in a number of ways. Suppliers can command bargaining power over a firm when:



The Nature of Rivalry in the Industry

The intensity of rivalry in an industry is a significant determinant of industry attractiveness and profitability. The intensity of rivalry can influence the costs of suppliers, distribution, and of attracting customers and thus directly affect the profitability. The more intensive the rivalry, the less attractive is the industry. Rivalry among competitors tends to be cutthroat and industry profitability low when:

- An industry has no clear leader.
- Competitors in the industry are numerous.
- Competitors operate with high fixed costs.
- Competitors face high exit barriers.
- Competitors have little opportunity to differentiate their offerings.
- The industry faces slow or diminished growth.

Threat of Substitutes

A final force that can influence industry profitability is the availability of substitutes for an industry's product. To predict profit pressure from this source, firms must search for products that perform the same, or nearly the same, function as their existing products.

Business-Level Strategies

An organization's core competencies should be focused on satisfying customer needs or wants in order to achieve above average returns. This is done through Business-level strategies

Customers are the foundation of an organization's business-level strategies. Who will be served, what needs have to be met, and how those needs will be satisfied are determined by the senior management.

Who are the customers?

Knowing one's customers is very important in obtaining and sustaining a competitive advantage. Being able to successfully predict and satisfy future customer needs is important. Perhaps one of Compaq's mistakes was not understanding who their real customer was and what that customer -- end user -- wanted.

How to satisfy customer needs?

Organizations must determine how to bundle resources and capabilities to form core competencies and then use these core competencies to satisfy customer needs or create value for them.

Business level strategies detail actions to be taken to provide value to customers and gain a competitive advantage by exploiting core competencies in specific individual product or service markets. Having selected a market, the organization must develop a plan to be successful in that market. Business strategy therefore looks at how the organization can compete successfully in the individual markets that it chooses to operate within.

Business level strategy is concerned with issues such as:

- Achieving advantage over competitors.
- Meeting the needs of key customers.
- Avoiding competitive disadvantage.

Michael Porter's Generic Strategies

According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter called these base generic strategies. These strategies have been termed generic because they can be pursued by any type or size of business firm and even by not-for-profit organisations.

Michael Porter's Generic Strategies

Cost leadership emphasizes producing standardized products at a very low per-unit cost for consumers who are price-sensitive.

Differentiation is a strategy aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price-insensitive.

Focus means producing products and services that fulfill the needs of small groups of consumers.

Porter's strategies imply different organizational arrangements, control procedures, and incentive systems. Larger firms with greater access to resources typically compete on a cost leadership and/or differentiation basis, whereas smaller firms often compete on a focus basis.

COMPETITIVE SCOPE	Low-Cost products/services	Differentiated products/services
Broad Target	Cost Leadership	Differentiation
Narrow Target	Focussed Cost Leadership	Focussed Differentiation

COMPETITIVE ADVANTAGE

Michael Porter's Generic Strategy

Cost Leadership Strategy

Cost leadership emphasizes producing standardized products at a very low per-unit cost for consumers who are price-sensitive. It is a low cost competitive strategy that aims at broad mass market. It requires vigorous pursuit of cost reduction in the areas of procurement, production, storage and distribution of product or service and also economies in overhead costs. Because of its lower costs, the cost leader is able to change a lower price for its products than its competitors and still make satisfactory profits.

Achieving Cost Leadership Strategy

To achieve cost leadership, following are the actions that could be taken:

- Forecast the demand of a product or service promptly.
- Optimum utilization of the resources to get cost advantages.
- Achieving economies of scale leads to lower per unit cost of product/service.
- Standardisation of products for mass production to yield lower cost per unit.
- Invest in cost saving technologies and try using advance technology for smart working.
- Resistance to differentiation till it becomes essential.

Advantages of Cost Leadership Strategy

A cost leadership strategy may help to remain profitable even with: rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

- Rivalry – Competitors are likely to avoid a price war, since the low cost firm will continue to earn profits after competitors compete away their profits.
- Buyers – Powerful buyers/customers would not be able to exploit the cost leader firm and will continue to buy its product.
- Suppliers – Cost leaders are able to absorb greater price increases before it must raise price to customers.
- Entrants – Low cost leaders create barriers to market entry through its continuous focus on efficiency and reducing costs.
- Substitutes – Low cost leaders are more likely to lower costs to induce customers to stay with their product, invest to develop substitutes, purchase patents.

Disadvantages of Cost Leadership Strategy

- Cost advantage may not be remaining for long as competitors may also follow cost reduction technique.
- Cost leadership can succeed only if the firm can achieve higher sales volume.
- Cost leaders tend to keep their costs low by minimizing advertising, market research, and research and development, but this approach can prove to be expensive in the long run.
- Technology changes are a great threat to the cost leader.

Differentiation Strategy

Differentiation is a strategy aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price-insensitive. This strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service. Because of differentiation, the business can charge a premium for its product.

Basis of Differentiation

There are several basis of differentiation: product, pricing and organization.

- **Product:** Innovative products that meet customer needs can be an area where a company has an advantage over competitors. The pursuit of new product offerings can be costly – research and development, as well as production and marketing costs can all add to the cost of production and distribution. The payoff, however, can be great as customer's flock to be among the first to have the new product.
- **Pricing:** It can fluctuate based on its supply and demand, and also be influenced by the customer's ideal value for the product. Companies that differentiate based on product price can either determine to offer the lowest price, or can attempt to establish superiority through higher prices.
- **Organisation:** Organisational differentiation is yet another form of differentiation. Maximizing the power of a brand, or using the specific advantages that an organization possesses can be instrumental to a company's success. Location advantage, name recognition and customer loyalty can all provide additional ways for a company differentiate itself from the competition.

Achieving Differentiation Strategy

To achieve differentiation, following are the measures that could be adopt by an organization to incorporate that:

- Offer utility for the customers and match the products with their tastes and preferences.
- Elevate the performance of the product.
- Offer the promise of high quality product/service for buyer satisfaction.
- Rapid product innovation.
- Taking steps for enhancing image and its brand value.
- Fixing product prices based on the unique features of the product and buying capacity of the customer.

Advantages of Differentiation Strategy

A differentiation strategy may help to remain profitable even with: rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

Rivalry - Brand loyalty acts as a safeguard against competitors. It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.

Buyers – They do not negotiate for price as they get special features and also they have fewer options in the market.

Suppliers – Because differentiators charge a premium price, they can afford to absorb higher costs of supplies and customers are willing to pay extra too.

Entrants – Innovative features are an expensive offer. So, new entrants generally avoid these features because it is tough for them to provide the same product with special features at a comparable price.

Substitutes – Substitute products can't replace differentiated products which have high brand value and enjoy customer loyalty.

Disadvantages of Differentiation Strategy

In long term, uniqueness is difficult to sustain.

Charging too high a price for differentiated features may cause the customer to switch-off to another alternative.

Differentiation fails to work if its basis is something that is not valued by the customers.

Focus Strategies

Focus means producing products and services that fulfill the needs of small groups of consumers. Focus strategies are most effective when consumers have distinctive preferences or requirements and when rival firms are not attempting to specialize in the same target segment. Risks of pursuing a focus strategy include the possibility that numerous competitors will recognize the successful focus strategy and copy it, or that consumer preferences will drift toward the product attributes desired by the market as a whole. An organization using a focus strategy may concentrate on a particular group of customers, geographic markets, or on particular product-line segments in order to serve a well-defined but narrow market better than competitors who serve a broader market.

- **Focused cost leadership:** *Firms that compete based on price and target a narrow market are following a focused cost leadership strategy.*
- **Focused differentiation:** *Firms that compete based on uniqueness and target a narrow market are following a focused differentiations strategy.*

Achieving Focused Strategy

To achieve focused cost leadership/differentiation, following are the measures that could be adopted by an organization:

- Selecting specific niches which are not covered by cost leaders and differentiators.
- Creating superior skills for catering to such niche markets.
- Generating high efficiencies for serving such niche markets.
- Developing innovative ways in managing the value chain.

Advantages of Focused Strategy

Premium prices can be charged by the organisations for their focused product/services.

Due to the tremendous expertise about the goods and services that organisations following focus strategy offer, rivals and new entrants may find it difficult to compete.

Disadvantages of Focused Strategy

The firms lacking in distinctive competencies may not be able to pursue focus strategy.

Due to the limited demand of product/services, costs are high which can cause problems.

In long run, the niche could disappear or be taken over by larger competitors by acquiring the same distinctive competencies.

Best-Cost Provider Strategy

The new model of best cost provider strategy is a further development of above three generic strategies. It is directed towards giving customers more value for the money by emphasizing both low cost and upscale differences. The objective is to keep costs and prices lower than those of other sellers of comparable products.

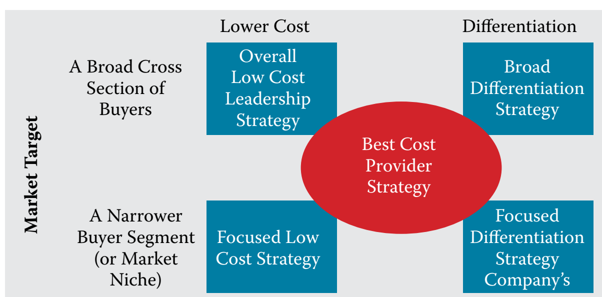


Figure: The Five Generic Competitive Strategies

Best-cost provider strategy involves providing customers more value for the money by emphasizing low cost and better quality difference. It can be done:

(a) through offering products at lower price than what is being offered by rivals for products with comparable quality and features or

(b) charging similar price as by the rivals for products with much higher quality and better features.

CHAPTER 6 : FUNCTIONAL LEVEL STRATEGIES

Once higher level corporate and business strategies have been developed, management need to formulate and implement strategy for each of the functional areas of business. Strategy of one functional area cannot be looked at in isolation. Different functional areas of the business are interwoven together and how a functional strategy is synergised with other functional strategies determines its effectiveness.

Functional strategies play two important roles. Firstly, they provide support to the overall business strategy. Secondly, they spell out as to how functional managers will work so as to ensure better performance in their respective functional areas.

Strategies in functional areas including marketing, financial, production, R & D and human resource management are based on the functional capabilities of an organisation. For each functional area, first the major sub areas are identified and then for each of these sub areas, content of functional strategies, important factors, and their importance in the process of strategy implementation are identified.

In terms of the levels of strategy formulation, functional strategies operate below the SBU or business-level strategies. Within functional strategies there might be several sub-functional areas. Functional strategies are made within the framework of corporate level strategies and guidelines therein that are set at higher levels of the organization. Operational plans at the SBU level tell the functional managers what has to be done while policies state how the plans are to be implemented.

The reasons why functional strategies are needed can be enumerated as follows:

- Functional strategies lay down clearly what is to be done at the functional level. They provide a sense of direction to the functional staff.
- They are aimed at facilitating the implementation of corporate strategies and the business strategies formulation at the business level.
- They act as basis for controlling activities in the different functional areas of business.
- They help in bringing harmony and coordination as they are formulated to achieve major strategies.
- Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers.

  Thus, strategies need to be segregated into viable functional plans and policies that are compatible with each other. In this way, strategies can be implemented by the functional managers. Environmental factors relevant to each functional area have an impact on the choice of functional strategies. Corporate strategies influence the formulation of functional strategies.

Marketing Strategy

Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating, offering and exchanging products of value with others.

Marketing Mix

Marketing mix is a systematic way of classifying the key decision areas of marketing management. It is the set of controllable marketing variables that the firm blends to produce the response it wants in the target market. The original framework of marketing mix comprises of 4Ps- product, price, place and promotion. These are subsequently expanded to highlight certain other key decision areas like people, processes, and physical evidence. The elements of original framework are:

- **Product:** It stands for the "goods-and-service" combination the company offers to the target market.
- **Price:** It stands for the amount of money customers have to pay to obtain the product.
- **Place:** It stands for company activities that make the product available to target consumers and include marketing channel, distribution policies and geographical availablity.
- **Promotion:** It stands for activities that communicate the merits of the product and persuade target consumers to buy it. Modern marketing is highly promotional oriented. There are at least four major direct promotional methods or tools – personal selling, advertising, publicity and sales promotion.

  Expanded Marketing Mix: Typically, all organizations use a combination of 4 Ps in some form or the other.

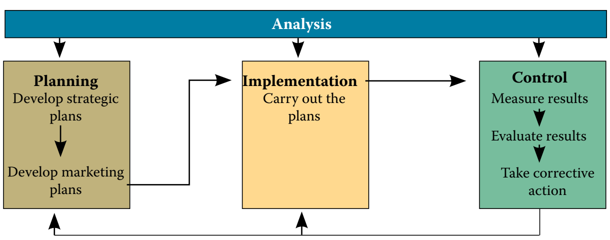
However, the above elements of marketing mix are not exhaustive. It is pertinent to discuss a few more elements that may form part of an organizational marketing mix strategy. They have got more currency in recent years. Growth of services has its own share for the inclusion of newer elements in marketing. A few new Ps are as follows:

- **People:** all human actors who play a part in delivery of the market offering and thus influence the buyer's perception, namely the firm's personnel and the customer.
- **Process:** the actual procedures, mechanisms and flow of activities by which the product / service is delivered.
- **Physical evidence:** the environment in which the market offering is delivered and where the firm and customer interact.

Marketing Strategy Formulation

Marketing Analysis: A company must carefully analyze its environment in order to avoid the threats and take advantage of the opportunities. Areas to be analyzed in the environment normally include:

1. Forces close to the company such as its ability to serve customers, other company departments, channel members, suppliers, competitors, and publics.
2. Broader forces such as demographic and economic forces, political and legal forces, technological and ecological forces, and social and cultural forces.



Strategic marketing management process

Strategy Formulation: Marketing planning involves deciding on marketing strategies that will help the company attain its overall strategic objectives. A detailed plan is needed for each business, product, or brand. A product or brand plan may contain different sections: executive summary, current marketing situation, threats and opportunity analysis, objectives and issues, marketing strategies, action programs, budgets, and controls.

Strategy Control: Strategic control involves monitoring and measuring of results and their evaluation. This would lead to taking corrective actions in the 4 P's of marketing.

Strategic Marketing Techniques

Over the years, a number of marketing strategies have been evolved, which are given below:

Social Marketing: It refers to the design, implementation, and control of programs seeking to increase the acceptability of a social idea, cause, or practice among a target group.

Augmented Marketing: It is provision of additional customer services and benefits built around the core and actual products that relate to introduction of hi-tech services like movies on demand, on-line computer repair services, secretarial services, etc. Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.

Direct Marketing: Marketing through various advertising media that interact directly with consumers, generally calling for the consumer to make a direct response.

Relationship Marketing: The process of creating, maintaining, and enhancing strong, value-laden relationships with customers and other stakeholders.

Services Marketing: It is applying the concepts, tools, and techniques, of marketing to services. Services is any activity or benefit that one party can offer to another that is essentially intangible and does not result in the banking, savings, retailing, educational or utilities.

Person Marketing: People are also marketed. Person marketing consists of activities undertaken to create, maintain or change attitudes and behaviour towards particular person.

Organization Marketing: It consists of activities undertaken to create, maintain, or change attitudes and behaviour of target audiences towards an organization. Both profit and non-profit organizations practice organization marketing.

Place Marketing: Place marketing involves activities undertaken to create, maintain, or change attitudes and behaviour towards particular places say, business sites marketing, tourism marketing.

Enlightened Marketing: It is a marketing philosophy holding that a company's marketing should support the best long-run performance of the marketing system; its five principles include customer-oriented marketing, innovative marketing, value marketing, sense-of-mission marketing, and societal marketing.

Differential Marketing: It is a market-coverage strategy in which a firm decides to target several market segments and designs separate offer for each.

Synchro-marketing: When the demand for a product is irregular due to season, some parts of the day, or on hour basis, causing idle capacity or overworked capacities, synchro-marketing can be used to find ways to alter the pattern of demand through flexible pricing, promotion, and other incentives.

Concentrated Marketing: It is a market-coverage strategy in which a firm goes after a large share of one or few sub-markets.

Demarketing: It includes marketing strategies to reduce demand temporarily or permanently. The aim is not to destroy demand, but only to reduce or shift it. This happens when there is overfull demand.

Financial Strategy

The financial strategies of an organization are related to several finance/ accounting concepts considered to be central to strategy implementation. These are: acquiring needed capital/sources of fund, developing projected financial statements/budgets, management/ usage of funds, and evaluating the worth of a business.

Various methods for determining a business's worth can be grouped into three main approaches which are as follows:

(i) **Net worth or stockholders' equity:** Net worth is the total assets minus total outside liabilities of an organisation.

(ii) **Future benefits to owners through net profits:** These benefits are considered to be much greater than the amount of profits. A conservative rule of thumb is to establish a business's worth as five times the firm's current annual profit. A five-year average profit level could also be used.

(iii) **Market-determined business worth:** This, in turn, involves three methods. First, the firm's worth may be based on the selling price of a similar company. The second approach is called the price-earnings ratio method whereby the market price of the firm's equity shares is divided by the annual earnings per share and multiplied by the firm's average net income for the preceding years. The third approach can be called the outstanding shares method whereby one has to simply multiply the number of shares outstanding by the market price per share and add a premium.

Production/Operations Strategy

Production System

The production system is concerned with the capacity, location, layout, product or service design, work systems, degree of automation, extent of vertical integration, and such factors. Strategies related to production system are significant as they deal with vital issues affecting the capability of the organisation to achieve its objectives.

Strategy implementation would have to take into account the production system factors as they involve decisions which are long-term in nature and influence not only the operations capability of an organisation but also its ability to implement strategies and achieve objectives.

Operations Planning and Control

Operations planning and control provides an example of an organizational activity that is aimed at translating the objectives into reality. Some companies use quality as a strategic tool.

Logistics Management

Management of logistics is a process which integrates the flow of materials into, through and out of an organization to achieve a level of service that the right materials are available at the right place at the right time, of right quality and at the right cost. For a business organization effective logistics strategy will involve raising and finding solutions to the questions relating to raw material, manufacturing locations, products, transportation and deployment of inventory. Improvement in logistics can result in saving in cost of doing business.

When a company creates a logistics strategy, it is defining the service levels at which its logistics systems are highly effective. A company may develop a number of logistics strategies for specific product lines, specific countries or specific customers to address different categorical requirements.

Supply Chain Management

The term supply chain refers to the linkages between suppliers, manufacturers and customers. Supply chains involve all activities like sourcing and procurement of material, conversion, and logistics. Planning and control of supply chains are important components of its management. Naturally, management of supply chains include closely working with channel partners – suppliers, intermediaries, other service providers and customers.

Supply chain management is defined as the process of planning, implementing, and controlling the supply chain operations. It is a cross-functional approach to managing the movement of raw materials into an organization and the movement of finished goods out of the organization toward the end-consumer who are to be satisfied as efficiently as possible. It encompasses all movement and storage of raw materials, work-in-process inventory, and finished goods from point-of-origin to point-of-consumption. Organizations are finding that they must rely on the chain to successfully compete in the global market.

Modern organizations are striving to focus on core competencies and reduce their ownership of sources of raw materials and distribution channels. These functions can be outsourced to other business organizations that specialize in those activities and can perform in better and cost effective manner. In a way organizations in the supply chain do tasks according to their core-competencies. Working in the supply chain improve trust and collaboration amongst partners and thus improve flow and management of inventory.

Is logistic management same as supply chain management?

Supply chain management is an extension of logistic management. However, there is difference between the two. Logistical activities typically include management of inbound and outbound goods, transportation, warehousing, handling of material, fulfilment of orders, inventory management, supply/demand planning. Although these activities also form part of Supply chain management, the latter has different components. Logistic management can be termed as one of its part that is related to planning, implementing, and controlling the movement and storage of goods, services and related information between the point of origin and the point of consumption.

Supply chain management includes more aspects apart from the logistics function. It is a tool of business transformation and involves delivering the right product at the right time to the right place and at the right price. It reduces costs of organizations and enhances customer service.

Implementing Supply Chain Management System

The following are the major steps which are required for the successful implementation of Supply Chain Management in the business organizations:

Product development: Customers and suppliers must work together in the product development process. When products are developed and launched in shorter time, it would help organizations to remain competitive.

Procurement: Procurement requires careful resource planning, quality issues, identifying sources, negotiation, order placement, inbound transportation and storage. Organizations have to coordinate with suppliers in scheduling the uninterrupted supplies and also to involve them in planning the manufacturing process.

Manufacturing: Flexible manufacturing processes must be in place to respond to market changes. They should be adaptive to accommodate customization and changes in the taste and preferences. Changes in the manufacturing process be made to reduce manufacturing cycle.

Physical distribution: Delivery of final products to customers is the last position in a marketing channel. Availability of the products at the right place at right time is important for each channel participant. Through physical distribution processes serving the customer become an integral part of marketing.

Outsourcing: Outsourcing is not limited to the procurement of materials and components, but also include outsourcing of services that traditionally have been provided within an organization. The company ought to focus on those activities where it has competency and everything else will be outsourced.

Customer services: Organizations through interfaces with the company's production and distribution operations develop customer relationships so as to satisfy them. They work with customer to determine mutually satisfying goals, establish and maintain relationships. This in turn helps in producing positive feelings in the organization and the customers.

Performance measurement: There is a strong relationship between the supplier, customer and organisation. Supplier capabilities and customer relationships can be correlated with a firm performance. Performance is measured in different parameters such as costs, customer service, productivity and quality.

Research and Development Strategy

Research and Development (R&D) personnel can play an integral part in strategy implementation. These individuals are generally charged with developing new products and improving old products in a way that will allow effective strategy implementation. R&D employees and managers perform tasks that include transferring complex technology, adjusting processes to local raw materials, adapting processes to local markets, and altering products to particular tastes and specifications.

Strategies such as product development, market penetration, and concentric diversification require that new products be successfully developed and that old products be significantly improved. But the level of management support for R&D is often constrained by resource availability.

Human Resource Strategy

Strategic Role of Human Resource Manager

The prominent areas where the human resource manager can play strategic role are as follows:

Providing purposeful direction: The human resource manager leads people and the organization towards the desired direction involving people. He can ensure harmony between organisational objectives and individual objectives.

Creating competitive atmosphere: In the present business environment, maintaining competitive position or gains is an important objective of any business. Having a highly committed and competent workforce is very important for getting a competitively advantageous position.

Facilitation of change: The human resource manager will be more concerned about furthering the organization not just maintaining it. He can devote more time to promote acceptance of change rather than maintaining the status quo.

Diversion of workforce: In a modern organization, management of diverse workforce is a great challenge. Workforce diversity can be observed in terms of male and female, young and old, educated and uneducated, unskilled and professional employee and so on. Motivation, maintaining morale and commitment are some of the key tasks that a HR manager can perform.

Empowerment of human resources: Empowerment involves giving more power to those who, at present, have little control on what they do and little ability to influence the decisions being made around them.

Building core competency: The human resource manager has an important role to play in developing core competency of the firm. A core competence is a unique strength of an organization which may not be shared by others. Organization of business around core competence implies leveraging the limited resources of a firm.

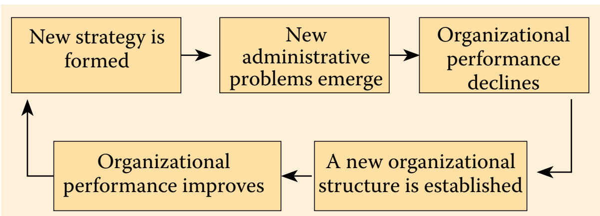
Development of works ethics and culture: A vibrant work culture will have to be developed in the organizations to create an atmosphere of trust among people and to encourage creative ideas by the people.

CHAPTER 7: ORGANISATION AND STRATEGIC LEADERSHIP

Organization Structure

In order to implement strategies organisations need an organizational structure. Changes in corporate strategy often require changes in the way an organization is structured for two major reasons. First, structure largely dictates how operational objectives and policies will be established to achieve the strategic objectives. The second major reason why changes in strategy often require changes in structure is that structure dictates how resources will be allocated to achieve strategic objectives.

Chandler's Strategy-Structure Relationship



Changing organizational design

Old Organizational Design	New Organizational Design
One large corporation	Mini-business units & cooperative relationships
Vertical communication	Horizontal communication
Centralised top-down decision making	Decentralised participative decision making
Vertical integration	Outsourcing & virtual organizations
Work/quality teams	Autonomous work teams
Functional work teams	Cross-functional work teams
Minimal training	Extensive training
Specialised job design focused on individual	Value-chain team-focused job design

Simple Structure

A simple structure is an organizational form in which the owner-manager makes all major decisions directly and monitors all activities, while the company's staff merely serves as an executor. Little specialization of tasks, few rules, little formalization, unsophisticated information systems and direct involvement of owner-manager in all phases of day-to-day operations characterise the simple structure.

Functional Structure

A functional structure groups tasks and activities by business function, such as production/operations, marketing, finance/accounting, research and development, and management information systems.

Divisional Structure

A divisional structure can be organized in one of the four ways: ***by geographic area, by product or service, by customer, or by process***. With a divisional structure, functional activities are performed both centrally and in each division separately.

Multi Divisional Structure

Multidivisional (M-form) structure is composed of operating divisions where each division represents a separate business to which the top corporate officer delegates responsibility for day-to-day operations and business unit strategy to division managers.

Strategic Business Unit (SBU) Structure

The SBU structure is composed of operating units where each unit represents a separate business to which the top corporate officer delegates responsibility for day-to-day operations and business unit strategy to its managers. The structure is relevant to multi-product, multi-business enterprises. An SBU is a grouping of related businesses, which is amenable to composite planning treatment. The three most important characteristics of a SBU are:

- ❖ It is a single business or a collection of related businesses which offer scope for independent planning and which might feasibly stand alone from the rest of the organization.
- ❖ It has its own set of competitors.
- ❖ It has a manager who has responsibility for strategic planning and profit performance, and who has control of profit-influencing factors.

Matrix Structure

A matrix structure is the most complex of all designs because it depends upon both vertical and horizontal flows of authority and communication (hence the term matrix). A matrix structure has dual lines of authority, dual sources of reward and punishment, shared authority, dual reporting channels, and a need for an extensive and effective communication system. Matrix structure was developed to combine the stability of the functional structure with the flexibility of the product form.

Network Structure
A company with network structure is often called a virtual organization because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks. It could be termed a "non-structure", by its virtual elimination of in-house business functions as many activities are outsourced.

Hourglass Structure
With the diminishing role played by middle management as the tasks performed by them are increasingly being replaced by the technological tools, a new form of organisation structure is seen. Hourglass organization structure consists of three layers with constricted middle layer. A shrunken middle layer coordinates diverse lower level activities. Contrary to traditional middle level managers who are often specialists, the managers in the hourglass structure are generalists and perform wide variety of tasks.

Strategic Leadership

Strategic leadership	A strategic leader sets the firms direction by developing and communicating vision of future, formulate strategies in the light of internal and external environment, brings about changes required to implement strategies and inspire the staff to contribute to strategy execution.
Transformational leadership style	Uses charisma and enthusiasm to inspire people to exert them for the good of the organization. They offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a 'dream' of a higher calling so as to elicit higher performance.
Transactional leadership style	Focus is more on designing systems, controlling the organization's activities and improving the current situation. They try to build on the existing culture and enhance current practices. The style uses the authority to exchange rewards, such as pay and status.

Strategic leader has several responsibilities, including the following:

- Making strategic decisions.
- Formulating policies and action plans to implement strategic decision.
- Ensuring effective communication in the organisation.
- Managing human capital (perhaps the most critical of the strategic leader's skills).
- Managing the company's operations.
- Sustaining high performance over time.

Strategy Supportive Culture

Every organisation has a unique organizational culture. It has its own philosophy and principles, its own ways of approaching problems and making decisions, its own work climate. It has its own embedded patterns of how to do things. its own ingrained beliefs, behaviour and thought patterns, and practices that define its corporate culture.

An organization's culture is either an important contributor or an obstacle to successful strategy execution. The beliefs, vision, objectives, and business approaches and practices underpinning a company's strategy may or may not be compatible with its culture. Strong culture promotes good strategy execution when there's fit and impedes execution when there's negligible fit.

Entrepreneurship and Intrapreneurship

The terms Entrepreneur and Intrapreneur are frequently used in the business world.

Entrepreneurship is the attempt to create value through recognition of business opportunity, the management of risk taking appropriate to the opportunity and through management skills to mobilize financial, human and material resources. The person who perceives the business idea and takes steps to implement the idea is known as an entrepreneur. He takes all types of risks, not only to put the product or service into reality but also to make it an extremely demanding one.

An intrapreneur is nothing but an entrepreneur who operates within the boundaries of an organisation. He is an employee of a large organisation, who is vested with authority of initiating creativity and innovation in the company's products, services and projects, redesigning the processes, workflows and systems. The intrapreneurs believe in change and do not fear failure. They discover new ideas, look for such opportunities that can benefit the whole organisation and take risks, promote innovation to improve the performance and profitability of the organisation.

CHAPTER 8 : STRATEGY IMPLEMENTATION AND CONTROL

Strategic management process does not end when the firm decides what strategies to pursue. There must be a translation of strategic thought into strategic action. This requires support of all managers and employees of the business. Implementing strategy affects an organization from top to bottom; it affects all the functional and divisional areas of a business. Strategy implementation requires introduction of change in the organisation to make organisational member adapt to the new environment.

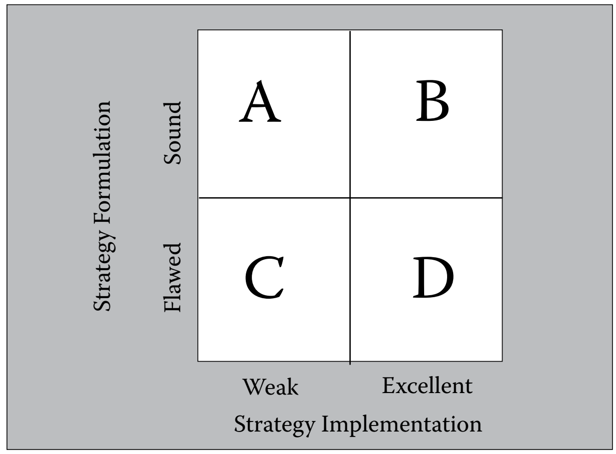
Strategic control has been discussed as an integral part of strategic management. Strategic control focuses on whether the strategy is being implemented as planned and the results produced are those intended. In addition, we will also have an overview of the emerging concepts in strategic management namely strategy audit, business process reengineering and benchmarking.

Interrelationship between Strategy Formulation and Implementation

Strategic implementation is concerned with translating a strategic decision into action, which presupposes that the decision itself (i.e., the strategic choice) was made with some thought being given to feasibility and acceptability. The allocation of resources to new courses of action will need to be undertaken, and there may be a need for adapting the organization's structure to handle new activities as well as training personnel and devising appropriate systems.

Relationship with strategy formulation

A company will be successful only when the strategy formulation is sound and implementation is excellent. Organizational success is a function of good strategy and proper implementation. The matrix in the figure below represents various combinations of strategy formulation and implementation:



Strategy formulation and implementation matrix

Square A is the situation where a company apparently has formulated a very competitive strategy, but is showing difficulties in implementing it successfully.

Square B is the ideal situation where a company has succeeded in designing a sound and competitive strategy and has been successful in implementing it.

Square C is reserved for companies that haven't succeeded in coming up with a sound strategy formulation and in addition are bad at implementing their flawed strategic model.

Square D is the situation where the strategy formulation is flawed, but the company is showing excellent implementation skills.

Successful strategy formulation does not guarantee successful strategy implementation. It is always more difficult to do something (strategy implementation) than to say you are going to do it (strategy formulation)! Although inextricably linked, strategy implementation is fundamentally different from strategy formulation. Strategy formulation and implementation can be contrasted in the following ways:

Strategy Formulation Vs. Strategy Implementation

Strategy Formulation	Strategy Implementation
Strategy formulation focuses on effectiveness.	Strategy implementation focuses on efficiency.
Strategy formulation is primarily an intellectual process.	Strategy implementation is primarily an operational process.
Strategy formulation requires conceptual intuitive and analytical skills.	Strategy implementation requires motivation and leadership skills.
Strategy formulation requires coordination among the executives at the top level.	Strategy implementation requires coordination among the executives at the middle and lower levels.

Strategic Change

The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies. Strategic change is a complex process that involves a corporate strategy focused on new markets, products, services and new ways of doing business.

Steps to initiate strategic change: For initiating strategic change, three steps can be identified as under:

Recognize the need for change: The first step is to diagnose which parts of the present corporate culture are strategy supportive and which are not. This basically means going for environmental scanning involving appraisal of both internal and external capabilities and then identify the problems/improvement areas and determine scope for change.

Create a shared vision to manage change: Objectives and vision of individuals and organization should coincide. Strategy implementers have to convince all those concerned that the change in business culture is not superficial or cosmetic. The actions taken have to be fully indicative of management's seriousness to new strategic initiatives and associated changes.

Institutionalise the change: This is basically an action stage which requires implementation of changed strategy. Creating and sustaining a different attitude towards change is essential to ensure that the firm does not slip back into old ways of thinking or doing things. Besides, change process must be regularly monitored and reviewed to analyse the after-effects of change. Any discrepancy or deviation should be appropriately addressed.

Kurt Lewin's Model of Change: To make the change lasting, Kurt Lewin proposed three phases of the change process for moving the organization from the present to the future. These stages are unfreezing, changing and refreezing.

Unfreezing the situation: The process of unfreezing simply makes the individuals or organizations aware of the necessity for change and prepares them for such a change. Lewin proposes that the changes should not come as a surprise to the members of the organization. Unfreezing is the process of breaking down the old attitudes and behaviours, customs and traditions so that they start with a clean slate. This can be achieved by making announcements, holding meetings and promoting the ideas throughout the organization.

Changing to new situation: Once the unfreezing process has been completed and the members of the organization recognise the need for change and have been fully prepared to accept such change, their behaviour patterns need to be redefined. H.C. Kellman has proposed three methods for reassigning new patterns of behaviour. These are compliance, identification and internalisation.

Refreezing: Refreezing occurs when the new behaviour becomes a normal way of life. The new behaviour must replace the former behaviour completely for successful and permanent change to take place. In order for the new behaviour to become permanent, it must be continuously reinforced so that this new acquired behaviour does not diminish or extinguish.

Strategic Control

Controlling is one of the important functions of management, and is often regarded as the core of the management process. The controlling function involves monitoring the activity and measuring results against pre-established standards, analysing and correcting deviations as necessary and maintaining/adapting the system. Primarily there are three types of organizational control, viz., operational control, management control and strategic control.

Operational Control: The thrust of operational control is on individual tasks or transactions as against total or more aggregative management functions.

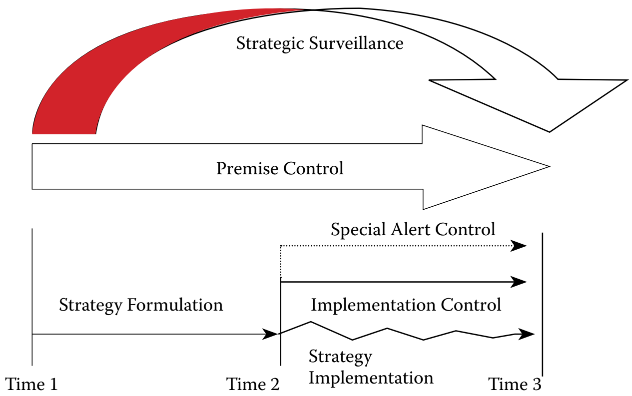
Management Control: When compared with operational control, management control is more inclusive and more aggregative, in the sense of embracing the integrated activities of a complete department, division or even entire organisation, instead or mere narrowly circumscribed activities of sub-units.

Strategic Control: Strategic Control is the process of evaluating strategy as it is formulated and implemented. It is directed towards identifying problems, changes in premise and making necessary adjustments.

Strategic control focuses on the dual questions of whether: (1) the strategy is being implemented as planned; and (2) the results produced by the strategy are those intended.

Types of Strategic Control: There are four types of strategic control as follows:

Premise control:	**Strategic surveillance:**	**Special alert control:**	**Implementation control:**
Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built. It primarily involves monitoring two types of factors: (i) Environmental factors (ii) Industry factors	Contrary to the premise control, the strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy.	At times unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, terrorist attacks, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy.	Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and results associated with incremental steps and actions.The two forms of implementation control are: (i) Monitoring strategic thrust (ii) Milestone reviews



Strategy Audit

"Strategy audit is a process for taking an objective look at the existing strategies of the organization. It involves assessing the direction of a business and comparing that to the course to the direction required to succeed in a changing environment."

> ***"A strategy audit is an examination and evaluation of areas affected by the operation of a strategic management process within an organization".***

A strategy audit provides an excellent platform for discussion with the top management regarding necessary corporate actions or changes in the existing business plan. It also identifies a company's need to adjust the existing business plan as well as its business.

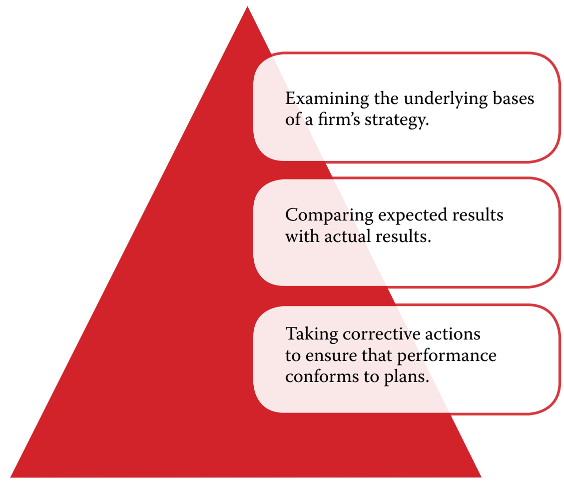
Need of Strategy Audit

A strategy audit is needed under the following conditions:

- When the performance indicators reflect that a strategy is not working properly or is not producing desired outcomes.
- When top-priority goals and objectives of the strategy are not being accomplished.
- When a major change takes place in the external environment of the organization.
- When the top management plans:
  - a) to fine-tune and an introduce a new set of strategies and
  - b) to ensure that a strategy that has worked in the past continues to be in-tune with subtle internal and external changes that may have occurred since the formulation of strategies.

Adequate and timely feedback is the cornerstone of effective strategy audit. Strategy audit can be no better than the information on which it is based.

Strategy Audit includes three basic activities:



Richard Rumelt's Criteria for Strategy Audit

Consistency: A strategy should not present inconsistent goals and policies. Organizational conflict and interdepartmental bickering are often symptoms of managerial disorder, but these problems may also be a sign of strategic inconsistency.

Consonance: Consonance refers to the need for strategists to examine sets of trends, as well as individual trends, in auditing strategies. A strategy must represent an adaptive response to the external environment and to the critical changes occurring within it.

Feasibility: A strategy must neither overtax available resources nor create unsolvable sub-problems. The final broad test of strategy is its feasibility; that is, can the strategy be attempted within the physical, human, and financial resources of the enterprise? The financial resources of a business are the easiest to quantify and are normally the first limitation against which strategy is audited.

Advantage: A strategy must provide for the creation and/or maintenance of a competitive advantage in a selected area of activity. Competitive advantages normally are the result of superiority in one of three areas: (1) resources, (2) skills, or (3) position.

Business Process Reengineering

Business Process Reengineering (BPR) is an approach to unusual improvement in operating effectiveness through the redesigning of critical business processes and supporting business systems. It is revolutionary redesign of key business processes that involves examination of the basic process itself. It looks at the minute details of the process, such as why the work is done, who does it, where is it done and when it is done. BPR refers to the analysis and redesign of workflows and processes both within the organization and between the organization and the external entities like suppliers, distributors, and service providers. The orientation of redesigning efforts is basically radical. In other words, it is a total deconstruction and rethinking of business process in its entirety.

BPR involves the following steps:

Determining objectives: Objectives are the desired end results of the redesign process which the management and organization attempts to realise. This will provide the required focus, direction, and motivation for the redesign process.

Identify customers and determine their needs: The Process designers have to understand customers – their profile, their steps in acquiring, using and disposing a product. The purpose is to redesign business process that clearly provides value addition to the customer.

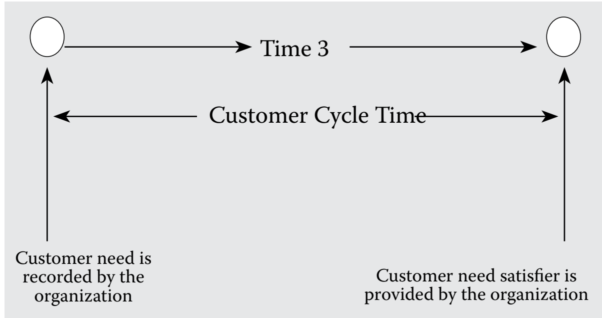
Study the existing process: The study of existing processes will provide an important base for the process designers. The purpose is to gain an understanding of the 'what', and 'why' of the targeted process. However, some companies go through the reengineering process with clean perspective without laying emphasis on the past processes.

Formulate a redesign process plan: Formulation of redesign plan is the real crux of the reengineering efforts. Customer focused redesign concepts are identified and formulated. Alternative processes are considered and the optimum is selected.

Implement the redesigned process : It is easier to formulate new process than to implement them. It is the joint responsibility of the designers and management to operationalise the new process.

Central Thrust of BPR

BPR is a continuous improvement process. Although BPR is a multi-dimensional approach in improving the business performance its thrust area may be identified as *"the reduction of the total cycle time of a business process."* BPR aims at reducing the cycle time of process by eliminating the unwanted and redundant steps and by simplifying the systems and procedures and also by eliminating the transit and waiting times as far as possible. Even after redesigning of a process, BPR maintains a continuous effort for more and more improvement.



Customer Time Cycle

Benchmarking

Benchmarking is an approach of setting goals and measuring productivity of firms based on best industry practices or against the products, services and practices of its competitors or other acknowledged leaders in the industry. It developed out of need to have information against which performance can be measured. Benchmarking helps businesses in improving performance by learning from the best practices and the processes by which they are achieved. Thus, benchmarking is a process of continuous improvement in search for competitive advantage. Firms can use benchmarking practices to achieve improvements in diverse range of management functions like product development, customer services, human resources management, etc.

The various steps in Benchmarking Process are as under:

Identifying the need for benchmarking: This step will define the objectives of the benchmarking exercise. It will also involve selecting the type of benchmarking. Organizations identify realistic opportunities for improvements.

Clearly understanding existing decisions processes: The step will involve compiling information and data on performance.

Identify best processes: Within the selected framework best processes are identified. These may be within the same organization or external to them.

Comparison of own process and performance with that of others: Benchmarking process also involves comparison of performance of the organization with performance of other organization. Any deviation between the two is analysed to make further improvements.

Prepare a report and implement the steps necessary to close the performance gap: A report on benchmarking initiatives containing recommendations is prepared. Such a report also contains the action plans for implementation.

Evaluation: Business organizations evaluate the results of the benchmarking process in terms of improvements vis-à-vis objectives and other criteria set for the purpose. They also periodically evaluates and reset the benchmarks in the light of changes in the conditions that impact the performance.