AAM Business School

Strategic Management

III SEMESTER

(Approved by Alagappa University)

Strategic Management

Course Content:

Module I: STRATEGY AND PROCESS

Strategic management-concept of strategy - strategic management process - Strategy formulation – mission, business definition, objectives –environmental and organizational appraisal.

Module II: COMPETITIVE ADVANTAGE

External Environment -PEST Analysis, Porter's Five Forces Model -Strategic Groups, Competitive Changes during Industry Evolution -Globalization and Industry Structure -National Context and Competitive advantage -Resources -Capabilities and competencies -core competencies-Low cost and differentiation Generic Building Blocks of Competitive Advantage Distinctive Competencies -Resources and Capabilities, durability of competitive Advantage sustaining competitive advantage.

Module III: CORPORATE STRATEGIES

Building competitive advantage through functional level strategies -Business level strategy - Strategy in the Global Environment -Corporate Strategy -Vertical Integration -Diversification and Strategic Alliances Building and Restructuring the corporation-Choice of Strategies Corporate Portfolio Analysis -SWOT Analysis -GAP Analysis-Mc Kinsey's 7s Framework - GE 9 Cell Model -Distinctive competitiveness -Selection of matrix

Module IV: STRATEGY IMPLEMENTATION AND EVALUATION

Designing organizational structure -Designing Strategic Control Systems –Matching structure and control to strategy -Implementing strategic change–Politics -Power and Conflict -Techniques of strategic evaluation and control

Module V: STRATEGIC ISSUES

Managing Technology and Innovation -Corporate social responsibility -Strategic issues for Non Profit organizations -Balanced Scorecard -New Business Models and strategies for Internet Economy

Text Book:

1. Charles.W.Hill& Jones, an Integrated Approach to Strategic Management Cengage Learning, Delhi, 2009.

2. Gregory Dess , Strategic Management text and cases, 3rd edition, Tata Mcgraw hill, New Delhi, 2007.

Reference books:

1. Arnoldo C. Hax, Nicholas Majluf S., The Strategy Concept and Process , A Pragmatic Approach, 2 nd edition, Pearson Education Publishing Company, New Delhi, 2005.

2. Kazmi, Business Policy and Strategic Management, 2 nd edition, Tata McGraw Hill

Publishing Company Ltd., New Delhi, 2001.

3. Thomas L. Wheelen, David Hunger J., Strategic Management, 6th edition, Addison Wesley Longman Pvt., Ltd., Singapore, 2000

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MODULE-I
STRATEGY AND PROCESS

STRATEGY AND PROCESS

Introduction

Strategy refers to a complex web of thoughts, ideas, insights, experiences, goals, expertise, memories, perceptions, and expectations that provides general guidance for specific actions in pursuit of particular ends. Countries have, in the management of their national policies, found it necessary to evolve strategies that adjust and correlate political, economic, technological, and psychological factors, along with military elements. Be it management of national polices, international relations, or even of a game on the playfield, it provides us with the preferred path that we should take for the journey that we actually make.

Strategic management is a set of managerial decisions and actions that determines the long run performance of a corporation. It includes environmental scanning (both external and internal), strategy formulation (strategic or long-range planning), strategy implementation, and evaluation and control.

The study of strategic management, therefore, emphasizes the monitoring and evaluating of external opportunities and threats in light of a corporation's strengths and weaknesses.

Meaning of Strategy

Strategy is the art of so moving or disposing the instrument of warfare as to impose upon enemy, the place time and condition for fighting by oneself.

The present-day environment is so dynamic and fast changing coping and keeping pace with changing environment. The business world undergoes lots of uncertainties, threats and constraints, financial pressure and is trying to find out the ways and means for their healthy survival. Under such circumstances, the only last resort is to make the best use of strategic management which can help the corporate management to explore the possible opportunities and at the same time to achieve an optimum level of efficiency by minimizing the expected threats.

Strategic management is the management of an organization's resources to achieve its goals and objectives. Strategic management involves setting objectives, analysing the competitive environment, analyzing the internal organization, evaluating strategies, and ensuring that management rolls out the strategies across the organization.

Strategic management is no longer viewed as a fancy word that leaders use in their job descriptions or roles and responsibilities. It has become the job of every person who is a part of the organization. If you were to undertake a strategic management certificate course, it will share how your role, big or small, has the potential to impact the organization's overall performance in a strategic manner. Strategic management actually means discovering and then creating new strategies that will define the way the organization looks. These strategies involve people, processes, internal and external stakeholders, programs, policies, vendors and every possible element that forms an organization. Let us see how this concept has some core principles.

Nature of Strategic Management

Strategic Management embraces a set of decisions, actions and interactions for accomplishment of goals. It is long term innovative program identifying the "potential for changes"

- ♥ The level of importance is at the top managerial level
- ♥ It aims at generating alternative strategies and to choose the best for implementation
- ♥ It is dynamic and perpetual. It will not cease to exist at a particular period
- ♥ Strategic management is a forward looking. It may even comprise of contradictory actions if warranted by the environment.
- ♥ It depends upon the resources both internal and external to the organization

Companies should have a clear vision, mission, focus on goals and objectives. Every company should have a strategy, because 'Strategy' defines what it is we want to achieve and charts our course in the market place; it is the basis for the establishment of a business firm; and it is a basic requirement for a firm to survive and to sustain itself in today's changing environment by providing vision and encouraging defining mission.

Concept of Strategy

The concept of Strategy is central to understand the process of strategic management. The term 'Strategy' is derived from Greek word *strategos*, which means generalship – the actual direction of military force, as distinct from the policy governing its deployment.

A strategy is considered as a long-term plan that relates the strategic advantages of an organization to the challenges of the environment. It involves the determination of the long-term objectives of the organization and the adoption of courses of action. It also involves the allocation of resources necessary to achieve the objectives. When defined this way, objectives are

considered as part of strategy formulation. According to the definition provided by Thompson and Strickland, the strategy is the means used to achieve the ends. A Strategy could also be the following:

- ♥ Helps to identify strengths:
  - o The role of strategic management is to help a company identify its strengths and leverage those. The concept involves knowing what makes the company has its own unique character and depth. It also means using that uniqueness to manage the business strategy to realize its overall goals.
- ♥ Enables you to discover the purpose.
  - o Every business venture has its own purpose and reason for being in existence. That is what strategic management helps you as the founder or leader, to articulate. It gives better insights even to the employees about what their role is in the bigger scheme of things and how they can contribute. Strategic management helps to make sure that there is an overall alignment of purpose between different teams, individuals, geographies, technologies and so on.
- ♥ To uncover opportunities:
  - o Strategies are created for the current operations, as well as a future roadmap. Such a roadmap is what is needed to take the exponential growth strides that an organization plans for itself. That is why strategic management is actually linked to the action of uncovering opportunities. It allows for discussion and brainstorming at the nascent stage so that all possible ideas and opportunities can be shared, and debated upon.
- ♥ Tracking effectiveness of defined strategies:
  - o The strategic management process also involves tracking the strategies that have been defined, to understand if they are continuing to remain effective or there is some course correction needed. This is key for understanding the overall impact of the strategies and the gap from what was defined or expected, to what was finally achieved.
- ♥ a plan or course of action or a set of decision rules making a pattern or creating a common thread
- ♥ The pattern of common thread related to the organisation's activities which are derived from the policies, objectives and goals.
- ♥ Related to pursuing those activities which move an organisation from its current position to a position to a desired future state.
- ♥ Concerned with the resources necessary for implementing a plan or following a course of action;

- ♥ Connected to the strategic positioning of a firm, making trade-offs between its different activities and creating a fit among these activities; and
- ♥ The planned or actual coordination of the firms's major goals and actions, in time and space that continuously co-align the firm with its environment.

It is the central to understanding the process of strategic management. Strategy simply means to achieve objectives. In complex terms, it may possess all the characteristics of change, mergers, acquisitions, creating vision, mission etc.

Employee Motivation is an integral part of Strategic management of an organization. It increases the labour efficiency and loyalty. Every guidance as to what to do, when and how to do and by whom etc, is given to every employee. This makes them more confident and free to perform their tasks without any hesitation. Labour efficiency and their loyalty which results into industrial peace and good returns are the results of broad-based policies adopted by the strategic management.

Strong Decision-Making under strategic management, the first step to be taken is to identify the objectives of the business concern. Hence a corporation organized under the basic principles of strategic management will find a smooth sailing due to effective decision-making.

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

Improved understanding of internal and external environments of business Strategy formulation requires continuous observation and understanding of environmental variables and classifying them as opportunities and threats. It also involves knowing whether the threats are serious or casual and opportunities are worthy or marginal. As such strategy provides for a better understanding of environment.

Benefits of Strategic Management

- ♥ Strategic management is generally thought to have financial and nonfinancial benefits.
- ♥ It allows for identification, prioritization, and exploitation of opportunities.

- ♥ It provides an objective view of management problems.

- ♥ It represents a framework for improved coordination and control of activities.

- ♥ It minimizes the effects of adverse conditions and changes.

- ♥ It allows major decision to better support established objectives.

- ♥ It allows more effective allocation and resources to identified opportunities.

- ♥ It allows fewer resources and less time to be devoted to correcting erroneous or ad hoc decisions.

- ♥ It creates a framework for communication personnel. It helps behavior of individuals into a total effort.

- ♥ It provides a basis for clarifying individual responsibilities. It encourages forward thinking.

- ♥ It provides a cooperative, integrated, and enthusiastic approach to tackling problems and opportunities.

- ♥ It encourages a favourable attitude toward change. It gives a degree of discipline and formality to the management of a business.

- ♥ It helps an organization and its leadership to think about and plan for its future existence, fulfilling a chief responsibility of a board of directors.

- ♥ It sets a direction for the organization and its employees.

- ♥ Unlike once-and-done strategic plans, effective strategic management continuously plans, monitors and tests an organization's activities, resulting in greater operational efficiency, market share and profitability

Importance of Strategic Management

- ♥ Compulsion due to changing environment

- ♥ Boosting up employee's efficiency and morale

- ♥ Provides foundation for unified decision making

- ♥ Converting each strategy to action

The importance is felt in many occasions. It minimizes competitive disadvantage, E.g. Company like Hindustan Lever Ltd., felt merging companies which manufacture similar product lines shall not make them a market leader. It means, they realized that merely by merging with companies like Lakme, Ponds, Brooke bond, Lipton etc. which make fast moving consumer goods alone will not make it market leader but venturing into retailing will help it reap

heavy profits. They emerged its retail giant "Margin Free' which is the market leader in states like Kerala. Similarly, the R.P. Goenka Group and the Muruguppa group realized that mere takeovers do not help and there is a need to reposition their products and reengineer their brands. The strategy worked.

Phases of Strategic Management

Many of the concepts and techniques that deal with Strategic Management have been developed and used successfully by business corporations such as General Electric and the Boston Consulting Group. Increasing risk of error, costly mistakes, and even economic ruin are causing today's professional managers in all organizations to take strategic management seriously or order to keep their companies competitive in an increasingly volatile environment.

Phase 1	• Seeking better operational control by trying
Basic financial planning	to meet annual budgets
Phase 2	• Seeking more effective planning for growth
Forecast-based planning	by trying to predict the future beyond the next year
Phase 3	• Seeking increased responsiveness to
Externally oriented strategic planning	markets and competition by trying to think strategically
Phase 4	• Seeking a competitive advantage by
Strategic management	considering implementation and evaluation and control when formulating a strategy

The firm generally evolves through the following four phases of strategic management

Phase-1: Basic Financial Planning

It initiates some planning when they requested to set up their budgets; generally proposing an annual budget.

- Little analysis on small environmental information.
- Simple operational planning
- Often managers spend a week time to discuss.
- Time Horizon for this phase is generally – One Year

Phase-2: Forecast based Planning:

The annual budget becomes less useful. So it is proposed for a long term plan like five-year plan.

- Mangers gather environmental data more than internal information and
- Extrapolate current trends in the future.
- It considers projects for more than a year.
- The process gets very political as managers compete for larger shares of funds.
- Often managers spend a month's time and goes for an endless meeting.
- The time horizon is usually 3-5 years.

Phase-3: Externally Oriented (Strategic) Planning

This is the phase in which strategic planning is conducted by top management and they leave implementation to low level.

- Frustrated with political ineffective five-year plan, the top management takes the control of planning process by initiating strategic planning.
- External consultants often provide the sophisticated and innovative techniques that the planning staff uses to gather information. Retired military experts are also involved to develop competitive intelligence units.
- Upper-level managers meet once a year in a resort "retreat" led by key members of the planning to evaluate and update the current strategic plan.

Phase-4: Strategic Management

In this phase, realisation happens at the top management that the best strategic plans are worthless without the input and commitment of lower-level managers.

- Planning happens by forming a team from all levels in the company. They involve key employees at all levels, from various departments and work groups.
- The sophisticated annual five-year plan is replaced with "strategic thinking" at all level of the organization throughout the year.
- Strategic information is shared with all workforces.
- People at all level are involved.

Levels of Strategic Management

Strategy can be formulated at three levels, namely, the corporate level, the business level, and the functional level.

At the corporate level, strategy is formulated for your organization as a whole. Corporate strategy deals with decisions related to various business areas in which the firm operates and competes.

At the business unit level, strategy is formulated to convert the corporate vision into reality.

At the functional level, strategy is formulated to realize the business unit level goals and objectives using the strengths and capabilities of your organization.

A typical business firm should consider the following three levels of strategies

There is a clear hierarchy in levels of strategy, with corporate level strategy at the top, business level strategy being derived from the corporate level, and the functional level strategy being formulated out of the business level strategy.

Corporate strategy

Corporate level strategy defines the business areas in which your firm will operate. It deals with aligning the resource deployments across a diverse set of business areas, related or unrelated. Strategy formulation at this level involves integrating and managing the diverse businesses and realizing synergy at the corporate level. The top management team is responsible for formulating the corporate strategy. The corporate strategy reflects the path toward attaining the vision of your organization. For example, your firm may have four distinct lines of business operations, namely, automobiles, steel, tea, and telecom. The corporate level strategy will outline whether the organization should compete in or withdraw from each of these lines of businesses, and in which business unit, investments should be increased, in line with the vision of your firm.

Top management's overall plan for the entire organization and its SBU's. Corporate level strategy occupies the heights level of decision making. Renewal/Retrenchment strategies are pursued when a company's product lines are performing poorly as a result of finding itself in a weak competitive position or a general decline in industry or markets.

Corporate Strategy describes a company's overall direction towards growth by managing business and product lines. These include stability, growth and retrenchment. For example, Coco cola, Inc., has followed the growth strategy by acquisition. It has acquired local bottling units to emerge as the market leader Business strategy - Usually occurs at business unit or product level emphasizing the improvement of competitive position of a firm's products or services in an industry or market segment served by that business unit.

- ♥ The first level of strategy in the business world is corporate strategy, which sits at the 'top of the heap'. Before you dive into deeper, more specific strategy, you need to outline a general strategy that is going to oversee everything else that you do.
- ♥ At a most basic level, corporate strategy will outline exactly what businesses you are going to engage in, and how you plan to enter and win in those markets.
- ♥ It is easy to overlook this planning stage when getting started with a new business, but you will pay the price in the long run for skipping this step.
- ♥ It is crucially important that you have an overall corporate strategy in place, as that strategy is going to direct all of the smaller decisions that you make.
- ♥ For some companies, outlining a corporate strategy will be a quick and easy process. For example, smaller businesses who are only going to enter one or two specific markets with their products or services are

going to have an easy time identifying what it is that makes up the overall corporate strategy.

- ♥ If you are running an organization that bakes and sells cookies, for instance, you already know exactly what the corporate strategy is going to look like – you are going to sell as many cookies as possible.
- ♥ Entering into the kitchen equipment market is a completely different challenge from selling the cookies themselves, so the complexity of your corporate strategy will need to rapidly increase.

Business Level strategy

Business level strategies are formulated for specific strategic business units and relate to a distinct product-market area. It involves defining the competitive position of a strategic business unit. The business level strategy formulation is based upon the generic strategies of overall cost leadership, differentiation, and focus. For example, your firm may choose overall cost leadership as a strategy to be pursued in its steel business, differentiation in its tea business, and focus in its automobile business. The business level strategies are decided upon by the heads of strategic business units and their teams in light of the specific nature of the industry in which they operate.

A strategy that seeks to determine how an organization should compete in each of its SBUs (Strategic business Units). At business level allocation of re-sources among functional level an coordinate with the corporate level to the achievement of the corporate level objectives.

It falls in the in the realm of corporate strategy. For example, Apple Computers uses a differentiation competitive strategy that emphasizes innovative product with creative design. In contrast, ANZ Grindlays merged with Standard Chartered Bank to emerge competitively. Functional strategy – It is the approach taken by a functional area to achieve corporate and business unit objectives and strategies by maximizing resource productivity. It is concerned with developing and nurturing a distinctive competence to provide the firm with a competitive advantage. For example, Procter and Gamble spends huge amounts on advertising to create customer demand.

It would be outlining separate strategies for selling cookies and selling cookie-making equipment at this level. You may be going after convenience stores and grocery stores to sell your cookies, while you may be looking at department stores and the internet to sell your equipment. Those are dramatically different strategies, so they will be broken out at this level.

Even in smaller businesses, it is a good idea to pay attention to the business strategy level so we can decide on how we are going to handle each various part of your operation. The strategy that you highlighted at the

corporate level should be broad in scope, so now is the time to boil it down into smaller parts which will enable you to take action.

Functional /Operational strategy

Functional level strategies relate to the different functional areas which a strategic business unit has, such as marketing, production and operations, finance, and human resources. These strategies are formulated by the functional heads along with their teams and are aligned with the business level strategies.

The strategies at the functional level involve setting up short-term functional objectives, the attainment of which will lead to the realization of the business level strategy. For example, the marketing strategy for a tea business which is following the differentiation strategy may translate into launching and selling a wide variety of tea variants through company-owned retail outlets. This may result in the distribution objective of opening 25 retail outlets in a city; and producing 15 varieties of tea may be the objective for the production department. The realization of the functional strategies in the form of quantifiable and measurable objectives will result in the achievement of business level strategies as well.

Focus is on improving the effectiveness of operations within a company in the functional areas of Manufacturing, Marketing, Materials management, Research and development, Human resources, Finance and etc.
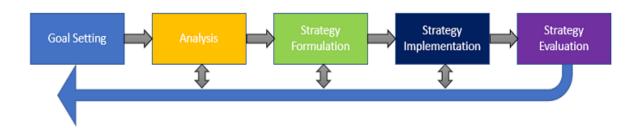
These are concerned with how the component parts of an organization deliver effectively the corporate, business and functional -level strategies in terms of resources, processes and people. They are at departmental level and set periodic short-term targets for accomplishment.

- ♥ This is the day-to-day strategy that is going to keep your organization moving in the right direction. Just as some businesses fail to plan from a top-level perspective, other businesses fail to plan at this bottom-level.
- ♥ This level of strategy is perhaps the most important of all, as without a daily plan you are going to be stuck in neutral while your competition continues to drive forward. As we work on putting together your functional strategies, remember to keep in mind your higher level goals so that everything is coordinated and working toward the same end.
- ♥ It is at this bottom-level of strategy where you should start to think about the various departments within your business and how they will work together to reach goals.
- ♥ Marketing, finance, operations, IT and other departments will all have responsibilities to handle, and it is your job as an owner or manager to oversee them all to ensure satisfactory results in the end. Again, the success or failure of the entire organization will likely rest on the ability

of your business to hit on its functional strategy goals regularly. Take small steps in strategy on a daily basis and your overall corporate strategy will quickly become successful.

♥ Good strategy alone is not going to automatically lead you to success in business, but it certainly is a good place to start. Once you have sound strategies in place, the focus of the organization will shift toward executing those strategies properly day after day.

♥ The strategies will need to be continually monitored and adjusted as you move forward to ensure you are staying on a path that is consistent with the goals of the business, so one should always keep the three levels of strategy near the front of your mind as your guide your company.
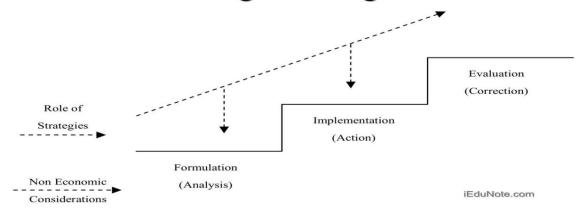
Process of Strategic Management

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

♥ The strategic management process is initiated to enable the organization's top managers to make those decisions that affect the long term profitability and sustainability of the organizations.

♥ It involves large-scale mobilization of resources across the organization to develop competencies and capabilities for the future while taking care of the risk such long term decisions entail.

♥ It represents the context of long-term decisions, the changing nature of the external context and how organizations respond to the ever-changing external context by adopting strategic management.
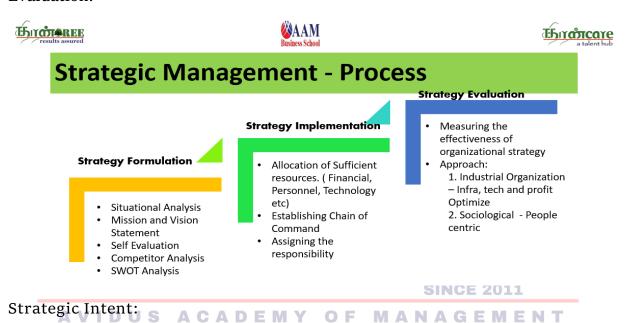
Phases of Strategic Management Process

- ♥ Strategic management is the process of strategic analysis of an organization, strategy-focused objective-setting, strategy formulation, strategy implementation, and strategic evaluation and control.

- ♥ Strategic analysis is involved with analyzing the industry in which the organization is operating its business and analysis of both the external and internal environmental factors.

- ♥ Strategy-focused objective setting is concerned with establishing long-range objectives for the organization to achieve the vision and mission.

- ♥ Strategy formulation entails making decisions about selecting the strategy to achieve the long-range objectives. Strategy implementation is concerned with putting the formulated-strategy into action.

- ♥ It is materialization or execution of strategy through deployment of necessary resources and aligning the organizational structure, systems (e.g., reward systems, support systems) and processes with the selected strategy.
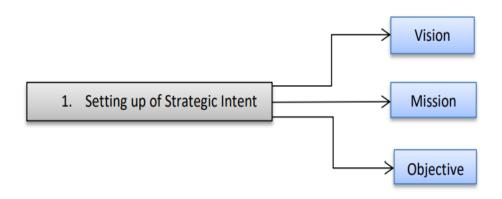
- ♥ This element is also involved with making decisions regarding setting short-range objectives, developing budgets and formulating functional/supporting strategies to achieve the 'main strategy'.

- ♥ The last element of the strategic management process strategic evaluation and control aims at establishing standards of performance, monitoring progress in the implementation of strategy, and initiating corrective adjustments in the strategy.

While we study the process of Strategic Management, there exists three important elements/steps namely Strategy Formulation, Implementation and Evaluation.

Strategic Intent:

This is a pre phase before Strategy Formulation. The hierarchy of strategic intent lays the foundation for the strategic management of any organization. In this hierarchy, the vision, mission, business definition, business model, and objectives are established This phase establishes the strategic intent for the organization. It also creates the purposes the organization strives for. It is the hierarchy of objectives that an organization sets for itself.

This phase creates and communicates a Vision

- Set the goal the company wants to achieve. Designing a mission statement

- Defining the business

- Adopting the business model

- Setting the objectives

Vision, Mission, Objectives and Policies

A Vision Statement describes the desired future position of the company. It leads to a tangible result. It articulates the position that a firm would like to attain in the distant future.

- A Vision should be

    - Organizational charter of core values and principles

    - Ultimate source of priorities, plans and goals

    - A puller (not pusher) into the future

    - Making an unique

- A vision should not be

    - High concept statement, motto or literature or an advertising slogan.

    - A strategy or plan from the top.

Elements of Mission and Vision Statements are often combined to provide a statement of the company's purposes, goals and values. Role played by mission, vision:

A Mission Statement defines the company's business, its objectives and its approach to reach those objectives. Mission is a statement which defines the role that an organisation plays in the society. It should be

- Feasible

- Precise

- Clear

- Motivating

- Distinctive

- Indicate the major components of strategy.

- Indicate how objectives are to be accomplished.

Business and Model: Every business should have model and would continue to focus on the business model like Walmart – Retailer; Google – search engine; Dell computers – Internet based marketer; Amazon – Virtual book seller; OLA/UBER – Cab Aggregator; Zoom – Virtual Video conferencing. It is a company's method for making money in the current business environment. It includes the key structural and operational characteristics of a firm – how it earns revenue and makes a profit. A business model is usually composed of five elements:

- ♥ Who it serves?
- ♥ What it provides?
- ♥ How it makes money?
- ♥ How it differentiates and sustains competitive advantage?
- ♥ How it provides its product/service?
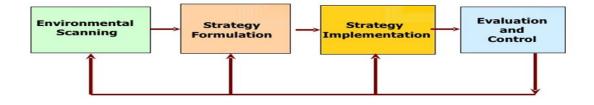
An objective (Goal Setting)

In business, an objective refers to the specific steps a company will take to achieve a desired result. In other words, my goal is what I want to become, while my objective is how I plan to get there.

A business' goal is more general and may not specify when things will happen. Objectives, on the other hand, are specific and tell you what the company will do to reach its goal.

A business' primary aim is to add value, which in the private sector involves making a profit. Strategic objectives or aims may include brand building, market leadership, expansion, or gaining a specific share of the market.

A Policy is set of guiding principles, rules and guidelines formulated or adopted by an organization to reach its long-term goals. They are designed to influence and determine all major decisions and actions, and all activities take place within the boundaries set by them.
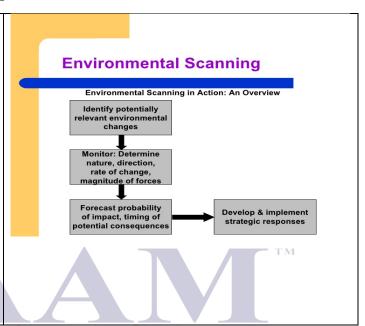
However, for understanding purpose we could add few more elements. Environmental Scanning is an important element before we do formulation, Implementation and Evaluation.

Environmental Scanning

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

♥ It identifies the potential environmental changes. ♥ It includes monitoring, evaluating, and disseminating of information from the external and internal environment to the key people within the corporation ♥ Identify the strategic factors – through SWOT Analysis ♥ Develop and implement strategic responses.	

Strategy Formulation

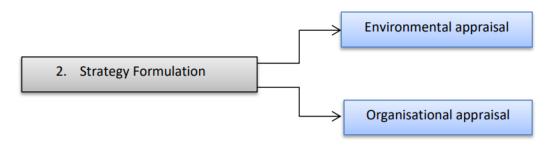Strategy Formulation is the process of deciding best course of action for accomplishing organizational objectives and hence achieving organizational purpose. After conducting environmental scanning, manager formulate corporate, business and functional strategies.

Strategy formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and

objectives and thereby achieving the organizational vision. For choosing most appropriate course of action, for appraisal of organization and environmental is done with the help of SWOT analysis.

Environmental and organizational appraisal deal with identifying the opportunities and threats operating in the environment and the strengths and weaknesses of the organization in order to create a match between them in such a manner that opportunities could be availed of and the impact of threats neutralized and to capitalize on the organizational strengths and minimize the weaknesses.
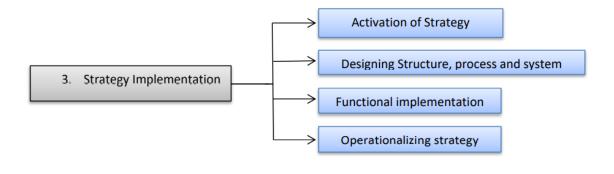
Environmental Appraisal:

The environment of any organization is the aggregate of all conditions, events and influences that surround and affect. It is dynamic and consists of external and internal environment. The external environment involves all the factors outside the organizations which provide opportunities or pose threats to the organization. The internal environment refers to all the factors within an organization which impart strengths or cause weaknesses of a strategic nature.

Organizational Appraisal:

It is the process observing an organizational internal environment to identify the strengths and weaknesses that may influence the organizations abilities to achieve goals. The analysis of corporate capabilities and weaknesses becomes a pre-requisite for successful formulation and reformulation of corporate strategies. This analysis can be done at various levels: functional, divisional, and corporate

Strategy Implementation

Strategy Implementation implies making the strategy work as intended or putting the organizations chosen strategy into action. Strategy implementation includes designing the organizations structure, distributing resources, developing decision making process, and managing human resources
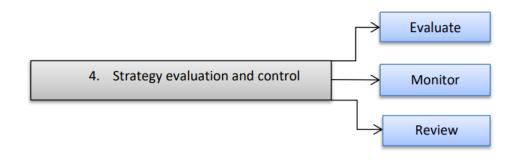
For implementation of strategy, the strategic plan is put into action through six sub- processes, which are as follows:

- ♥ Project Implementation: It deals with the setting-up of the organization.
- ♥ Procedural Implementation: It deals with the different aspects of the regulatory framework within which Indian organizations have to operate.
- ♥ Resource Allocation Implementation: It relates to the procurement and commitment of resources for implementation.
- ♥ Structural Implementation: The structural aspects of implementation deal with the design of appropriate organizational structures and systems and re- organizing so as to match the structure to the needs of strategy.
- ♥ Behavioural Implementation: The behavioural aspects consider the leadership styles for implementing strategies and other issues like corporate culture, corporate culture, corporate politics and use of power, personal values and business ethics and social responsibility.
- ♥ Functional and procedural Implementation: The functional aspects relate to the policies to be formulated in different functional areas. The operational implementation deals with the productivity, processes, people, and pace of implementing the strategies. The emphasis in the implementation phase of strategic management is on action

Strategy Evaluation & Control

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

The last phase of strategic evaluation appraises the implementation of strategies and measures organizational performance. The feedback from strategic evaluation is meant to exercise strategic control over the strategic management process. Strategies may be re-formulated, if necessary.

Part A Questions

1. What is strategy?
2. Define the Nature of Strategy.
3. Define the concept of Strategy.
4. What are the benefits of Strategic Management?
5. Explain the importance of Strategic Management.
6. What are the steps involved in strategy formulation process?
7. What is Strategic Intent
8. Define Vision & Mission

Part B Questions

1. Explain the conceptual framework for Strategic Management.
2. Explain the phases of Strategic Management.
3. Enumerate the steps and levels of strategy.
4. Explain the process of Strategy.

MODULE-II

COMPETITIVE ADVANTAGE
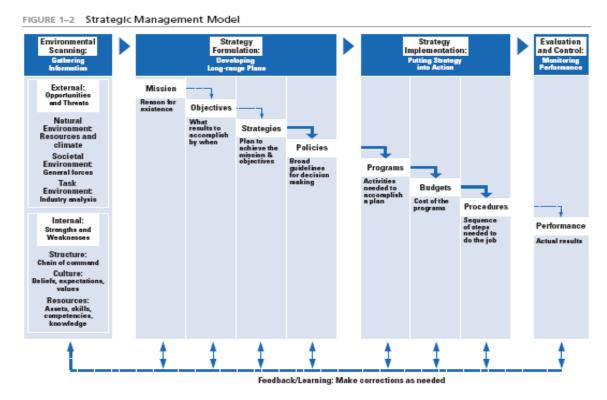
COMPETITIVE ADVANTAGE

Introduction

We have already studied about the environment. Business environment has been defined as "the total of all things external to firms and industries which affect their organization and operation". It connotes all external forces acting on the business, shaping its activities. The external forces acting on the business consists of a large number of factors. These are:

a) Demographic b) Economic c) Geographical and Ecological d) Social and Cultural e) Political and Legal and f) Technological

FIGURE 1–2   Strategic Management Model

Concept of Environment

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

Characteristics of Environment

Environment is Complex, Dynamic, multi-faceted and has far reaching impact

Factors of Environmental Scanning

Environmental factors can be classified as

1. Macroenvironmental factors - Identifying the environmental variables

       a. Natural, societal, economic, technological, Political, Legal, cultural
2. Task Environment – Micro Factors which are specific to the given business
       a. Industry Analysis – Porters Approach.
       b. An examination of the important stake holders such as competitors, buyers, suppliers, substitutes and New entrants

Apart from the above there are other factors which contributes

Competitive Intelligence (Business Intelligence)

♥ A formal program of gathering information on a company's competitors. Market Research

Forecasting

♥ Danger of Assumption, Using correct forecasting techniques are important.

Strategic Audit

♥ A checklist of questions by area of concern

Types of Environment

    For any business to grow and prosper, managers of the business must be able to anticipate, recognise and deal with change in the internal and external environment. Change is a certainty, and for this reason business managers must actively engage in a process that identifies change and modifies business activity to take best advantage of change. That process is strategic planning.

The following diagram provides examples of factors that are agents of change and need to be considered in the strategic planning process. Explanation of these factors is found below.

All businesses have an internal and external environment. The internal environment is very much associated with the human resource of the business or organization, and the manner in which people undertake work in accordance with the mission of the organization. To some extent, the internal environment is controllable and changeable through planning and management processes.

The external environment, on the other hand is not controllable. The managers of a business have no control over business competitors, or changes to law, or general economic conditions. However the managers of a business or organization do have some measure of control as to how the business reacts to changes in its external environment.

1. Internal and
2. External Environment

Internal Environment

The internal environment refers to all the factors within an organization that that impact strengths or cause weaknesses of a strategic nature.

Strengths

- ♥ An inherent capacity which an organization can use to gain strategic advantage.
- ♥ Eg. Good reputation among the customers, resources, assets, people, experience, knowledge, data and capabilities

Weakness

- ♥ An inherent limitation or constraint which creates strategic disadvantages.
- ♥ Eg. Gaps in capabilities, financial deadlines, low morale and overdependence on a single product line.
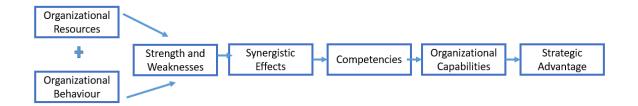
Dynamics of Internal Environment

Organization uses different types of resources and exhibits a certain type of behaviour. The interplay of these different resources along with the prevalent behaviour produces synergy or dysergy within an organization, which leads to the development of strengths and weaknesses over the period of time.

Organizational Resources

An organization is a bundle of resources – tangible and intangible-That include all assets, capabilities, organizational processes, information, knowledge etc

These resources could be classified as physical, human and organizational resources. The physical resources are the technology, plant and equipment, geographic location, access to raw materials, etc. The human resources are the training, experience, judgement, intelligence, relationship etc present in an organization. The organizational resources are the formal systems and structures as well as informal relations among groups.

Competencies

Competencies are anything a business does well and a business may have numerous competencies. Competencies are special qualities possessed by an organization that make them withstand the pressure of competition in the marketplace. It is the net result of the strategic advantages and disadvantages that exist for an organization determines its ability to compete with its rivals.

Core Competencies

Core Competency is a competency of the business that is essential or central to its overall performance and success. A company's low defect rate is a core competency that makes the company reliable manufacture of quality products and make them withstand the pressure of competition in the market place.

Distinctive Competencies

Distinctive competence refers to some characteristic of a business that it does better than its competitors. Because the business is able to do something better than other businesses, that business has a competitive advantage over other businesses. It is an organization's strengths or qualities including skills, technologies, or resources that distinguish it from competitors to provide superior and unique customer value and, hopefully, is difficult to imitate.

Distinctive competencies gives organization an edge over others so it's worth developing certain characteristics that competitors will find difficult to implement. To develop a particular distinctive competence, companies must conduct a thorough external and internal review of their corporate environment.

A Distinctive competency is any capability/specific ability that distinguishes a company from its competitors. It is possessed by a particular organization exclusively or relatively in large measure.

Organizational Capabilities

Organizational Capabilities is the inherent capacity or potential of an organization to use its strengths and overcome its weaknesses in order to exploit the opportunities and face the threats in its external environment. It is measured and compared through the process of organizational appraisal. A

feasible approach to appraising the organization is to start with the factors and influences operating within the organization. These could be called as organizational capabilities factors.

Strategic Advantage

These are the outcome of organizational capabilities. They are the results of organizational activities leading to rewards in terms of financial parameters, such as profit or shareholder value and or/ non-financial parameters such as market share or reputation. In contrast, strategic disadvantages are the penalties in the form of financial loss or damage to market share. Strategic advantages are measurable in absolute terms using the parameters in which they are expressed. Profitability – strategic advantage; higher the profitability better the strategic advantage. The obvious purpose of gaining strategic advantage is to empower organizations to realize their strategic intent.

Competitive Advantage

Competitive Advantage is a special case strategic advantage where there is one or more identified rivals against whom the rewards or penalties could be measured. Outperforming rivals in profitability or market standing could be a competitive advantage for an organization. Competitive Advantage is relative than absolute and its is to be measured and compared with respect to other rivals in an industry. Strategic Advantage is a broader concept while competitive Advantage is one of its subset.

Organizational Capability factors

Organizational capability factors are the strategic strengths and weaknesses existing in different functional areas within an organization which are of the crucial importance to the strategy formulation and implementation. Strategic factors, strategic advantage factors, corporate competence factors are all same with organizational capability factors. Financial, Marketing, Operational, Personnel, Information management, General Management are the different areas of Capabilities.

External Environment

This includes all the factors outside the organization which prove opportunities or pose threats to the organization.

Opportunity

- ♥ A favourable condition in the organization's environment which enables it to consolidate and strengthen its position.
- ♥ Eg. Economic boom, favourable demographic shift, arrivals of new technologies, loosening of regulations, global influences, and unfulfilled customer needs.

Threat

- ♥ An unfavourable condition in the organization's environment which creates a risk, or causes damage.
- ♥ Eg. Economic downturn, pandemic (Covid), demographic shifts, new competitors, unexpected shift in consumer taste, new political, legislation and technological shift.

Difference between Internal and External Environment

The main difference between the Internal Environment and External Environment is Former has factors, events, conditions that exist within the organization and can influence the company's choices and functions. But, the latter has factors that don't exist within but will affect the company's operations, decisions, survival, and growth.

- Internal factors are controllable but external environmental factors are uncontrollable.
- Internal environment factors are positive or negative for the organization but External factors give a chance but majorly pose threats.
- Any small changes done in the Internal environment affects the company itself but a change in the external factor affects the lot associated with it.
- With the support of the management, Internal environment can see a considerable growth but this will not work out in the case of latter.

Parameter	Internal Environment	External Environment
Nature	It is a Micro Environment	It is a Macro Environment
Influence	Influences directly and regularly	Influences indirectly and distantly
Elements	Competitors, shareholders and customers are the major elements.	Economical, social and technological factors are the major elements.
Point of control	It can be controlled by the internal factors.	It has got no control over the outside factor that influence.
Effect on the groups	It affects specific groups	It affects common group

Internal Environment refers to all the inlying forces and conditions present within the company, which can affect the company's working. External Environment is a set of all the exogenous forces that have the potential to affect the organization's performance, profitability, and functionality.

Threats and Opportunities of few companies

TATA MOTORS

Opportunities

Exploitation of large markets in India and China

Tata has a good opportunity to exploit big market of India and China with large population. Equally, Tata has market knowledge of these markets from emerging economies. China's government forecasts that demand for cars will top 20 million by 2020. If consumers get sophisticated in that tastes of consumers luxury goods and services. This is a huge opportunity for Tata Motors because Nano car is the cheapest car in the market. [www.marketingteachers.com]

Acquisition /Take over

Tata is taking over or acquiring companies' car manufacturing in Britain and South Korea. As of March 2008 Tata Motors finalized a deal with Ford Motor Company to acquire the British businesses, Jaguar Cars and Land Rover. This is a huge opportunity for Tata Motors since they will acquire the large knowledge based and technologies for producing and marketing luxury vehicles. This acquisition helps them dive into the more mature markets in Japan, Europe and the U.S. The knowledge transfer from these two companies will greatly improve Tata Motors ability to continue to grow and flourish in both developing

and developed market segments. Tata can benefit from sophisticated manufacturing techniques from its companies from Europe and South Korea. Tata Motors, which had a 21% stake in Hispano Carrocera S. A., Spain, since 2005, has acquired the remaining 79% shares in Hispano by way of exercise of the existing call option, through mutual agreement with the other share-holder, Investalia S.A, Spain. [www.tatamotors.com/press_release]

This acquisition demonstrates Tata Motors' ongoing commitment to Hispano Carrocera. X, Thompson, J.L.Strategic Management: Awareness, Analysis and Change]

International trade

It has its operations in around 85 countries across ix continents. The products and services of the companies of the Tata group are exported in more than 120 nations.

Threats

Manufacturing technical experience

The company is newly coming in car manufacturing business whereas the other competitors are already established for 40, 50 or more years. [www.marketingteachers.com/swot/tata_motors_swot.html] Therefore Tata Motors Limited has to catch up in terms of quality and lean production techniques. The company has concentrated to the money-making and small vehicle segments, so it has left itself from the competition of overseas companies rising in Indian luxury segments. [www.marketingteachers.com]

APPLE

Opportunities for Apple Inc. (External Strategic Factors)

This aspect of the SWOT analysis of Apple Inc. pinpoints the most significant opportunities that are available to the business. Opportunities are external factors based on the industry environment. These factors influence the strategic direction of business organizations. In Apple's case, the following are the most significant opportunities:

1. Expansion of the distribution network
2. Higher sales volumes based on rising demand
3. Development of new product lines

Apple Inc. has the opportunity to expand its distribution network. Such opportunity directly relates to the weakness of the company's limited distribution network. This SWOT analysis emphasizes the need for the company to change its distribution strategy. An expanded distribution network can help Apple reach more customers in the global market. In relation, the company has

the opportunity to increase its sales volumes through aggressive marketing, especially for mobile products. This opportunity is linked to the rising demand for mobile access, as illustrated in the PESTEL/PESTLE analysis of Apple Inc. Furthermore, the company has the opportunity to explore new product lines. Its current product lines are highly successful. However, with further innovation, the company can develop and introduce new products, like what it has already achieved with the Apple Watch. Developing new product lines can support business growth in the international market. Thus, this aspect of the SWOT analysis of Apple indicates that the business has major opportunities for further growth despite aggressive competition.

Threats Facing Apple Inc. (External Strategic Factors)

In this aspect of the SWOT analysis, the focus is on the threats that the company experiences from various sources, such as competitors. Threats are external factors that limit or reduce the financial performance of businesses. In Apple's case, the following threats are the most significant:

- Aggressive competition
- Imitation
- Rising labor cost in various countries

Tough competition in the industry is partly because of the aggressiveness of firms. Apple competes with firms like Samsung, which also uses rapid innovation. In the context of this SWOT analysis, aggressive competition has a limiting effect on Apple Inc. Because of the aggressive behaviors of competing firms, it is necessary to have strong fundamentals for maintaining competitive advantages. In addition, the company faces the threat of imitation. This threat is significant because of the large number of local and multinational firms that imitate the design and features of Apple's products. Moreover, rising labor costs involving contract manufacturers, such as those in China, reduce profit margins or push selling prices even higher. Based on the external strategic factors in this SWOT analysis, Apple Inc.'s performance could suffer because of aggressive competition and imitation of product design.

Identifying External Variables

Natural Environment

Societal Environment

Organizational capability factors are the strategic strengths and weaknesses existing in different

Variables in the societal Environment
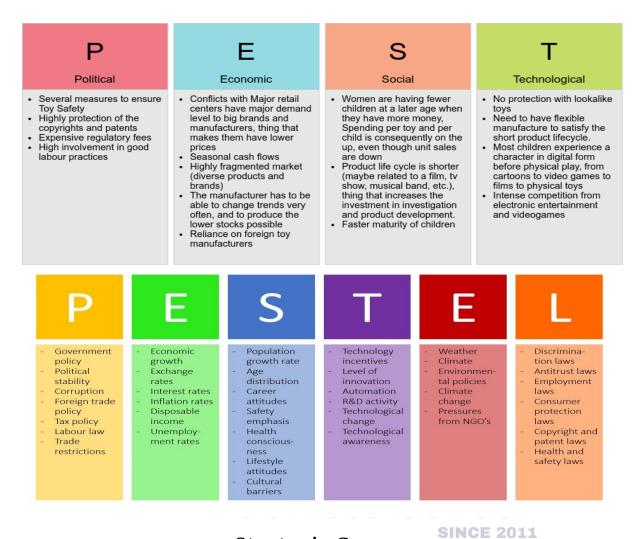
Variables in the societal Environment

Sl No	Economic	Technological	Political -Legal	Sociocultural
1	GDP trends	Govt spend for R&D	Antitrust regulations	Life Style changes
2	Interest rates	Industry spend for R&D	Environmental protection	Career Expectations
3	Money Supply	Focus – Technology efforts	Global warning legislation	Consumer Activism
4	Inflation rates	Patent Production	Immigration Laws	Rate of family formation
5	Unemployment levels	New products	Tax Laws	Growth rate population
6	Wage/price controls	New developments	Special Incentives	Age distribution of popu
7	De/Revaluation	Internet availability	Foreign Trade regulations	Life expectancy
8	Currency Markets	Telecommunication infra	Attitu toward foreign co	Birth rates
9	Global Fin. systems	Computer hacking activity	Stability of Govt	Pension Plans
10				Health care
11				Level of education
				Living wage

Pest Analysis

A PEST analysis is a strategic business tool used by organizations to discover, evaluate, organize, and track macro-economic factors which can impact on their business now and in the future. It is part of an external analysis when conducting a strategic analysis or doing market research, and gives an overview of the different macro-environmental factors to be taken into consideration. The framework examines opportunities and threats due to Political, Economic, Social, and Technological forces. It is a strategic tool for understanding market growth or decline, business position, potential and direction for operations.

Strategic Groups

A Strategic Group is a set of business units or firms that "pursue similar strategies with similar resources" Categorizing firms in any one industry in to set of strategic groups is very useful as a way of better understanding the competitive environment. Research shows some strategic groups in the same industry are more profitable than others. Each business units or firms in an industry, often, differ from each other with respect to the product, quality, customer service, pricing policy, distribution channel, advertising policy, promotion, target segment and technological change.

Strategies followed by companies in one strategic group will be different from the strategy pursued by the other strategy group. In a strategy group, each member company almost follows the basic strategy as other companies in the group.

For example, Although Mc Donald's and Olive Garden or Saravana Bhavan and Haldiram's are part of the same industry, - a restaurant industry. They have different missions, objectives, and strategies and thus they belong to

different strategic group. They generally have very little in common and pay little attention to each other when planning competitive actions.

Strategic Type

A Strategic Type is a category of firms based on a common strategic orientation and combination of structure, culture and processes consistent with that strategy. According to Miles and Snow, competing firms within a single industry can be categorised into one of four basic types on the basis of their general strategic orientation.

- ♥ Defenders – are the companies with a limited product line that focus on improving the efficiency of their existing operation
- ♥ Prospectors – are the companies with a broad product lines that focus on the product innovation and market opportunities.
- ♥ Analyzers – are the corporations that operate atleast in two different product -market areas.one stable and one variable. While in stable areas, efficiency is emphasized and in the variable areas innovations are emphasized.
- ♥ Reactors – are corporations that lack a consistent strategy -structure- culture relationship. Their responses to environmental pressures tend to be piecemeal strategic changes.

Competitive Changes during Industry Evolution

Industry pass through various stages such as Growth, Maturity and Decline. The Competitive force act upon these stages and give raise to the opportunities and threats for an Industry. A strategist should be aware of these developments during strategy formulation and anticipate in advance.

Industry Life Cycle and Industry Environment

The industry life cycle model is used for analysing the effects of industry evolution on competitive forces. Based on the industry life cycle model, the industry environment could be identified as follows:

- ♥ Embryonic Industry Environment
  - o It is just one beginning to develop. This industry may evolve due to a company's innovative efforts Eg. Apple Computer, Xerox
- ♥ Growth Industry Environment
  - o From embryonic stage, the industry moves on to growth stage. New customers enter this market and hence demand expands rapidly.
- ♥ Shakeout Environment

- - o Growth stage is not sustained continuously and shakeout stage follows necessarily. Here the demand is saturated (Price cutting and price war)
  - ♥ Mature Industry Environment
    - o It enters the mature stage once the shakeout stage comes to an end. Growth is very little or nothing.
  - ♥ Declining Industry Environment
    - o Industry enters into an declining stage after the maturity stage. Negative growth is registered due to technological substitutions.

Industry and Sector

An Important distinction that needs to be made is between an Industry and Sector. Sector is group of closely related industries – Like Telecom Sector, Banking Sector etc

Industry and Market Segment

Market Segments are distinct groups of customers within a market that can be differentiated from each other on the basis of their distinct attributes and specific demands.

Globalization and Industry Structure

Every corporate want to globally make their presence. Let us study about five stages of going global. The Five Stages of Going Global

- ♥ Market Entry - Companies tend to enter new countries using business models that are very similar to the ones they deploy in their home markets.
- ♥ Product Specialization - Companies transfer their full production process of a particular product to a single low cost location and export the goods.
- ♥ Value Chain disaggregation- Companies start to disaggregate the production process and focus each activity in the most advantageous location.
- ♥ Value Chain Reengineering - Companies seek to further increase their cost savings by reengineering their processes to suit local market conditions, notably by substituting lower-cost labor for capital
- ♥ Creation of new market - Companies focus is on market expansion.

The structure of an industry could evolve depending on, among other factors, the dynamics that shape competition in the industry and the role governments play in stimulating or obstructing the globalization process.

1. When industries are relatively fragmented and competitive, national environments (factors of production, domestic market and domestic demand, and so forth) will largely shape the international advantage of

domestically headquartered firms and the patterns of trade. Relative cost is a key determinant of global success, and since countries differ in terms of their factor costs, as long as entry barriers remain low, production will gravitate to the lowest cost, highest efficiency manufacturing location.

2. An industry becomes globally concentrated with high barriers to entry, then location, activity concentration, export, and other strategic decisions by multinational companies are determined to a greater extent by the nature of the global oligopolistic rivalry.

3. In global oligopolies, specific firm characteristics—the structure of ownership, strategies employed, and organizational factors, to name a few—directly affect strategic posture, the pattern of trade, and, sometimes, the competitiveness of nations.

4. Extensive government intervention in global oligopolistic industries can alter the relative balance between firms of different countries—even in fragmented industries, it can alter the direction of trade and affect major corporate trade decisions.

5. In industries where firms make long-term commitments, corporate adjustments and patterns of trade tend to be "sticky." This fifth and final proposition addresses the issue of corporate inertia.

National context and Competitive Advantage

When two or more firms compete within the same market, one firm possess a "competitive advantage" over its rivals when it earns or has the potential to earn a persistently higher rate of profits.

Once establishes, competitive advantage is eroded by competition. The speed with which competitive advantage is undermined depends on the ability of competitors to challenge either by imitation or innovation.

In spite of globalization of markets and production successful companies in certain industries are found in specific countries

- ♥ Japan has most successful consumer electronics companies in the world
- ♥ Germany has many successful chemical and engineering companies in the world

- United States of America has many of the world's successful companies in computer and Biotechnology.
- Indian has a renowned Pharma and Software exports
- It shows that the national context has an important bearing on the competitive position of the companies in the global market
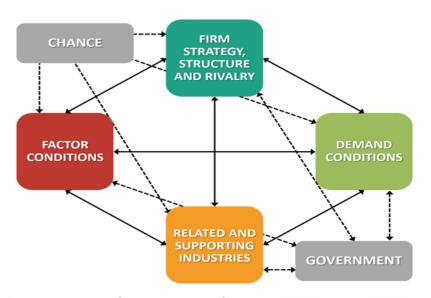
Economists consider the cost and quality of factors of production as the major reason for the competitive advantage of some countries with respect to certain industries.

Factors of production include basic factors such as labor, capital, raw material, land and advanced factors such as technological know-how , managerial talent and physical infrastructure.

Micheal E Porter argued that a nation can create new advanced factor endowments such as skilled labour, a strong technology, knowledge base, government support and culture. Porters Diamond (shaped diagram) as the basis of a framework to illustrate the four factors are determinants of national advantage.

- Factor Conditions – The special factors or inputs of production such as natural resources, raw materials, labour, etc that a nation is especially endowed with

- Demand conditions – When the market for a particular product is larger locally than in foreign markets, the local firms devote more attention to that product than do foreign firms, leading to a competitive advantage when the local firms begin exporting the product. A more demanding local market leads to national advantage. So a strong trend setting local market enables local firms anticipate global trends. The nature and size of the buyer's needs in the domestic market.

- Related and Supporting Industries – When local supporting industries are competitive, firms enjoy more cost effective and innovative inputs. This effect is strengthened when the suppliers themselves are strong global competitors. The existence of related and supporting industries to the ones in which a nation excels.

- Firm Strategy, structure and Rivalry – Local conditions affect the firm strategy. The condition in the nation determining how firms are created, organized and managed and the nature of domestic competition. Low rivalry made an industry attractive. Over the long run more local rivalry is better since it puts pressure on firms to innovate and improve. Infact high local rivalry results in less global rivalry.

Based on these four sets of factors, a country can determine the industry or industry niche in which a cluster of companies that are globally competitive can be developed.

Low Cost and Differentiation

While we study about the strategy formulation, and with regards to Situation Analysis and Business Strategies, we focus on improving the competitive position of a company's or business units products or services within the specific industry or market segment that the company or business unit serves.
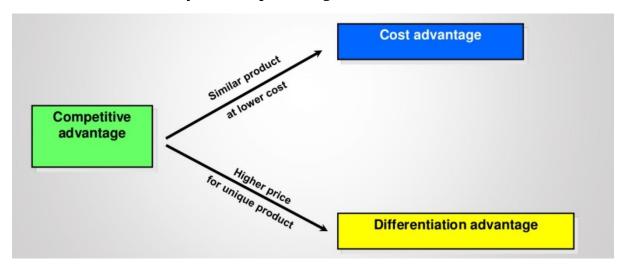
Business Strategies could be competitive and/or cooperative when we decide the profit rate of a company, which may be higher, average or even lower. Gross profit margin is the basic deciding factor of a company's profit rate which is simply the difference between total revenue and total cost divided by total cost.

$$Gross\ Profit\ Margin = \frac{Total\ Revenue - Total\ Cost}{Total\ Cost}$$

$$Gross\ Profit\ Margin = \frac{(Unit\ Price \times Units\ Sold) - (Unit\ Cost \times Units\ Sold)}{(Unit\ Cost \times Units\ Sold)}$$

Porters Competitive Strategies

While we discuss, we have few questions in our mind.

1. Should we lower the cost and compete
2. Should we differentiate our products or services on some basis other than cost, such as quality or service.
3. Should we compete head to head with our major competitors for the biggest, but most sought-after share of the market,
4. Should we focus on a niche in which we can satisfy a less sought-after but also profitable segment of the market.

Michael Porter proposes two "generic" competitive strategies for outperforming other corporations in a particular industry. Lower Cost and Differentiation. This is generic because they can be pursued by any type or size of business firm even by not-for-profit organizations.

Low Cost Strategy is the ability of a company or a business unit to design, produce and a market a comparable product more efficiently than its competitors. They also been called as Cost Leadership. So it requires aggressive construction of efficient -scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts and cost minimization of areas like R& D, service and Sales Force advertising and so on.

Eg. Saravana Stores, Big Bazaar (Hypermarket) , Wal-Mart (discount retailing) , McDonald's (fast food restaurant)
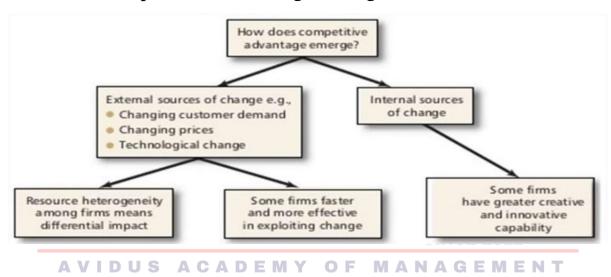
Differentiation Strategy is the ability of a company to provide unique and superior value to the buyer in terms of product quality, special features, or after sales service. It is aimed at the borad mass market and involves the creation of product or service that is perceived throughout its industry as unique. The company may charge a premium for its product. This speciality is

obtained through design, brand image, technology, features, a dealer network, or customer service. It is a variable strategy for earning above average returns in a specific business

Eg. Paalam, Sundari Silks (Dress materials); Director Shankar's movies and Walt Disney's Productions (Entertainment), BMW, Rolls Royce(Automobiles), Nike (Athlete shoes), Apple Computers

When the lower-cost and differentiation strategies have a broad mass market target, they are simply called cost Leadership and Differentiation. When they are focused on a market niche (narrow target), however, they are called "cost focus" and "differentiation focus"
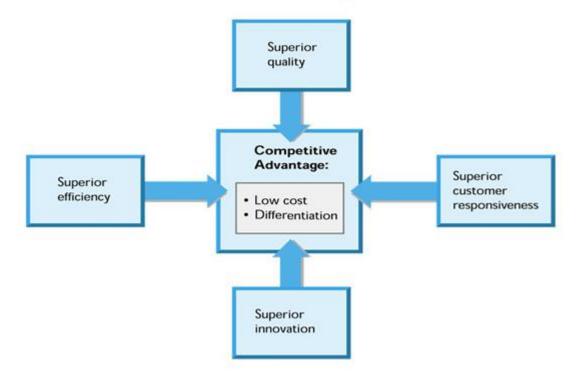
How does competitive Advantage emerge?

Generic Building Blocks of Competitive Advantage

When the lower-cost and differentiation strategies have a broad mass market target, they are simply called cost Leadership and Differentiation. When they are focused on a market niche (narrow)

The four generic building blocks of competitive advantage are efficiency, quality, innovation, and responsiveness to customers. Superior efficiency enables a company to lower its costs; superior quality allows it to charge a higher price and lower its costs; and superior customer service lets it charge a higher price. Superior innovation can lead to higher prices, particularly in the case of product innovations, or lower unit costs, particularly in the case of process innovations.
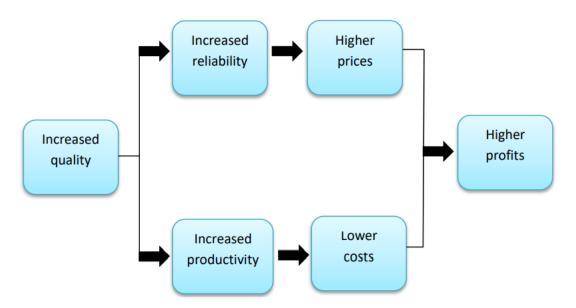
1. Efficiency: A business is a transformation process of inputs to outputs. Inputs are the basic factors of production such as material, labor, time, equipment capital and technological skills. Outputs are the goods and services that the business produce. To determine how efficiently they are using organizational resources, managers must be able to measure accurately how many units of inputs (raw materials, human resources, and so on) are being used to produce a unit of output. They must also be able to measure the number of units of outputs (goods and services) they produce.

- ♥ Business - device for transforming inputs into outputs.
- ♥ Inputs - basic factors of production such as labour, land, capital, management, etc...
- ♥ Output - goods and services that the business produces.
- ♥ Efficiency – the quantity of inputs that it takes to produce a given output Efficiency = Outputs/Inputs The more efficient a company, the fewer the inputs required to produce a given output. Efficiency helps a company attain a low-cost competitive advantage Most important component – employee productivity Highest employee productivity will typically have the lowest costs of production.

2. Quality: Today, the competition often revolves around increasing the quality of goods and services. In the car industry, for example with each price range, car competes against one another in terms of their features, designs and reliability.

- Quality products are goods and services that are reliable in the sense that they do job they were designed for and do it well.
- High product quality on competitive advantage is twofold:
  - First, high-quality products increase the value of those products in the eyes of consumers. The company can change a higher price for its products. For example: Toyota vs. General Motors
  - Second, high quality comes from the greater sufficiency and the lower unit costs it brings. The company charge higher prices for its product, but also has lowers costs.

The Impact of Quality on Profits

The Impact of Quality on Profits
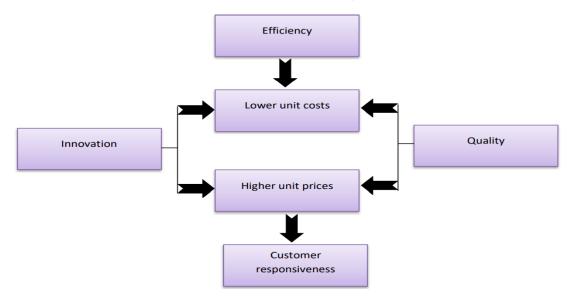
3.   Innovation: A Strategy to do new way, new thinking and new way doing things which can help to raise the level of innovations in an organisation. Successful innovation in the area of new products, new process, new systems, new knowledge, organization structure makes the organization unique. Innovation takes place when managers create an organizational setting in which employees feel empowered to be creative and authority is decentralized to employees so that they feel free to experiment and take risks.

- Anything new or novel about the way a company operates or the products it produces.
- Innovation includes products, production processes, management systems, organizational structures and strategies developed by a company.
- Innovations give a company something unique – something its competitors lack.

♥ When competitors succeed in imitating the innovator, the innovating company had built up strong brand loyalty and supporting management processes that its position proved difficult for imitators to attack.

4. Responsiveness to customers: Finally, companies are expected to provide the customer's needs, wants and desires. A strategic manager can help to make their organisations more responsive to customers if they develop a control system that allows them to evaluate how well employees with customer contact and performing their jobs. Monitoring employees behaviour can help mangers to find the ways to increase employees performance level, perhaps by revealing areas in which skills training can help employees or by finding new procedures that allow employees to perform their job better.

♥ Customer Responsiveness is a better job than competitors of identifying and satisfying the needs of its customers.
♥ Sources of enhanced customer responsiveness
  o Quality
  o Innovation
  o Customization
  o Shorter customer response time
  o Superior design
  o Service
  o After-sale service and support.
♥ All these factors allow a company to differentiate itself
♥ Differentiation enables a company to build brand loyalty and to charge a premium for its products. Impact of efficiency, quality, customer responsiveness & innovation on unit costs & prices

Impact of efficiency, quality, customer responsiveness & innovation on unit costs & prices

Durability of Competitive Advantage

Durability of competitive advantage refers to the rate at which the firms capabilities and resource depreciates or become obsolete. Companies try hard to sustain competitive advantage since every other company tries to develop distinctives competencies and gain competitive advantage.

Durability depends on three factors

- Barrier to limitation
  - Barriers to these factors, which make it difficult for a competitor to copy a company's distinctive competencies. The longer the period for the competitor to imitate the distinctive competence, the greater the opportunity that the company has to build a strong market position and reputation with customers.
  - Imitability refers the rate at which other duplicate a firms underlying resources and capabilities.
  - Tangible resources such as land, building and equipment
- Capability of competitors
  - Capabilities are the by products of internal operations and decision-making process of a company and its difficult for competitors to comprehend it. When a firm is committed to a particular course of action in doing business and develop a specific set of resources and capabilities, such prior commitments serve as a deterrent to imitate the competitive advantage of successful firms. US automobile giants (General Motors, Ford, Chrysler) investments in large sized cars served as a setback in shifting their massive investments for low cost small sized cars as made by Japanese competitors.
- Dynamism of Industry
  - Dynamic industries are characterized by high rate of innovation and fast changes. In dynamic industries, product life cycle will be short and competitive advantage will not last for long time. It gives rise to hyper competition. The consumer electronic industry and computer industry are typical examples of dynamic industries. The turbulence in computer industry environment has been contributed by continuous innovations of Apple Computers, IBM, Compaq and Dell

Avoiding failures and sustaining Competitive Advantage

Analysing the best industrial practice through benchmark will facilitate organizations to build distinctive competencies. Benchmarking involves identification of best practices adopted in other countries. It involves in measurement of firms against products, prices, practices and services of some

of the most efficient global competitors. When Xerox was in trouble 1980's, Xerox applied benchmarking for 240 functions against comparable areas in other companies.

The single most significant step in avoiding failure is identification of barriers to change and overcoming such barriers. This step will point out the need for new organizational structure and control systems in response to the changed environment. Appropriate leadership style and prudential use of power will be of help in maintaining competitive advantage.

Why do companies fail?

A failing company is one whose profit rate is substantially lower than average profit rate of competitors. Declining profit and loss of competitive advantage are some of the reasons for failure of companies. Studies have pointed out the following reasons for failure of companies.

- ♥ Inertia
  - o In changed market conditions, companies find it difficult to change their strategies and structure accordingly. The changed competitive conditions put pressure on the decision makers to introduce suitable changes in developing capabilities.
- ♥ Prior Strategic commitments
  - o The commitments which are already made in terms of huge investments, directions and facilities prove to be setback and result in competitive disadvantage. IBM's massive investment were locked in a shrinking business.
- ♥ Too much inner directedness and specialization
  - o Icarus, a Greek mythical figure, who was held as prisoner in an island flew so well and went higher and higher up to the sun and met with his fatal end. Many companies like Icarus are carried away by the initial success and lose sight of external environment. Proctor and Gamble and Chrysler were over confident of their selling ability and paid no attention to new product development and ended up in inferior products.

When a company loses its competitive advantage, its profitability falls. The company does not necessarily fail, it may just have average or below average profitability and can remain in this mode for considerable time although its resource and capital base is shrinking. A failing company is one whose profitability is new substantially lower than the average profitability of its competitors. It has lost the ability to attract and generate resources so that its profit margins and invested capitals are shrinking rapidly.

Steps to avoid failure

1. Focus on the building blocks of competitive advantage
2. Institute continuous improvement and learning
3. Track best industrial practices and bench marking
4. Overcome Inertia
5. Constant evaluation of key resources (VRIO)
   a. Barney has evolved VRIO framework of analysis to evaluate the firm's key resources. The following questions are asked to assess the nature of resources.
      i. Value   - Does it provide competitive advantage?
      ii. Rareness   - Do other competitors possess it?
      iii. Imitability   - Is it costly for others to imitate?
      iv. Organization   - Does the firm exploit the resources?

Part A Questions

1. Mention the concept of Environment?
2. What are types of Environment?
3. Mention the strategic groups and its kind within the industry?
4. What are the strategic types of Competitive Advantage?
5. What is organizational capabilities
6. Define Strategic Advantage
7. Define Competency and Capability.
8. What is core competency.
9. Define distinctive competency.
10. What is resources?

Part B Questions

1. Differentiate between Internal and External Environment
2. Explain Porters Five forces model
3. Enumerate Strategic groups.
4. Enumerate the determinants of competitive advantage.
5. Explain the factors for building competitive advantage.
6. Discuss the factors for durability of competitive advantage.
7. Elucidate the relationship between resources, capabilities, and competitive advantage of a business firm.

MODULE-III

CORPORATE STRATEGIES

CORPORATE STRATEGIES

Introduction

The four functional-level strategies in any organization are the level of their operating divisions and departments; this strategic issues are closely linked to each other and to the businesses processes on the value chain, and are involved in the development and coordination of the company resources through which businesses unit level strategies can be executed effectively and efficiently, thus, provides inputs to all corporate of level strategies, which in turn becomes action plans to each department of any organization that must be accomplished.

Opening Case: CSX—getting the trains to run on time

CSX Corporation, a freight transporter, merged with Conrail in 1996, creating one of the largest railroad firms in the U.S. The expected costs savings due to economies of scale did not result, due to a host of problems in merging the two firms. Among the post-merger difficulties were poor quality, unsafe tracks, low employee morale, and poor customer service. In 2000, an efficiency campaign was launched, focused around the use of 14 critical operating efficiency metrics. CSX made tremendous improvement over the next year in those 14 areas, empowering local employees to make decisions, fixing defective tracks, and building a web-based customer interface for service. These actions led to better quality, higher customer satisfaction, greater efficiency, and ultimately, higher profits.

Learning Note: This case provides a vivid demonstration of how a company suffering from poor performance and numerous internal problems could achieve successful outcomes, through the use of improvements at the functional level. The details of the case clearly relate to many of the topics introduced in this chapter, focusing on ways to improve efficiency, quality, and responsiveness to customers. This case provides an excellent introduction to an idea that may at first be difficult for students to grasp. That is, that the basis of competitive advantage is always found at the lowest levels of the organization (the functions). Students may erroneously assume that large, diversified companies should be turned around primarily by the actions of top managers. You can use this case as an opportunity to demonstrate that real, lasting, important changes are in fact, most often due to many small improvements at the functional level. Thus, functional level managers play a key role in organizational success.

Functional Strategies are derived from business and corporate Strategies and are implemented through functional and operational implementation.

If a company adopts "cost leader strategy" as business Strategy, then at the functional level all the activities, resources and areas of marketing, finance, operations, human resources should now focus and contribute on developing a low-cost structure and reducing cost.

How to increase superior efficiency?

An Efficiency is the ration between output vs input. Following steps can be taken to increase efficiency at functional level.

- Economies of Scale – cost advantages that enterprises obtain due to their scale of operation, with cost per unit of output decreasing with increasing scale.
- Efficiency and learning effects – cost reduction due to education which increases the productivity and results in higher wages. Efficiency, flexible production systems and mass customization
  - Flexible manufacturing technology
  - Low cost and product customization
  - Increased variety of operations
- Marketing and efficiency (Relationship between customer loyalty and profit per customer.
  - Product Design, Advertising, Promotion, Pricing and Distribution
- Materials Management
  - JIT (Just in Time)
  - Efficiency - Reduce the inventory holding cost
- R& D Strategy and Efficiency
  - Designing easy to manufacture products
  - Reducing the number of parts per unit
  - Reducing the assembly time
  - Coordination with R&D and production unit.
  - Pioneer process innovations and process efficiencies
- HR Strategy and efficiency.
  - Training and Upskilling
  - Establishing self managing teams
  - Pay for Performance and incentives
- IT, Internet and efficiency
  - Computer and Automation reduces Cost
  - Increased productivity with low machine error than human error.
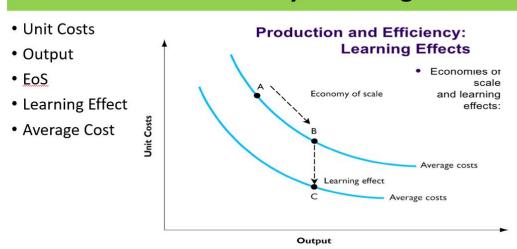
The efficiency of every employee, the quality developed by each department, the innovation implemented as a company and the customer responsiveness granted to the community, are the core basis of the functional-level strategies that are closely linked to each one, in order to become a successful business entity.

Production and Efficiency: Learning Effects

- Unit Costs
- Output
- EoS
- Learning Effect
- Average Cost

Production and Efficiency: Learning Effects

- Economies of scale and learning effects:

(Diagram: Unit Costs on the Y-axis, Output on the X-axis; two downward-sloping average cost curves. Point A on the upper curve moves diagonally to point B (Economy of scale), then vertically down to point C on the lower curve (Learning effect). Both curves labeled "Average costs".)

To achieve superior responsiveness to customers often requires that the company achieve superior efficiency, quality, and innovation.

The efficiency can be increased through the following steps: exploiting economies of scale and learning effects, adopting flexible manufacturing technologies, reducing customer defection rates, implementing JIT-TQM systems, making R&D to design products that are easy to manufacture, upgrading the skills of employees through education, training, introducing self-managing teams, pay to performance, building a company commitment to efficiency, strong leadership, and so on.

How to achieve superior quality?

Superior quality can help a company to lower its costs, differentiate its product, and charge a premium price. Achieving superior quality demands an organization commitment to quality, and a clear focus on the customer. It also requires quality goals to be measured and incentives that emphasizes in quality, input from employees, a methodology for tracing and correcting the defects, a rationalization of the company's supply base, tight cooperation with the suppliers that remain to implement JIT – TMQ programs, products that are designed for ease of manufacturing, and substantial cooperation among functions.

- ♥ Total Quality Management (TQM).

  - o Long term success through customer satisfaction. All members of company operation focused on improving product, process, culture and service quality

- ♥ Deming's Five Step "Chain Reaction"

    - o Improved quality reduces cost.

    - o Increased productivity.

    - o High Market Share.

    - o High Profitability.

    - o Creates more jobs.

- ♥ Quality as reliability and excellence

How to achieve through "Superior Innovation"?

To accomplish superior innovation, a company must build skills in basic and applied research; design good processes for managing development projects and achieve close integration between the different functions of the company, primarily through the adoption of cross-functional product development teams and partly paralleled development processes.

Building competencies in Innovations could be through the following:

- • Building skills in basic and applied research

- • Project selection and management

- • Cross functional integration

- • Product development teams

- • Partly parallel development process

How to achieve through superior responsiveness?

To achieve superior responsiveness to customers, a company needs to give and be one-step-ahead customers what they want when they want it. It must be ensured a strong customer focus, which can be attained by emphasizing customer focus through a truly leadership; training employees to think as customers; bringing customers into the company through superior market research and trustable and sustainable products; customizing products to the unique needs of individual customers or customer groups; and responding quickly to customer demands.

- ♥ Developing a customer focus.
    - o Top leadership commitment to customers.
    - o Employee attitudes towards customers.
    - o Bringing customers into the company.
- ♥ Satisfying customer needs.
    - o Customization of features of products and services to meet the unique need of groups and individual customers.
    - o Reducing customer response time.
        - ▪ Marketing that communicates with production.

- ▪ Flexible production and materials management.
- ▪ Information systems that supports the process.

All too often, managers fail to explain what they mean when they talk about organizational structure, financial results, time management, and corporate culture, but when given proper focus, they confer extraordinary leverage.

Generally, five such topics helps managers to control a company: organizational structure and hierarchy, financial results, the manager's sense of his or her job, time management, and corporate culture.

Messages on these subjects have extraordinary influence within the firm. When managers take it for granted that everyone in the organization shares their assumptions or knows their mental models regarding the five subject areas, they lose their grip on the managerial levers and soon have the proverbial runaway train on their hands. But properly defined, disseminated, and controlled, the five topics afford the manager opportunities for organizational alignment, increased accountability, and substantially better performance.

Six-Sigma, in the long-term, can build up a good business culture not only in one company or its group, but also for a big business environment or a community. GM has a plan to support that action and is willing to take the lead to support and share their experience with Latin American enterprises especially with support from government.

Innovation, in every sense, as of my personal beliefs, is the most important part on the competitive advantage, and is based on the ideas for an invention or innovation that often comes from outside the firm that puts the innovation into practice. Thus, a firm's contacts with customers and suppliers, and its openness to ideas from those sources, may influence its rate of innovation. Also, of course, the specific individuals involved in companies help determine how successful a company can be at innovation.

Business Level Strategy

A company selects and pursues a business model that will allow it to complete effectively in an industry and grows its profits and profitability. A successful business model results from business level strategies that create a competitive advantage over rivals and achieve superior performance in an industry.

Here we examine that competitive decisions involved in creating a business model that will attract and retain customers and continue to do so over time so that a company enjoys growing profits and profitability.

To create a successful business model, strategic managers must:

- ♥ Formulate business- level strategies that will allow a company to attract customers away from other companies in the industry.
- ♥ Implement those business level strategies which also involve the use of functional level strategies to increase responsiveness to customers, efficiency, innovation and quality.

Positioning and the Business model:

- ♥ To create a successful business model, managers must choose a set of business- level strategies that work together to give a company competitive advantage over its rivals
- ♥ To craft a successful model a company must first define its business, which entails decisions about.
- ♥ Customer needs or what is to be satisfied?
- ♥ Customer groups or what is to be satisfied?
- ♥ Distinctive competencies or how customer needs are to be satisfied?

The decision managers make about these three issues deter mine which set of strategies they formulate and implement to put a company s business model into action and create value for customers.

Formulating the Business model:

Customer needs and product Differentiation Customer needs are desires, wants that can be satisfies by means of the attributes or characteristics of a product a good or service. For Example: A person s craving for something sweet can be satisfied by chocolates, ice-cream, spoonful of sugar.

Factors determine which products a customer chooses to satisfy these needs:

1. The way a product is differentiated from other products of its type so that it appeals to customers.

2. The price of the product

3. All companies must differentiate their products to a certain degree to attract customer

4. Some companies however decide to offer customers low price products and do not engage in much product differentiation

5. Companies that seek to create something unique about their product differentiation, their products to a much greater degree that other's so that they satisfy customers' needs in ways other products cannot.

• Product differentiation

• Customer groups

• Identifying customer groups and market segments

Three Approaches to Market Segmentation:

1. No Market segmentation: First a company might choose not to recognize that different market segments exist and make a product targeted at the average or typical customer. In this case customer responsiveness is at a minimum and the focus is on price, not differentiation.

2. High Market segmentation: Second a company can choose to recognize the differences between customer groups and make a product targeted toward most or all of the different market segments. In this case customer responsiveness is high and products are being customized to meet the specific needs of customers in each group, so the emphasis is on differentiation not price.

3. Focused Market segmentation: A company might choose to target just one or two market segments and decide its resources to developing products for customers in just these segments. In this case, it may be highly responsive to the needs of customers in only these segments, or it may offer a bare-bones product to undercut the prices charged by companies who do focus on differentiation.

<u>Positioning and a Business Model.</u>

- ♥ To create a successful business model manager must choose st of business level strategies that work together to give a company a competitive advantage over its rivals.

- ♥ Company must define its business to craft a model.

- ♥ Customer needs and wants

- ♥ Customer groups and segmentation

- ♥ Distinctive competitiveness

- ♥ Business Managers should decide and make the business model into action.

Strategy in the Global Environment

In international business operations business enterprises pursue global expansion to support generic business level strategies such as cost leadership and differentiation. Companies expand their operations globally in order to increase their profitability.

They perform the following activities towards this end:

- ♥ Transferring their distinctive competencies
- ♥ Dispersing various value creation activities to favorable locations.
- ♥ Exploiting experience curve effects.

Global Strategies:

- ♥ International Strategy
  - o Core competencies are Centralized and others Decentralized
  - o Knowledge developed at center and transferred to overseas units
  - o Domestic Firms that builds on its existing capabilities to penetrate overseas market – Honda , GE, P&G
- ♥ Multinational Strategies
  - o Decentralization
  - o Knowledge Developed and retained within each unit
  - o Knowledge retained - Operating units located in foreign countries . Subsidiaries function as autonomous units – Eg Shell, Philips , Xerox
- ♥ Multi- domestic strategy
  - o Decentralization
  - o Knowledge Developed and retained within each unit
- ♥ Global Strategy
  - o Centralized
  - o Knowledge Developed and retained at the center
  - o Maintain control over its worldwide operations (subsidiaries) through a centralized home office and treating entire world as a single market. Eg Matsushita
- ♥ Transnational Strategy
  - o Independent and Specialised
  - o Knowledge Developed jointly and shared
  - o Provides autonomy and independent country operations but bring these operations together into an integrated whole through networked structure ; Combination of M&C and G&C . Eg Ford , Unilever

Entry to Foreign market Mode/Options:

Global companies have five options to enter into a foreign market

- ♥ Exporting
  - o Exporting is the marketing and direct sale of domestically produced goods in another country.
  - o Exporting is a traditional and well-established method of reaching foreign markets.

- o Since exporting does not require that the goods be produced in the target country, no investment in foreign production facilities is required.
- o The coordination requires between these four players
  - Exporter
  - Importer
  - Transport Provider
  - Government
- ♥ Licensing
  - o It essentially permits a company in the target country to use the property of the licensor. (who is granting the right to sell)
  - o Such property usually is intangible, such as trademarks, patents, and production techniques.
  - o Licensee (who receives the license from the licensor) pays a fee in exchange for the rights to use the intangible property and possibly for technical assistance.
- ♥ Franchising
  - o Under a franchising agreement, the franchiser grants rights to another company to open a retail store using the franchiser's name and operating system.
    - For getting and keeping customer.
    - Creating the image in the minds of customers.
    - Method for distributing products and services
  - o In exchange the franchise pays the franchiser a percentage of its sales as a royalty.
  - o Franchising provides an opportunity for a firm to establish a presence in countries where the population or per capita spending is not sufficient for a major expansion effort
- ♥ Subsidiary
  - o This is owned or controlled by the holding company. (parent company).
  - o Most multinational corporations organize their operations in this way.
  - o They are separate, distinct legal entities for the purpose of taxation, regulation and liability.
  - o Berkshire Hathway, Citi Group, The Walt Disney company, IBM and Xerox
- ♥ Joint venture
  - o A business agreement in which two or more persons or parties come together, form and agree to develop (for a finite time) a new entity, Assets products, by contributing equity.
  - o 5 Common objectives in a joint venture
    - Market Entry

- Risk and reward Sharing
- Technology Sharing.
- Joint product development.
- Confirming to the government regulations
- Foreign Direct Investment (FDI)
  - It is a type of investment that involves the injection of foreign funds in to an enterprise that operates in a different country of origin from the investor.
  - Direct ownership of facilities in the target country.
  - Classification – depending upon the direction of flow of money
    - Inward FDI – Foreign capital is invested in local
    - Outward FDI –Local resource invests in Foreign
- Strategic Alliance
  - A Strategic Alliance is a formal relationship formed between two or more parties to pursue a set of agreed upon goals or to meet a critical business need while remaining independent organizations.
  - Stages

Global Strategic Alliance:

A strategic alliance is a cooperative agreement between companies who are competitor s from different companies. It may take the form of formal joint venture or short-term contractual agreement with equity participation or issue-based participation.

- To gain access to foreign market
- To reduce financial risk
- To bring complementary skills
- To reduce political risks
- To achieve competitive advantage
- To set technological standards

Corporate Strategy

Corporate-level strategies are basically about the choice of direction that a firm adopts in order to achieve its objectives.

There are three main categories:

- ♥ Stability
- ♥ Growth
- ♥ Retrenchment

There could be a small business firm involved in a single business, or a large, complex and diversified conglomerate with several different businesses. The corporate strategy in both these cases is about the basic direction of the firm as a whole. In the case of small firm it could mean the adoption of courses of action that would yield a better profit for the firm. In the case of large firm the corporate-level strategy is also about managing the various businesses to maximize their contribution to the overall corporate objectives.
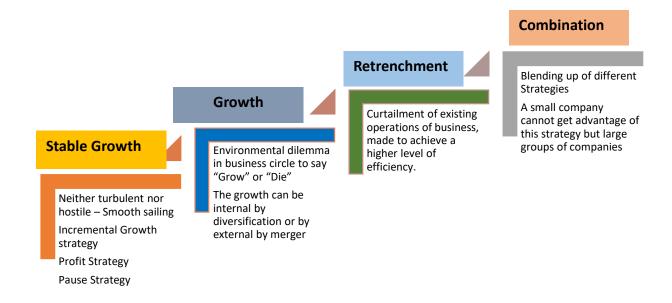
The complexity of large firms arises from the fact that each of its businesses defined along these three dimensions, will result in a variety of customer groups, customer functions and alternative technologies that a firm is involved with. It is therefore common to find multi-business firms with interests in serving a diverse base of customer groups, performing a variety of customer functions for them and making use of range of several different technologies.

Corporate-level strategies are basically about decisions related to allocating resources among the different businesses of a firm, transferring resources from one set of business to others and managing and nurturing a portfolio of businesses in such a way that the overall corporate objectives are achieved. An analysis based on business definition provides a set of strategic alternatives that an organization can consider.

Classification of Strategies - Glueck

SI No	Stable Growth	Growth	Retrenchment
1	Make no change to the companies current activities	Expand the company's activities	Reduce the companies level of activities
2	Pause/Proceed with cautions	CONCENTRATION	Turn around
3	No Change	Vertical Growth	Captive Company
4	Pro	Horizontal Growth	Sell-out/Divestment
5			Bankruptcy/Liquidation
6		DIVERSIFICATION	
7		Concentric	
8		Conglomerate	
9			

Directional Strategy – expand? Concentrate?? Diversify???

Combination

Blending up of different Strategies

A small company cannot get advantage of this strategy but large groups of companies

Retrenchment

Curtailment of existing operations of business, made to achieve a higher level of efficiency.

Growth

Environmental dilemma in business circle to say "Grow" or "Die"

The growth can be internal by diversification or by external by merger

Stable Growth

Neither turbulent nor hostile – Smooth sailing

Incremental Growth strategy

Profit Strategy

Pause Strategy

1. Stable Growth Strategy

Stable growth strategy has three important sub strategies. They are:

Incremental growth strategy

Organization usually concentrate on one product or service line and grow slowly and incrementally by entering new territories, taking up new product line

Profit Strategy

This strategy is followed when the objective of the organization is to generate cash immediately for itself or for the stock holder, profit (for harvesting) strategies are followed. Called as End Game Strategy

Pause Strategy

If an organization feels that higher growth becomes both inefficient and unmanageable or the organization requires breathing spell to stabilize itself before taking up a new mission

Concentrate on resources utility, better operations etc to attain a higher level of effciency

2.Growth Strategy

Growth Strategies would work for companies that do business in expanding industries must grow to survive. And this would help in continuing growth means increasing sales and chance to take advantage of the experience curve to reduce the per unit cost of product sold, thereby increasing the profit.

Companies could grow externally through mergers, acquisitions and strategic alliances. There are two types of growth strategies. They are:

1. Concentration – on the current product line in one industry
2. Diversification – into other product line in other industries

Concentration Strategy

Concentration Strategy shall be applicable if a company's current product lines have real growth potential, concentration of resources on these product lines make sense as a strategy for growth.

There are two basic concentration strategies. They are:

- ♥ Vertical growth
    - o Can be achieved by taking over a function previously provided by a supplier or by a distributor.
    - o Vertical Growth results in Vertical Integration
- ♥ Horizontal Growth
    - o Can achieve horizontal growth by expanding its operations into other geographic locations   and/or by increasing the range of products and services offered to current markets
    - o Horizontal growth results in Horizontal integration

Integration Strategy

Intergration Strategy is combining activities related to the present activity of a firm. It is also an expansion strategy that company attempts to widen the scope of its business definition in such a manner that it results in serving the same set of customers. It is also a subset of diversification strategies (will see shortly)

Types

1. Vertical Integration
2. Horizontal Integration

Vertical Integration

Vertical integration benefits by protecting product quality enabling a company to be a differentiated player. The example of McDonald is worth mentioning. When it expanded its operations to Russia, it set up its own dairy farms, cattle farms, vegetable cultivation and food processing plants in Soviet Union, since Russian gown potatoes and meat was of poor quality.

Vertical growth occurs when one function previously carried over by a supplier or a distributor is being taken over by the company in order to reduce costs, to maintain quality of input and to gain control over scare resources.

Vertical integration means the degree to which a firm operates vertically in multiple locations on an industry's value chain from extracting raw materials to manufacturing and retailing. Vertical integration may be either backward or forward integration.

Vertical integration is the combination of technically distinct production, distribution and other economic process within the confine of a single organization

A company may expand its operations backward into industries that produces inputs to its products or forward into industries that utilize, distribute or sell its products.

Backward Vertical Integration

Company expands its operations into an industry that produces inputs to the company's products . Eg. A weaving mill which is purchasing yarn for its unit may go in for a spinning mill

Backward integration refers to performing a function previously provided by a supplier. Forward integration means performing a function previously provided by a retailer. This is done to reduce costs, gain control over scarce resource, guarantee quality of a key input and obtain access to potential customers. Forward integration involves a firm's acquisition of one or more of its buyers.

Backward integration involves moving into intermediate manufacturing and raw material production and forward integration means movement into distribution. A textile mill, which opens its own retail show room, is an example of forward integration. When the textile mill starts it's ginning and spinning mill, it is an example of backward integration. At each stage in the chain, value is added to the product.

Forward Vertical Integration

Company expands into an industry that uses, distributes or sells the company's products. Eg. A TV picture tube manufacturing company may go in for the production of TV using its own picture tube

Full Integration

- ♥ Company produces all of a particular input from its own operations.
- ♥ Disposes of all of its completed products through its own outlets

Taper Integration

In addition to company own suppliers, the company will also use other suppliers for inputs or independent outlets in addition to the company owned outlets.

Advantages of Vertical Integration

- ♥ It helps company to exercise control over critical sources of supply.
- ♥ Economies of Integration.
- ♥ Assured supply and demand.
- ♥ It limits competition in the concerned industry, thereby enables the company to charge a high price for and make greater profits than before.
- ♥ Offset bargaining power.
- ♥ Ability to differentiate.
- ♥ It helps to make investments in specialized assets.
- ♥ Elevation of entry and mobility barriers.
- ♥ Results in improved scheduling.
- ♥ The specialized assets are designed to perform a specific task, which will reduce the cost of value creation.

Disadvantages of Vertical Integration

- ♥ Cost disadvantages sometimes occur when the firm is committed to purchase from company owned sources when low cost external sources of supply are available.
- ♥ Cost structure is increasing
- ♥ The technology is changing fast
- ♥ Unpredictable demand
- ♥ Creates risk in vertical integration
- ♥ Increased operating leverage
- ♥ Reduced flexibility
- ♥ High capital investment requirements
- ♥ Problem in maintaining balance
- ♥ Dull incentives
- ♥ Differing managerial requirements.
- ♥ Vertical integration proves to be a disadvantage when technology is changing fast and the firm is ties to obsolete technology.
- ♥ Vertical integration proves to be a risky business if unstable or unpredictable demand conditions prevail.

Horizontal Integration

The process of acquiring or merging with industry competitors in an effort to achieve the competitive advantages that come with large scale and scope.

A company making cat food adding dog food to its product range, remains still within the animal feed industry

Advantages of Horizontal Integration

- ♥ Lowers the cost structure
  - o Increases economies of scale
  - o Reduces duplication of resources between two companies
- ♥ Increases the product differentiation
  - o Product bundling- Broader range at single combined price
  - o Total Solutions – saving customers time and money
  - o Cross- Selling – Leveraging established customer relationships
- ♥ Replicates the business model
  - o In new market segment within same industry
- ♥ Reduces the industry rivalry
  - o Eliminate excess capacity in an industry
  - o Easier to implement tacit price coordination among rivals
- ♥ Increases bargaining power
  - o Increased market power over suppliers and buyers
  - o Gain Greater control

Advantages of Horizontal Integration

- ♥ Wealth of data suggests that majority of mergers and acquisitions DO NOT create value and that many may actually DESTROY value.
- ♥ Implementing a horizontal integration is not an easy task:
  - o Problems associated with merging very different company cultures
  - o High management turnover in the acquired company when the acquisition is a hostile one
  - o Tendency of managers to overestimate the benefits to be had in the merger
  - o Tendency of managers to underestimate the problems involved in merging their operations
- ♥ The merger *may be blocked* if merger is perceived to:
  - o Create a dominant competitor
  - o Create too much industry consolidation
  - o Have the potential for future abuse of market power

Diversification and Strategic Alliance

Diversification is considered to be a complex one because it involves a simultaneous departure from current business, familiar products and familiar markets. Diversification makes addition to the portfolio of businesses. Firms choose diversification when the growth objectives are very high and it could not be achieved within the existing product/market scope. Firms consider

diversification as a long- term solution to the vulnerability inherent in a single, limited number of business propositions.

Process of entry in to a field which is new to an organization either marketwise or technology wise. "A Strategy for company growth by starting up or acquiring businesses outside the company's current products and markets".- Philip Kotler

Usually, firms with one business find themselves vulnerable under changing environmental conditions. If the firm wants to counteract vulnerability, it opts for diversification. The main attraction for diversification arises from new and fresh opportunities, which hold promise of high profitability.

With diversification, firms are committed to risks associated with unfamiliar business and it requires meticulous preparations. It is a resource intensive strategy and requires managerial competence to make it success. The chosen industry should be attractive. The cost of entry barrier should be reasonable.

Features

Company can enter in to a new industry or market.

New technology area- unconnected or somewhat related to its original business.

Aimed at growth of the company by adding new products or services to the existing product line or service line.

Business may also be acquired outside the premises of the company

Expansion through Diversification:

Diversification is a much-used and much-talked about set of strategies. These strategies involve all the dimensions of strategic alternatives. Diversification may involve internal or external, related or unrelated, horizontal or vertical and active or passive dimensions.

- ♥ Concentric Diversification
- ♥ Conglomerate Diversification
- ♥ Expansion through Cooperation

The classic examples are:

- ♥ ITC – Tobacco, paper, etc.
- ♥ Essar Group – Shipping, marine construction, oil support services and iron and steel
- ♥ Polar Group – Fans, marbles and granite
- ♥ TTK Group – Pressure cookers, chemicals, pharmaceuticals, hosiery.

Diversification strategies are adopted to minimize risk by spreading it over several businesses.

Companies and their Diversification

Sl NO	Company	Diversification Areas
1	TTK	Woodwards Gripe water, hosiery Pressure Cookers, Pharmaceuticals, condoms, Packaging industry, Food Items (Fryums), Maps and Atlas
2	Godrej	Toilet Items, Refrigerators, TV, Computers and Furnitures
3	ITC	Tobacco, Cigarette, paper, Hotel,
4	SPIC	Petro Chemicals, Fertilizers, Pharmaceuticals, Telephone equipments
5	Essar	Shipping, marine Constructions, oil support services, and iron & steel
6	Polar	Fans, marbles and granite

Diversification may be used to capitalize on organizational strength or minimize weakness.

Diversification Matrix – New Products

New Missions	Related Technology		Unrelated Technology
Firm its own customer	Vertical Integration		
Same type Product	Horizontal Integration		
Similar type Product	Marketing and Technology related concentric Diversification		Marketing related concentric Diversification
New Type of Product	Technology Related concentric Diversification		Marketing related concentric Diversification

Diversification may be the only way out if growth in existing businesses is blocked due to environmental and regulatory factors.

The cooperation for the purpose of expansion could take place in various ways:

1. Mergers

2. Takeovers (or acquisition)

3. Joint ventures

4. Strategic alliance

Difference – Conglomerate Vs Diversified Majors

Sl No	Conglomerate	Diversified Major
1	Has Small central Office	Bigger office
2	Decision making to Divisional Levels since Central Office will not have experts	Centralized Administration
3	Lesser opportunities for Synergy	More
4	Responsibility, Authority and control techniques are not uniform and systematic	Systematic and Uniform
5	Developing organization	It is developed one

Reasons for Diversification:

- ♥ Better use of resources
- ♥ Increase in organizational skills
- ♥ Statutory regulations for Diversification.

3.Retrenchment Strategy

Following situation that warrant the deployment of such strategy:

- ♥ Current level of performance is far below the past performance – decline of performance
- ♥ The management aims to wipeout a previous years deficit
- ♥ The aim is to provide certain products/services to the public by retrenching some other products or services
- ♥ It is statutorily banned from producing certain products /services due to administrative reasons (due to environmental pollution against the law of the land etc)
- ♥ Liquidation Strategies

- ♥ This is an ultimate strategy after which no strategy need to be planned to see the company alive – when bankruptcy is inevitable when a company is continuously running on large losses.

Strategic Alliance

Strategic alliance means agreements between two or more companies to share the costs, risks and benefits associated with development of new business opportunities. Strategic alliance involves long-term cooperative relationship between two entities. It differs from joint venture in that no joint stock holding is involved. No new entity is formed as a result of alliance and only working arrangements on specific issues are drawn out. The partners operate as individual companies. They are covered by certain agreements in order to serve common purpose.

The alliance may be formed be formed between firms of the same industry or members of different industries. The type of benefit expected by the partners mainly decides such alliances. The agreement may take the form of marketing alliance, advertising alliances, R&D technology alliances and production sharing alliances are common in India. Hotel chains enter into agreement with Airlines and Credit Card Companies for making a better impact on customers and produce synergy.

Types of Strategic Alliances:

- ♥ Joint Venture
- ♥ Equity Strategic Alliance
- ♥ Non-equity Strategic Alliance
- ♥ Global Strategic Alliance

Stages of Alliance operation:

- ♥ Strategy Development
- ♥ Partner Assessment
- ♥ Contract Negotiation
- ♥ Alliance Operation
- ♥ Alliance Termination

Advantages of Strategic Alliance:

Allowing each partner to concentrate on activities that best match their capabilities. Learning from partners developing competences that may be more widely exploited elsewhere. Adequacy a suitability of the resources competencies of an organization for it to survive.

Disadvantages of strategic Alliance:

- ♥ Alliances are costly
- ♥ Alliances can create indirect costs by blocking the possibility of cooperating with competing companies, thus possibly even denying the company various financing options.
- ♥ Joint ventures also expose the company to its partners and the unique technologies that it has are sometimes revealed to its partner company.

Japanese auto companies have entered into long-term agreement with their component parts suppliers. This process involves the suppliers making substantial investments in specialized assets in order to serve the auto components on Just-in-Time-Inventory (JIT) basis. Companies which make investment in specialized assets usually, demand a 'hostage' from a partner. Thus both partners are mutually dependant and each company holds a hostage that can be used a insurance against the other company's unilateral actions.

Building and Restructuring the Corporation

There are various methods for the firms to enter into a new business and restructure the existing one.

Firms use following methods for building:

Start-up route:

In this route, the business is started from the scratch by building facilities, purchasing equipment, recruiting employees, opening up distribution outlet and so on.

Acquisition:

Acquisition involves purchasing an established company, complete with all facilities, equipment and personnel.

Joint Venture:

Joint venture involves starting a new venture with the help of a partner.

Merger:

Merger involves fusion of two or more companies into one company. ♣ Takeover:

A company which is in financial distress can undergo the process of takeover. A takeover can be voluntary when the company requests another company to take over the assets and liabilities and save it from becoming bankrupt.

<u>Restructuring</u>

Re- structuring involves strategies for reducing the scope of the firm by exiting from unprofitable business. Restructuring is a popular strategy during post liberalization era where diversified organizations divested to concentrate on core business.

Re-structuring Strategies:

Retrenchment: Retrenchment strategies are adopted when the firm's performance is poor and its competitive position is weak.

Divestment Strategy: Divestment strategy requires dropping of some of the businesses or part of the business of the firm, which arises from conscious corporate judgment in order to reverse a negative trend.

Spin-off: Selling of a business unit to independent investors is known as spin-off. It is the best way to recover the initial investment as much as possible. The highest bidder gets the divested unit.

Management Buyout: selling off the divested unit to its management is known as management buyout.

Harvest Strategy: A harvest strategy involves halting investment in a unit in order to maximize short- to- medium term cash flow from that unit before liquidating it.

Liquidation: Liquidation is considered to be an unattractive strategy because the industry is unattractive and the firm is in a weak competitive position. It is pursued as a last step because the employees lose jobs and it is considered to be a sign of failure of the top management.

Choice of Strategies

Meaning of strategic choice:

Choice of a strategy involves an understanding of choice mechanism and issues involved in it.

Definition:

Gluek has defined strategic choice as the process of selecting the best strategy out of all available strategies.

Management Steps in Strategic Choice:

a) Focusing on strategic alternatives

b) Evaluating strategic alternatives

c) Considering Decision factors

d) Choice of strategy

Factors are grouped into following categories:

Environmental factors: It includes volatility of environment, input supply from environment and powerful stakeholders.

Organizational factors: It includes organization s mission, the strategic intent, its business definition and its strengths and weaknesses.

Subjective Factors: Various subjective factors may be classified as:

- ♥ Organization's past strategies
- ♥ Personal factors
- ♥ Attitude to risks
- ♥ Internal political consideration
- ♥ Pressure from stakeholders

Process/Techniques of Strategic choice:

Strategic choice involves evaluation of the pros and cons of each strategic alternative and selection of the best alternative. Three techniques are used in the process of selection of a strategy.

a) Devil's Advocate:

Pitfalls and problems in a proposed strategic alternative by making a formal presentation

b) Dialectical Enquiry:

Dialectical inquiry involves making two proposals with contrasting assumptions for each strategic alternative. The merits and demerits of the proposal will be argued by advocates before the key decision makers. Finally one alternative will emerge viable for implementation.

c) Strategic shadow Committee:

A strategic shadow committee consists of members drawn below executive level. They serve the committee for two years. They inspect all materials and attend all meetings of executive strategy. The members generate views regarding constraints faced by management. Their report is submitted to Board of Directors.

Environmental Threat and Opportunity Profile (ETOP)

Environmental scanning can be defined as the process by which organizations monitor their relevant environment to identify opportunities and threats affecting their business for the purpose of taking strategic decisions. Appraising the Environment:

In order to draw a clear picture of what opportunities and threats are faced by the organization at a given time. It is necessary to appraise the environment. This is done by being aware of the factors that affect environmental appraisal identifying the environmental factors and structuring the results of this environmental appraisal.

Corporate Portfolio Analysis

Corporate portfolio analysis could be defined as a set of techniques that help strategists in taking strategic decisions with regard to individual products or business in a firm's portfolio. It is primarily used for competitive analysis and strategic planning in multi- product and multi-business firms.

They may also be used in less diversified firms, if these consist of a main business and other minor complementary interests. The main advantages in adopting a portfolio approach in a multi-product multi-business firm is that resources could be targeted at the corporate level to those businesses that possess the greatest potential for creating competitive advantage.

SWOT Analysis

Every organization is a part of an industry. Almost all organizations face competition either directly or indirectly. Thus the industry and competition are vital considerations in making a strategic choice. It is quite obvious that any strategic choice made by an organization cannot be made unless the industry and competition have been analyzed. The environmental as well organizational appraisal dealt with the opportunities, threats, strengths and weaknesses relevant for an organization.

A typical SWOT Matrix

STRENGTH	WEAKNESSES
- Favourable Location - Excellent Distribution network - ISO 9000 Quality certification - Established R&D Centre - Good Management Reputation	- Uncertain cashflow - Weak management Information System - Absence of Strong USP for Major Product Lines - Low worker commitment
OPPORTUNITIES	THREATS
- Favourable industry trends - Low Technology options available. - Possibility of niche target market. - Availability of reliable business partners .	- Unfavourable political environment - Obstacles in licensing new business - Uncertain competitors' intensions - Lack of sustainable financial backing

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Consolidated SWOT profile for a bicycle company

ETOP	Sector Impact	SAP	Impact factor
Economic	Up Arrow	Finance	Down Arrow
Market	Horizontal Arrow	Marketing	Horizontal Arrow
International	Down Arrow	Operations	Up Arrow
Political	Horizontal Arrow	Personnel	Horizontal Arrow
Regulatory	Horizontal Arrow	Information management	Up Arrow
Social	Up Arrow	General Management	Up Arrow

Gap Analysis

In gap Analysis, the strategist examines what the organization wants to achieve (desired performance) and what it has really achieved (actual performance). The gap between what is desired and what is achieved widens as the time passes no strategy adopted.

McKinsey's 7S Framework

This was created by the consulting company McKinsey and company in the early 1980s. Since then it has been widely used by practitioners and academics alike in analyzing hundreds of organizations. The Paper explains each of the seven components of the model and the links between them. It also includes practical guidance and advice for the students to analyze organizations using this model. At the end, some sources for further information on the model and case studies available.

The McKinsey 7S model was named after a consulting company, McKinsey & Company and was developed in the late 1970s by **Tom Peters and Robert Waterman,** former consultants while working for McKinsey & Company. They identified seven internal elements of an organization that need to align for it to be successful. which has conducted applied research in business and industry. All of the authors worked as consultants at McKinsey and company, in the 1980s, they used the model to analyze over 70 large organizations. The McKinsey 7S Framework was created as a recognizable and easily remembered model in business. The seven variables, which the authors terms "levers", all begin with the letter "S".
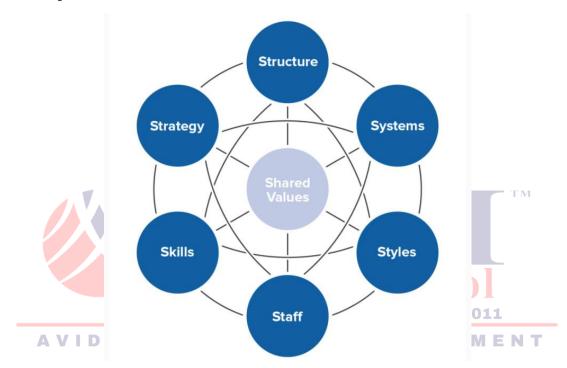
When to use McKinsey's 7Ss Model

7S Model could be used in a wide variety of situations where it's useful to examine how the various parts of your organization work together.

For example, it can help an anlayst to improve the performance of your organization, or to determine the best way to implement a proposed strategy.

The framework can be used to examine the likely effects of future changes in the organization, or to align departments and processes during a merger or acquisition. You can also apply the McKinsey 7-S model to elements of a team or a project.

The seven components described above are normally categorized as soft and hard components:

Hard components/elements are:

(1) Strategy (2) Structure and (3) Systems

Soft components/elements are:

(1) Shared values (2) Style (3) Staff and (4) Skills

Description of 7Ss:

Strategy: Strategy is the plan for building and maintaining a competitive advantage over its competitors and plan of action an organization prepares in response to, or anticipation of changes in its external environment.

Structure: Business needs to be organized in a specific form of shape that is generally referred to as organizational structure. Organizations are structured in a variety of ways, dependent on their objectives and culture.

Systems: Every organization has some systems or internal processes to support and implement the strategy and run day-to-day affairs. For example, a company may follow a particular process for recruitment.

Style/culture: All organizations have their own distinct culture and management style. It includes the dominant values, beliefs and norms which develop over time and become relatively enduring features of the organizational life.

Staff: Organizations are made up of humans and it's the people who make the real difference to the success of the organization in the increasingly knowledge-based society. The importance of human resources has thus got the central position in the strategy of the organization.

Skills: The actual skills and competencies of the organization's employees

Shared Values/super ordinate Goals: All members of the organization share some common fundamental ideas or guiding concepts around which the business is built. This may be to make money or to achieve excellence in a particular field.

Using the McKinsey 7-S Model

You can use it to identify which elements you need to realign to improve performance, or to maintain alignment and performance during other changes. These changes could include restructuring, new processes, an organizational merger, new systems, and change of leadership.

Follow these steps:

1. Start with your shared values: are they consistent with your structure, strategy, and systems? If not, what needs to change?
2. Then look at the hard elements. How well does each one support the others? Identify where changes need to be made.
3. Next, look at the soft elements. Do they support the desired hard elements? Do they support one another? If not, what needs to change?
4. As you adjust and align the elements, you'll need to use an iterative (and often time-consuming) process of making adjustments, and then re-analyzing how that impacts other elements and their alignment. The end result of better performance will be worth it.

GE 9 Cell Model

This corporate portfolio analysis technique is based on the pioneering efforts of the General Electric Company of the United States, supported by the

consulting firm of McKinsey& company. The vertical axis represents industry attractiveness, which is a weighted composite rating based on eight different factors. These factors are: market size and growth rate, Industry profit margin, competitive intensity, seasonality, cyclicality, economies of scale, technology and social, environmental, legal and human impacts.

The horizontal axis represents business strength competitive position, which is again a weighted composite rating based on seven factors. These factors are: relative market share, profit margins, ability to compete on price and quality, knowledge of customer and market, competitive strengths and weaknesses, technological capability and calibre of management.

Distinctive Competitiveness

Distinctive Competence is a set of unique capabilities that certain firms possess allowing them to make inroads into desired markets and to gain advantage over the competition; generally, it is an activity that a firm performs better than its competition. To define a firm s distinctive competence, management must complete an assessment of both internal and external corporate environments. When management finds an internal strength and both meets market needs and gives the fir m a comparative advantage in the market place, that strength is the fir m s distinctive competence.

Defining and Building Distinctive Competence:

To define a company s distinctive competence, managers often follow a particular process.

1. They identify the strengths and weaknesses in the given marketplace.
2. They analyze specific market needs and look for comparative advantages that they have over the competition.

Selection of Matrix
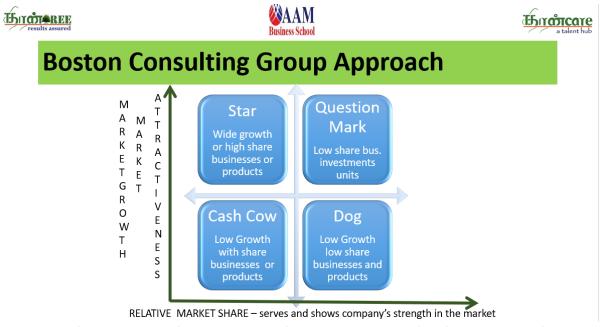
According to Philip Kotler, the company must do the following to create a best business portfolio

- ♥ Analyze its current Business Portfolio and decide which businesses receive more, less or no investment
  - o SBU Analysis
  - o Assess the attractiveness of various SBU
- ♥ Develop growth strategies for adding products or business to the portfolio - Approaches.
  - o Boston consulting Approach- Star Question mark, Cash cow and Dog.
  - o General Electric Approach – Strategic Business Plan Grid

There are number of techniques that could be considered as corporate portfolio analysis techniques. The most popular is the Boston Consulting Group (BCG) Matrix (or) Product Portfolio Matrix.

BCG Matrix

The Boston Consulting Group (BCG) Matrix provides a graphic representation for an organization to examine the different businesses in its portfolio on the basis of their relevant market shares and industry growth rate. Business could be classified on the BCG matrix as either low or high according to their industry growth rate and relative market share. The vertical axis denotes the rate of growth in sales in percentage for a particular industry. The horizontal axis represents the relative market share, which is the ratio of a company's sales to the sales of the industry's largest competitor or market leader.

Provides a graphic representation for an organization to examine the different businesses in its portfolio on the basis of their relevant market shares and industry growth rate.

Business could be classified on the BCG matrix as either low or high according to their industry growth rate and relative market share.

Vertical axis denotes rate of growth in sales in % for a particular industry.

The horizontal axis represents the relative market share, which is the ratio of a company's sale to the sales of the industry's largest competitor or market leader.

The four cells of the BCG matrix have been termed as stars, cash cows, question marks (or problem children) and dogs. Each of these cells represents a particular type of businesses.

A Typical BCG Matrix

Stars: Stars are high-growth-high-market-share businesses which may or may not be self-sufficient in terms of cash flow.

Cash Cows: As the term indicates, cash cows are businesses which generate large amounts of cash but their rate of growth is slow.

Question Marks: Business with high industry growth but low market share for a company is 'question marks' or 'problem children'.

Dogs: Those businesses which are related to slow-growth industries and where a company has a low relative market share are termed as 'dogs'.

GE Approach
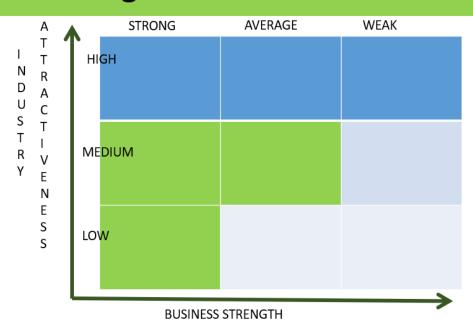
GE Approach deals with two index and they are

- ♥ Industry attractiveness index
  - o It is made up of market size, market growth rate, industry profit margin, amount of competition, seasonable and cyclical of demand and industry cost structure.
  - o This can be classified into High, Medium and Low.
- ♥ Business Strength index
  - o It is calculated from the factors such as the company's relative market share, price competitiveness, product quality customer and market knowledge, sales effectiveness and geographical advantages.
  - o This can be classified into Strong, Average and Weak Indices

GE's Strategic Business Plan Grid

Disadvantages of Matrix Approaches

- ♥ It is very difficult, costly and time consuming
- ♥ Managements are unable to define SBUs, Market Share and growth precisely. No Yardstick to measure
- ♥ Analysis could focus only on current business and no future predictions.
- ♥ Formal planning approaches are not suitable to business portfolio management – since formal planning gives undue importance on market share growth.
- ♥ It is not a cure to problem – but can help the management to infer the overall situation and orient the company for future.

Part 'A' Questions

1. Mention the four strategic alternatives.

2. What is stability strategy?

3. What is retrenchment strategy?

4. What do you mean by strategic alliance?

5. Define corporate level strategy.

6. What are the advantages of vertical integration?

7. Define ETOP.

8. Define SWOT.

9. What is GAP analysis?

10. What are the disadvantages of Matrix Appraoches?

Part 'B' Questions

1. Explain in detail about business level strategy.

2. Discuss the global environment strategies.

3. Explain about diversification strategies.

4. Explain McKinsey's 7S framework.

5. Discuss techniques of BCG matrix

MODULE-IV

STRATEGY IMPLEMENTATION & EVALUATION

STRATEGY IMPLEMENTATION & EVALUATION

Introduction

Strategy Implementation is the sum total of the activities and choices required for the execution of a strategic plan. Implementation is the process that turns strategies and plans into actions in order to accomplish strategic objectives and goals. It is the process by which objectives, strategies and policies are put into action through the development of programs, budgets and procedures. Although implementation is usually considered after strategy has been formulated, implementation is a key part of strategic management. Strategy formulation and strategy implementation should thus be considered as two sides of the same coin.

Poor implementation has been blamed for a number of strategic failures. Studies show that half of all acquisitions fail to achieve what was expected of them, and one out of four international venture does not succeed. The most mentioned problems reported in post-merger integration were poor communication, unrealistic synergy expectations, structural problems, missing masterplan, lost momentum, lack of top management commitment and unclear strategic fit.

According to Fortune Magazine, nine out of ten organizations fail to implement their strategic plan for many reasons:

- 60% of organizations don't link strategy to budgeting
- 75% of organizations don't link employee incentives to strategy
- 86% of business owners and managers spend less than one hour per month discussing strategy
- 95% of the typical workforce doesn't understand their organization's strategy.

To begin the implementation process, strategy makers must consider these questions:

- Who are the people who will carry out the strategic plan?
- What must be done to align the company's operations in the new intended direction?
- How is everyone going to work together to do what is needed?

A Survey of 93 Fortune 500 companies revealed that more than half of the corporations experienced the following 10 problems which they attempted to implement a strategic change. These problems are listed in order or frequency.

- Implementation too more time than originally planned
- Unanticipated major problems arose.
- Activities were ineffectively coordinated.
- Competing activities and crisis took attention away from implementation.
- The involved employees had insufficient capabilities to perform their jobs.
- Lower-level employees were inadequately trained.
- Uncontrollable external environmental factors created problems.
- Departmental managers provided inadequate leadership and direction.
- Key implementation tasks and activities were poorly defined.
- The information system inadequately monitored activities.
- Lack of ownership/accountability
- Lack of empowerment
- Lack of communication
- Getting mired in the day-to-day
- An overwhelming and meaningless plan
- Annual strategy
- No progress reports

Who implements Strategy?

Depending on how a corporation is organized, those who implement strategy will probably be a much more diverse set of people than those who formulate it. In most large, multi-industry corporations, the implementations are everyone in the organization. Vice Presidents of functional areas and director of divisions and strategic business units work with their subordinates to put together large-scale implementation plans. Plant managers, project managers and unit heads put together plans for their specific plants, departments and units. Therefore, every operational manager down to the first line supervisor and every employee is involved in some way in the implementation of corporate.

Steps of Strategy Implementation

The strategy implementation consists of four steps namely

1. Designing appropriate organizational structure
2. Designing control systems
3. Matching strategy, structure and controls and
4. Managing conflicts, politics and change.

Steps in strategy implementation

Designing appropriate organizational structure

Designing control systems

Matching strategy, structure and controls

Managing conflicts, politics and change

Implementing strategy though Organizational Design

Strategy implementation involves the use of organizational design, the process of deciding how a company should create, use and combine organizational structure control systems and culture to pursue a business model successfully. It involves three steps:

1. Organizational Structure
2. Organizational Culture
3. Control Systems

Designing Organizational Structure

Organizational structure is used to develop how groups and individuals are arranged or departmentalized to help meet an organization's goals. It defines a reporting structure, jobs, compensation and responsibilities for each role. Designing an organizational structure requires consideration of an organization's values, financial and business goals. It should allow for growth for the organization and the ability to add additional jobs or departments.

An organization structure should satisfy the requirements of the business. It should ensure optimum utilization of manpower and different functions should be properly performed. There is a need for harmonious relationship among persons at different positions. Designing of a structure is an important task and it should be undertaken carefully.

Following steps are essential for designing an organization structure:

Define business units or departments.

Each business unit should have similar goals and responsibilities that can be overseen and directed by one or several managers. The business units or departments will then align to assist in creating an appropriate organizational structure. Depending on which type of organizational structure is used, departments may align laterally with other departments or one may oversee another.

Identifying Activities:

The activities which are required to be performed in achieving organizational objectives should be identified. The functions to be performed for achieving different goals should be ascertained and activities relating to these functions should be identified. The major activities are classified into a number of sub-activities. While identifying activities it should be borne in mind that no activity has escaped, there is no duplication in activities and various activities are performed in a coordinated way.

Grouping of Activities:

The closely related and similar activities are grouped together for departments, divisions or sections. The co-ordination among activities can only be achieved through proper grouping. The grouped activities can be assigned to different positions. The assignment of activities to individuals creates authority and responsibility. The authority is delegated to the lower levels of various departments and responsibility is fixed.

Delegation of Authority:

Delegation is an administrative process of getting things done by others by giving them responsibility. When different positions are created in the organization then work is assigned to these persons. For getting the work done there is a need for authority. The authority is delegated to different persons in accordance with the assignment of responsibility. Through the process of delegation, authority, structure is created in the organization defining who will formally interact with whom.

Features of a Good Organization Structure:

A good organization structure should meet various needs and requirements of the enterprise.

The following are the features of a good organization structure:

Determine which type of organizational structure best fits your business needs.

The several types of organizational structure ensure an organization can successfully function with its reporting structure, expand if necessary and successfully meet its goals. For example, if your organization is small, it may simply require the organizational structure be broken into departments, such as production, human resources and finance. Your organization's business type, units and how it operates will determine which type of organizational structure to choose.

Define the executive and management teams.

Executives and managers are responsible for ensuring each business unit meets the organization's goals. This may include one or several top executives to oversee the entire organization and managers to direct each business unit within the organizational structure. the organization may require one supervisor to oversee all operations, or several supervisors to direct each business unit, ultimately reporting to a top executive or owner.

Establish performance metrics and compensation.

When the organizational structure is determined, job descriptions can be clearly defined and where each job fits in the hierarchy. Each job description should reflect the competencies required to do the job and the expectations of each job to meet the organization's goals. After each job within the structure is defined, compensation should be defined based on the responsibilities of each job.

Clear Line of Authority:

There should be a clear line of authority from top to the bottom. The delegation of authority should be step by step and according to the nature of work assigned. Everybody in the organization should be clear about his work and the authority delegated to him. In the absence of this clarity there will be confusion, friction and conflict.

Adequate Delegation of Authority:

Delegation of authority must be commensurate with the responsibility assigned. If the authority is not sufficient for getting the assigned task then the work will not be completed. Sometimes managers assign work to subordinates without giving them proper authority, it shows lack of decision-making on their part. An inadequate authority will create problems for the subordinates because they may not be able to accomplish the task.

Less Managerial Levels:

As far as possible minimum levels of management may be created. More the number of these levels, more the delays in communication. It will take more time to convey the decisions from the top to the bottom. Similarly, information from lower levels will take much time in reaching at the top. The number of managerial levels depends upon the nature and scale of operations. No specific number of levels may be specified for each and every concern but efforts should be made to keep them at the minimum.

Span of Control:

Span of control refers to the number of people a manager can directly supervise. A person should supervise only that number of subordinates to whom he can directly keep under contact. The number of people to be supervised may not be universally fixed because it will be influenced by the nature of work. Efforts should be made to keep a well-managed group under a supervisor otherwise there will be inefficiency and low performance.

Simple and Flexible:

Organizational structure should be very simple. There should not be unnecessary levels of management. A good structure should avoid ambiguity and confusion. The system should also be flexible to adjust according to the changing needs. There may be an expansion or diversification which required reclassification of duties and responsibilities. The organization structure should be able to incorporate new changes without altering the basic elements.

The following basis aspects which require a strategist's attention while designing structure.
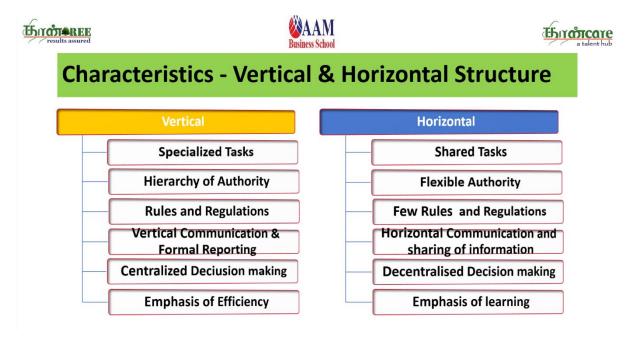
- Differentiation
- Integration
- Bureaucratic cost
- Allocating Authority and Responsibility

When a company starts off, the only employees may be just the founder and a part-time assistant. After a time, if all goes well then the company will grow. New and existing employees will need to know their responsibilities and who they report to. An organizational structure shows this along with the relationships between employees. This is often show in a diagram called an organogram.

An organization structure specifies three key components that are enumerated below.

1. It identifies the formal reporting relationships, including the number of levels in the hierarchy and the span of control of managers
2. It specifies the grouping of individuals into departments and of departments into total organizations
3. It consists of design of systems to ensure effective communication, coordination and integration of efforts across departments.

The first two components constitute the structural framework, which is the vertical structure created through the process of differentiation that involves division of labour and specialization. The third component refers to the pattern of interactions among members of the organization and is the horizontal structure, created through the process of integration that involves cross-functional information systems and team work.

Characteristics - Vertical & Horizontal Structure

Vertical	Horizontal
Specialized Tasks	Shared Tasks
Hierarchy of Authority	Flexible Authority
Rules and Regulations	Few Rules and Regulations
Vertical Communication & Formal Reporting	Horizontal Communication and sharing of information
Centralized Deciusion making	Decentralised Decision making
Emphasis of Efficiency	Emphasis of learning

Horizontal vs. Vertical

Many small businesses start off with a horizontal structure. This means that there are no middle managers. The company exists with only a handful of staff, who may well be the founders of the business. They handle all the tasks relating to the company; they cover the strategy as well as the routine tasks such as dealing with customer complaints and paperwork. A company with a horizontal structure is called a flat company. A company with a vertical structure, on the other hand, is called a tall company. In a tall company there is a hierarchy with top management making strategic decisions, passing them down to middle managers, who then implement the strategy with the lower managers and general staff. A hierarchy in the tall company means that the company is more formal than one with a horizontal structure.

A small business may develop from a horizontal structure into a vertical structure as it grows. This is not a bad thing. As a company expands it needs to have systems and structure so that people know 'who does what'. In other words, a tall structure makes clear who is responsible for what and to whom. When it comes to strategy, a tall structure might be a bit slower in implementation as the strategy needs to be communicated across different levels of management. With the horizontal structure the informal environment and small number of decision makers mean that decisions might be made and implemented more quickly. Strategy is decided by a small group which deals with operations as well. In this way, strategic decisions in a flat company will be based on information received directly from the market. The tall company has to ensure that all layers of management are able to communicate plans and strategies - if the message gets mixed up as it is passed down, then the results could be catastrophic.

Designing Strategic Control Systems

Organisational system and processes are the wheels that make any organisation go. We often use the term systems and processes together to denote their intimate relationship. An organisational system is a set of interacting elements devised to accomplish a process.

What is strategic Control?

The Strategic control is the selection of an organizational strategy and matching structure for the organization. Strategic control focuses on the dual questions of whether a) the strategy is being implemented as planned; and b) the results produced by the strategy are those intended.

It is the creation of control systems to monitor and evaluate strategic performance of the organization.

Strategic control systems provide managers with required information to find out whether strategy and structure move in the same direction. It includes target setting, monitoring, evaluation and feedback systems.
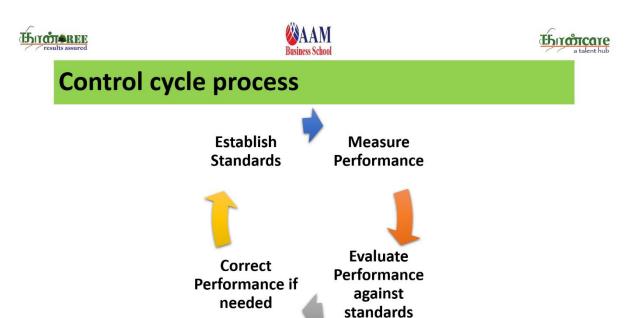
Importance of strategic Control?

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

Strategic Control System

Control has traditionally been considered as a major management function along with planning, organizing and leading. Here we shall be discussing which control system is suitable for a particular type of corporate and business strategy. The Strategic control are the special type controls intended to check whether appropriate strategies are being used.

Basically, control operates in a cyclical manner as shown below. It is viewed as a four-step process consisting of the following

1. Establishing standards
2. Measuring actual performance
3. Evaluating actual performance against standards.
4. Determining corrective action.

Strategic Levels of Control

The Strategic Level of Control is having four levels and they are mentioned below

Types of Strategic Control Systems

The Types of Strategic Control systems are mentioned below.

- Premise Control
    - Every strategy is based on certain planning premises or predictions.
    - Premise control has been designed to check systematically and continuously whether or not the premises set during the planning and implementation process are still valid.
    - Premises are primarily concerned with two types of factors
        - Environmental Factors: This includes inflation, Technology, interest rates, regulations and demographic/social changes
        - Industry Factors: This includes competitors, suppliers, substitutes and barriers to entry.
    - It involves checking the environmental conditions
- Implementation Control
    - Implementing a strategy takes place as a series of steps, activities, investments and acts that occur over a lengthy period.
    - The two basis types of implementation controls are
        - Monitoring strategic thrust
        - Milestone reviews.
- Strategic Surveillance
    - Strategic surveillance is designed to monitor a broad range of events inside and outside the company that are likely to threaten the course of the firm's strategy.
    - The basic idea behind strategic surveillance is that some form of general monitoring of multiple information sources should be encouraged, with the specific intent being the opportunity to uncover important yet unanticipated information.
    - Strategic surveillance appears to be similar in some way to "environmental scanning." Strategic surveillance is designed to safeguard the established strategy on a continuous basis.
- Special alert control
    - A special alert control is the need to thoroughly, and often rapidly, reconsider the firm's basis strategy based, on a sudden unexpected event.
    - The analyst of recent corporate history is full of such potentially high impact surprises. i.e., natural disaster, chemical spills, plane crashes, product defects, hostile takeovers etc.)
    - An example of such event is the acquisition of your competitor by an outsider. Such an event will trigger an immediate and intense reassessment of the firm's strategy. Form crisis teams to handle your company's initial response to the unforeseen events.

The below table shall give an outline of control is been designed.

Sl No	Financial Control	Output Control	Behavioural Controls	Organisational Culture
1	Stock Market Price	Divisional Goals	Budgets	Values
2	ROI	Functional Goals	Standardizations	Norms
3	Transfer Pricing	Individual Goals	Rules and Procedures	Socializations

Matching Structure and Control to Strategy

Although organizations typically use most of the control methods discussed here, the precise mix of controls tends to vary with the size, strategy, and organization structure of the enterprise. As organizations grow they tend to rely less on personal controls and more another methods. Beyond this generalization, we need to consider how controls vary with the strategy and structure of an enterprise. Here we look at different controls first in single business enterprises and then in multi business enterprises.

Functional Structure with Low Integration Consider first a firm with a functional structure and no integrating mechanisms between functions beyond direct contact and simple liaison roles. The environment facing the firm is stable, so the need for integration is minimal.

Within such a firm, bureaucratic controls in the form of budgets are used to allocate financial resources to each function and to control spending. Output controls assess how well each function is performing. Different functions are assigned different output targets, depending on their specific tasks.

To the extent that functions can be divided into teams and output controls applied to those teams, this will facilitate decentralization within the organization, wider spans of control (because it is relatively easy to control team by monitoring its outputs), and a flatter organization structure. Within such a structure, the CEO will control the heads of the functions. They inturn will exercise control over units or teams within their functions.

An enterprise can have strong cultural controls, which may reduce the need for personal controls and bureaucratic rules. Individuals might be trusted to behave in the desired manner because they accept the prevailing culture. Thus, cultural controls might allow the firm to operate with a flatter organization structure and wider spans of control and generally increase the effectiveness of output controls and incentives.

Functional Structure with High Integration A functional structure with high integration presents managers with a more complex control problem. The problem is particularly severe if the firm adopts a matrix structure. Within such an enterprise bureaucratic controls will again be used for financial budgets, and output controls will be applied both to the different functions and to cross-functional product development teams.

Thus, a team might be assigned output targets covering development time, production costs of the new product, and the features the product should incorporate. For functional managers, incentive controls might be linked to output targets for their functions, whereas for the members of a product development team, incentives will be tied to team performance.

In addition, strong cultural controls can help establish companywide norms and values emphasizing the importance of cooperation between functions and teams for their mutual benefit.

Structure

Structure involves allocation of duties, responsibilities and decision - making authority and integration among the ranks and files of organization. It is widely believed that structure follows strategy. Some of the options available in this regard are tall structure, flat structure, centralized decision-making authority, decentralized decision-making authority, autonomous units and semi-autonomous units and different mechanisms for integration of sub units

Control

The purpose of strategic control is to determine whether the given strategy is effective in achieving organizational objective and moving on the right tract. The organizational control may be classified as market control, output control and bureaucratic control. Control system requires development of perceptible organizational culture. Besides, the type of reward and incentive systems also needs to be decided and established towards this end.

Structure and Control happens at following levels

- Structure and Control at the Functional Level
    - Manufacturing
    - Research & Development
    - Sales
- Structure and Control at the Business Level
    - Cost Leadership
    - Differentiation
    - Focus

	Cost Leadership	Differentiation	Focus
Appropriate Structure	Functional	Product Team or Matrix	Functional
Integrating Mechanism	Centre on Manufacturing	Centre on R & D or Marketing	Centre on Product or Customer
Output Control	Great Use (Cost Control)	Some Use (quality goals)	Some use (Cost and Quality)
Bureaucratic Control	Some Use (Budgets and Standardization)	Great Use (Rules and Budgets)	Some Use (Budgets)
Organizational Culture	Little Use (Quality control circles)	Great Use (Norms and Values)	Great Use (Norms and Values)

- Structure and Control at the Corporate Level
  - Unrelated Diversification
  - Vertical Integration
  - Related Diversification

Sl No	Corporate Strategy	Appropriate Structure	Need for Integration	Type of Control		Organisational Culture
				Financial	Behaviour	
1	Unrelated Diversification	Multi Divisional	Low (No Exchanges between divisions)	Great Use (ROI)	Some Use (Budgets)	Little Use
2	Vertical Integration	Multi Divisional	Medium (Scheduling resource transfers)	Great Use (ROI and Transfer Pricing)	Great Use (Standardizations & budgets)	Some Use (Shared norms and values)
3	Related Diversification	Multi Divisional	High (Achieve synergies between division by integrating roles	Little Use	Great Use (Rules & Budgets)	Great Use (Norms, values and Common Languages)

- Designing a global structure
  - Multidomestic Strategy
  - International Strategy
  - Global Strategy
  - Transnational Strategy
- Special issues in strategy – Structure Choice.

Implementing Strategic Change – Politics, Power and Conflict

Strategy implementation involves the use of organizational design, the process of deciding how a. Over the past decade, organisations have witnessed unprecedented change: globalization, political realignments, recession and the rapid advance in information technology. Against this backdrop, the concept of change management quickly caught the imagination of corporate leaders. Early change initiatives success stories pushed most corporate executives to participate in, or lead in change projects. To this end, there has been a corresponding flood of change management consultants and a proliferation of methodologies, techniques and tools for conducting change projects. Faced with this onslaught, change management planners are often confused as to which methods are best suited for implementing strategic change.

The primary goal of any change initiative is to modify behavioural traits for operational performance. This explains why organizations initiate change, which are directed at people and implemented by people. In essence, every member of an organisation has a role to play in the implementation of change initiative. Those who initiate, implement and are affected by change are called change role player.

Implementing strategic change is bedevilled with political, power and conflict intrigues. This to a larger extent explains why implementing strategic change in some organizations have resulted in dismal failure or little success, as a result of contending interest for and against such initiative.

Politics arise in the implementation of strategic change when such change results in reallocation/redistribution of values. The reallocation/redistribution of values is justified by the basic economic reality, which shows that resources are limited in relation to the competing uses to which they can be put. It is, no doubt a truism that implementing change would affect people in an organisation in three different ways:

- Gainers - These are people within the organisation that stand to benefit from the change effort
- Losers – Some people who may perceive that they are adversely affected by the change.
- Indifferent – These people are not in anyway affected by the change

For a successful implementation of strategic change to take place in an organisation, a must requirement is to balance these contending forces through allocation of values in a manner that loser's loss is minimised, gainers do not get complacent, and those who are indifferent get encouraged and show commitment to the change.

The organizational politics plays a key role in strategy implementation. The power and conflict will cause organizational inertia an prevent organizational change. Power, Politics, conflict and inertia should be analysed and managed effectively so that mission could be fulfilled and change could be introduced smoothly. Conflict is common in organizations. The reasons for conflicts are resource sharing and different agendas of different subgroups within organisations. Power struggles and coalition building are consequences of such conflicts.

People in our country know very well that all business organizations are connected with politics, and all corporate cultures include a political component. Therefore, all organizational are political in nature. Strategists should understand that organisations are microcosm of a society, in which they exist. Organizational members bring with them their likes and dislikes, views and opinions, prejudices and inclinations, when they enter organizations. Managerial behaviour cannot be purely rational. Hence, an understanding is to be acquired of how politics works and the use of power is to be made.

Understanding Politics and Power.

Power is defined as "ability to influence others" and corporate politics is "the carrying out all activities not prescribed by policies for the purpose of influencing the distribution of advantages within the organization. Politics is related to the use of power, but it is not similar to it. Power play is an important feature of human interactions. In management, power is most often interpreted to have the same connotation as management.

Usually, we tend to view politics and power negatively as means of domination manipulation and subjugation. But these can be viewed positively also. It is authority that is backed up legitimately. For things to get done in an organisation, particularly, implementing strategic change, the sponsor must be imbued with power. Thus, power relates to the ability of change sponsors to affect the desired behaviour in a person. In this sense politics and power may be thought of as a means for the achievement of organisational objectives. But the strategists should know when to use politics and power to get things done and when to shun politics and encourage harmony.

Sources of Power

- Ability to cope with uncertainty
- Centrality
- Control over information
- Non-Substitutability
- Control over contingencies
- Control over resources.

Types of sources providing power

Power within an organization is derived from several types of sources. To achieve this, it is important that the sponsor possess most of the elements of power They are

1. Coercive Power – Coercive power arises from the ability of managers to penalize the negative outcomes.
2. Reward Power – Reward power arises from the ability of managers to reward positive outcomes.
3. Legitimate Power – Legitimate power arises from the ability of managers to use position to influence behaviour.
4. Expert Power – Expert power arises from the ability of managers with their competence, knowledge and expertise that is acknowledged by others. And
5. Referent powers- Referent power arises from the ability of managers to create a liking among subordinates due to charisma or personality.

Strategist can use one or more of these powers to influence the behaviour of organizational members.

The typical approach to a strategic use of politics and power may involve one or more of the following actions.

1. To understand how an organization power structure works –
2. To be sensitive and alert to political signals emanating from different parts of the organization.
3. To know when to tread softly and rely on coalition management and consensus building and when to push through decisions and actions by a selective use of "Machiavellian" methods.
4. To gather support for acceptable proposals and to let the unacceptable ideals die a natural death; and
5. To reward organisation commitment and penalise negative or indifferent attitudes.
6. To practice principled politics and use openness and honesty to counter unprincipled policies

In the Indian context, the presence of politics and use of power are more visible than other cultures. This may be due to the pervasive enviousness exhibited in Indian organization.

Organizational Conflict

One of the most dreaded and distasteful common occurrences, which though is inevitable in implementing strategic change, is the issue of conflict. It brings about disruption as well as imposes costs – management time, diversion

of attention from value adding activities through strikes, lock outs, etc to mundane issues requiring industrial conflict resolution. It is expected that since strategic change would result in disruption of existing structure, process and procedure, there is bound to be resistance to such change particularly from the losers.

Conflict may be defined as a situation when the goal directed behaviour of one group block the goal directed behaviour of another.

Organizational conflict process

- Latent Conflict
- Perceived Conflict
- Felt Conflict
- Manifest Conflict
- Conflict Aftermath

Organizational Conflict Resolution strategy

- Changing task relationship
- Changing controls
- Implementing strategic Change
- Changing Leadership
- Changing the strategy

Techniques of Strategy evaluation and Control

The Strategist attempt to answer the following questions while in the process of Strategic evaluation and control.

- Are the premises made during the strategy formulation proving to be correct?
- Is the Strategy guiding the organization towards its intended objectives?
- Are the organization and its managers doing things which ought to be done?
- Is there a need to change and reformulate the strategy?
- How is the organization performing?
- Are the time schedules being adhered to?
- Are the resources being utilized properly?
- What needs to be done to ensure that the resources are utilized properly and objectives met?

Importance of Strategic Evaluation

- Strategic evaluation can help to assess whether the decisions match the intended strategy requirements.
- Strategic evaluation, though it is process of control, feedback, rewards and review helps in culmination of successful strategic management process.
- The process of strategic evaluation provides a considerable amount of information and experience to strategists that can be useful in new strategic planning.

Participants in Strategic Evaluation

- Shareholders
- Board of Directors
- Chief Executives
- Profit centre heads
- Financial controllers
- Company Secretaries.
- External and Internal Auditors.
- Audit and Executive committees.
- Corporate planning staff and department.
- Middle level managers.

Process of Strategic Evaluation

- Fixing benchmark of performance
- Measurement of performance
- Analysing variance
- Taking corrective action.

Techniques of Strategic Evaluation

- GAP Analysis
- SWOT Analysis.
- PEST Analysis.
- Benchmarking
- Evaluating internal and external forces that influence strategy execution
- Measuring company performance
- Correcting performance.
- Devil's Advocacy
  - A plan is evolved and critically analysed. One member highlights the reason why the plan is unacceptable and acts like a devil's advocate. The main advantage of this method is to highlight all possible dangers involved in the course of action.

- Dialectic Enquiry
  - A plan and a counter plan is evolved in order to reflect plausible and conflicting courses of action. The debates between advocates of plan a counter plan reveals problem areas with definitions, suggested course of action and assumptions. Based on the identification of the problem areas, the final plan is evolved which is comprehensive.

Part 'A' Questions

1) What is organizational structure?

2) What are the steps involved in strategic management process?

3) Define strategy implementation?

4) Define strategic control system.

5) What are the types of strategic controls?

6) What are the methods involved in strategic evaluation and control?

7) Define politics in strategic change.

8) What do you mean by power and conflict?

9) What are the sources of power?

Part 'B' Questions

1) Explain organizational design with simple sketch.

2) Elucidate strategic control systems.

3) Discuss about the implementation of strategic change.

4) Explain matching structure and control to strategy.

5) Discuss the techniques of strategic evaluation and control.

MODULE-V

STRATEGIC ISSUES

STRATEGIC ISSUES

Due to increased competition and accelerated product development cycles, innovation and the management of technology are becoming crucial to corporate success. Research conducted by Forbes, Ernst & Young and the Wharton School of Business found the most important driver of corporate value for both durable and non-durable companies to be innovation. New product development is positively associated with corporate performance. One way is to include innovation in the corporation's mission statement. The importance of technology and innovation must be emphasized by people at the very top and reinforce by the people throughout a corporation. If top management and the board are not interested in these topics, managers below them tend to echo their lack of interest.

Good strategy takes more than just strong desire. Good strategy requires good input and analysis. It also requires good decision-making. That's what the exercise known as "STRATEGIC ISSUES" is all about. It is a pivotal step in the strategic planning process that deals with answering the "Big Strategic Questions."

Successful identification and resolution of Strategic Issues results from combining both content and process elements, big and small, effectively and smoothly.

What is a strategic Issue?

A Strategic Issue is, first of all, an issue - an unresolved question needing a decision or waiting for some clarifying future event. Secondly, it is strategic and has major impact on the course and direction of the business. Strategic issues are the ones that you're losing sleep over. They're the ones you think about when you're driving home from the office. They're the elephants in the room keeping your organization from reaching its goals. It probably relates directly to one or more of the fundamental "Three Strategic Questions":

- What are we going to sell?
- To whom are we going to sell it?
- How will we beat or avoid our competition?

Strategic Issues lie right at the heart of the business. Correspondingly, the process step dealing with Strategic Issues lies right at the heart of Simplified Strategic Planning.

How does the strategic issues process relate to the rest of the simplified strategic planning process?

The schematic diagram provides a entire simplified strategic planning process. The information generation and analysis steps of the process build and converge toward Strategic Issues, while the later, intention formulation steps flow directly from it. Strategic Issues is a cornerstone of any strategic planning process.

The information-generating steps above the Strategic Issues block of above Figure take place early in the process. They provide the raw material for the review and analysis that occurs immediately before Strategic Issues. In his in-depth article entitled "Good Input - the Foundation of Good Strategy", featured in the July 1998 issue of Compass Points, Charles Bradford emphasizes that good input—freely shared, properly analyzed, challenged and understood— is vital for good strategy. Unfortunately, the benefit of good input will never be realized unless the critical step that identifies Strategic Issues is handled properly by your Planning Team.

Identifying Strategic Issues

Very few Strategic Issues come out of thin air. They are the products of hard digging. Below are a couple of simple, but effective, techniques that help identify potential Strategic Issues:

- Fully explain the concept of Strategic Issues before starting the review of information and challenge your team to think about the strategic implications of the information.
- Strongly urge each team member to highlight on the information worksheet, key information that suggests a Strategic Issue and capture their thoughts on a pad of paper throughout the review.

Simple techniques like these permit the process to be more time-efficient and minimize the escape of key information from the scrutiny of the team. Potential Strategic Issues often surface during the review of Strengths, Weaknesses, Opportunities and Threats (known in Simplified Strategic Planning as Capabilities Assessment, Perceived Opportunities, Perceived Threats) or the Winner's Profile exercise.

Sometimes potential Strategic Issues do not readily surface. Subsequent to the Information Review, each team member should be allowed time to formulate what they perceive to be the key issues. Recognizing that Strategic Issues are those significant and unresolved questions that must be dealt with before Strategies can be fully articulated, each team member should:

1. Review the notes they have made, the information they have highlighted and those critical items highlighted on the team exercises
2. Identify the most critical subjects that the firm needs to address
3. Frame a question that defines what it is about that subject that needs to be discussed

The next step is to capture the key Strategic Issues on a flip chart or other medium that can be easily viewed and shared with the entire team. Select an approach that balances the need for time efficiency and team participation.

Strategic Issues are typically somewhat unique from company to company. They will also change from year to year as some issues are totally resolved and new ones arise. There are, however, some general topics that tend to be sources of Strategic Issues in many companies.

Some areas that typically produce Strategic Issues are:

- Strategic Focus
- Strategic Competencies
- Culture modification/Organizational change

- Resource limitations
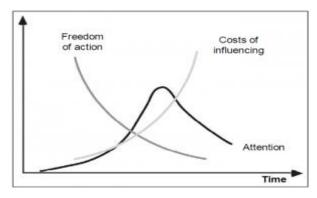- Strategic alliances/acquisitions/mergers/joint ventures
- E-commerce products

Igor Ansoff introduced the concept of "Strategic Issue Management" in 1980. A strategic issue is *"...a forthcoming development, either inside or outside of the organization, which is likely to have an important impact on the ability of the enterprise to meet its objectives."* (Ansoff, 1980). As he adds, an issue can be an emerging opportunity in the organization's environment or an internal strength, as well as an external threat or an internal weakness, respectively.

A Strategic Issue Management system is described as "...a systematic procedure for early identification and fast response to important trends and events both inside and outside an enterprise" (Liebl, 2003)

Liebl (2003) identifies four functions of a Strategic Issue Management system:

- *Early detection* of trends and issues in the environment
- *Understanding* the discontinuities which are imminent because of the trends and issues
- *Assessment of* the resulting strategic *implications*
- *Taking measures*

While Environmental Scanning primarily deals with the identification of issues, the concept of Strategic Issues Management puts more emphasis on monitoring issues and reacting to them. The issue life cycle was introduced by Downs as a model for the development of an issue throughout time (Downs, 1972). A common visualization of the issue life cycle is shown in the figure below, which characterizes the issue from its emergence until its disappearance.

Issue Life Cycle (Liebl, 2000)

It is shown that the opportunity for an organization to react upon an issue (freedom of action) decreases throughout time in several aspects:

- time pressure for effective communication or strategic realignment increases.

- the range of possible activities for influencing the events at hand – a legislative procedure, for instance – decreases.

At the same time, the organization's costs of responding increases over time (Liebl, 2000) In addition a interest curve can be defined that reflects public interest in an issue. The rapid increase of the curve is due to the fast dissemination of information and opinion through the various media channels. The public attention than puts pressure on policy makers to take actions such as launching legislative initiatives. However, the attention also decreases rather fast as public interest is difficult to maintain for long over time (Liebl, 2003)

For Organizational Future Orientation we hypothesis that issue management inside an organization follows a similar sequence. That could mean that corporate foresight activities would help to detect the emergence of an issue early. But at the same time corporate foresight needs also to interpret the impact of the issue and propose an adequate response to it while the attention of internal stakeholders is still high. If the attention is already starting to drop the risk is that no action will be taken.

Strategic Issues, Strategic Goals, and Strategies

Strategic Issue

A strategic issue is an issue that must be resolved by an organization/company to achieve its mission. We may believe that the issue will be relatively easy to resolve or extremely difficult or even impossible to resolve (or somewhere in between). The degree of difficulty is not the focus. An issue is strategic if it stands between us and achieving our mission. Our mission defines the kinds of things the company will do – the role we will play as defined by the services we will provide and for whom.

Strategic Goal

A strategic goal names results that we want to change in order to better meet our mission and help resolve strategic issues. A strategic goal addresses results, not the means of achieving the results.

Strategy

A strategy is a means of achieving our mission and the results we name in our goals. Strategies are the ways we will play our role. A strategy is a means to an end, a way to get results. It is tempting for any institution to focus first on strategies and activities that we believe will get better results, before we decide which results, we want to change and why. The selection of strategies and activities is important, but that step comes after we decide what results we want to change. As the Company examines strengths, weakness, opportunities, and threats, companies would see points where: -

- their strengths match their opportunities. In this case, we might base strategies around taking advantage of these points of leverage.
- we have an internal weakness in an areas in which there is significant opportunity. In this case, we might base strategies on changing the internal weakness that acts as a constraint.
- an external threat exists to an area of internal strength. In this case, we might devise strategies to shore up vulnerable areas.
- an external threat exists in an area in which we are weak, presenting a problem. In this case, strategies could include taking on a partner who had the strength that we lack, building our internal strength, or eliminating the area of weakness.

The following examples from several types of institutions may be helpful.

Hospital system example:

Strategic issue – Patients get sick and a percentage die due to infections contracted after entering the hospital, preventing the hospital from carrying out its mission of improving health of patients while doing no harm.

Strategic goal – Reduce significantly the number of patients who contract infections after entering the hospital.

Strategies – Control the spread of disease through new use of state of the art housekeeping procedures. Train and support all staff in practicing disease control steps related to their jobs.

Airline example:

Strategic issue – Unpredictable weather patterns cause unexpected delays in departures, leaving passengers stranded on planes on the tarmac, preventing the airline from meeting its mission of getting passengers to their destinations in a comfortable and timely manner.

Strategic goal – Contain delays on the ground to lengths found to be reasonable to passengers. Strategies – Improve communications by notifying passengers of delays and the reasons as soon as possible. Reduce the possibility of this occurring by collaborating with airports to board planes only when certain that the departure time falls within the acceptable window.

How Should You Reduce and Prioritize the List of Strategic Issues? Typically, the team will generate a longer list of potential Strategic Issues than they will have time to discuss and resolve. Therefore, the list must be reduced and prioritized.

A simple "forced choice" procedure will rank your list quickly and efficiently. You will spend an average of about 30 minutes on each Strategic Issue. We find that the truly critical Strategic Issues usually fall in the top ten.

At this point you are now ready to launch into the discussion and resolution of Strategic Issues.

Normally, it is advantageous for you to address "What should be our future Strategic Focus?" as your first issue, since Strategic Focus is the broad answer to the Strategic Questions "what are we going to sell and to whom?". It is, therefore, fundamental to the resolution of many other issues.

The companion issue is "What Strategic Competencies will we require in the future?". Since it deals with the major Strategic Question, "How will we beat or avoid our competition?", it will typically be the second Strategic Issue you handle. You want to assure consistency between your Strategic Competencies and Strategic Focus and recognize the high-level role played by Strategic Competencies in shaping your overall competitive advantage.

Resolving your Strategic Focus and Strategic Competencies issues first provides a tighter framework for discussing other Strategic Issues and appropriately narrows the field on decision alternatives you will consider acceptable.

The remaining Strategic Issues are addressed in priority order. The number you can handle is dictated by the time available. If 6 to 8 hours are available for Strategic Issues, you should be able to cover 10 to 15 different issues.

Methodologies for resolving strategic Issues:

Once identified, your team must consider and seek some degree of resolution to each issue. They should be primarily concerned with reaching a decision that defines the future direction without delving into all of the tactical sub-decisions needed for implementation. Not all Strategic Issues can be immediately resolved. Resolve those you can at this point. For each that cannot be resolved, be sure to state why it cannot be resolved and identify those steps, information or activities required to bring the issue to resolution in the future.

Following are several useful approaches for Strategic Issue resolution:

- Start the discussion with basics like definition of terms. This permits the team to start off on the same foot and begins to define some of the scope of the issue before getting into the heat of the discussion.

- Ask the question "what is at issue?" or "why is this an issue?". In other words, define the problem. An issue is often half resolved once a good definition is developed.

- Drive the discussion until either a decision has been reached or the additional steps needed to make a later decision have been defined. A sense of future direction must be captured - either in the form of a decision or a path to resolution.

- Define alternative solutions and record those on which there seems to be consensus. Sometimes it is beneficial to let the discussion run to the tactical level because the team may generate material that could be useful later as a possible Strategic Objective.

- Explore and evaluate, at least implicitly, the upside potential, the downside risk, the resource consumption and the probabilities of success for the alternatives and select the best direction. Seek to shortcut the process for time efficiency by identifying key factors that dominate all others.

Resolution of some Strategic Issues may require you to use simple versions of more sophisticated, non-mathematical decision-making techniques. Two familiar techniques are matrices and analogies. Ferreting out conflicting, implicit assumptions and conceptions of key cause-and-effect relationships held by different team members is frequently necessary as well.

Often a major Strategic Issue, which has been recognized and kicked around but never fully resolved for a number of years, can be resolved rather simply following this process.

Why?

Because all of the key decision-makers:

- are together in one place,

- have immersed themselves in strategic information,

- have reached agreement on facts and assumptions,

- are motivated and guided by a seasoned process leader to reach a good decision, and

- know that they need to resolve this issue in order to formulate their strategy.

Before proceeding to the next step in the planning process, you should consider stepping back from the decisions you have made in Strategic Issues and challenging their quality. In particular, you should examine your major

decisions for possible downside risks and assure yourselves that your team has not inadvertently "shot themselves in the foot".

How does the Strategic Issues process drive later Strategic Planning steps?

The figure clearly shows that Strategic Issues links directly to the strategy formulation step called "STRATEGIES" in the Simplified Strategic Planning process. Your strategies derive much of their content directly from Strategic Issues. This content is restated and augmented with additional decisions and captured in a highly structured format that clearly enunciates your firm's vision as to future course and direction.

Strategic Issues may also be linked to the process step that defines the future role of your organization (Mission Statement) and the process step that defines the general and continuing intended results necessary and sufficient to the satisfaction of your organization's concept of success (Goals). The linkage may flow in two directions. Strategic Issues may arise because of your recognition that you are not fulfilling the commitments you had made previously in your Mission Statement and Goals. Conversely, the content of your Mission Statement and Goals may result indirectly from the resolution of Strategic Issues and its impact on your Strategies.

In turn, a comparison between your present course and direction, role and performance and your Strategies, Mission Statement and Goals will probably reveal some misalignments. These lead to the identification of those strategic initiatives required in the next year or so that will not happen in the normal course of business. In Simplified Strategic Planning these initiatives are called Strategic Objectives. Your team generates them by:

- ♥ reviewing your Mission Statement and Goals to identify areas in need of significant effort.

- ♥ Searching the flip charts defining your Strategies for suggestions of major initiatives, and

- ♥ Seeking key supporting details on the flip charts documenting the resolution of Strategic Issues.

You then translate each Strategic Objective into a detailed, scheduled, step-by-step Action Plan. Action Plans are the tools to focus your resources and drive RESULTS, and that is what you agreed you want.

And where did it all begin? It began with high quality information, but it largely took shape through a robust process that identified and resolved Strategic Issues and then linked them to where the action was.

Managing Technology and Innovation

The Strategic issues in managing technology and innovation and their influence on environmental scanning, strategy formulation, strategy implementation, strategy evaluation and control are worth studying from the perspective of strategist in modern organization. In order to deliver effective and efficient products and services, strategists discover innovative solutions to complex problems.

Technology innovation moves rapidly and does not adhere to the annual review and funding schedule that most organizations follow. This makes it difficult for companies to decide which transformational technologies to adopt, when to adopt them, and how to integrate them with, or even replace, existing systems.

Innovation and technology management is an inevitable issue in the high end technological and innovative organizations. Today, most of the innovations are limited with developed countries like USA, Japan and Europe while developing countries are still behind in the field of innovation and management of technology. But it is also becoming a subject for rapid progress and development in developing countries. Innovation and technology environment in developing countries are by nature, problematic, characterized by poor business models, political instability and governance conditions, low education level and lack of world-class research universities, an underdeveloped and mediocre physical infrastructure, and lack of solid technology based on trained human resources.

Role of management

The top management should emphasis the importance of technology and innovation and they should provide proper direction.

Management has on obligation to not only encourage new product development but also develop a system to ensure that technology is being used effectively.

Like human resource manager, marketing manager, operations manager, innovation manager and technology manager are also crucial for the high end technological and innovative organizations. Still the concept of innovation manager or technology manager in the developing world companies is not practiced. Due to different business models, organization structures and cultures, the job description of innovation and technology executive or manager is difficult to be decided yet. But it should be cleared that all these managers or officers should always think about innovation and worry about technology. Chief Technology Officer should have strong background of management, technology, engineering and IT at the same time. He or she can play different

roles in organization innovation and technology management and they are below.

- As a Genius, he or she turns great idea into great product or service.
- As an administrator, keeps watching over the organization's selection, accurately evaluate vendor proposals and claims for their products.
- As an advocate, he or she focuses on the applications of technology to improve the experience of the customer and creates a competitive advantage through its relationship with customers by leveraging technology.
- As a director, builds research organization and targets technologies.
- As an executive he or she is strategic innovator or leader looking for competitive position and last but not least as void:

Although the company get benefit from this position but could not understand how such a position could be applied in the organization process leadership. A close collaboration among academic institutions, business and industry is suggested. The establishment of an environment is needed where academies can share their research efforts with entrepreneurs and a commercialized approach should be searched for new innovations and emerging technologies. The government should also take initiatives for improvement of existence infrastructure and development of new infrastructure. In real sense, innovation is often born out of the blending of indigenous knowledge with technological and organizational inputs from developed countries.

Research studies have pointed out that innovative companies such 3M, Proctor and Gamble and Rubber maid are slow in introducing new products and their rate of success is not encouraging.

Environmental Scanning

Issue in innovation and technology influence both external and internal environmental scanning

External Scanning

Corporations need to continuously scan their external societal and tasks environment for new development in technology that may have some application to their current and political products. Research reveals that firms that scan their external environment are more innovative than those that focus onward on their core competencies as a way to generate new products or processes.

Technological Developments

Motorola, a company well known for its ability to invest in profitable new technologies and manufacturing improvements, has a sophisticated scanning system. Its intelligence department monitors the latest technological developments introduced at scientific conferences, in journals and in trade gossip. This information helps it build "Technology roadmaps" that assess where breakthrough are likely to occur, when they can be incorporated into new products, how much money their development will cost, and which of the developments is being worked on by the competition.

One way to lean about new technological developments in an industry id to locate part of a company's R&D or manufacturing in those locations making a strong impact on product development. Large Multinational corporations (MNC's) undertake between 5% and 25% of their R&D outside their home country. For example, automobile companies like to have design centres in southern California and in Italy, key areas for automotive styling.

Impact of Stakeholders on Innovation

Companies should look into the stakeholders, especially its customers, suppliers, and distributors, for sources of product and service improvements. These groups of people have the most to gain from innovative new products or services. Some of the methods of gathering information form key stakeholders are using lead users, market research, and new product experimentation.

Lead Users

Research by Von Hippel indicates that customers are a key source of innovation in many industries. For example, 77% of the innovations developed in the scientific instruments industry came from the users of the product. Suppliers are often important sources as well. Suppliers accounted for 36% of innovations in the thermoplastics industry, according to Von Hippel. One way to commercialize a new technology is through early and in-depth involvement with a firm's customers in a process called co-development. This type of customer is called "Lead user"

These lead users are companies, organizations or individuals that are well ahead of market trends and have needs that go far beyond those of the average user. Lead user teams are typically composed of four to six people from marketing and technical departments, with one person serving as project leader. Team members usually spend 12 to 15 hours per week on the project for its duration. The four phases of the lead user process are

1. Lay the foundation
2. Determine the trends
3. Identify the lead users

4. Develop the break through

Market Research

A more traditional method of obtaining new product ideas is to use market research to survey current users regarding what they would like in a new product. This method is successfully used by companies such as P&G, to identify consumer preferences. It is especially useful in directing incremental improvements to existing products.

Market Research may not, however, necessarily provide the information needed for truly innovative products or services (radical innovation)

New product Experimentation and Acquisition

Instead of using lead users or market research to test the potential of innovative products, some successful companies are using speed and flexibility to gain market information. These companies have developed their products by probing potential markets with early versions of the products, learning from the probes and probing again.

Internal Scanning

In addition to the scanning of external environment, strategies should also assess their company's ability to innovate effectively by asking the following questions:

1. Has the company developed the resources needed to try new ideas?
2. Do the managers allow experimentation with new products or services?
3. Does the corporation encourage risk-taking and tolerate mistakes?
4. Is it easy to form autonomous project teams?
5. The strategists should assess how well company resources are internally allocated and evaluate the organization's ability to develop and transfer new technology in a timely manner into the generation of innovative products and services.

Resource Allocation Issues

The companies must make available the resources necessary for effective research and development. Research indicates that the company's R&D intensity (its spending on R&D as a percentage of sales revenue) is a principal means of gaining market share in global competition. The amount of money spent on R&D often varies by industry.

Research indicates that consistency in R&D strategy and resource allocation across lines of business improves corporate performance by enabling the firm to better develop synergies among product lines and business units.

Simple spending money on R&D or new project does not, however, guarantee useful results.

Time-to-Market Issues

In addition to money, another important consideration in the effective management of R&D is time to market. It is the length of time it takes from a product being conceived until its being available for sale. During the 1980's the time from inception to profitability of a specific R&D program was generally accepted to be 7 to 11 years. The reason that time to market is so important is because being late erodes the addressable market that you have to sell your product into.

Kaske says, "ten to fifteen years went by before old products were replaced by new ones... now; it takes only four or five years. So time to market is an important issue because 60% of patented innovations are generally imitated within four years at 65% of the cost of innovation.

Strategy Formulation

R&D Strategy deals not only with the decision to be a leader of a follower in terms of technology and market entry but also with the source of the technology. Should a company develop its own technology or purchase it from others? The strategy also takes in to account a company's particular mix of basic verses applied and product verses process R&D.

Product Versus Process R&D

The proportion of product and process R&D tends to vary as a product moves along it's life cycle. In early stages, product innovations are most important because the product's physical attributes and capabilities most affect financial performance. Later process innovations such as improved manufacturing facilities, increasing product quality and faster distribution become important to maintaining the product's economic returns.

Technology sourcing

Technology sourcing is typically a make or buy decision, can be important in a firm's R&D strategy. Although inhouse R&D has traditionally been an important source of technical knowledge (resulting in valuable patents) for companies, firms can also tap the R&D capabilities of competitors, suppliers and other organizations through contractual agreements (such as licensing, R&D Agreements and joint ventures) or acquisitions. One example for Technology acquisition was Motorola's purchase in 2004 of Mesh Networks. Inc to obtain a Wi-Fi technology needed in Motorola's government contracting business.

Firms that are unable to finance along the huge costs of developing a new technology may coordinate their R&D with other firms through a strategic R&D alliance. These alliances can be

1. Joint programs or contracts to develop a new technology
2. Joint ventures establishing a separate company to take a new product or market
3. Minority investments in innovative firms, wherein the innovator obtains needed capital and the investor obtains access to valuable research.

It will be appropriate for companies to buy technology which is commonly available form others but make technology themselves which is rare, to remain competitive. Outsourcing of technology will be suitable under the following conditions.

- Technology is of low significance to competitive advantage
- The supplier has proprietary technology
- The supplier's technology is better and/or cheaper and reasonably easy to integrate into the current system.
- The company's strategy is based on system design, marketing, distribution and service not on development and manufacturing
- The technology development process requires special expertise.
- The technology development process requires new people and new resources.

Importance of Technological Competence

Firms that emphasize growth through acquisitions over internal development tend to be less innovative than others in the long run. Research suggests that companies must have atleast a minimal R & D capability if they are to correctly assess the value of technology developed by others. This is called company's absorptive capacity and is valuable by product of routine in house R&D activity.

Categories of Innovation

Innovation can range from incremental to radical. A corporation's capabilities (existing or new) interact with its strategic scope (limited or unlimited) to form four basic categories of innovation. A corporation may use one of these categories or operate all of them.

1. Quadrant -1 – Improving core business
2. Quadrant -2 – Exploiting strategic Advantages
3. Quadrant –3 – Developing new capabilities
4. Quadrant -4 – Creating revolutionary Change.

Product Portfolio

Developed by Hofer and based on the product life cycle, the 15cell product/market evolution matrix depicts the type of developing product that cannot be easily shown on other portfolio matrixes.

Strategy Implementation

If a corporation decides to develop innovation internally, it must make sure that its structure and culture are suitable for such a strategy. It must make sufficient resources available for new products, provide collaborative structures and process and incorporate innovation into its overall corporate strategy. It must establish procedures to support all six stages of new product development.

1. Idea Generation
2. Concept Evaluation
3. Preliminary Design
4. Prototype Build and Test
5. Final Design and Pilot Production
6. New Business Development

Developing an Innovative Entrepreneurial culture

To create more innovative corporation, top management must develop an entrepreneurial culture – one that is open to the transfer of new technology into company activities and products and services. The company must be flexible and accepting of change. Rogers in his classic book diffusion of innovations reveals that innovative organizations ten to have the following characteristics

- Positive Attitude toward change
- Decentralized decision making
- Complexity
- Informal Structure
- Interconnectedness
- Organizational slack
- Large Size
- System Openness.

The employees who are involved in innovative process usually fulfill three different soles such as :

1. Product Champion
2. Sponsor
3. Orchestrator

Organizing for Innovation: Corporate Entrepreneurship

Corporate entrepreneurship (also called intrapreneurship) is defined by Guth and Ginsberg as "the birth of new businesses within existing organizations, that is internal innovation or venturing. And the transformation of organizations through renewal of the key ideas on which they are built, that is, strategic renewal.

According to Gifford Pinchot an intrapreneur is person who focuses on innovation and creativity and who transforms and dreams of an idea into a profitable venture by operating within the organizational environment. Intrapreneur acts like an entrepreneur but within the organizational environment.

Burgelman proposes that the use of a particular organizational design should be determined by

1. Strategic importance of the new business to the corporation and
2. The relatedness of the unit's operations to those of the corporation.

The combination of these two factors results in nine organizational designs for corporate entrepreneurship.

1. Direct Integration
2. New product business department
3. Special business unit
4. Micro New Ventures Department
5. New venture division
6. Independent Business Units
7. Nurturing and Contracting
8. Contracting
9. Complete Spin-off

Strategy Evaluation and Control

For innovations to succeed, appropriate evaluation and control techniques must be used to ensure that the end product is what was originally planned. Some of these techniques are the stage-gate process and the house of quality.

Evaluation control techniques

The stage-gate process is a method of managing new product development to increase the likelihood of launching new products quickly and successfully. The process is a series of steps to move products through the six stages of new product development

The house of Quality is another method of managing new product development to help project teams make important design decisions by getting them to thing about what users want and how to get them most effectively. This method provides a common framework within which the project team can interact.

Evaluation control measures

Companies wants to get more productivity at a faster pace from their R&D activities. But how do we measure the effectiveness or efficiency of a company's R&D?

Corporate Social Responsibility

CSR is generally understood to be the way the organization achieves the balance between economic, environmental, and social imperatives while they address the expectations of the shareholders and stakeholders. CSR is also often understood as involving the private sector commitments and activities which extend beyond the foundation of compliance with laws.

Whatever might be the definition and the way CSR is understood, the fact is that the business firms today have social responsibilities that extend well beyond what in the past was commonly referred to simply as the business economic function and mangers must definitely consider and weigh the legal, ethical, moral and social impact and repercussions of each of their decisions.

India's new Companies Act 2013 (Companies Act) has introduced the provision for Corporate Social Responsibility (CSR). The concept of CSR rests on the ideology of give and take. Companies take resources in the form of raw materials, human resources etc from the society. By performing the task of CSR activities, the companies are giving something back to the society. Ministry of Corporate Affairs has notified Section 135 and Schedule VII of the Companies Act as well as the provisions of the Companies (Corporate Social Responsibility Policy) Rules, 2014 (CRS Rules) which has come into effect from 1 April 2014 and certain amendment in May 2016.

Applicability:

Section 135 of the Companies Act 2013 provides the threshold limit for applicability of the CSR to a Company: (a) net worth of the company to be Rs 500 crore or more; or (b) turnover of the company to be Rs 1000 crore or more; or (c) net profit of the company to be Rs 5 crore or more. Further as per the CSR Rules, the provisions of CSR are not only applicable to Indian companies, but also applicable to branch and project offices of a foreign company in India. Expenditure on CSR does not form part of business expenditure.

CSR Committee and Policy:

Every qualifying company requires spending of at least 2% of its average net profit (Profit before taxes) for the immediately preceding 3 financial years on CSR activities in India. Further, the qualifying company will be required to constitute a committee (CSR Committee) of the Board of Directors (Board) consisting of 3 or more directors. The CSR Committee shall formulate and recommend to the Board, a policy which shall indicate the activities to be undertaken (CSR Policy); recommend the amount of expenditure to be incurred on the activities referred and monitor the CSR Policy of the company. The Board shall take into account the recommendations made by the CSR Committee and approve the CSR Policy of the company.

Definition of the term CSR:

The term CSR has been defined under the CSR Rules which includes but is not limited to:

- ♥ Projects or programs relating to activities specified in the Schedule; or
- ♥ Projects or programs relating to activities undertaken by the Board in pursuance of recommendations of the CSR Committee as per the declared CSR policy subject to the condition that such policy covers subjects enumerated in the Schedule.
- ♥ Flexibility is also permitted to the companies by allowing them to choose their preferred CSR engagements that are in conformity with the CSR policy. The Board of a company may decide to undertake its CSR activities approved by the CSR Committee, through a registered society or trust or section 8 company with established track record of three years.

Activities under CSR:

The activities (in areas or subject, specified in Schedule VII) that can be done by the company to achieve its CSR obligations include: Schedule VII of Companies Act 2013:

1. Eradicating hunger, poverty and malnutrition, promoting health care including preventive health care and sanitation including contribution to the 'Swachh Bharat Kosh' set up by the Central Government for the promotion of sanitation and making available safe drinking water:
2. Promoting education, including special education and employment enhancing vocation skills specially among children, women, elderly, and the differently abled and livelihood enhancement projects;
3. Promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures

for reducing inequalities faced by socially and economically backward groups;

4. Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agro forestry, conservation of natural resources and maintaining quality of soil, air and water including contribution to the 'Clean Ganga fund' set up by the Central Government for rejuvenation of river Ganga ;

5. Protection of national heritage, alt and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts:

6. Measures for the benefit of armed forces veterans, war widows and their dependents;

7. Training to promote rural sports, nationally recognised sports, Paralympic sports and Olympic sports;

8. Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women;

9. Contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government;

10. Rural development projects;

11. Slum area development.

Corpus:

Contribution to Corpus of a Trust/ society/ section 8 companies etc. will qualify as CSR expenditure. (viii)Contribution to Corpus of a Trust/ society/ section 8 companies etc. will qualify as CSR expenditure as long as (a) the Trust/ society/ section 8 companies etc is created exclusively for undertaking CSR activities or (b) where the corpus is created exclusively for a purpose directly relatable to a subject covered in Schedule VII of the Act. (General circular no. 21/2014) Government Scheme: CSR should not be interpreted as a source of financing the resource gaps in the Government schemes. Use of corporate innovations and managerial skills in the delivery of "public goods" is at the core of CSR implementation by the companies. CSR funds of companies should not be used as a source of funding Government projects. The Government has no role to play in the approving and implementing of CSR projects. MCA will provide the broad contours within which eligible companies will formulate their CSR policies, including activities to be undertaken and implement the same in right earnest.

Local Area:

For the purpose of spending the amount earmarked for Corporate Social Responsibility activities, the company shall not limit itself to local area or areas around it where it operates but shall select areas across the country. (amendment bill 2016) Company may also choose to associate with 2 or more companies for fulfilling the CSR activities provided that they are able to report individually. The CSR Committee shall also prepare the CSR Policy in which it includes the projects and programmes which is to be undertaken, prepare a list of projects and programmes which a company plans to undertake during the implementation year and also focus on integrating business models with social and environmental priorities and process in order to create share value. The company can also make the annual report of CSR activities in which they mention the average net profit for the 3 financial years and also prescribed CSR expenditure but if the company is unable to spend the minimum required expenditure the company has to give the reasons in the Board Report for noncompliance so that there are no penal provisions are attracted by it.

CSR and Historical Developments

The view that the business can have obligations that extend beyond economic role is not new in many respects. During nineteenth century, the corporation as a business form of organization evolved rapidly in US. It took on a commercial form that spelled out responsibilities of the board of directors and management to shareholders (fiduciary duty). By the mid of twentieth century CSR was being discussed in the US by business management experts such as Peter Drucker and in business literatures. CSR emerged and continues to be a key business management, marketing and accounting concern in the US, Europe, Canada and other nations.

The II Generation of CSR is now developing where companies and whole industries see CSR as an integral part of the long term business strategy. Now adays lot of companies are taking it seriously for good of business. In the last decade, CSR and related concepts such as corporate citizenship and corporate sustainability have expanded.

A III Generation CSR is needed in order to make a significant contribution to addressing poverty and environmental degradation. This will go beyond voluntary approaches by individual companies and will involve leadership companies and organizations influencing the market in which they operate and how it is regulated to re-mould whole markets towards sustainability.

Business Importance of CSR

Corporations are motivated to involve stakeholders in their decision making and to address societal challenges because today's stakeholders are increasingly aware of the importance and impact of the corporate decisions upon society and the environment. The stakeholders can reward or punish corporations. Corporations can be motivated to change their corporate behaviour in response to the business case which a CSR approach potentially promises. This includes:

1. Stronger financial performance and profitability (eg. Through eco-efficiency)
2. Improved Accountability to and assessments from the investment community
3. Enhanced employee commitment,
4. Decreased vulnerability through stronger relationship with communities, and
5. Improved reputation and branding.

The following factors are taken in to account for understanding the importance of CSR

1. Globalization and the associated growth in competition
2. Increased size and influence of companies
3. War for talent, companies competing for expertise,
4. Increased importance of intangible assets.

CSR and Companies in India

In India most of the work done by the companies is still in nature of philanthropy considering that, of the six shortlisted companies for the Business World FICCI CSR Award for the year 2003, five (Lupin, Canara Bank, Indal, Gujrat Ambuja and Wipro) are involved in community development work.

COVID-19 has taken up the lion's share of CSR funding. We were keen to know what the companies adjudged for Best Practices in 2019 have achieved more recently. Tata Chemicals Ltd. was ranked the number one company third year in a row for Sustainability & CSR practice in Responsible Business Ranking 2019, a study conducted by Futurescape. It is number 1 on the list of top 20 Indian companies for CSR in 2019. The study follows the environment, social and governance (ESG) framework to examine corporate performance. Besides reviewing the spending patterns on CSR, the study also combined performance and spending into the responsibility matrix of the companies.

While the study examines the ESG performance of companies, the research also indicates that companies are gradually incorporating Sustainable Development Goals (SDGs) into their responsible business actions.

Top 10 Indian Companies for CSR in 2019

What follows is an analytical examination of sustainability reports, annual reports and business responsibility reports of India Inc. It covers industries as diverse as automobiles, banks, FMCG, infrastructure, information technology, metals and mining, oil, power, steel, pharmaceuticals, telecommunications and others. Here are the Top 20 Indian companies for CSR in 2019.

1. Tata Chemicals tops list of Indian companies for CSR.

Although the prescribed CSR for 2019-2020 was 21.39 Crores, the company went on to spend 37.81 crores on community development projects. Improving the quality of life and fostering sustainable and integrated development in the communities where it operates is central to Tata Chemicals' corporate philosophy.

Tata Chemicals spends INR 12 crores on CSR annually, and wildlife conservation accounts for 30% of the budget of the TCSRD. The spend is distributed over the three places the company has operations — Mithapur in Gujarat, Haldia in West Bengal and Babrala, Uttar Pradesh.

2. Infosys Ltd.

Digital services and consulting conglomerate Infosys Limited spent INR 359.94 crores (near 360 crore rupees) as against its prescribed CSR expenditure of INR 359.56 crores (2% of the net profit of INR 17,978 Cr) towards various schemes of Corporate Social Responsibility.

The company implements social development projects primarily through its CSR trust, the Infosys Foundation established in 1996. The Foundation primarily works with non-governmental organizations as the nodal agency for implementing projects.

3. Bharat Petroleum Corporation Ltd.

(BPCL) is a Government of India controlled Maharatna oil and gas company headquartered in Mumbai. BPCL employees stood strong in the fight against the virus. They made a collective contribution of INR 4.27 Crores from their salaries. As part of its corporate social responsibility for COVID-19 relief, the PSU organised 'Swachhata Pakhwada 2020' from July 1 to 15, 2020. This special initiative was in support of the Indian government's Swachh Bharat Abhiyan.

4. Mahindra & Mahindra Ltd.

Anand Mahindra, Chairman of the Mahindra Group, declared a series of interventions after the pandemic hit the nation, from manufacturing ventilators to using Mahindra Holidays resorts for COVID-19 patient care. Project teams

have assisted the Government and the defence forces to build quarantine facilities. The company has set up a special fund through the Mahindra Foundation to assist small businesses and professionals who have been affected financially. The chairman donated 100% of his salary to the fund, and urged his colleagues to volunteer their contributions.

Mahindra & Mahindra spent INR 93.50 crores on CSR initiatives during the financial year 2018-19, according to the annual report published by the company. The company spent INR 8.36 crore on Project Nanhi Kali which provides educational support to underprivileged girls in India through an afterschool support programme.

5. ITC Ltd.

ITC Limited is an Indian multinational conglomerate company headquartered in Kolkata, West Bengal. The Company has spent more than the prescribed CSR budget in the last three financial years. In FY 2018-19, ITC Limited spent INR 306.95 Crores. CSR of ITC set up a COVID Contingency Fund of INR 215 crores for those affected. Together with local authorities, they distributed cooked meals, food and hygiene products across 25 States and Union Territories.

6. Ambuja Cement Ltd.

Ambuja Cement Foundation (ACF) – the corporate social responsibility arm of Ambuja Cement – has been pivotal in advancing the company's objective to be a socially responsible corporate citizen. Ambuja Cement Foundation (ACF) aims to 'Energise, Involve and Enable Communities to Realise their Potential' through its initiatives. These development initiatives address the needs of the people by working with the beneficiaries, NGOs and the government. ACF is functional across 12 states covering 22 locations in India and has succeeded in bringing about change in the lives of 1.5 million people.

7. Tata Motors Ltd.

Auto brand Tata Motors Limited went beyond compliance and spent INR 22 crores (standalone) towards various schemes of CSR. The CSR spend amount excludes INR 2.99 crore donated to Tata Community Initiative Trust (TCIT) for repair of infrastructure which was affected during the flood in Kerala (August 2018), company said in its Integrated Annual Report for the FY 2018-19.

8. Vedanta Ltd.

Vedanta Limited on a consolidated basis spent INR 309 crores on social investments and CSR (Corporate Social Responsibility) activities. This is 26% more than the previous year's INR 244 crores. This money is spent across 1,169 villages, benefiting nearly 3.1 million people.

9. Hindalco Industries Ltd.

Hindalco Industries Limited is the metals flagship company of the Aditya Birla Group. With a consolidated turnover of US$18.7 billion, Hindalco is the world's largest aluminium rolling company and one of Asia's biggest producers of primary aluminium.

Hindalco Industries went beyond compliance and spent INR 34.14 Cr, which is a higher figure than the prescribed INR 29.97 Cr. The Company supports education, healthcare, sustainable livelihood, infrastructure development and social reformation under Corporate Social Responsibility (CSR) with 12 Lakh beneficiaries in more than 730 villages across 11 states in India. Hindalco has spent the highest amount of INR 10.99 crore on education sector among all its CSR initiatives.

10. Toyota Kirloskar Motor India

As a socially committed corporate, Toyota Kirloskar Motor India has actively contributed towards the "Swachh Bharat Abhiyan". The company has constructed more than 650 units of sanitation facilities in 206 government schools across India, of which 125 units are located in Varanasi, 426 units in Ramanagara district in Karnataka and 125 units in Vaishali in Bihar.

Strategic Issues in Non Profit Organizations

Non-profit and not-for-profit are terms that are used similarly, but do not mean the same thing. Both are organizations that do not make a profit, but may receive an income to sustain their missions. The income that non-profit and not-for-profit organizations generate is used differently. Non-profit organizations return any extra income to the organization. Not-for-profits use their excess money to pay their members who do work for them. Another difference between non-profit organizations and not-for-profit organizations is their membership. Non-profits have volunteers or employees who do not receive any money from the organization's fundraising efforts. They may earn a salary for their work that is independent from the money the organization has fundraised. Not-for-profit members have the opportunity to benefit from the organization's fundraising efforts.

Non-Profit Organization or Not-for-Profit Organization in economic terms, uses its surplus of revenues to utilise/dedicate for a social cause or advocating a shared point of view. Meaning they don't distribute its income to the organization's shareholders, leaders or members

A knowledge on not-for-profit organizations is important if only because they account for an average of 1in 20 jobs in nations throughout the world. A

study by the Johns Hopkins University Institute for Policy Studies found that in nine countries between 1990 and 1995, nonprofit jobs grew by 23% compared to 6.2% for the whole economy.

A non-profit organization can be registered in India as a Society, under the Registrar of Societies or as a Trust by making a Trust deed, or as a Section 8 Company, under the Companies Act, 2013. According to section 8(1)(a), (b) and (c) of the Indian Companies Act, 2013, a section-8 company can be established 'for promoting commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment or any such other object', provided the profits, if any, or other income is applied for promoting only the objectives of the company and no dividend is paid to its member

Whether a trust, society or Section 8 company, the Income Tax Act, 1961 gives all categories equal treatment, in terms of exempting their income and granting 80G certificates, whereby donors to non-profit organizations may claim a rebate against donations made. Foreign contributions to non-profits are governed by FC(R)A regulations and the Home Ministry.

For an organization to be termed as charity it requires Income tax clearances under 12 A Clause of Income Tax Act. Section 2(15) of the Income Tax Act defines 'charitable purpose' to include 'relief of the poor, education, medical relief and the advancement of any other object of general public utility'. A purpose that relates exclusively to religious teaching or worship is not considered as charitable.

Registering a Non-Profit in India can be done in a total of five ways:

- Trust
- Society
- Section-8 Company under Companies Act, 2013 (It was earlier Section-25 Under Companies Act, 1956)
- Special Licensing
- Section-25 Company (In old companies Act - Companies Act, 1956)

Why not for Profit?

The not-for-profit sector of an economy is important for several reasons. Let us find:

1. Society desires certain goods and services that profit making firms cannot and will not provide. These are referred to as "Public or Collective Goods" because people who might not have have paid for the goods receive benefit from them. Eg. Road, Park. Museum, Police Protection and Schools etc.
2. Certain aspects of life do not appear to be served appropriately by profit making business yet are often crucial to be the ell being of the society.

These aspects include areas in which society as a whole benefit from a particular service but in which a particular induvial only benefits directly. It is in this area that not-for-profit-organizations have traditionally been most effective. Although most people do not visit these places very often, they are usually willing to pay taxes and or donate funds to support their existence. They do so because they believe that these organizations act to uplift the culture and quality of region and life To fulfil their mission, entrance fees (if any) must be set low enough low to allow everyone admission. These admission fees or entrance fees, however are not profitable – they rarely even cover the costs of the service. e.g., Libraries and Museum.

3. The same is true of ignored, innocent, old aged and animals which are abandoned and later managed by Human society. Although few people charge fees for adoption but would not pay for finding and caring. Additional revenue is needed – in the form of either donations or public taxations. e.g. Help Age and Animals care.

4. A private non-profit organization tends to receive benefits from society that a private profitmaking organization cannot obtain. The laws applicable to non-profits in India recognizes only "Charitable purposes" and "Religious purposes." The income tax is fairly comprehensive and covers, besides relief of the poor, education and medical relief. e.g., Energy and Resources Institute (TERI), Naandi Foundations, the Barefoot College, International Development Enterprises (IDE)

5. Some of the aspects of life that cannot easily be privatized and are often better managed by non profit organisation are as follows:
   a. Religion
   b. Education
   c. Charities
   d. Clubs, interest groups and Unions
   e. Healthcare
   f. Government

Importance of Revenue Source

The feature that differentiates not-for-profit organizations from each other as well as from profit making corporations is their source of revenue. A profit-making firm depends on revenues obtain from the sale of its goods and services to customer, who typically pay for the cost and expenses of providing the product or service plus a profit. A non-profit organization, in contrast, depends heavily on dues, assessments, or donations from its members, or on funding from the sponsoring agency, to pay much of its costs and expenses.

Balanced Score Card

The balanced scorecard is a strategic performance management tool- a semi- standard structured report supported by proven design methods and automation tools that can be used by manager s to keep track of the execution of activities by staff within their control and monitor the consequences arising from these actions.

History:

The first balanced scorecard was created by Art Schneider man (an independent consultant on the management of processes) in 1987 at Analog Devices, a mid-sized semi- conductor company. Art Schniederman participated in an unrelated research study in 1990 led by Dr. Robert S.Kaplan in conjunction with US management consultancy Nolan-Norton, and during this study described his work on balanced Scorecard.

Subsequently, Kaplan and David P Norton included anonymous details of this use of balanced Scorecard in their 1992 article on Balanced Scorecard. Kaplan & Norton's article wasn't the only paper on the topic published in early 1992. But the 1992 Kaplan& Norton paper was a popular success, and was quickly followed by a second in 1993. In 1996, they published the book The Balanced Scorecard. These articles and the first book spread knowledge of the concept of Balanced Scorecard widely, but perhaps wrongly have led to Kaplan & Norton being seen as the creators of the Balanced Scorecard concept.

Four Perspectives:

Financial: Encourages the identification of a few relevant high-level financial measures.

Customer: Encourages the identification of measures that answer the question "How do customers see us?"

Internal Business Process: Encourages the identification of measures that answer the question "What must we excel at?"

Learning and Growth: Encourages the identification of measures that answer the question "Can we continue to improve and create value?"

New Business Models and strategies for Internet Economy

New Business Model

Traditional business model of a manufacturer is being used by most firms to make money.

- Sell products to customers at prices above costs.
- Produce a good return on investment.
- Strategic issues facing equipment makers.
- Several competing technologies for various components of the internet infrastructure exist.
- Competing technologies may have different performance pluses and minuses and be compatible.

Strategy Options for Suppliers of Communications Equipment:

- Invest aggressively in R&D to win the technological race against rivals.
- Form strategic alliances to build consensus for favored technological approaches.
- Acquire other companies with complementary technological expertise.
- Hedge firm s bets by investing sufficient resources in mastering one or more of the competing technologies.

Business Models: Suppliers of Communication Services:

- Business models based on profitably selling services for a fee- based on a flat rate per month or volume of use.
- Firms must invest heavily in extending lines and installing equipment to have capacity to provide desired point-to- point service and handle traffic load.
- Investment requirements are particularly heavy for backbone providers, creating sizable up-front expenditures and heavy fixed costs.

Strategic Options:

- Provide high speed internet connections using new digital line technology
- Provide wireless broadband services or cable internet service
- Bundle local telephone service, long distance service, cable TV service and Internet access into a single package for a single monthly fee.

Business Models: Suppliers of Computer Components and Hardware:

- Traditional business model is used-Make money by selling products at prices above costs Strategic approaches.
- Stay on cutting edge of technology.
- Invest in R&D
- Move quickly to imitate technological advances and product innovations of rivals.
- Key to success- Stay with or ahead of rivals in introducing next-generation products.

Competitive Advantage Based on Strategies Key to Low Cost

- ♥ Business Models: Developers of Specialized E-Commerce Software
- ♥ Business model involves
- ♥ Investments in designing and developing specialized software
- ♥ Marketing and selling software to other firms
- ♥ Profitability hinges on volume
- ♥ Strategic approaches: Sell software at a set price per copy
- ♥ Collect a fee for every transaction provided by the software
- ♥ Rent or lease the software

Business Models: Media Companies and Content Providers:

- ♥ Using intellectual capital to develop music, games, video, and text, media firms.
- ♥ Charge subscription fees or
- ♥ Rely on a pay-per-use model
- ♥ Business model of content providers involves creating content to attract users, then selling advertising to firms wanting to deliver a message
- ♥ Key success factors for content providers
- ♥ Create a sense of community
- ♥ Deliver convenience and entertainment value as well as information.

Business Models: E- Commerce Retailers:

- ♥ Sell products at or below cost and make money by selling advertising to other merchandisers.
- ♥ Use traditional model of purchasing goods from manufacturers and distributors, marketing items at a web store.
- ♥ Filling orders from inventory at a warehouse.
- ♥ Operate website to market and sell product/ service and outsource manufacturing, distribution and deliver y activities to specialists.

Strategic Approaches: E-Commerce Retailers:

- ♥ Spend heavily on advertising to build widespread
- ♥ Add new product offerings to help attract traffic to firm's website.
- ♥ Be a first-mover or at worst on early mover
- ♥ Pay consideration attention to website attractiveness to generate "buzz" about the site among surfers
- ♥ Keep the web site innovative, fresh, and entertaining.

Key Success Factors: Competing in the E-Commerce Environment:

- ♥ Employ an innovative business model
- ♥ Develop capability to quickly adjust business model and strategy to respond to changing conditions.

- Focus on a limited number of competencies and performance relatively specialized number of value chain activities
- Stay on the cutting edge of technology
- Use innovative marketing techniques that are efficient in reaching the targeted audience and effective in stimulating purchases
- Engineer an electronic value chain that enables differentiation or lower costs or better value for the money.

Internet Economy:

The internet economy is an economy is based on electronic goods and services produced by the electronic business and traded through electronic commerce. The Internet Economy refers to conducting business through markets whose infrastructure is based on the internet and world-wide web. An internet economy differs from a traditional economy in a number of ways, including communication, market segmentation, distribution costs and price.

Impact of the Internet and E-Commerce:

- Impact on external industry environment
- Changes character of the market and competitive environment
- Creates new driving forces and key success factors
- Breeds formation of new strategic groups
- Impact on internal company environment
- Having, or not having, an e-commerce capability tilts the scales.
- Toward valuable resource strengths or threatening weaknesses.
- Creatively reconfiguring the value chain will affect a firm's competitiveness rivals.

Characteristics of Internet Market Structure:

- Internet is composed of the followings:
- Integrated network of user s connected computers
- Banks of servers and high speed computers
- Digital switches and routers
- Telecommunications equipment and lines

Strategy-Shaping Characteristics of the E-Commerce Environment

Internet makes it feasible for companies everywhere to compete in global markets. Competition in an industry is greatly intensified by new e-commerce. Strategic initiatives of existing rivals are by entry of new, enterprising, e-commerce rivals.

- Entry barriers into e-commerce world are relatively low
- On- line buyers gain bargaining power
- Internet makes it feasible for firms to reach.

Effects of the Internet and E-commerce:

- ♥ Major groups of internet and e-commerce firms comprising the supply side include:
- ♥ Makers of specialized communications components and equipment.
- ♥ Providers of communications services.
- ♥ Suppliers of computer components and hardware
- ♥ Developers of specialized software
- ♥ E- Commerce enterprises

Part 'A' Questions

1) Define the role of management in technology and innovation.

2) What are the best practices to improve R&D?

3) Define Non-Profit Organization.

4) Brief the two types on non-profit organizations.

5) What are the constraints in not-for-profit organization?

6) What are the problems faced in strategy formulation?

7) How CSR in India becomes strategic?

8) What are the popular strategies followed by non-profit organizations?

9) Mention the strategic options for new business model.

10) Define internet economy.

11) What are the impact of the internet and e-commerce?

Part 'B' Questions

1) Explain about the management of technology and innovation.

2) Describe the Strategic Issues for Non-Profit Organization.

3) Discuss about the new business models.

4) Explain the strategies for internet economy.

5) Enumerate the key strategies to low cost in e-commerce

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