Strategic

Management

Subject Information

Paper – 7B – Strategic Management

Marks Allotted - 50

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Subject Information

-: Types of questions asked by ICAI :-

- Answer in brief – 3 Marks
- Correct and Incorrect statements with reasons – 2 Marks
- Descriptive questions – 7 marks
- Distinguish between – 3 – 4 Marks
- Short Notes – 3 – 4 Marks
- Case Study - 5 Marks
- Multiple Choice Questions

Chapter Index

What is Management?

Management means

- an art of getting things done through people.

Strategy means

Strategy means

What is Management?

F.W. Taylor

”Art of knowing what you want to do and then seeing that it is done the best and cheapest way”.

Henry Feyol

“To manage is to forecast, to plan, to organise, to command, to coordinate and to control”.

What is Business Strategy?

William F. Glueck

*"A **<u>unified, comprehensive and integrated</u>***

plan designed to assure that

the

basic objectives

of

the enterprise

are

achieved".

What is Business Strategy?

Strategy is ***consciously*** considered and ***flexibly*** designed scheme of corporate intent and action.....

- ✓to achieve ***effectiveness***,
- ✓to ***mobilise resources***,
- ✓ to direct ***effort and behavior***
- ✓to handle ***events and problems***
- ✓corporate ***survival and success***.

What do We mean by Corporate Strategy?

Corporate level strategy is basically concerned with selection of businesses in which your company should compete.

Corporate strategy is basically the ***growth design*** of the firm; it spells out the growth objective - the direction, extent, pace and timing of the firm's growth.

Corporate Strategy

Strategy is no substitute for sound, alert and responsible management.

Strategy can never be perfect, flawless and optimal.

It is in the very nature of strategy that it is flexible and pragmatic (practical); it is art of the possible; it does not preclude second-best choices, trade-offs, sudden emergencies, pervasive pressures, failures and frustrations.

However, in a sound strategy, allowances are made for possible miscalculations and unanticipated events.

A company's strategy has always to be proactive in nature.

Correct

Incorrect

A company’s strategy is a blend of proactive actions and reactive actions by the management. Reactive actions are required to address unanticipated developments and environmental conditions. Thus, not every strategic move is the result of proactive and deliberate management actions. At times, some kind of strategic reaction or adjustments are required.

Strategic Management

The term 'strategic management' refers to the managerial process of developing a strategic vision, setting objectives, crafting a strategy, implementing and evaluating the strategy, and initiating corrective adjustments where deemed appropriate.

Strategic Management

Strategic Managers understands, use and implements the concepts of Strategic Management for managing their business Strategically.

Framework of *Strategic Management*

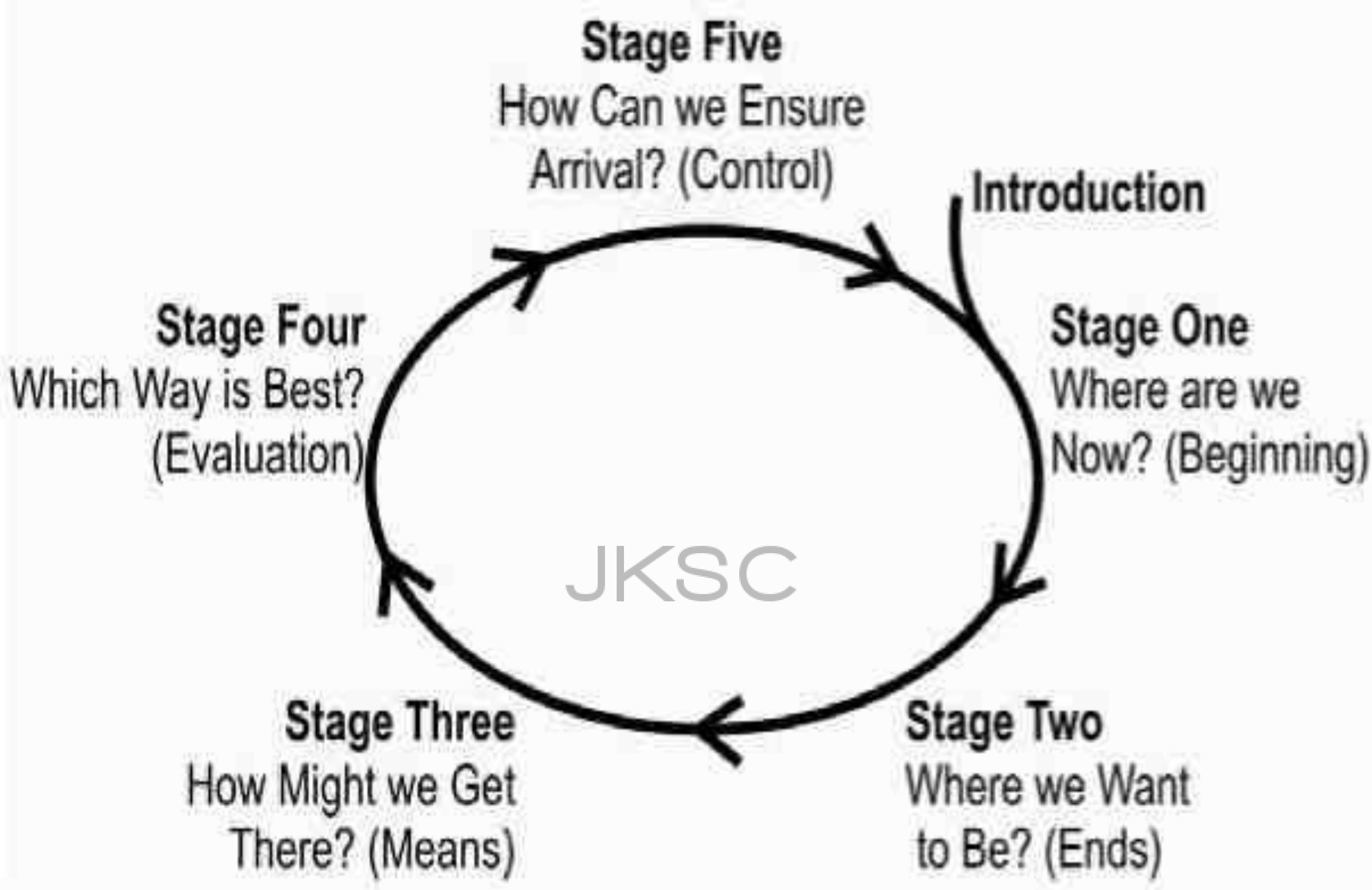
Stage one –(Planning and Analysis) - *(Beginning)*

Stage two –(Strategy Formulation) - *(Ends)*

Stage three - **(Alternative Selection) - *(Means)***

- **Stage four** - Which Way is Best? **(Evaluation)**
- **Stage five – (Implementation and control)**

Framework of *Strategic Management*



Importance of Strategic Management

✓It helps organisations to be ***<u>more proactive</u>*** instead of ***<u>reactive</u>***

✓provides ***<u>framework</u>*** for all the major business decisions of an enterprise

✓act ***<u>as pathfinder</u>***

✓helps to enhance the longevity of the business.

✓***<u>avoid costly mistakes</u>***

✓Helps to evolve certain ***<u>core competencies and competitive advantages</u>***

Limitations of Strategic Management

- Environment is highly complex and turbulent. It is difficult to understand the complex environment and exactly pinpoint how it will shape-up in future.
- Strategic management is a time-consuming process. Organisations spend a lot of time in preparing, communicating the strategies that may impede (obstruct) daily operations and negatively impact the routine business.

- Strategic management is a costly process.

Strategic management is a bundle of tricks and magic.

Correct

Incorrect

No, Strategic management is not a bundle of tricks and magic. It is a deliberate managerial process that involves systematic and analytical thinking. It involves systematic and analytical thinking and action. Although, the success or failure of a strategy is dependent on several extraneous factors, it cannot be stated that a strategy is a trick or magic. Formation of strategy requires careful planning and requires strong conceptual, analytical, and visionary skills.

Strategic Levels in Orgsanisation

There are three levels of management.

- Corporate Level
- Business Level
- Functional Level

Strategic Levels in Organisation

➢ Corporate Level

This level of management consists of the Chief executive Officer (CEO), other senior executives, the board of directors and corporate staff.

These individuals are mainly decision making authority of the organisation.

Strategic Levels in Orgsanisation

➢ Business Level

- The head of the unit can be principal general manager.

- At this level business managers are concerned with the strategies specific to the particular business.

Strategic Levels in Orgsanisation

➢ Functional Level

The business functions or operations that constitute a company or one of the divisions are known as functional level management.

Specific business functions are **marketing, sales, production, human resources, customer care services etc.**

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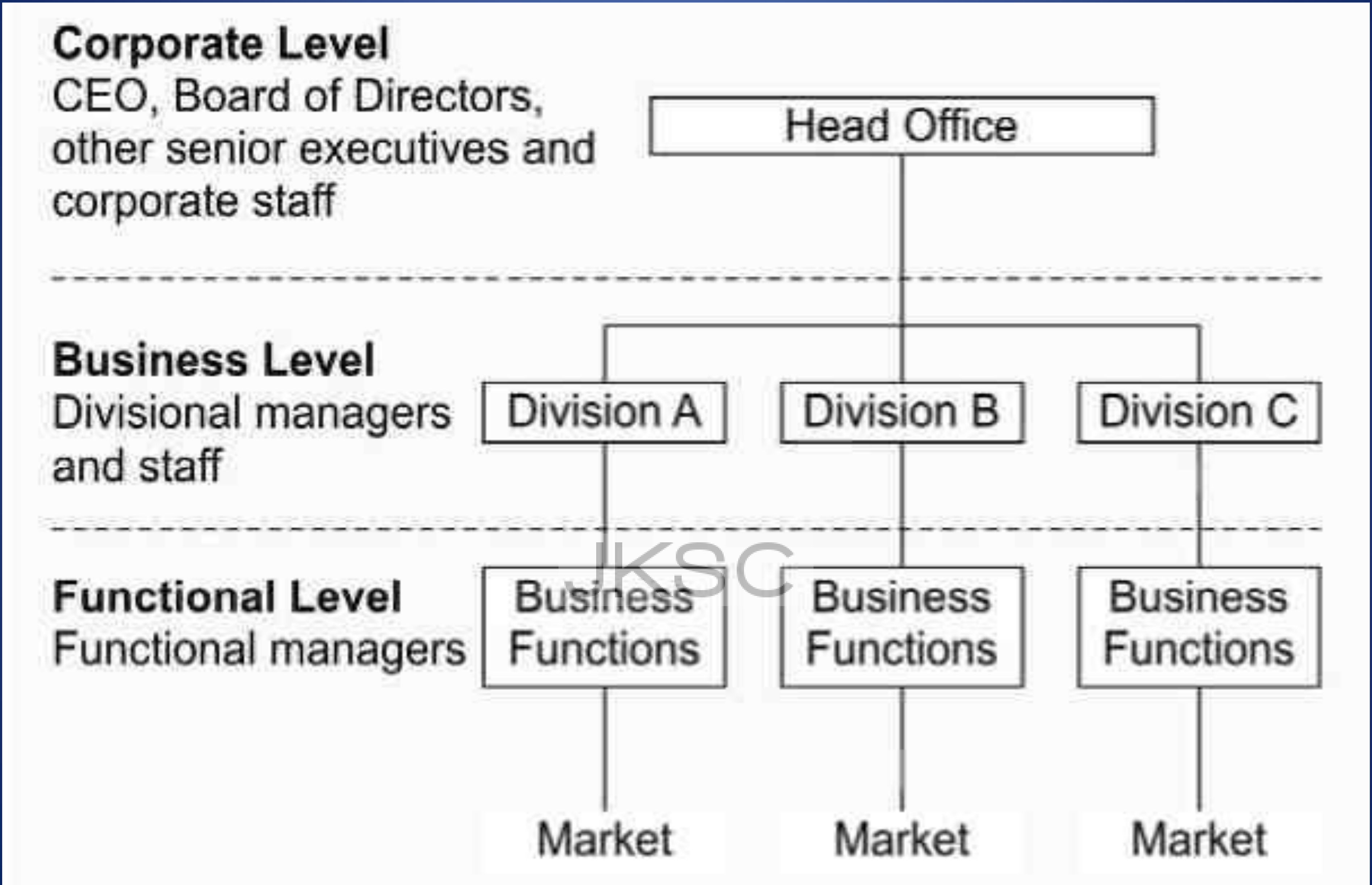
Strategic Levels in Orgsanisation



Thank you

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Dynamics of Competitive Strategy

Competitive Strategy

Corporate Level

Competitive Strategy

Core Competencies

Competitive Advantage

Attracts more Customers

Competitive Strategy

Competitive strategy is designed to help firms achieve **competitive advantage.** Having competitive advantage is necessary for the firm to compete in the market. Competitive advantage comes from a firm's ability to perform activities more effectively than rivals.

A firm must identify its position relative to the competition in the market. By knowing if it is a leader, challenger or follower, it can adopt appropriate competitive strategy

Competitive Strategy

The overall objective of strategic management is to create ***competitive advantage***, increase loyalty and beat competitors. A competitive strategy consists of following objectives

- Attract customers.
- Handle pressure.
- Improve the market position of the organisation.

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COMPETITIVE LANDSCAPE

Competitive landscape is a ***business analysis*** which identifies competitors, either direct or indirect.

Competitive landscape is about identifying and understanding the competitors and at the same time, it permits the comprehension of their vision, mission, core values, niche market, strengths and weaknesses.

Understanding of competitive landscape requires an application of "competitive intelligence

COMPETITIVE LANDSCAPE

An in-depth investigation and analysis of a firm's competition allows it to assess the competitor's strengths and weaknesses in the marketplace and helps it to choose and implement effective strategies that will improve its competitive advantage.

Steps to understand the Competitive Landscape

- ❑ **Identify the competitor**
- ❑ **Understand the competitors**
- ❑ **Determine the strengths of the competitors**
- ❑ **Determine the weaknesses of the competitors**
- ❑ **Put all of the information together**

Steps to understand the Competitive Landscape

- **Identify the *competitor***
- The first step to understand the competitive landscape is to identify the competitors in the firm's industry and have actual data about their respective market share.
- This answers the question:
  Who are the competitors?

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Steps to understand the Competitive Landscape

- **Understand the competitors**

- Once the competitors have been identified, the strategist can use market research report, internet, newspapers, social media, industry reports, and various other sources to understand the products and services offered by them in different markets.

- This answers the question:

  What are their product and services?

Steps to understand the Competitive Landscape

- **Determine the strengths of the competitors**

- What are the strength of the competitors? What do they do well? Do they offer great products? Do they utilize marketing in a way that comparatively reaches out to more consumers. Why do customers give them their business? This answers the questions-

- What are their financial positions?
- What gives them cost and price advantage?
- How strong is their distribution network?
- What are their human resource strengths?

Steps to understand the Competitive Landscape

- **Determine the weaknesses of the competitors**

- Weaknesses (and strengths) can be identified by going through consumer reports and reviews appearing in various media. After all, consumers are often willing to give their opinions, especially when the products or services are either great or very poor.

- This answers the question

  Where are they lacking?

Steps to understand the Competitive Landscape

- **Put all of the information together**

- At this stage, the strategist should put together all information about competitors and draw inference about what they are not offering and what the firm can do to fill in the gaps. The strategist can also know the areas which need to be strengthen by the firm. This answers the questions -

- What will the business do with this information?

- What improvements does the firm need to make?

- How can the firm exploit the weaknesses of competitors?

Competitive Strategy

Corporate Level

Business Environment Analysis

Actual / Factual data

Base

Competitive Strategy

Core Competencies

Competitive Advantage

Attracts more Customers

Strategic Analysis

Strategic analysis seeks to determine alternative course of action that could best enable the firm to achieve its mission and objectives.

It means for Strategic Analysis we need to always depend upon task managers intuition, opinion, good instincts and creative thinking??????????

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Strategic Risk

Competitive markets, liberalization, globalization, booms, recessions, technological advancements, inter-country relationships – all these factors affect businesses and pose risk of varying degrees.

An important aspects of strategic analysis is to identify potential imbalances or risks and assess their consequences.

Strategic Risk

A broad classification of the strategic risk that requires consideration in strategic analyses is given below

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

The Methods of Industry and Competitive Analysis

Industry and competitive analysis aims at developing and probing, insightful answers to ***seven questions***:

1. What are the industries dominant economics features? (Key industry traits)

- Market size.
- Number of competitors and their relative sizes/share.
- Whether capital intensive and lots of barriers are there to enter the industry or ease of entry exist.

The Methods of Industry and Competitive Analysis

Industry and competitive analysis aims at developing and probing, insightful answers to ***seven questions***:

2. What competitive forces are at work in the industry and how strong they are? ***(The intensity of competition)***

The Methods of Industry and Competitive Analysis

Industry and competitive analysis aims at developing and probing, insightful answers to ***seven questions***:

3. What are the drivers of change in the industry and what impact they will have? ***(the drivers of industry change)***

- Industry and competitive conditions change because ***forces are in motion*** that creates incentives or pressures for changes. The most dominant forces are called driving forces because they have the biggest influence on what kinds of changes will take place in the industry's structure and competitive environment.

The Methods of Industry and Competitive Analysis

Industry and competitive analysis aims at developing and probing, insightful answers to ***seven questions***:

3. What are the drivers of change in the industry and what impact they will have? ***(the drivers of industry change)***

Analyzing driving forces has two steps:
identifying what the driving forces are
and
assessing the impact they will have on the industry.

The Methods of Industry and Competitive Analysis

Industry and competitive analysis aims at developing and probing, insightful answers to ***seven questions***:

3. What are the drivers of change in the industry and what impact they will have? ***(the drivers of industry change)***

- Decreasing the cost or price in relation to reduction in cost of production.
- Increasing globalisation, providing an increasing number of players
- Product innovation
- Internet and E-commerce
- Entry or exit of major firms.

The Methods of Industry and Competitive Analysis

Industry and competitive analysis aims at developing and probing, insightful answers to ***seven questions***:

4. Which companies are in strongest / weakest competitive position***? (the market positions and strategies of rival companies)***

The Methods of Industry and Competitive Analysis

Industry and competitive analysis aims at developing and probing, insightful answers to ***seven questions***:

5. Who's likely to make what competitive moves next?

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The Methods of Industry and Competitive Analysis

Industry and competitive analysis aims at developing and probing, insightful answers to ***seven questions***:

6. What key factors will determine competitive success or failure?

An industry's ***key success factors (ksfs)*** are those things that most affect industry members' ability to prosper in the marketplace

The purpose of identifying KSFs is to make judgments about what things are more important to competitive success and what things are less important.

Key factors for competitive success

The answers to three questions help identify an industry's key success factors.

- basis on which customers choose ***between*** the ***competing brands*** of sellers?

- What ***resources and competitive*** capabilities does a seller need to have to be competitively successful?

- What does it take for sellers to achieve a ***sustainable competitive advantage?***

The Methods of Industry and Competitive Analysis

Industry and competitive analysis aims at developing and probing, insightful answers to ***seven questions***:

7. Financial attractiveness of the industry.

What is Strategic Group

A strategic group consists of ***<u>those rival firms</u>*** that have ***<u>similar competitive approaches and positions</u>*** in the market.

Airtel, Tata Indicom, JIO, Idea, Vodafone and Aircel come under one strategic group

Maruti, Honda, Hyundai, Mahindra and Tata Motors come under one strategic group.

What is Strategic Group

Organisations in the same strategic group can resemble one another in any of the several ways:

- They may have comparable product-line breadth
- Sell in the same price/quality range
- Emphasize the same distribution channel
- Use essentially the same product attributes to appeal to similar types of buyers
- Depends on identical technological approaches
- Offer buyers similar services and technical assistance

What is Strategic Group Mapping

One technique for revealing the competitive positions of industry participants is ***strategic group mapping***, which is ***useful analytical tool for comparing the market positions of each firm separately or for grouping them into like positions when an industry has so many competitors that it is not practical to examine each one in-depth.***

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Core Competence

C.K. Prahalad and Gary Hamel

Core competency as the collective learning in the organization, especially coordinating diverse production skills and integrating multiple streams of technologies.

Core competencies are capabilities that serve as a source of competitive advantage for a firm over its rivals.

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Core Competence

Competency is defined as a combination of skills and techniques rather than individual skill or separate technique.

For core competencies, it is characteristic to have a combination of skills and techniques, which makes the whole organization utilize these several separate individual capabilities.

Core Competence

Therefore, core competencies cannot be built on one capability or single technological know-how, instead, it has to be the integration of many resources. The optimal way to define core competence is to consider it as sum of 5- 15 areas of developed expertise.

Major core competencies are identified in three areas - **competitor differentiation,**
customer value,
and
application to other markets.

Core Competence

Core competencies are the knowledge, skills, and facilities necessary to design and produce core products.

Core competencies are created by superior integration of technological, physical and human resources.

They represent distinctive skills as well as intangible, invisible, intellectual assets and cultural capabilities

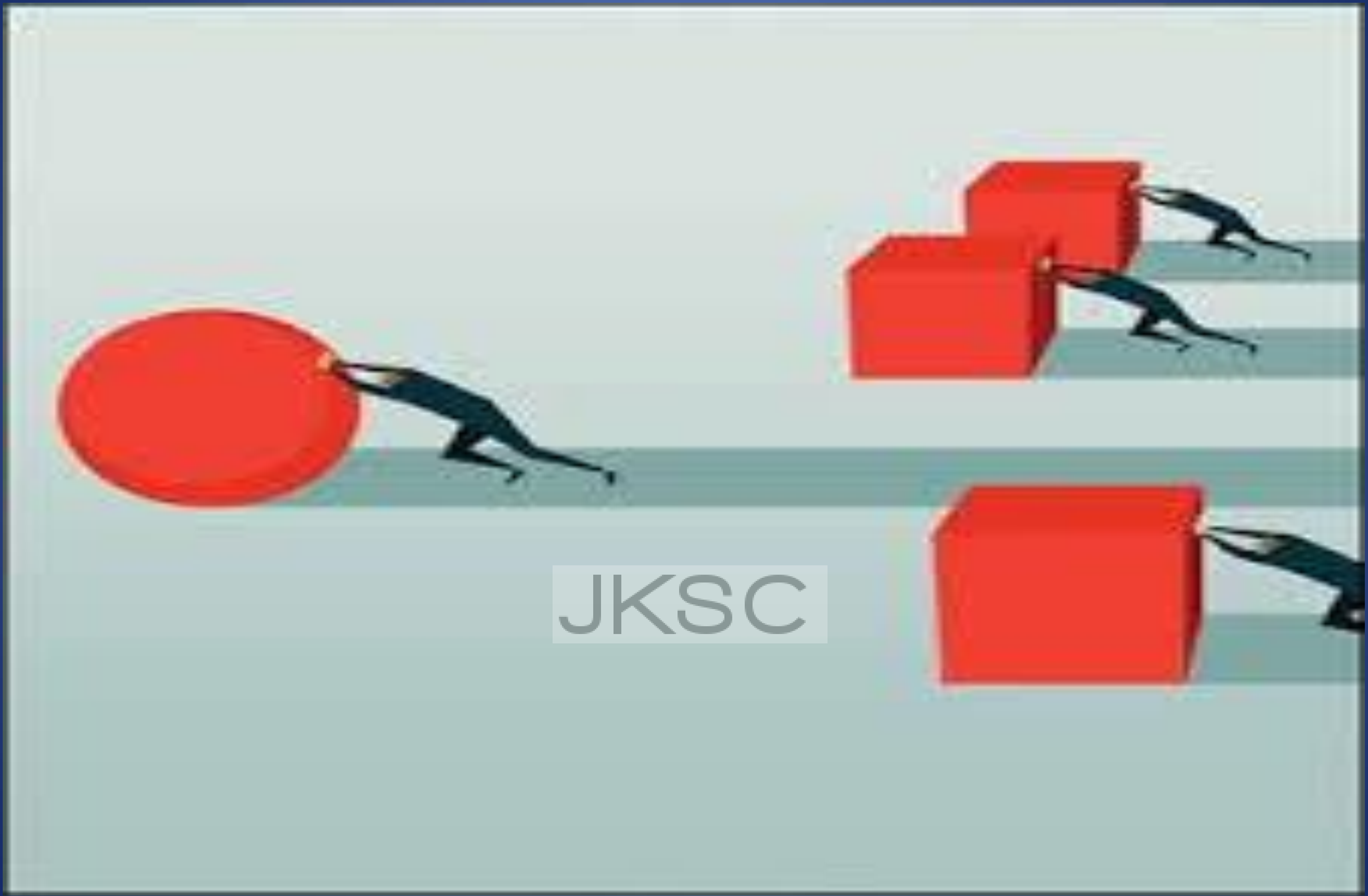
Core Competence - based diversification reduces risk and investment, and increases the opportunities for transferring learning and best practice across business units.

How to build Core Competencies (CC)?

Four specific criteria of sustainable competitive advantage that firms can use to determine those are-

- ✓ **Valuable**
- ✓ **Rare**
- ✓ **Costly to imitate**
- ✓ **Non-substitutable**

2. *What is* Competitive Advantage



What is Competitive Advantage?

"It is set of unique features of a company and its products that are perceived by the target market as significant and superior to the competition".

In simple words, an Orgsanisation is said to have competitive advantage if its profitability is higher than average profitability for all companies in its industry.

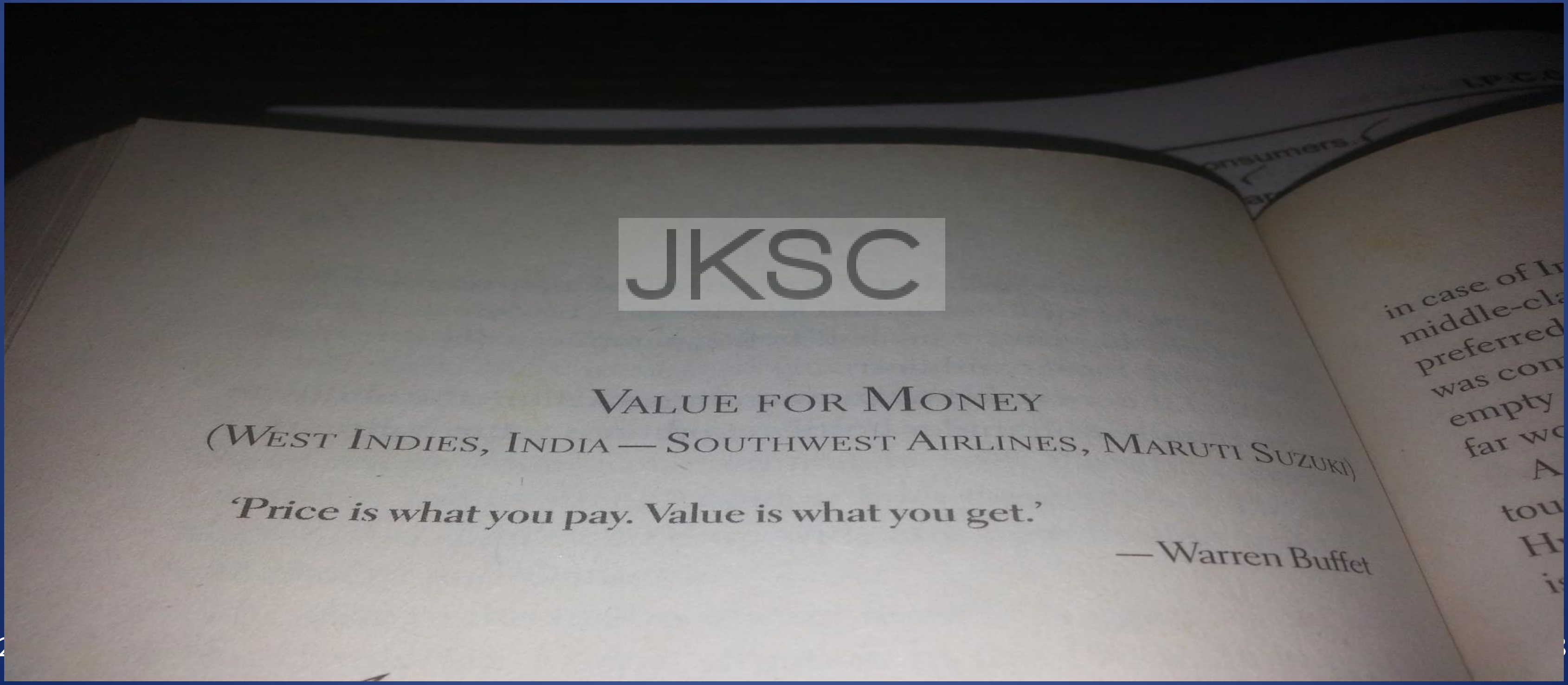
Creating Competitive Advantage

- **Durability**
- **Transferability**
- **Imitability**
- **Appropriability**

Competitive Strategy

We can say that the value creation is an activity or performance by the firms to create value that increases the worth of goods, services or even a business.

Value is created by product's performance and by its features for which customers are willing to pay more.



The Value Chain Analysis :

Value chain analysis has been widely used as a means of describing the activities within and around an organization, and relating them to an assessment of the competitive strength of an organization (or its ability to provide value-for-money products or services).

The Value Chain Analysis :

- The aim of the value chain analysis is to maximise the value creation while minimising costs.
- Organizations are much more than a random collection of machines, money and people.

Primary activities

The primary activities of the organization are grouped into five main areas: inbound logistics, operations, outbound logistics, marketing and sales, and service.

- **Inbound logistics** are the activities concerned with receiving, storing and distributing the inputs to the product / service. This includes materials handling, stock control, transport etc.
- **Operations** transform these various inputs into the final product or service: machining, packaging, assembly, testing etc.

Primary activities

- **Outbound logistics** collect, store and distribute the product to customers. For tangible products this would be warehousing, materials handling, transport, etc. In the case of services, it may be more concerned with arrangements for bringing customers to the service if it is a fixed location (e.g. sports events).
- **Marketing and sales** - This would include sales administration, advertising, selling and so on.
- **Service** are all those activities, which enhance or maintain the value of a product/service, such as installation, repair, training and spares.

Support Activities

Support activities are the activities which make the primary activities possible. These includes the following

- ***Procurement***: This refers to the processes for acquiring the various resource inputs to the primary activities.
- ***Human resource management***: It is concerned with those activities involved in recruiting, managing, training, developing and rewarding people within the organization.

- ***Infrastructure***: The systems of planning, finance, quality control, information management etc.
- ***Technology:***

Identifying Core Competences

Core Competencies are created by superior integration of technology, physical and human resources. They represent distinctive skills as well as intangible, invisible, intellectual assets and cultural capabilities (ability to manage change).

Core Competence-based diversification reduces risk and investment and increases the opportunities for transferring learning and best practice across business unit.

A core Competence is identified by the following tests –

- **Leverage Test:** Does it provide potential access to a wide variety of markets?
- **Value Enhancement Test:** Does it make a significant contribution to the perceived customer benefits of the end product ?
- **Imitability Test:** can it be imitated? Does it reduce the threat of imitation by competitors?

Advantages of identifying core competencies:

- Provide competitive advantage
- Ensure profits
- Helps firm stretches into new opportunities.
- Help in maintaining progress

Managing linkages :

Core competences in separate activities may provide competitive advantage for an organization, but nevertheless over time may be imitated by competitors. Core competences are likely to be more robust and difficult to imitate if they relate to

- the management of linkages within the organization's value chain and
- linkages into the supply and distribution chains. It is the management of these linkages which provides 'leverage' and levels of performance which are difficult to match.

Internal Linkages :

- ***Linkages between the primary activities :***

  Linkages between primary activities should be analysed. The firm should compare the value added to the customer with the additional cost of carrying stock.

- ***Primary activities and support activities :***

  Linkages between primary and support activities which provide core competencies should be analysed.

- **Linkages between different support activities** may also be the basis of core competences.

Internal and External Analysis(Portfolio Analysis)

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Portfolio Analysis

What is business portfolio?

A business portfolio is a collection of businesses and products that make up the company. The best business portfolio is the one that best fits the company's strengths and weaknesses to opportunities in the environment.

Portfolio analysis can be defined as a set of techniques that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio.

Portfolio Analysis

Advantages of portfolio Analysis

- It encourages the management to evaluate each of the organization's business individually and to set objectives and allocate resources for each business.

- It stimulates the use of external orientation so that to supplement the management's intuitive judgment.

- It raises the issue of cash flow availability for use in expansion and growth.

Portfolio Analysis

Limitation of Portfolio Analysis

- It is not easy to define product / market segments.
- It provides an illusion of scientific rigor (accuracy) when some subjective judgment is involved.

Strategic business unit

A Strategic Business Unit (SBU) is a ***profit centre*** which focuses on product offering and market segment. ***An SBU may be a business unit within a larger corporation, or it may be a business unit itself.***

SBU is an ***autonomous division*** in the organisation which deals with ***specific business concerns***. It has its ***own set of competitors and a manager,*** who has responsibility for strategic planning and implementation, and who has ***control over the resources and profit influencing factors.***

Therefore Strategic business unit means

- a unit of the company that has a separate mission and objectives and which can be planned independently from other company businesses.

- The SBU can be a company division, a product line within a division, or even a single product or brand.

- SBUs are common in organisations that are located in multiple countries with independent manufacturing and marketing setups.

Experience Curve

The concept is akin to a learning curve which explains the efficiency increase gained by workers through repetitive productive work.

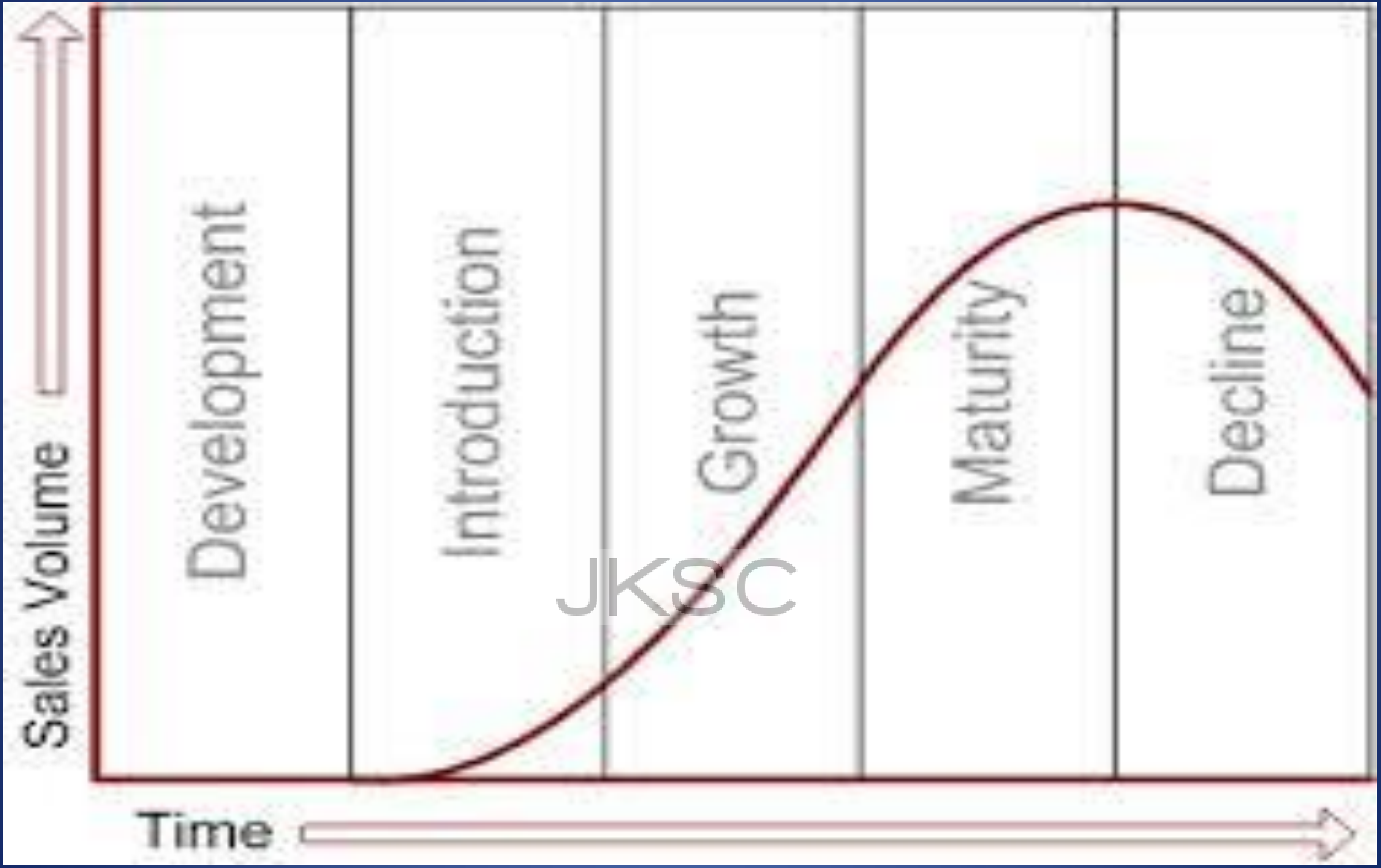
Experience curve is based on the commonly observed phenomenon that unit's costs decline as a firm accumulates experience in terms of a cumulative volume of production.

- Experience curve shows that the more times a task have been performed, the less time is required on each subsequent iteration.

Product Life Cycle

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

Product Life Cycle



Product Life Cycle

The first stage of PLC is the introduction stage in which competition is almost negligible, prices are relatively high and markets are limited. The growth in sales is at a lower rate because of lack of knowledge on the part of customers.

Product Life Cycle

The second phase of PLC is growth stage. In the growth stage, the demand expands rapidly, prices fall, competition increases and market expands. The customer has knowledge about the product and shows interest in purchasing it.

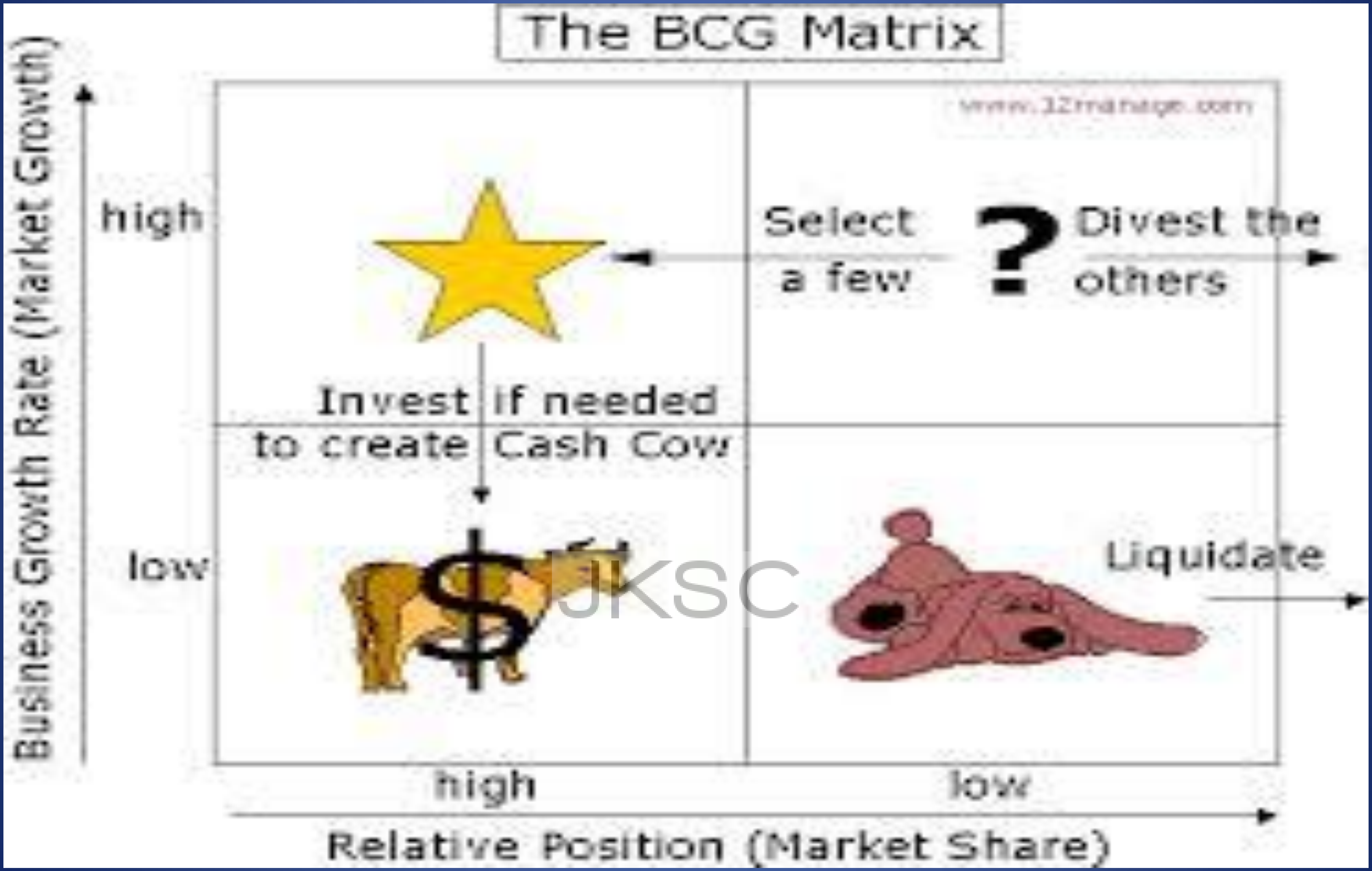
Product Life Cycle

The third phase of PLC is maturity stage. In this stage, the competition gets tough and market gets stabilized. Profit comes down because of stiff competition. At this stage organisations may work for maintaining stability.

Product Life Cycle

In the declining stage of PLC, the sales and profits fall down sharply due to some new product replaces the existing product. So a combination of strategies can be implemented to stay in the market either by diversification or retrenchment.

Boston Consulting Group (BCG Matrix)



Boston Consulting Group (BCG Matrix)

Boston Consulting Group (BCG) Matrix is four celled matrix (2 X 2 matrix) developed by BCG, USA. It is the most renowned corporate portfolio analysis tool.

According to this matrix, business could be classified as high or low according to their ***industry growth*** rate and ***relative market share.***

Boston Consulting Group (BCG Matrix)

The basic idea behind it is that the bigger the market share a product has or the faster the product's market grows, the better it is for the company.

Resources are allocated to the business units to their situation on the grid.

The four cells of this matrix have been called as stars, cash cows, question marks and dogs. Each of these cells represents particular type of business.

Boston Consulting Group (BCG Matrix)

Stars (High Growth, High Market Share)

•Star generates cash but because of the fast growing market, stars require huge investments to maintain their lead.

•Stars are products or SBUs that are growing rapidly. They also need heavy investment to maintain their position and finance their rapid growth potential. They represent best opportunities for expansion.

•If successful, a star will become a cash cow when the industry matures.

Boston Consulting Group (BCG Matrix)

Cash Cows (Low Growth, High Market Share)

Cash cows require little investment and generate cash that can be utilized for investment in other business units.

These business units are the corporation’s key source of cash, and are specifically the core business.

Boston Consulting Group (BCG Matrix)

Cash Cows (Low Growth, High Market Share)

Cash Cows generate cash and have low costs.

They are established, successful, and need less investment to maintain their market share. In long run when the growth rate slows down, stars become cash cows.

When cash cows loses their appeal and move towards deterioration, then a retrenchment policy may be pursued.

Boston Consulting Group (BCG Matrix)

Question Marks (High Growth, Low Market Share)

Question Marks, sometimes called problem children or wildcats, are low market share business in high-growth markets.

They require a lot of cash to hold their share. They need heavy investments with low potential to generate cash.

Question marks are generally new goods and services which have a good commercial prospect.

Boston Consulting Group (BCG Matrix)

Dogs (Low Growth, Low, Market Share)

Dogs are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves, but do not have much future.

Dogs should be minimized by means of divestment or liquidation.

Dogs never generate cash nor require huge amount of cash.

Boston Consulting Group (BCG Matrix)

Dogs (Low Growth, Low, Market Share)

Generally retrenchment strategies are adopted because these firms can gain market share only at the expense of competitor’s/rival firms.

Boston Consulting Group (BCG Matrix)

The four strategies that can be pursued are:

•**Build:** Here the objective is to increase market share, even by forgoing short term earnings in favour of building a strong future with large market share.

•**Hold:** Here the objective is to preserve market share.

Harvest: Here the objective is to increase short-term cash flow regardless of long-term effect.

Divest: Here the objective is to sell or liquidate the business because resources can be better used elsewhere.

Boston Consulting Group (BCG Matrix)

Question 7

An industry comprises of only two firms-Soorya Ltd. and Chandra Ltd. From the following information relating to Soorya Ltd., prepare BCG Matrix:

Product	*Revenues (in ')*	*Percent Revenues*	*Profits (in ')*	*Percent Profits*	*Percentage Market Share*	*Percentage Industry Growth rate*
A	*6 crore*	*48*	*120 lakh*	*48*	*80*	*+ 15*
B	*4 crore*	*32*	*50 lakh*	*20*	*40*	*+ 10*
C	*2 crore*	*16*	*75lakh*	*30*	*60*	*-20*
D	*50 lakh*	*4*	*5 lakh*	*2*	*5*	*-10*
Total	*12.5 crore*	*100*	*250 lakh*	*100*		

High	Low
Product A [80% Market Share +15% Growth Rate] **Stars**	Product B [40% Market Share +10% Growth Rate] **Question Marks**
Product C [60% Market Share -20% Growth Rate] **Cash Cows**	Product D [05% Market Share -10% Growth Rate] **Dogs**

Ansoff’s Product Market Growth Matrix

With the use of this matrix a business can get a fair idea about how its growth depends upon it ***markets in new or existing products in both new and existing markets.***

- The output from Ansoff's product/market matrix is a series of suggested growth strategies that set the direction for the business strategy.

Ansoff's Product Market Growth Matrix

Market Penetration

Where the business focuses on selling existing products into existing markets is known as market penetration strategy.

It is achieved by making more sales to present customers without changing products in any major way.

Penetration might require greater spending on advertising or personal selling.

It is considered as the low risk method to grow the business.

Ansoff's Product Market Growth Matrix

Market Development

Market development refers to a growth strategy where the business seeks to sell its existing products into new markets.

It is a strategy for company growth by identifying and developing new markets for current company products.

Ansoff's Product Market Growth Matrix

Market Development

This strategy may be achieved through new geographical markets, new product dimensions or packaging, new distribution channels or different pricing policies to attract different customers or create new market segments

Ansoff's Product Market Growth Matrix

Product Development

Companies develop new products in existing markets. This is called product development.

It is a strategy for company growth by offering modified or new products to current markets.

This strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing markets.

An organization's current product can be changed, improved and marketed to the existing market.

Ansoff's Product Market Growth Matrix

Product Diversification

Diversification refers to a growth strategy where a business markets new products in new markets.

It is a strategy by starting up or acquiring businesses outside the company's current products and markets.

Ansoff’s Product Market Growth Matrix

Product Diversification

This strategy is risky because it does not rely on either the company’s successful product or its position in established markets. Typically the business is moving into markets in which it has little or no experience.

When its present market is fully saturated a company may have no choice other than to pursue new market.

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ADL Matrix

It is a portfolio analysis method that is based on product life cycle (PLC).

Competitive position is a measure of business strengths that helps in categorization of products or SBU's into one of five competitive positions: dominant, strong, favorable, tenable and weak.

ADL Matrix

Dominant: This is a comparatively rare position and in many cases is attributable either to a monopoly or a strong and protected technological leadership.

ADL Matrix

Strong: By virtue of this position, the firm has a considerable degree of freedom over its choice of strategies and is often able to act without its market position being unduly threatened by its competitions.

ADL Matrix

Favorable: This position, which generally comes about when the industry is fragmented and no one competitor stand out clearly, results in the market leaders a reasonable degree of freedom.

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ADL Matrix

Tenable: Although the firms within this category are able to perform satisfactorily and can justify staying in the industry, they are generally vulnerable in the face of increased competition from stronger and more proactive companies in the market.

ADL Matrix

Weak: The performance of firms in this category is generally unsatisfactory although the opportunities for improvement do exist.

ADL Matrix

There are four categories of industry maturity

Embryonic: introduction stage characterized by rapid market growth and very little competition.

Growth: market continues to strengthen and sales increase

Mature: market is stable there's a well established customer base, and a lot of competition.

Aging: demand decreases and companies start abandoning the market.

ADL Matrix (Portfolio Management)

		Industry Life Cycle Stage			
		Embryonic	Growth	Mature	Aging
Competitive Position	Dominant	All out push for share. Hold Position.	Hold Position. Hold Share.	Hold Position. Grow with Industry.	Hold Position.
	Strong	Attempt to improve position. All out push for share.	Attempt to improve position. Push for share.	Hold Position. Grow with Industry.	Hold position or Harvest
	Favorable	Selective or all out push for share. Selectively attempty to improve position.	Attempt to improve position. Push for share.	Custodial or maintenance. Find niche and attempt to protect it.	Harvest, or phase out withdrawal.
	Tenable	Selectively push for position.	Find niche and protect it.	Find niche and hang on, or phased out withdrawal.	Phased out withdrawal, or abandon.
	Weak	Up or out	Turnaround or abandon.	Turnaround, orphaned out withdrawal.	Abandon

SWOT Analysis

- ***Strength (S)***
- ***Weakness (W)***
- ***Opportunities (O)***
- ***Threats (T)***

SWOT Analysis

- ***Strength (S)***

It is an ***inherent capacity*** which an organisation can use to ***gain strategic advantage*** over competitors. Strength can be either ***tangible or intangible***. Examples of strength can be Quality human resource, better financial position, improved research and development facility, Goodwill etc.

SWOT Analysis

- ***Weakness (W)***

Weakness (W): It is an ***inherent limitation*** or constraint which creates a ***strategic disadvantage***. Weaknesses are ***controllable***. They must be minimized and eliminated. It can be in the form of dependence on single line of product which will be risky in time of crisis, insufficient research and development facilities, poor decision making etc.

SWOT Analysis

- ***Opportunities (O)***

Opportunities (O): Opportunities are ***favorable conditions*** in the organizations environment which will ***help to accumulate the strength of it for better performance.*** Organization can make use of these opportunities to gain competitive advantage.

SWOT Analysis

- ***Threats (T)***

Threats (T): Threat is an ***unfavorable situation or the forces*** which will create negative effects in organizations environment. ***Threats are uncontrollable.*** If threats are in line with weaknesses it will increases the negative impact on the efficiency and effectiveness of the organization.

Example for threat can be emergence of strong new competitor, ever changing technology, price wars and reduction in the profit of industry.

TOWS Matrix

Heinz Weihrich developed a matrix called TOWS matrix by matching strengths and weaknesses of an organization with the external opportunities and threats.

TOWS Analysis is an effective way of coming:

- Internal strength with external opportunities and threats.
- Internal weaknesses with external opportunities and threats to develop a strategy.

Minimum------------------Maximum

Internal Elements / External Elements	Organisational Strengths	Organisational Weaknesses
	Strategic Options	
Environmental Opportunities and risks	(MAXI - MAXI) SO Strength can be used to capitalize or build upon existing or emerging opportunities.	(MINI - MAXI) WO The strategies developed need to overcome organizational weaknesses if existing or emerging opportunities are to be exploited
Environmental Threats	(MAXI - MINI) ST Strength in the organisation can be used to minimize existing or emerging threats	(MINI - MINI) WT The strategies pursued must minimize or overcome weaknesses and as far as possible, cope with threats existing or emerging threats
	Maximum--Minimum	

TOWS matrix four distinct alternative kinds of strategic choices can be identified.

SO (Maxi-Maxi): SO is a position that any firm would like to achieve it. The strengths can be used to capitalize or build upon existing or emerging opportunities. Such firms can take lead from their strengths and utilize the resources to take the competitive advantage.

TOWS matrix four distinct alternative kinds of strategic choices can be identified.

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

TOWS matrix four distinct alternative kinds of strategic choices can be identified.

WO (Mini-Maxi): The strategies developed need to overcome organizational weaknesses if existing or emerging opportunities are to be exploited to maximum.

TOWS matrix four distinct alternative kinds of strategic choices can be identified.

WT (Mini-Mini): WT is a position that any firm will try to avoid. An organization facing external threats and internal weaknesses may have to struggle for its survival. WT strategy is a strategy which pursued to minimize or overcome weaknesses and as far as possible, cope with existing or emerging threats.

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

This model has been used by General Electric Company (developed by GE with the assistance of the consulting firm McKinsey & Company).

- This model is also known as Business Planning Matrix, GE Nine-Cell Matrix and GE Model.

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

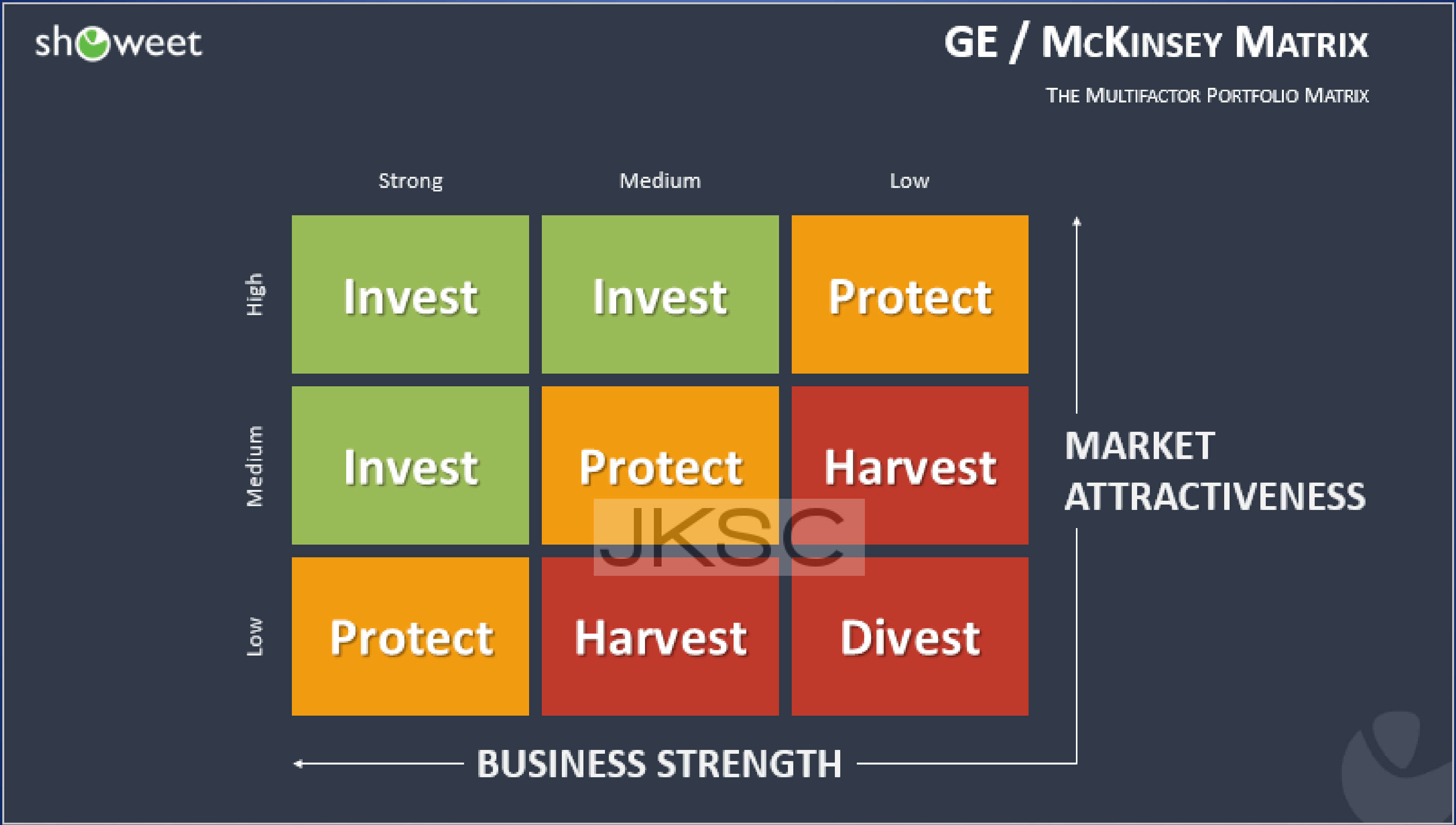
The strategic planning approach in this model has been inspired from traffic control lights.

- The lights that are used at crossings to manage traffic are: green for go, amber or yellow for caution, and red for stop.
- This model uses two factors while taking strategic decisions: Business Strength and Market Attractiveness.
- The vertical axis indicates market *attractiveness* and the horizontal axis shows the business strength in the industry.

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

- ✓ Red: Harvest or divest products; stop investing in new products, markets, or technology
- ✓ Yellow: Hold market share
- ✓ Green: Build market share; invest in new products, market, or technology

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



Elements of Macro Environment

Global Environment

It refers to the process of integration of the world into one huge market.

- ❑It means what happens in one nation has an impact on the occurrences in other countries.
- ❑It leads to an increased interdependence among nations.
- ❑This also implies free flow of goods and services, capital, technology and labour across national boundaries.

To be specific, a global company has three characteristics:

- It is a conglomerate of multiple units (located in different parts of the globe) but all linked by common ownership.
- Multiple units draw on a common pool of resources, such as money, credit, information, patents, trade names and control systems.
- The units respond to some common strategy. Besides, its managers and shareholders are also based in different nations.

Elements of Macro Environment

Global Environment

There are three types of global companies and these are

1. A Multinational Company (MNC)
2. A Transnational Company (TNC)
3. Super-national Enterprise

Elements of Macro Environment

Global Environment

A MultiNational Company (MNC)

- is a corporation enterprise that manages production or delivers services in more than one country.
- It can also be referred to as an international corporation.
- It own a home company and its subsidiaries.
- It have a centralized management system
- It will face a barrier in decision making due to its centralized management system.

Nike, Coca-cola, Wal-mart, Toshiba, Honda and BMW etc

Elements of Macro Environment

Global Environment

A transnational Company (TNC)

Transnational companies do not have subsidiaries but just many companies.

Transnational companies do not have a centralized management system.

Transnational companies are able to gain more interest in the local market since they maintain their own systems

Elements of Macro Environment

Global Environment

A Super-national Enterprise is a worldwide enterprise chartered by a substantially non-political international body such ***as IMF or World Bank***

It could serve all nations without being especially attached to any one of them. It operated as private business without direct obligations.

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Strategic Management Process

STRATEGIC PLANNING

Planning means deciding what needs to done in the future (today, next week, next month, next year, over the next couple of years, etc.) and generating blueprints for action.

Planning involves determination of the course of action to attain the predetermined objectives. It bridges the gap between where we are to where we want to go.

Planning

According to Alford and Beatt

"Planning is the thinking process, the organized foresight, the vision based on fact and experience that is required for intelligent action."

STRATEGIC PLANNING

Thus, planning is future oriented in nature.

Planning can be strategic or operational.

Strategic plans are made by the senior management for the entire organization after taking into account the organization's strength and weaknesses in the light of opportunities and threats in the external environment. They involve acquisition and allocation of resources for the attainment of organisational objectives.

STRATEGIC PLANNING

But ***operational plans*** on the other hand are made at the middle and lower level management. They specify details on how the resources are to be utilized efficiently for the attainment of objectives.

STRATEGIC PLANNING

It is the process of determining the objectives of the firm, resources required to attain these objectives and formulation of policies to govern the acquisition, use and disposition of resources.

Dealing with uncertainty

Strategic uncertainty is represented by a future trend or event that has inherent unpredictability. Information gathering and additional analysis will not be able to reduce the uncertainty.

Strategic uncertainty, which has far reaching implications, is a key construct in strategy formulation.

A typical external analysis will emerge with dozens of strategic uncertainties. To be manageable, they need to be grouped **into logical clusters or themes.** It is then useful to assess the importance of each cluster in order to set priorities with respect to Information gathering and analysis.

Impact of uncertainty

Each element of strategic uncertainty involves potential trends or events that could have an impact on present, proposed, and even potential businesses. For example, a trend toward natural foods may present opportunities for juices for a firm producing aerated drinks on the basis of a strategic uncertainty.

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Strategic Decision Making

Strategic decisions are different from all other day to day decisions.

Decision making is a managerial process of selecting the best course of action out of several alternative courses for the purpose of accomplishment of the organizational goals.

Strategic Decision Making

"The process of identifying and executing the organization's strategic plan, by matching the company's capabilities with the demands of its environment".

It is also defined as the process by which managers make a choice of a set of strategies for the organisation that will enable it to achieve better performance.

Strategic Intent

A company exhibits strategic intent when it relentlessly pursues an ambitious strategic objective and concentrates its full resources and competitive actions on achieving that objective.

Strategic intent to make quantum gains in competing against key rivals and establish itself as a clear-cut winner in the marketplace, often against long odds.

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Strategic Intent

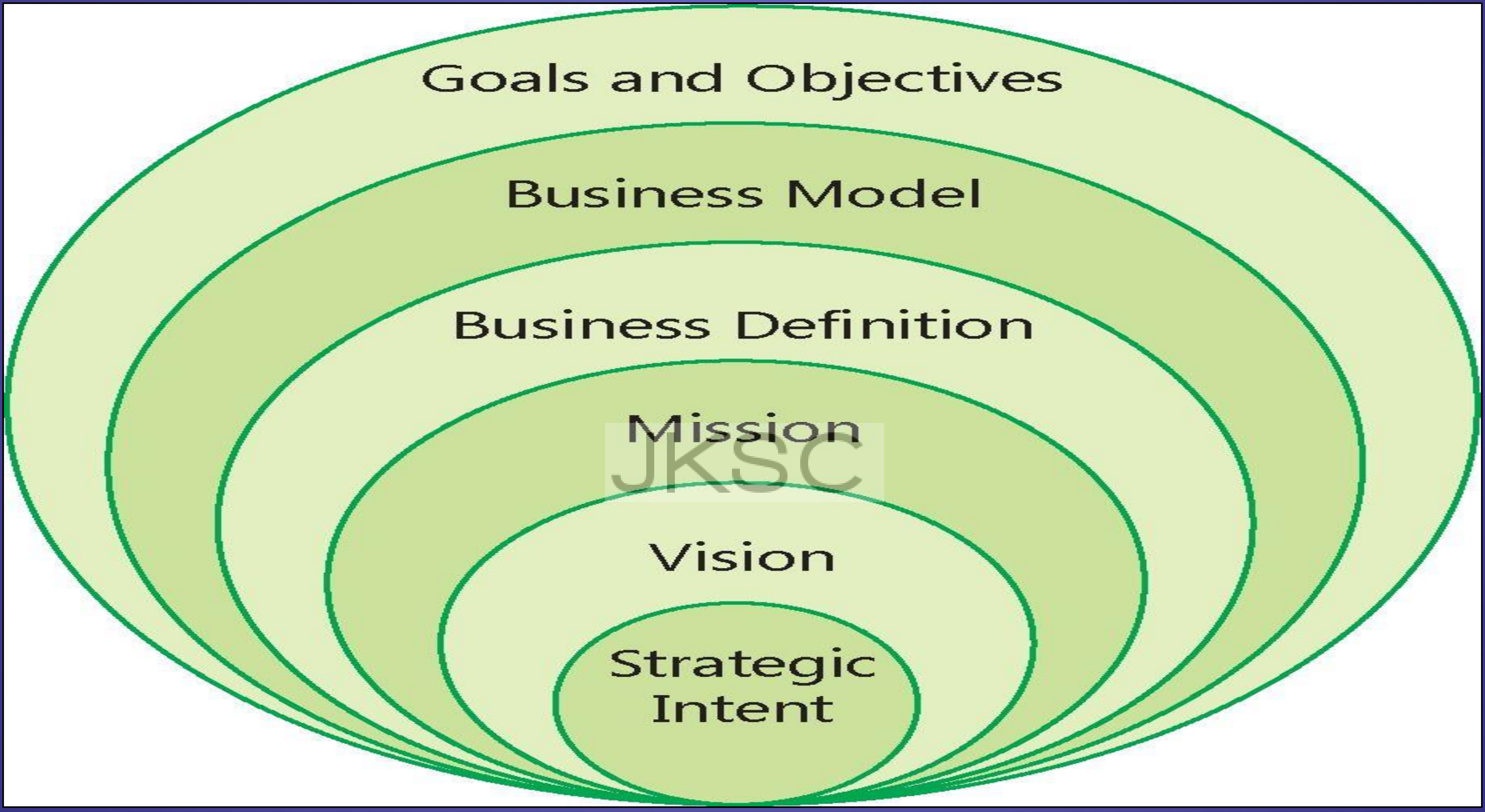
Strategic intent refers to purposes of what the organization strives for. Senior managers must define *"what they want to do" and "why they want to do". "Why they want to do"* represents strategic intent of the firm.

Clarity in strategic intent is extremely important for the future success and growth of the enterprise, irrespective of its nature and size.

Strategic intent gives an idea of what the organization desires to attain in future.

Strategic Intent

Strategic intent could be in the form of vision and mission statements for the organisation at the corporate level.



Vision, Mission and Objectives

Vision, Mission and Objectives

The Vision

Vision is a road map of a company's future

Vision brings clarity about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

Vision, Mission and Objectives

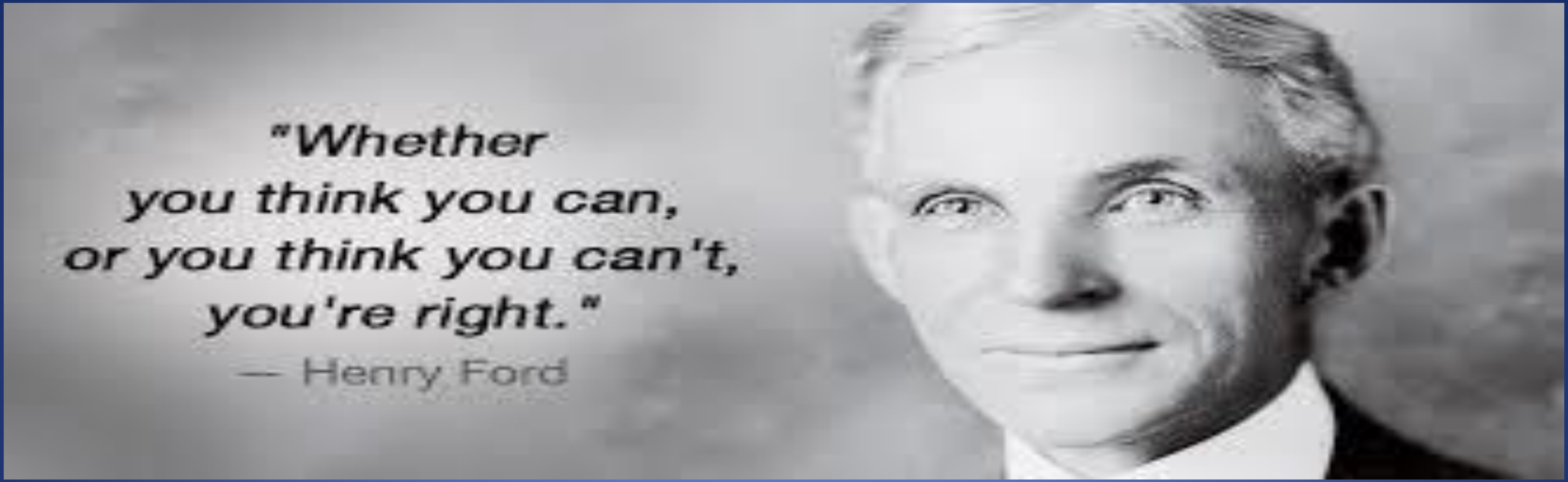
The Vision

A strategic vision thus points an organization in a particular direction, charts a strategic path for it to follow in preparing for the future, and molds organizational identity.

A clearly articulated strategic vision communicates management's aspirations to stakeholders and helps steer the energies of company personnel in a common direction.

Vision, Mission and Objectives

The Vision



Henry Ford's vision of a car in every garage had power because it captured the imagination of others, aided internal efforts to mobilize the Ford Motor Company's resources, and served as a reference point for gauging the merits of the company's strategic actions.

Vision, Mission and Objectives

The Vision

Visions are important because they are the visualization of the future situation in present condition.

Vision implies the blueprint of the company's future position. It describes where the organisation wants to land. It depicts the organization's aspirations and provides a glimpse of what the organization would like to become in future. Every sub system of the organization is required to follow its vision.

Vision, Mission and Objectives

‘Shared Vision and ‘Vision Shared’

When the individuals are able to bring organizational vision close to their hearts and minds they have "shared vision".

Shared vision is a force that creates a sense of commonality that permeates the organization and gives coherence to diverse activities.

Vision, Mission and Objectives

‘Shared Vision and ‘Vision Shared’

'vision shared' shows imposition of vision from the top management.

It may demand compliance rather than commitment. For success of organizations having shared vision is better than vision shared.

Vision, Mission and Objectives

Vision, Mission and Objectives

The Mission

Mission statement provides the basic reason behind the existence of organisation.

A good mission statement should be of precise, clear, feasible, distinctive and motivating.

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

The Mission

firm should raise and answer certain basic questions concerning its business, such as:

- ❑ What is our mission?
- ❑ What is our ultimate purpose?
- ❑ What do we want to become?
- ❑ What business are we in?
- ❑ Whom do we intend to serve?

Vision, Mission and Objectives

The Mission

It represents the ***common purpose***, which ***the entire firm shares and pursues.***

A mission is not a confidential affair to be confined at the top; it has to be open to the entire company. All people are supposed to draw meaning and direction from it.

Understanding Mission and Purpose

Mission strictly refers to the particular needs of the society, for instance, its information needs. Purpose relates to what the organization strives to achieve in order to fulfil its mission to the society.

A **book publisher** and a **magazine editor** are both engaged in satisfying the information needs of society but they do it through different means. A book publisher may aim at producing excellent reading material while a magazine editor may strive to present news analysis in a balanced and unbiased manner.

Vision, Mission and Objectives

The *Objectives and Goals*

Business organization translates their vision and mission into objectives.

Goals and objectives are the results to be achieved within a specific time period.

They provide meaning and sense of direction to organizational endeavour.

They also act as benchmarks for guiding organizational activity and for evaluating how the organization is performing.

Long-term objectives

Long-term objectives represent the results expected from pursuing certain strategies. Strategies represent the actions to be taken to accomplish long-term objectives. The time frame for objectives and strategies should be consistent, usually from two to five years. To achieve long-term prosperity, strategic planners commonly establish long-term objectives in seven areas.

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Long-term objectives

- ❑Profitability
- ❑Productivity
- ❑Competitive Position
- ❑Employee Development
- ❑Employee Relations
- ❑Technological Leadership
- ❑Public Responsibility

The Stages of Corporate Strategy Formulation Implementation Process

Crafting and executing a company's strategy is a five-stage managerial process as given below:

- ✓ *Developing a strategic vision*
- ✓ *Setting objectives*
- ✓ *Crafting a strategy*
- ✓ *Implement chosen strategy efficiently and effectively*
- ✓ Strategic Evaluation and Control

Corporate Level Strategies

Strategic Alternatives

Glueck and Jauch Generic Strategic Alternative

Four ways -

- Stability
- Expansion,
- Retrenchment
- Combinations.

Strategic Alternatives

Stability Strategies

•Stability strategy is not a 'do nothing' strategy.

A stability strategy is pursued by a firm when:

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

Stability Strategies - Characteristics

- A firm opting for stability strategy stays with the ***same*** business, ***same*** product- market posture and functions, maintaining ***same*** level of effort as at present.
- Stability strategy does not involve a redefinition of the business of the corporation.
- It is basically a safety-oriented, ***status quo*** oriented strategy.
- It does not warrant much of fresh investments.
- It involves minor improvements in the product and its packaging.
- The risk is also less.

Strategic Alternatives

Major Reasons for Stability Strategy

- A product has reached the maturity stage of the product life cycle.
- It is less risky as it involves less changes and the staff feels comfortable with things as they are.
- The environment faced is relatively stable.
- Expansion may be perceived as being threatening.

Strategic Alternatives

Expansion Strategy

It is often characterized by significant ***reformulation*** / ***redefinition*** of goals and directions, major initiatives and moves involving investments, exploration and ***onslaught (attack)*** into new products, new technology and new markets, innovative decisions and action programmes and so on.

Expansion also includes diversifying, acquiring and merging businesses. The strategy may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.

Expansion Strategies - Characteristics

- It is the opposite of stability strategy.
- It leads to business growth.
- It is a highly versatile strategy;

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Major Reasons for Growth/Expansion Strategy

- ✓ when environment demands increase in pace of activity.
- ✓ Expansion may lead to greater control over the market
- ✓ Advantages from the experience curve and scale of operations may accrue.

Strategic Alternatives

Expansion Strategy

Expansion strategy includes

- ✓ *Expansion through intensification / diversification*
- ✓ *Expansion through acquisitions and mergers*

Strategic Alternatives

Retrenchment Strategy

✓Retrenchment or retreat strategy is a defensive strategy.

✓It is followed by a firm when its performance is disappointing or survival is at stake.

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Strategic Alternatives

Combination Strategies

✓Stability, Expansion and Retrenchment alternatives are not mutually exclusive. Hence a combination thereof can be adopted

Expansion through intensification

Market penetration – in this strategy the firm directs its resources to the profitable growth of a single product in a single market and with a single technology. It is the most common form of expansion in the current business.

Expansion through intensification

Market development – this strategy involves marketing existing products to customers in related market area, by adding different channels of distribution or by changing the content of advertising or promotional media.

Expansion through intensification

Product development – this involves substantial modification of the existing products or creation of new but related products that can be marketed to current customers through established channels.

Expansion through Diversification

Diversification refers to the entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge.

Expansion through Diversification

Innovation – innovation and creative firms look for opportunities and challenges to grow, to venture into new areas of activity and to break new frontiers with the zeal of entrepreneurship. Diversification offers greater prospects of growth and profitability for such active firms.

Expansion through Diversification

Capacity utilisation – firms which have excess capacity or capability in manufacturing facilities, investment funds, marketing channels, competitive standing, market prestige etc can diversify into new lines of activity.

Expansion through Diversification

Synergy – sales and profit of existing products can be improved by adding suitably related or new products, because of linkages in technology and/or in markets.

Related Diversification

It is when a business ***adds or expands its existing product lines or markets.***

For example, a phone company that adds or expands its wireless products and services by purchasing another wireless company is engaging in related diversification.

Unrelated Diversification

It is when a business adds or expands in the areas other than its existing product lines or markets.

Unrelated Diversification

Reasons or purposes for following unrelated diversification

- To manage and allocate cash flows
- To obtain high ROI
- To reduce risk by operating in multiple product markets
- To obtain tax benefits.

Types of related Diversification

Vertical Integration Diversification

The expansion of the firm's ***value chain*** to include activities performed by suppliers and buyers, the degree of control that firm exerts over supply of its inputs and the purchase of its output.

Types of related Diversification

Vertical Integration Diversification

In vertical integration diversification, the firm engages in businesses that are related to its existing businesses. The firm remains vertically within the same product-process chain.

Vertical integration may be in **forward or backward** direction.

Types of related Diversification

Vertical Integration Diversification

Forward Integration

is a strategy that moves the firm ***down-stream*** into an activity currently performs by the buyer.

Reliance Industries (owning refineries) diversified into petrol pumps.

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Types of related Diversification

Vertical Integration Diversification

Backward Integration

is a strategy that moves the form up-stream into an activity currently conducted by a supplier.

An automobile manufacturer diversifying into tyre production.

Types of related Diversification

Horizontal Integration Diversification

It involves addition or acquisition of one or more similar businesses at the same stage of the production marketing chain

ICICI Bank taking over Bank of Rajasthan.

Types of related Diversification

Horizontal Integration Diversification

This can be achieved by ---

- Taking over competitors' products
- Production of complementary products
- Entering in to repairs and servicing of products

Types of related Diversification

Concentric Diversification

In this strategy the ***firm adds*** a new business which is linked to the existing business through – **(a) process, (b) technology and (c) marketing.**

Kotak Mahindra Bank gets into insurance and asset management businesses.

Types of related Diversification

Concentric Diversification

Concentric diversification differs from vertically integrated diversification in the nature of the linkage the new product has with the existing ones.

While in vertically integrated diversification, the new product falls within the firm's current process-product chain, in concentric diversification, there is a departure from this vertical linkage.

Types of unrelated Diversification

Conglomerate Diversification

This involves entering into new businesses/products which are disjoined from the existing business/products in every way. It is totally unrelated diversification.

Yash Birla Group (auto and engineering) decides to enter wellness, solar power and schools.

Retrenchment Strategy

Retrenchment Strategy

a strategy used by corporation to reduce the diversification or the overall size of the operations of the company.

This strategy is often used in order to cut expenses with the goal of becoming a more financially stable business.

Typically the strategy involves withdrawing from certain markets or the discontinuation of selling certain products or service in order to make a beneficial turnaround.

Retrenchment Strategy

Some examples of retrenchment

- Cutting back on capital and revenue expenditure, e.g. R & D projects, advertising, executive perks etc
- Reduction of inventory levels, production volumes, manpower, and dividend rates etc
- Disposal and sale of manufacturing facilities and product divisions
- Offering itself for takeover by another more viable enterprise

Retrenchment Strategy

Retrenchment may be done either –internally (i.e Turnaround) or Externally (i.e Divestment and Liquidation)

- This strategy involves retrenchment/divestment of some of the activities in a given business of the firm or sell-out of some of the businesses as such.
- Divestment is to be viewed as an integral part of corporate strategy without any stigma attached.
- Like expansion strategy, divestment strategy, too, involves a redefinition of the business of the corporation.

Retrenchment Strategy

Turnaround Strategy

Are those which are formulated by laying emphasis on improving internal efficiency so as to bring about internal retrenchment.

Turnaround Strategy

Conditions or indicators

- Persistent negative cash flow
- Negative profits
- Declining market share
- Uncompetitive products or services
- Mismanagement

Retrenchment Strategy

Divestment Strategies

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

The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.

Retrenchment Strategy

Compulsions for divestment can be many and varied, such as -

- Obsolescence of product/process
- Business becoming unprofitable and unviable
- Inability to cope up with cut throat competition
- Industry overcapacity
- Failure of existing strategy

Retrenchment Strategy

Liquidation Strategies

A retrenchment strategy considered the most extreme and unattractive is liquidation strategy, which involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences.

Merger and Acquisitions

Merger

Merger is considered to be a process when two or more companies come together to expand their business operations. In such a case the deal gets finalized on friendly terms and both the organizations share profits in the newly created entity. In a merger two organizations combine to increase their strength and financial gains along with breaking the trade barriers.

Types of Mergers

Horizontal merger: Horizontal mergers are combinations of firms engaged in the same industry. It is a merger with a direct competitor.

The ***principal objective*** behind this type of mergers is to achieve ***economies of scale*** in the production process by shedding duplication of installations and functions, widening the line of products, decrease in working capital and fixed assets investment, getting rid of competition and so on.

Types of Mergers - Vertical merger

Vertical merger: It is a merger of two organizations that are operating in the same industry but at different stages of production or distribution system. This often leads to increased synergies with the merging firms.

Types of Mergers - Vertical merger

There are two types of vertical combinations – Forward Integration – *It happens when an organisation decodes to take over its buyer organisations or distribution channels.*

There are two types of vertical combinations – Backward Integration – *It happens when an organisation decides to take over its supplier / producers of raw material.*

Types of Mergers - Co-generic merger

Co-generic merger: In Co-generic merger two or more merging organizations are associated in some way or the other related to the production processes, business markets, or basic required technologies.

For example, organization in the white goods categories such as refrigerators can diversify by merging with another organization having business in kitchen appliances

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Types of Mergers - Conglomerate merger

Conglomerate merger: Conglomerate mergers are the combination of organizations that are unrelated to each other. There are no linkages with respect to customer groups, customer functions and technologies being used

Acquisition

When one organization takes over the other organization and controls all its business operations, it is known as acquisitions. An acquisition is also known as takeover

Acquisitions often happen during recession in economy or during declining profit margins

Expansion through Strategic Alliance

A strategic alliance is a relationship between two or more businesses that enables each to achieve certain strategic objectives which neither would be able to achieve on its own.

The strategic partners maintain their status as independent and separate entities, share the benefits and control over the partnership, and continue to make contributions to the alliance until it is terminated.

Strategic alliances are often formed in the global marketplace between businesses that are based in different regions of the world.

Expansion through Strategic Alliance

- A Starbucks-United Airlines alliance has resulted in their coffee being offered on flights with the Starbucks logo on the cups and a partnership with Kraft foods has resulted in Starbucks coffee being marketed in grocery stores.
- ICICI Bank and Vodafone India announces strategic alliance to launch ‘m-pesa’
- Strategic alliance between Mahindra and Renault Limited (2007)
- Strategic alliance between Microsoft India and TCS(2009):

Advantages of Strategic Alliance

- **Organizational**
- **Economic**
- **Strategic**
- **Political**

Disadvantages of Strategic Alliance

- **Sharing**

Business Level Strategies

Introduction

An organization's core competencies should be focused on satisfying customer needs or wants in order to achieve organisational objectives.

This is done through businesses level strategies.

Introduction

Under Business level strategies, detail actions taken to provide value to customers and gain a competitive advantage by exploiting core competencies in specific, individual product or service markets.

Customers are the foundation of an organization's business-level strategies.

Who will be served, what needs have to be met, and how those needs will be satisfied are determined by the senior management.

Business level strategy is concerned with issues such as

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

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Business level strategies are

- the courses of action adopted by an organisation for each of its businesses separately,
- to serve ***identified customer groups*** and provide ***value*** to the customers by satisfaction of their needs.

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Porter's Five Forces Model - Competitive Analysis

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Porter's Five Forces Model - Competitive Analysis

All industries are competitive; the nature of this competition can differ significantly among industries.

Competition in the airline industry is somewhat cut throat and occurs by way of price wars, whereas firms in printing and imaging industries often compete through enhanced product features and new models.

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Porter's Five Forces Model - Competitive Analysis

It is a powerful and widely used tool for systematically diagnosing the significant competitive pressure in the market and assessing their strength and importance.

This model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market.

Porter's Five Forces Model - Competitive Analysis

- Threat of new entrants
- Bargaining power of customers
- Bargaining power of suppliers
- Rivalry among current players
- Threats from substitutes

How to determine Competitive forces - Porter's Five Forces Model

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

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

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

Porter's Five Forces Model - Competitive Analysis

➢ ***Threat of new entrants***

- Capital requirement
- Economies of scale
- Product differentiation
- Switching Costs
- Brand Identity
- Access to Distribution Channels
- Possibility of Aggressive Retaliation

Porter's Five Forces Model - Competitive Analysis

- **Bargaining power of customers**

- Buyer knowledge
- Purchase size
- Functions of product - Medicines

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Porter’s Five Forces Model - Competitive Analysis

- **Bargaining power of suppliers**

Porter's Five Forces Model - Competitive Analysis

- **Nature of rivalry among current players**

- Industry leader
- Number of competitors
- Fixed Costs
- Exit Barriers
- Product Differentiation
- Slow Growth

Porter's Five Forces Model - Competitive Analysis

➢ **Threats from substitutes**

- Digital Camera represents direct threat to traditional film based camera

Michael Porter's Generic Strategies

Cost leadership, Differentiation, and Focus.

Michael Porter's Generic Strategies

Cost Leadership Strategies

<u>This generic strategy calls for being the low cost producer in an industry for a given level of quality.</u> The firm sells its products either at average industry price to earn a profit higher than that of rivals, or below the average industry prices to gain market share.

Michael Porter's Generic Strategies

Cost Leadership Strategies

A successful cost leadership strategy usually infuses the entire firm, as evidenced by high efficiency, low overhead, limited perks, intolerance of waste, intensive screening of budget requests, wide spans of control, rewards linked to cost containment, and broad employee participation in cost control efforts.

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How to achieve Cost Leadership Strategy

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

Advantages of Cost Leadership Strategy

- Rivalry
- Buyers
- Suppliers
- Entrants
- Substitutes

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Disadvantages of Cost Leadership Strategy

- Cost advantage may not be remaining for long as competitors may also follow cost reduction technique.
- It can succeed only if the firm can achieve higher sales volume.
- Technology changes are a great threat to the cost leader.

Michael Porter's Generic Strategies

Differentiation Strategies

A ***differentiation strategy*** calls for the development of a product or service that offers unique attributes that are valued by customers to be better than or different from the products of the competition.

The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service. Because of differentiation, the business can charge a premium for its product.

Michael Porter’s Generic Strategies

Differentiation Strategies

A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty because consumers may become strongly attached to the differentiation features.

Michael Porter’s Generic Strategies

Differentiation Strategies

A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty because consumers may become strongly attached to the differentiation features. Special features that differentiate one's product can include superior service, spare parts availability, engineering design, product performance, useful life, gas mileage, or ease of use.

Basis of Differentiation

- **Product**

- Innovative products that meet customer needs can be an area where a company has an advantage over competitors. The pursuit of new product offerings can be costly - research and development, as well as production and marketing costs can all add to the cost of production and distribution. The payoff, however, can be great as customer's flock to be among the first to have the new product.

Basis of Differentiation

- **Pricing**

- It can fluctuate based on its supply and demand, and also be influence by the customer's ideal value for the product. Companies that differentiate based on product price can either determine to offer the lowest price, or can attempt to establish superiority through higher prices.

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Basis of Differentiation

- **Organisation**

- Organisational differentiation is yet another form of differentiation. Maximizing the power of a brand, or using the specific advantages that an organization possesses can be instrumental to a company's success. Location advantage, name recognition and customer loyalty can all provide additional ways for a company differentiate itself from the competition.

Achieving Differentiation Strategy

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

Advantages of Differentiation Strategy

- Rivalry
- Buyers
- Suppliers
- Entrants
- Substitutes

Disadvantages of Differentiation Strategy

- In long term, uniqueness is difficult to sustain.
- Charging too high a price for differentiated features may cause the customer to switch-off to another alternative.
- Differentiation fails to work if its basis is something that is not valued by the customers.

Michael Porter's Generic Strategies

Focus Strategies

The focus strategy concentrates on a particular group of customers or a particular product line segment and within that segment attempts to achieve a cost advantage or differentiation.

Focus strategies are most effective when consumers have distinctive preferences or requirements and when rival firms are not attempting to specialize in the same target segment.

Focused cost leadership

A focused cost leadership strategy requires competing based on price to target a narrow market. A firm that follows this strategy does not necessarily charge the lowest prices in the industry. Instead, it charges low prices relative to other firms that compete within the target market. Firms that compete based on price and target a narrow market are following a focused cost leadership strategy.

Focused differentiation

A focused differentiation strategy requires offering unique features that fulfill the demands of a narrow market. As with a focused low-cost strategy, narrow markets are defined in different ways in different settings. Some firms using a focused differentiation strategy concentrate their efforts on a particular sales channel, such as selling over the internet only.

Focused differentiation

Others target particular demographic groups. Firms that compete based on uniqueness and target a narrow market are following a focused differentiations strategy. *For example, Rolls-Royce sells limited number of high-end, custom-built cars.*

Achieving Focused cost leadership / differentiation Strategy

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

Advantages of Focused Strategy

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

- rivals and new entrants may find it difficult to compete.

Disadvantages of Focused Strategy

- The firms lacking in distinctive competencies may not be able to pursue focus strategy.
- Due to the limited demand of product/services, costs are high which can cause problems.
- In long run, the niche could disappear or be taken over by larger competitors by acquiring the same distinctive competencies.

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Best-Cost Provider Strategy

Although all of the techniques discussed above involve generic strategies, the phrase is most often associated with Porter's framework or **Best-Cost Provider Strategy.** It is an extension of **Michael Porter's Generic Strategies.**

It offers more value for the money to the customers by either

- Providing comparable feature at lower rates than the competitors
- Providing better features at same prices as the rivals'

Formulation of functional strategy

Functional strategies play two important roles.

- Firstly, they provide ***support*** to the overall business strategy.

- Secondly, they spell out as to ***how functional managers will work*** so as to ensure better performance in their respective functional areas.

Reasons Why Functional Strategy is needed

- Aimed at making the strategies-formulated at the top management level-practically feasible at the functional level.
- Provide flow of strategic decisions

Reasons Why Functional Strategy is needed

- The time spent by functional managers in decision-making is reduced
- Help in bringing harmony and coordination
- Similar situations occurring in different functional areas are handled in a consistent manner

Marketing Strategy Formulation

Marketing starts with customers and end with customers.

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- Marketing is a process which ***brings*** product and consumers ***near*** in a manner which is ***beneficial*** to both i.e. consumer and business organization.

- It simply means taking product and consumers at the same platform where consumers want to purchase the product and business enterprise want to sale.

- ***A good marketing plan revolves around an efficient, flexible and adaptable marketing strategy.***

What is Marketing?

Marketing is the value of a product or service for the purpose of selling that product or service.

Understanding your ***<u>customer's values</u>*** will lead to develop products and services that can provide high profit-potential for your business.

Marketing Strategy

Marketing strategy refers to actions for developing, ***pricing***, ***distributing*** and ***promoting products*** that meet the needs of specific customer groups. It determines the best use of the company resources to formulate an action plan to meet its objectives.

Organisation should ask following questions to itself before adopting any marketing strategy :

- How will each of the products and services offered benefit the consumers **????????????**
- What kind of impact these products and services will have on them **?????????**

- What do they understand the value of the package of products and services you offer to do **?????????**

- Have you delivered on promises in the past and will you be able to deliver on the ones you make to them in the future ?????????

- Will your product and services do now what you have said they will **????????**

The Marketing Process

Marketing process is the entire sequence of ***managerial and operational activities*** required to create and sustain effective marketing strategies. Steps to be involved in the marketing process are:

Step I :	Market Segmentation
Step II :	Market Targeting
Step III :	Market Positioning

Marketing Mix

- The Marketing Mix is a set of four decisions which need to be taken before launching any new product.
- Variables are also known as the **4 P's** of marketing.
- The **4 P's** are from a marketer's angle. When translated to the perspective of buyers, they may be termed as 4 **C's**.
- ***Product*** may be referred as customer solution, ***price*** as customer cost, ***place*** as convenience and ***promotion*** as communication.

Product (Customer Solution)

It stands for the "goods-and-service" combination the company offers to the target market.

- Strategies are needed for managing existing product over time adding new ones and dropping failed products.
- Products can be differentiated on the basis of size, shape, colour, packaging, brand names, after-sales service and so on.

Price (Customer Cost) :

Price stands for the amount of money customers have to pay to obtain the product.

The price of a product is its composite expression of its value and utility to the customer, its demand, quality, reliability, safety, the competition it faces, the desired profit and so on.

For a new product an organization may either choose to **skim or penetrate** the market.

- **In skimming prices**
- **In penetration** firm

Place (Convenience)

- The distribution policies of a company are important determinants of the functions of marketing.
- Place stands for company activities that make the product available to target consumers.
- One of the most basic marketing decisions is choosing the most appropriate marketing channel.

Promotion (Communication)

- **Promotion** stands for activities that communicate the merits of the product and persuade target consumers to buy it.

- **Strategies** are needed to combine individual methods such as advertising, personal selling, and sales promotion into a coordinated campaign.

There are at least four major direct promotional methods or tools

- ***Personal selling***
- ***Advertising***
- ***Publicity***
- ***Sales promotion***

There are at least four major direct promotional methods or tools

- ***Personal selling***
- Personal selling is one of the oldest forms of promotion. It involves ***face-to-face*** interaction of sales force with the prospective customers and provides a ***high degree of personal attention*** to them. In personal selling, oral communication is made with potential buyers of a product with the intention of making a sale.

There are at least four major direct promotional methods or tools

- ***Advertising***
- Advertising is a ***non-personal, highly flexible and dynamic promotional method.*** The media for advertisings are several such as pamphlets, brochures, newspapers, magazines, hoardings, display boards, radio, television and internet. ***Choice of appropriate media is important for effectiveness of the message.*** The media may be local, regional, or national.

There are at least four major direct promotional methods or tools

- ***Publicity***
- Publicity is communication of a product, brand or business by placing information about it in the media without paying for the time or media space directly. Thus it is way of reaching customers with negligible cost. Basic tools for publicity are press releases, press conferences, reports, stories, and internet releases. These releases must be of interest to the public.

There are at least four major direct promotional methods or tools

- ***Sales promotion***
- Sales promotion is the process of persuading a potential customer to buy the product. Sales promotion is designed to be used as a short term tactic to boost sales – it is rarely suitable as a method of building long term customer loyalty. Some sales promotions are aimed at consumers. Others targeted at intermediaries and at the firm's sales force.

Expanded Marketing Mix

All organizations use a combination of 4 P's in some form or the other. However, the above elements of marketing mix are not exhaustive. A few new P's are as follows :-

- **People**
- **Physical evidence**
- **Process**

Marketing Strategy Techniques

- **Social Marketing**

- It refers to the design, implementation, and control of programs seeking to increase the acceptability of a social ideas, cause, or practice among a target group.

- For instance, the publicity campaign for prohibition of smoking in Delhi explained the place where one can and can't smoke in Delhi

Marketing Strategy Techniques

- **Social Marketing**

Marketing Strategy Techniques

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

Marketing Strategy Techniques

- **Augmented Marketing**
- Augmented marketing is the idea of adding value to a proposition via an additional, innovative offer. The word 'augmented' means “having been made greater in size or value”. So by laying on extra benefits, augmented marketing increases the chances of a sale.

Marketing Strategy Techniques

- **Direct Marketing**
- Marketing through various advertising media that interact directly with consumers, generally calling for the consumer to make a direct response. Direct marketing includes catalogue selling, mail, telecommuting, electronic marketing, shopping, and TV shopping

Marketing Strategy Techniques

- **Relationship Marketing**
- The process of creating, maintaining, and enhancing strong, value-laden relationships with customers and other stakeholder.
- For example, Airlines offer special lounges at major airports for frequent flyers. Thus, providing special benefits to select customers to strength bonds. It will go a long way in building relationships

Marketing Strategy Techniques

- **Services Marketing**
- It is applying the concepts, tools, and techniques, of marketing to services. Services is any activity or benefit that one party can offer to another that is essentially intangible and ***does not result in the banking, savings, retailing, educational.***
- It may include all types of hospitality services, car rental services, air travel, health care services and professional services.

Marketing Strategy Techniques

- **Person Marketing**
- People are also marketed. Person marketing consists of activities undertaken to create, maintain or change attitudes and behaviour towards particular person.
- For example, politicians, sports stars, film stars, professional i.e., market themselves to get votes, or to promote their careers and income

Marketing Strategy Techniques

- **Person Marketing**

Marketing Strategy Techniques

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

Organization Marketing

Marketing Strategy Techniques

- **Place Marketing**
- Place marketing involves activities undertaken to create, maintain, or change attitudes and behavior towards particular places say, business sites marketing, tourism marketing

Marketing Strategy Techniques

- **Differential Marketing**
- A market-coverage strategy in which a firm decides to target several market segments and designs separate offer for each.
- For example, Hindustan Unilever Limited has ***Lifebuoy, Lux and Rexona*** in popular segment and ***Dove and Pears*** in premium segment

Marketing Strategy Techniques

- **Synchro - marketing**
- When the demand for the product is irregular due to season, some parts of the day, or on hour basis, ***causing idle capacity or overworked capacities***, *Synchro-marketing can be used to find ways to alter the same pattern of demand through* flexible pricing, promotion, and other incentives. For example, products such as movie tickets can be sold at lower price over week days to generate demand

Marketing Strategy Techniques

- **Concentrated Marketing**
- A market-coverage strategy in which a firm goes after a large share of one or few sub-markets

Marketing Strategy Techniques

- **Demarketing**
- Marketing strategies ***to reduce demand temporarily or permanently-the aim is not to destroy demand, but only to reduce or shift it.*** This happens when there is overfull demand. For example, buses are overloaded in the morning and evening, roads are busy for most of times, zoological parks are over-crowded on Saturdays, Sundays and holidays. Here demarketing can be applied to regulate demand

Marketing Strategy Techniques

Enlightened Marketing

A marketing philosophy holding that a company’s marketing should support the best long-run performance of the marketing system; It is broken down into ***five principles***:

- customer-oriented marketing,
- innovative marketing,
- value marketing,
- sense-of-mission marketing, and
- societal marketing

Financial Strategy Formulation

These are acquiring needed capital/sources of fund, developing projected financial statements / budgets, management / usage of funds, and evaluating the worth of a business.

Acquiring capital to implement strategies / sources of funds.

- Besides net profit from operations and the sale of assets, two basic sources of capital for an organization are debt and equity.

- Determining an appropriate mix of debt and equity in a firm's capital structure can be vital to successful strategy implementation.

Projected financial statements / preparing budgets:

- A financial budget is also a document that details how funds will be obtained and spent for a specified period of time.
- Annual budgets are most common, although the period of time for a budget can range from one day to more than ten years.

- There are almost as many different types of financial budgets as there are types of organizations.

- Some common types of budgets include cash budgets, operating budgets, sales budgets, profit budgets, factory budgets, capital budgets, expense budgets, divisional budgets, variable budgets, flexible budgets, and fixed budgets.

Financial budgets have some limitations :

- Cumbersome - A budget is a tool and not an end in itself.
- Over budgeting or under budgeting can cause problems.
- A budget is a tool and not an end in itself.
- budgets can hide inefficiencies if based solely on precedent rather than on periodic evaluation of circumstances and standards.
- budgets are sometimes used as instruments of tyranny that result in frustration, resentment, absenteeism, and high turnover.

Management / usage of funds:

- The important factors regarding which plans and policies are to be made are: capital investment; fixed asset acquisition; current assets; loans and advances; dividend decisions; and relationship with shareholders.

- Usage of funds is important since it relates to the efficiency and effectiveness of resource utilization in the process of strategy implementation.

Management / usage of funds:

- The management of funds is an important area of financial strategies. It basically deals with decisions related to the systemic aspects of financial management.

- The major factors regarding which plans and policies related to the management of funds have to be made are: the systems of finance, accounting, and budgeting; management control system; cash, credit, and risk management; cost control and reduction; and tax planning and advantages.

Evaluating the worth of a business:

Methods for determining a business's worth.

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Net Worth Method:

- The first approach in evaluating the worth of a business is determining its net worth or stockholders' equity.
- Net worth represents the sum of common stock, additional paid-in capital, and retained earnings.
- After calculating net worth, add or subtract an appropriate amount for goodwill and overvalued or undervalued assets. This total provides a reasonable estimate of a firm's monetary value.

Capitalisation of Earnings:

- The worth of business may be taken as certain times the firm's current annual profit.

- Alternatively net profits may be divided by capitalisation rate or overall cost of capital to compute the value of business.

Market Price Method:

- The third approach, letting the market determine a business's worth, involves three methods.
- **First,** base the firm's worth on the selling price of a similar company.
- **The second approach** is called the price-earnings ratio method.
- **The third approach** can be called the **outstanding shares method.**

Market Price Method:

- **The second approach** is called the price-earnings ratio method. To use this method, divide the market price of the firm's common stock by the annual earnings per share and multiply this number by the firm's average net income for the past five years.

Market Price Method:

- **The third approach** can be called the **outstanding shares method.**
- To use this method, simply multiply the number of shares outstanding by the market price per share and add a premium. The premium is simply a per-share amount that a person or firm is willing to pay to control (acquire) the other company.

Production Strategy Formulation :

The strategy related to various aspects of production system, operational planning and control, and research and development (R&D) are called Production strategy.

Production System:

The production system is concerned with the capacity, location, layout, product or service design, work systems, degree of automation, extent of vertical integration, and such factors.

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Operations Planning and Control:

Strategies related to operations planning and control are concerned with aggregate production planning; materials supply; inventory, cost, and quality management; and maintenance of plant and equipment.

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Logistics Strategy

Management of logistics is a process which integrates the flow of supplies into, through and out of an organization to achieve a level of service which ensures that the right materials are available at the right place, at the right time, of the right quality, and at the right cost.

Logistic Management :

Organizations try to keep the cost of transporting materials as low as possible consistent with safe and reliable delivery. Supply chain management helps in logistics and enables a company to have constant contact with its distribution team, which could consist of trucks, trains, or any other mode of transportation.

For a business organization effective logistic strategy will involve raising and finding solutions to the following questions:

- Which sources of raw materials and components are available **???????????**
- How many manufacturing locations are there **????????**
- What products are being made at each manufacturing location **????????**

- What modes of transportation should be used for various products ?????????
- What is the nature of distribution facilities?????????
- What is the method for deploying inventory in the logistics network ?????????
- Should the business organization own the transport vehicles ?????????

Some examples of how logistics can help a business are as follows:

- Cost savings.
- Reduced inventory.
- Reduced inventory wastages.
- Improved delivery time
- Customer satisfaction
- Competitive advantage

Supply chain management :

What is Supply chain ?

A supply chain is a network of facilities and distribution options that performs the functions of procurement of materials, transformation of these materials into intermediate and finished products and the distribution of these finished products to customers. It refers to the linkages between suppliers, manufacturers and customers. Supply chains involves all activities like sourcing and procurement of material, conversion and logistics.

What is Supply Chain Management ?

Supply chain management is defined as *the process of planning, implementing, and controlling the supply chain operations. It encompasses all movement and storage of raw materials, work-in-process inventory, and finished goods from* ***point-of-origin to point-of-consumption.***

Research & Development :

Research and development (R&D) personnel can play an integral part in strategy implementation. These individuals are generally charged with developing new products and improving old products in a way that will allow effective strategy implementation.

R & D policies can enhance strategy implementation efforts to:

- Emphasize product or process improvements.
- Stress basic or applied research.
- Be leaders or followers in R&D.
- Develop robotics or manual-type processes.
- Spend a high, average, or low amount of money on R&D.
- Perform R&D within the firm or to contract R&D to outside firms.
- Use university researchers or private sector researchers.

Guidelines for make or outsource R & D

- If the **rate of technical progress *is* slow, the rate of market growth is moderate,** and there are significant barriers to possible new entrants, then in-house R&D is the preferred solution.

- If **technology is changing slowly but the market is growing quickly,** there generally is not enough time for in-house development.

- **If both technical progress and market growth are fast,** R&D expertise should be obtained through acquisition of a well-established firm in the industry

Human Resource Strategy Formulation :

Human Resource Strategies are related to are assessing the staffing needs, their recruitment, selection, training, development, competition, motivation, employees’ healthcare etc.

The role of human resources

The following points should be kept in mind:

- **Recruitment and selection.**
- **Training.**
- **Appraisal of performance.**
- ***Compensation.***

Strategy and Human Resource Management / Strategic Role of Human Resource Management:

- Providing purposeful direction.
- Creating competitive atmosphere.
- Facilitation of change.
- Diversity of workforce.

Strategy and Human Resource Management / Strategic Role of Human Resource Management:

- **Empowerment of human resources .**
- **Building core competency.**
- **Development of works ethics and culture core.**

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Organisational

n

Structure

Organisation Structure and Strategy Implementation

- Organisational structure is typically ***hierarchical arrangement*** of lines of ***authority***, ***communications,*** rights and duties of an organisation. Organisational structure determines how the ***roles, power and responsibilities*** are assigned, controlled and coordinated and how information flows between the different levels of management.

Organisation Structure and Strategy Implementation

- ***A structure depends on the organisation's objectives and strategy***. In a ***centralized structure*** the top layer of management has most of the decision making power and has tight control over departments and divisions. In a ***decentralized structure***, the decision making power is distributed and departments and divisions may have different degrees of independence.

An organisation is structured for two main reasons:

- Structure dictates how resources will be allocated.
- Structure dictates how objectives and policies will be established.

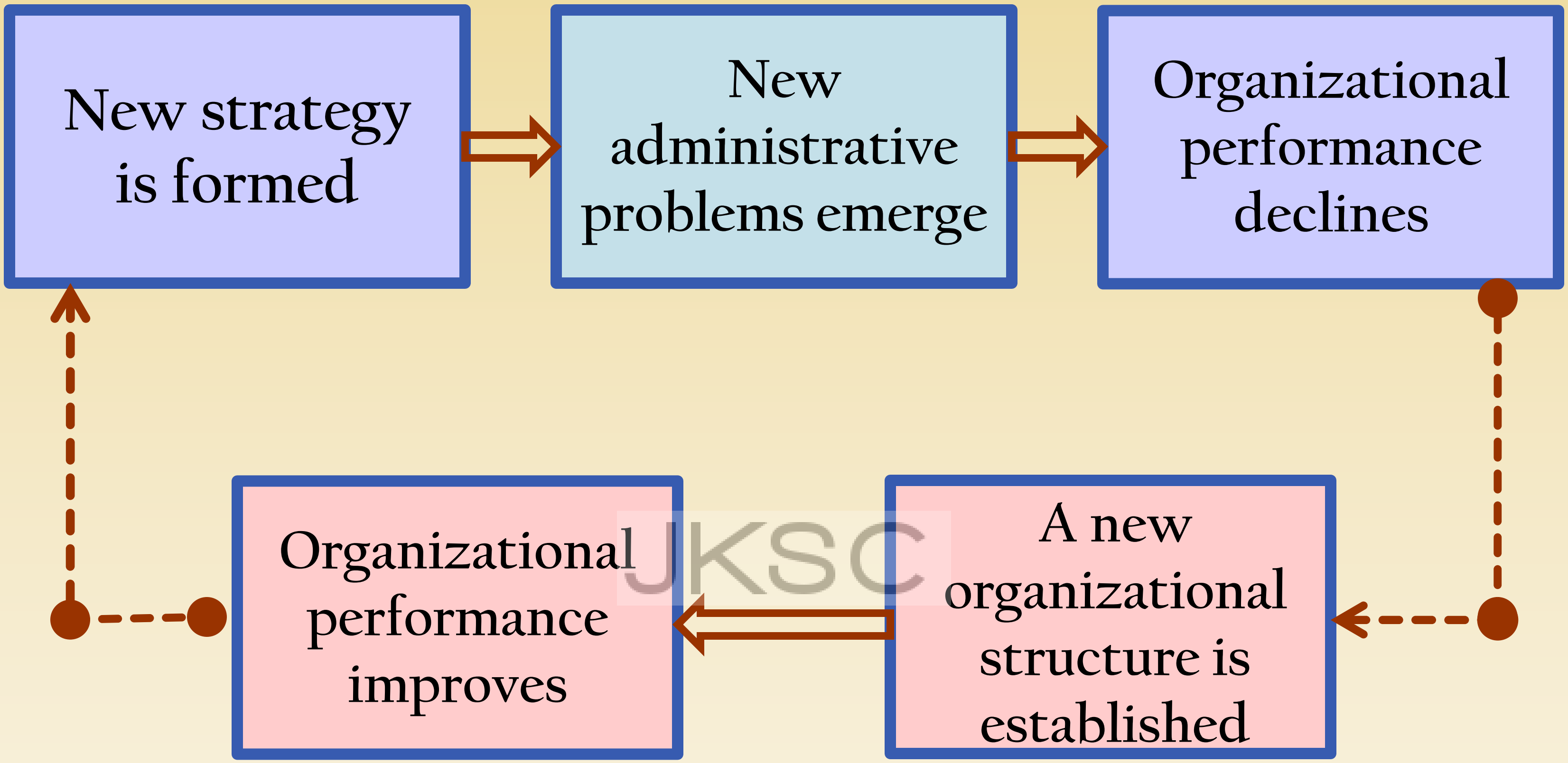
- **There is no single optimal organisational design or structure for a given strategy of type of organisation.**
- **What is appropriate for one organiastion may not be appropriate for a similar firm, although successful firms in a given industry do tend to organize themselves in a similar way.**

- Small firms tend to be functionally structured (Centralised).
- Medium sized firms tend to be divisionally structured (decentralized).
- Large firms tend to use SBU (Strategic Business Unit) or matrix structures.

Chandler's Strategy-Structure Relationship :

- Changes in the corporate strategy preceded and led to changes in an organisations structure.
- Organisations structures follow the growth strategies of firms.
- Growth strategies tended to follow certain patterns.

Chandler's Strategy-Structure :



Simple Structure

Simple organizational structure is most appropriate for companies that follow a singlebusiness strategy and offer a line of products in a single geographic market.

A simple structure is an organizational form in which the owner-manager makes all major decisions directly and monitors all activities, while the company's staff merely serves as an executor.

Simple Structure

Little specialization of tasks, few rules, little formalization, unsophisticated information systems and direct involvement of owner-manager in all phases of day-to-day operations characterise the simple structure.

In the simple structure, communication is frequent and direct, and new products tend to be introduced to the market quickly, which can result in a competitive advantage.

Because of these characteristics, few of the coordination problems that are common in larger organizations exist.

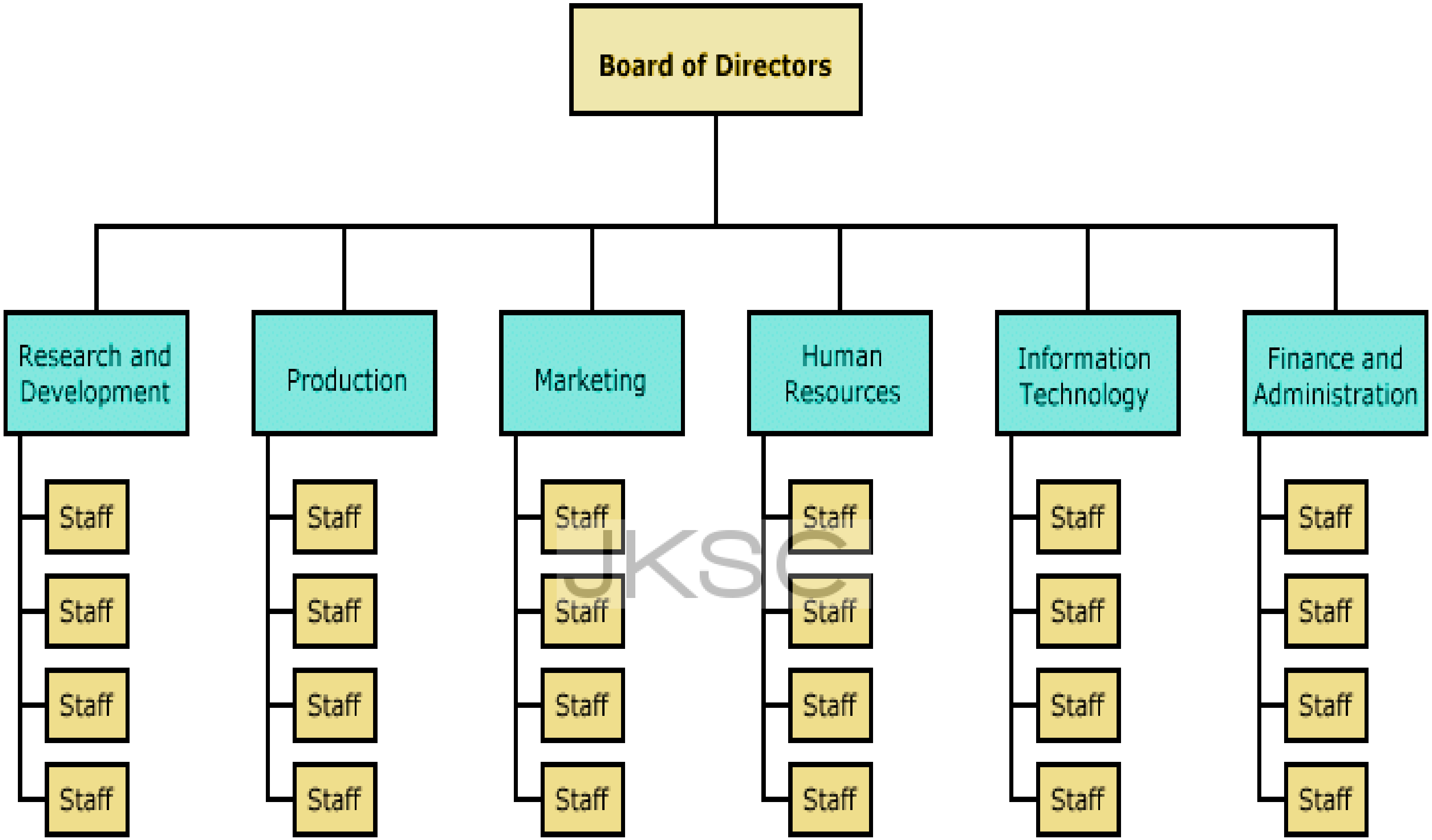
Simple Structure

Potential competitive advantages include a broad-based openness to innovation, greater structural flexibility, and an ability to respond more rapidly to environmental changes.

In the simple structure, communication is frequent and direct, and new products tend to be introduced to the market quickly, which can result in a competitive advantage.

Because of these characteristics, few of the coordination problems that are common in larger organizations exist.

Functional Structure :



Functional Structure :

Functional organisational structure is a hierarchical type of organisational structure. In this structure –

- People are grouped as per their area of specialisation.
- Supervised by a functional manager with expertise in the same field.

Functional Structure :

This is done to effectively utilise the skills of the people and to achieve the organisation’s objective.

In functional organisation the organisation is divided into various specific departments; e.g. human resource, marketing, finance and operations etc. each department will have its own department head who will be responsible for the performance of this section. It helps a lot to control the quality and uniformity of performance.

Advantages :

- Promotes ***specialisation*** of employees based on their skills.
- ***Workers are very skilled and efficient*** because they are experienced in same type of work.
- ***Minimize the need*** for an elaborate control system.
- Allows ***quick decision*** making.

Advantages :

- ***Expert can manage*** each department since all jobs are specialized activities and require specialists.
- ***Better supervision*** since an individual manager becomes familiar with related tasks and activities.
- ***Better co-ordination*** due to specialisation and efficiency among the various departments.

Disadvantages :

- Forces accountability to the top.
- Minimises career development opportunities.
- Low employee morale.
- Creates line-staff conflicts.

Disadvantages :

- Poor delegation of authority.
- Inadequate planning for products and markets.
- Difference in functional specialisation and orientation creates problems in communications and co-ordinations.
- Specialists may develop narrow perspective, losing sight of the company’s strategic vision and mission.

Divisional Structure :

The divisional organization structure is more suited to every large enterprise particularly those which deal in multiple products to serve more than one distinctive markets. The organisation is then divided in to small business units which are entrusted with the business related to different products or different markets territories.

Divisional Structure :

In other words, independent divisions (product or market diviosn) are created under the overall control of the head office. Each divisional manager is given autonomy to run all functions relating to the product or market segment or regional market. Thus each division may have a number of supporting functions to undertake.

A divisional structure may consist of the following divisions :

- ***Divisional by Geographic Area*** – to promote local participation in decisions making and improved co-ordination.
- ***Divisional by product*** – to emphasise on specific product and services which differ substantially.
- ***Divisional by customers*** - to cater to the needs of defined customer groups.

A divisional structure may consist of the following divisions :

- ***Divisional by process*** – similar to a functional structure but divisions are also responsible for revenue generation.

Advantages :

- ***Promote accountability*** since division managers can be held responsible for sales and profit levels.
- ***Employee morale*** is comparatively ***higher***
- ***Career development*** opportunities for managers
- Allow ***better control*** of local situations
- ***Competitive climate***
- Allow ***new business*** and products to be ***added*** easily.

Disadvantage :

- Each division will require a ***functional specialist***.
- ***Duplication of staff*** workers and services.
- Requires an elaborate ***headquarters-driven control*** system which may be costly.
- Certain regions, products or customers may receive special treatment and develop inconsistent traits / practices when compared to the Company's overall policy.

Multi Divisional Structure

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

Multidivisional structure calls for:

- Creating separate divisions, each representing a distinct business
- Each division would house its functional hierarchy
- Division managers would be given responsibility for managing day-to-day operations
- A small corporate office that would determine the long-term strategic direction of the firm and exercise overall financial control over the semi-autonomous divisions.

Multi Divisional Structure

This would enable the firm to more accurately monitor the performance of individual businesses, simplifying control problems, facilitate comparisons between divisions, improving the allocation of resources and stimulate managers of poorly performing divisions to seek ways to improve performance.

Multi Divisional Structure

This would enable the firm to more accurately monitor the performance of individual businesses, simplifying control problems, facilitate comparisons between divisions, improving the allocation of resources and stimulate managers of poorly performing divisions to seek ways to improve performance.

Strategic Business Unit (SBU) :

The SBU structure is ***composed of operating units*** where ***each uni***t represents ***a separate business*** to which the ***top corporate*** officer ***delegates responsibility*** for day-to-day operations and business unit strategy to its managers. It is an ***extension of the divisional structure***. By such delegation, the ***corporate office is responsible for formulating and implementing*** overall corporate strategy and manages SBUs through strategic and financial controls.

Strategic Business Unit (SBU) :

Hence, the SBU structure groups similar divisions into strategic business units and delegates authority and responsibility for each unit to a senior executive who reports directly to the chief executive officer. This change in structure can facilitate strategy implementation by improving coordination between similar divisions and channeling accountability to distinct business units.

SBU Structure :

A strategic business unit (SBU) structure consists of ***at least three levels***, with a ***corporate headquarters at the top,*** SBU groups at the ***second level, and divisions grouped by relatedness within each SBU*** at the third level.

Advantages :

- Within each SBU divisions producing similar products and / or using similar technologies can be organised to achieve synergy.
- Each SBU is treated as profit centers, they react quickly to environmental changes.
- Corporate headquarters can concentrate on strategic planning rather than operational control.

Advantages :

- Improved co-ordination, harmony and orderliness in operations.
- SBU promotes accountability
- Enables the company to monitor the performance of individuals businesses, simplifying control problems.
- It facilitates comparisons between divisions.

Disadvantages :

- It requires additional level of management, which increase salary expenses.
- The role and autonomy of the group Vice President can be difficult to define.
- Unhealthy competition for corporate resources.

Matrix Structure :

This is another type of structure which aims at combining the advantages of ***vertical and horizontal flows of authority and communication (hence the term Matrix).*** In the matrix organisation structure, there are functional departments with specialized personnel are deputed to work full time in different projects; sometimes in more than one projects under the overall guidance and direction of project managers.

Matrix Structure :

These employees are assigned temporarily to one or more projects or project units which are temporary. They report to the project manager, during the period of their assignment to that project. Thus employees have two superiors-

- Functional Manager (Vertical Flow)
- Project or Product manager (Horizontal Flow)

For development of matrix structure Davis and Lawrence, have proposed three distinct phases

- **Cross-functional task forces :**

  It is initially used when a new product line is being introduced. A project manager is in charge as the key horizontal link.

[

For development of matrix structure Davis and Lawrence, have proposed three distinct phases

- **Product/brand management :**

  If the cross-functional task forces become more permanent, ***the project manager becomes a product or brand manager and a second phase begins.*** In this arrangement, function is still the primary organizational structure, but product or brand managers act as the integrators of semi permanent products or brands.

For development of matrix structure Davis and Lawrence, have proposed three distinct phases :

- ***Mature matrix :***

  The third and final phase of matrix development involves a true dual-authority structure. All employees are connected to both a vertical functional superior and a horizontal product manager. Functional and product managers have equal authority and must work well together to resolve disagreements over resources and priorities.

Advantages :

- Useful for specialized industries like construction, healthcare, research and defense.
- Project objectives are clear.
- Many channels of communication and employees can see they visible results of their work.
- Shutting down a project is accomplished relatively easily.

Disadvantages :

- ***Higher employee cost*** due to more management positions.
- ***Complexity*** due to horizontal and vertical flows of authority and communication.
- ***Dual lines of authority***, violating the unity of command principle.

Disadvantages :

- ***Dual reporting channels***, leading to chaos and confusion.
- Sharing of authority, leading to conflicts between managers.
- Conflicts in resource allocation decisions.

Network Structure :

The network structure is an example of what could be termed a "non-structure" by its virtual elimination of in house business functions. Many activities are outsourced. A corporation organized in this manner is often called a virtual organization.

- The network structure becomes most useful when the environment of a firm is unstable and is expected to remain so.

Network Structure :

- The network organization is a series of independent firms or business units linked together by computers in an information system that designs, produces, and markets a product or service.
- A corporation organized in this manner is often called a ***virtual organization*** because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks.

Network Structure :

- Instead of having salaried employees, it may contract with people for a specific project or length of time.
- Instead being located in a single building or area, an organization's business functions are scattered worldwide.
- The organization is, in effect, only a shell, with a small headquarters acting as a "broker", electronically connected to some completely owned divisions, partially owned subsidiaries, and other independent companies.

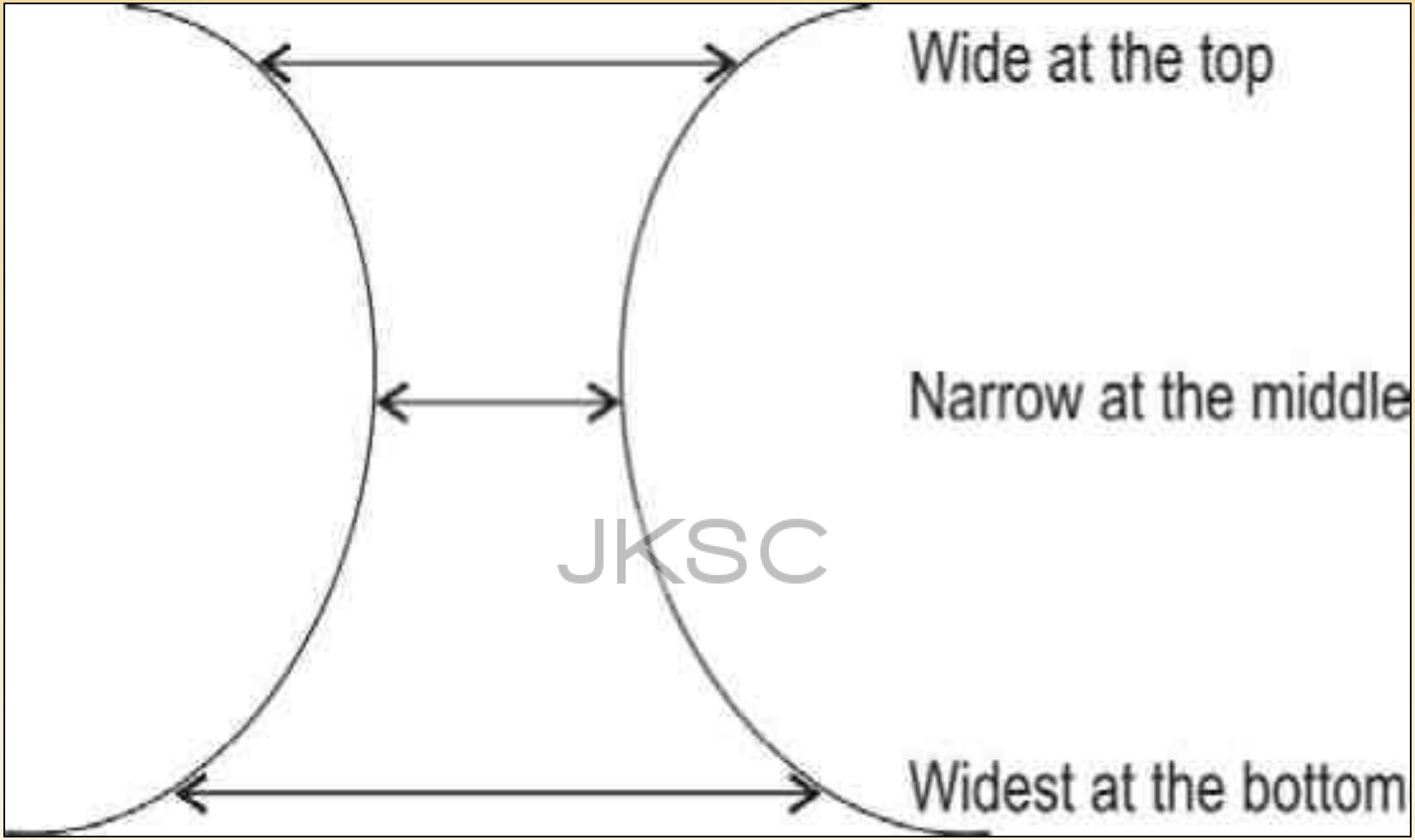
Advantages :

- Most useful when the environment of a firm is unstable.
- Strong need for innovation and quick response.
- More flexibility and responsiveness to cope with rapid technological changes.
- Allows a company to concentrate on its own competencies through outsourcing.

Disadvantages :

- Availability of numerous potential partners can be a source of trouble.
- Contracting out functions may keep the firm away from developing own human resources.
- If a particular firm overspecializes on only a few functions it runs the risk of choosing the wrong functions and thus becoming non-competitive.

Hourglass Structure



Hourglass Structure

- *In the recent years information technology and communications have significantly altered the functioning of organizations.*
- *The role played by middle management is diminishing as the tasks performed by them are increasingly being replaced by the technological tools.*
- *Hourglass organization structure consists of three layers with constricted middle layer.*

Hourglass Structure

- ***The structure has a short and narrow middle-management level.***
- ***Information technology links the top and bottom levels in the organization taking away many tasks that are performed by the middle level managers.***
- ***A shrunken middle layer coordinates diverse lower level activities.***

Hourglass Structure

- ***Contrary to traditional middle level managers who are often specialist, the managers in the hourglass structure are generalists and perform wide variety of tasks.***
- ***They would be handling cross-functional issues emanating such as those from marketing, finance or production.***

Hourglass Structure

Hourglass structure has obvious benefit of reduced costs. It also helps in enhancing responsiveness by simplifying decision making. Decision making authority is shifted close to the source of information so that it is faster. However, with the reduced size of middle management the promotion opportunities for the lower levels diminish significantly.

Leadership and strategy Implementation :

Strategic leaders those at the top of the company but other commonly recognised strategic leaders includes members of the board of directors, top management team and division general managers. The ability to manage human capital may be the most critical skill that a strategic leader possesses.

Roles played by Strategic Leader :

- Staying on top of what is happening, closely monitoring progress, ferreting out issues, and learning what obstacles lie in the path of good execution.
- Promoting a culture and esprit de corps (Morals)
- Exercising ethics leadership
- Pushing corrective actions to improve strategy execution and overall performance.

Responsibilities of Strategic Leader

- Managing human
- Sustaining high performance over time.
- Being willing to make candid, courageous, yet pragmatic, decisions.
- Seeking feedback through face-to-face communications.
- Having decision-making responsibilities that cannot be delegated.

Transformational leadership style :

- Transformational leadership style use charisma and enthusiasm to inspire people to exert them for the good of the organization.
- Transformational leadership style may be appropriate in turbulent environments, in industries at the very start or end of their life-cycles, in poorly performing organizations when there is a need to inspire a company to embrace major changes.

- Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction.

Transactional leadership style :

- Transactional leadership style more likely to be associated with ***improving the current situation***.
- Transactional leaders try to build on the existing culture and enhance current practices. such as pay and status.
- They prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement.

Building a Strategy-Supportive Corporate Culture :

What is Corporate Culture ?

It refers to a collection of factors internal to work environment including a company's value, beliefs, business principles, traditions, ways of operating, philosophy, ways of approaching problems and making decisions, work climate, behaviour, thought patterns and personality of an organisation.

Building a Strategy-Supportive Corporate Culture :

Where Does Corporate Culture Comes From?

- Official practices
- Ethical standards.
- Management practices.
- Dealing and relationship with employees, unions, stockholders, vendors.

Building a Strategy-Supportive Corporate Culture :

Where Does Corporate Culture Comes From?

- Communities in which it operates
- Traditions the organisation maintain.
- Employees' attitudes and behaviour.
- Legends people repeat about in organisation.
- Peer pressures that exists in organisation's politics.

Building a Strategy-Supportive Corporate Culture :

How culture can promote better strategy execution?

The way say which culture can promote better strategy execution of a culture are as follow :

- Identify the supportive and non supportive elements of the culture.
- Hold candid discussions with all concerned about those aspects of the culture that have to be changed.

Building a Strategy-Supportive Corporate Culture :

How culture can promote better strategy execution?

- Communicate to employees the basis for cultural change and its benefits to all concerned.
- Altering incentive compensation, visibly praising and recognising people which display the new cultural traits.
- Recruiting and hiring new managers and employees who have the desired cultural values.

Entrepreneurship and Intrapreneurship

What is the meaning of Entrepreneurship

Entrepreneurship is the attempt to ***create value*** through recognition of business opportunity, the management of risk taking appropriate to the opportunity and through management skills to mobilize financial, human and material resources necessary to create an enterprise.

Entrepreneurship and Intrapreneurship

An entrepreneur is one who -

- Initiates and innovates a new concept.
- Recognises and utilises opportunity.
- Faces risks and uncertainties.
- Establishes a startup company.
- Adds value to the product or service.
- Takes decisions to make the product or service a profitable one.
- Is responsible for the profits or losses of the company.

Entrepreneurship and Intrapreneurship

Concept of Intrapreneur

An Intrapreneur is nothing but an entrepreneur who operates within the boundaries of an organisation.

He is an employee of a large organisation, who is vested with authority of initiating creativity and innovation in the company's products, services and projects, redesigning the processes, workflows and systems.

Entrepreneurship and Intrapreneurship

Concept of Intrapreneur

The Intrapreneur believe in change and do not fear failure. They discover new ideas, look for such opportunities that can benefit the whole organisation and take risks, promote innovation to improve the performance and profitability of the organisation.

The job of an Intrapreneur is extremely challenging. They get recognition and reward for the success achieved by them.

Strategy Implementation

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Introduction

- ***Strategic management*** entails ***both strategic planning and implementation.***

- ***Strategic management process*** does not end when the firm decides what strategies to pursue. ***There must be a translation of strategic thought into strategic action.***

The basic elements of strategic management are:

Strategic Implementation :

It is concerned with the planning of how to apply the choice of strategy in the organisation.

Strategic implementation is defined as the manner in which an organisation should develop, utilise and ***amalgamate organisational structure, control system and culture to follow strategies*** that lead to competitive advantage and better performance.

Principal Combinations of Efficiency (Operational Management) and Effectiveness(Strategic Management)

Several Orgsanisation that lack strategic direction keep a focus on efficiency rather than effectiveness.

Effectiveness: (Strategic Management)

- To be effective means to do right things
- It is concerned with organisations attainment of goals – including that of desired competitive position.
- Effectiveness highlights the link between the organisation and its external environment.
- The responsibility for effectiveness lies with top managers.

Efficiency: (Operational Management) :

- To be efficient means to do the things right
- It defines relationship between inputs and outputs, usually with a short time horizon.
- Efficiency is essentially introspective (links between the organisation and its internal environment) in nature.
- The responsibility for efficiency lies with operational (Middle level) managers.

Principle combination of efficiency and effectiveness

Operational management		Strategic Formulation	
		Effective	**Ineffective**
	Efficient	**1. Thrive**	**2. Die slowly**
	Inefficient	**3. Survive**	**4. Die quickly**

Principle combination of efficiency and effectiveness

Cell 1:

An organisation that finds itself in cell1 is well placed and thrives, because of an effective strategy management backed by efficient operational management.

Principle combination of efficiency and effectiveness

Cell 2:

In contrast, an organisation in cell2 dies slowly because of an ineffective strategic management despite of efficient operational management.

Principle combination of efficiency and effectiveness

Cell 3:

In cell 3 the organisation may survive because of an effective strategy management although if requires too much input to generate desired output due to inefficient operational management. It is still better than cell 2 and 4.

Principle combination of efficiency and effectiveness

Cell 4:

It is the worst situation where organisation dies quickly because strategic management is ineffective and operational management is inefficient. It ends up in poor implementation of a poor strategy.

Forward Linkages Vs Backward Linkages

Forward Linkages:

It means that the formulation of strategies is linked with their implementation. The different elements in strategy formulation determine the course that an organisation develops for itself. With the formulation of new strategy or reformulation of the existing strategies many changes have to be effected within the organiastion. For instance the organisational structure has to undergo change in the light of the requirements of the modified or new strategy.

Forward Linkages Vs Backward Linkages

Backward Linkages:

strategy formulation is said to be backward linkage when the formulation process is affected by factors related with implementation just as implementation is determined by formulation strategies.

Forward Linkages Vs Backward Linkages

Backward Linkages:

While dealing with strategic choice, remember that past strategic actions also determine the choice of strategy. Organisations tend to adopt those strategies which can be implemented with the help of present structure of resources combined with some additional efforts. Such incremental changes over a period of time take the organisation from where it is to where it wishes to be.

Issues in Strategy Implementation

In all but the smallest organizations, the transition from strategy formulation to strategy implementation requires a shift in responsibility from strategists to divisional and functional managers.

Implementation problems can arise because of this shift in responsibility, especially if strategic decisions come as a surprise to middle and lower-level managers.

Issues in Strategy Implementation

Managers and employees throughout an organization should participate early and directly in strategy-implementation activities.

Strategists' genuine personal commitment to implementation is a necessary and powerful motivational force for managers and employees.

Too often, strategists are too busy to actively support strategy-implementation efforts, and their lack of interest can be detrimental to organizational success.

Issues in Strategy Implementation

Firms need to develop a competitor focus at all hierarchical levels by gathering and widely distributing competitive intelligence; every employee should be able to benchmark her or his efforts against best-in-class competitors so that the challenge becomes personal.

This is a challenge for strategists of the firm.

Issues in Strategy Implementation

Firms should provide training for both managers and employees to ensure that they have and maintain the skills necessary to be world-class performers.

Strategic Change :

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

Steps to initiate strategic change :

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

1. ***Recognize the need for change***:
2. ***Create a shared vision to manage change*** :
3. ***Institutionalize the change*** :

Various Stages or Phases Kurt Lewin Change Process :

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

Various Stages or Phases Kurt Lewin Change Process :

1. Unfreezing the situation:

- The process of unfreezing simply makes the individuals or organizations aware of the necessity for change and prepares them for such a change.
- Unfreezing is the process of breaking down the old attitudes and behaviors, customs and traditions.
- The changes should not come as a surprise to the members of the organization.

Various Stages or Phases Kurt Lewin Change Process :

2. *Changing to New situation :*

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

Various Stages or Phases Kurt Lewin Change Process :

2. *Changing to New situation :*

✓ <u>**Compliance :**</u>

It is achieved by strictly enforcing the reward and punishment strategy for good or bad behaviour. Fear of punishment, actual punishment or actual reward seems to change behaviour for the better.

Various Stages or Phases Kurt Lewin Change Process :

2. *Changing to New situation :*

✓ **Identification :**

Identification occurs when members are psychologically impressed upon to identify themselves with some given role models whose behaviour they would like to adopt and try to become like them.

Various Stages or Phases Kurt Lewin Change Process :

2. *Changing to New situation :*

✓ **Internalization :**

Internalization involves some internal changing of the individual's thought processes in order to adjust to a new environment. They have given freedom to learn and adopt new behaviour in order to succeed in the new set of circumstances.

Various Stages or Phases Kurt Lewin Change Process :

3. Refreezing

Refreezing occurs when the new behaviour becomes a normal way of life. The new behaviour must replace the former behaviour completely for successful and permanent change to take place.

Strategic Control :

The control function involves monitoring the activity and measuring results against pre-established standards, analysing and correcting deviations as necessary and maintaining / adapting the system.

Strategic Control :

Primarily there are three types of organizational control, viz., operational control, management control and strategic control.

Operational Control :

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

Operational Control :

For example, procuring specific items for inventory is a matter of operational control, in contrast to inventory management as a whole. One of the tests that can be applied to identify operational control areas is that there should be a clear-cut and somewhat measurable relationship between inputs and outputs which could be predetermined or estimated with least uncertainty.

Management Control :

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

The basic purpose of management control is the achievement of enterprise goals - short range and long range - in a most effective and efficient manner.

Strategic Control :

"Strategic control focuses on the dual questions of whether:

- the strategy is being implemented as planned; and
- the results produced by the strategy are those intended."

Types of Strategic Control :

Premise control

A strategy is formed on the basis of certain assumptions or premises about the complex and turbulent organizational environment. Over a period of time these premises may not remain valid. Premise control is a tool for systematic and continuous monitoring of the environment.

Strategic surveillance :

Contrary to the premise control, the strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy. It involves casual environmental browsing. Reading financial and other newspapers, business magazines, attending meetings, conferences, discussions and so on can help in strategic surveillance.

Special alert control :

At times unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, terrorist attacks, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy.

Implementation control :

Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and results associated with incremental steps and actions.

Implementation control :

Strategic implementation control is not a replacement to operational control. Unlike operational control, it continuously monitors the basic direction of the strategy. The two basic forms of implementation control are:

- **Monitoring strategic thrusts**
- **Milestone Reviews**

Strategy Audit

The audit of management performance with regard to its strategies helps an organization identify problem areas and correct the strategic approaches that have not been effective so far.

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Strategy Audit

An assessment of the external environment shows where changes happen and where organization's strategic management no longer match the demands of the marketplace.

Based on such analysis, the organization can improve business performance by periodically conducting such an audit.

Strategy Audit

Companies review their business plans and strategies on regular basis to identify weaknesses and shortcomings to enable a successful development plan.

Strategy Audit

Strategy Audit includes three basic activities:

- Examining the underlying bases of a firm's strategy,
- Comparing expected results with actual results, and
- Taking corrective actions to ensure that performance conforms to plans.

Strategy Audit

Need of Strategy Audit

- When the performance indicators reflect that a strategy is not working properly or is not producing desired outcomes.
- When the goals and objectives of the strategy are not being accomplished.
- When a major change takes place in the external environment of the organization.

Strategy Audit

Need of Strategy Audit

- ***When the top management plans:***
- to fine-tune the existing strategies and introduce new strategies and
- to ensure that a strategy that has worked in the past continues to be in-tune with subtle internal and external changes that may have occurred since the formulation of strategies.

Strategy Audit

Richard Rumelt's Criteria for Strategy Audit

- **Consistency:**

- If managerial problems continue despite changes in personnel and if they tend to be issue-based rather than people-based, then strategies may be inconsistent.
- If success for one organizational department means, or is interpreted to mean, failure for another department, then strategies may be inconsistent.
- If policy problems and issues continue to be brought to the top for resolution, then strategies may be inconsistent.

Strategy Audit

Richard Rumelt's Criteria for Strategy Audit

- **Consonance:**

Consonance refers to the need for strategists to examine sets of trends, as well as individual trends, in auditing strategies.

- A strategy must represent an adaptive response to the external environment and to the critical changes occurring within it.

- One difficulty in matching a firm's key internal and external factors in the formulation of strategy is that most trends are the result of interactions among other trends.

Strategy Audit

Richard Rumelt's Criteria for Strategy Audit

- **Consonance:**

For example, the day-care school/centre came about as a combined result of many trends that included a rise in the average level of education, need for different education pedagogy, increase in income, inflation, and an increase in women in the workforce.

Strategy Audit

Richard Rumelt's Criteria for Strategy Audit

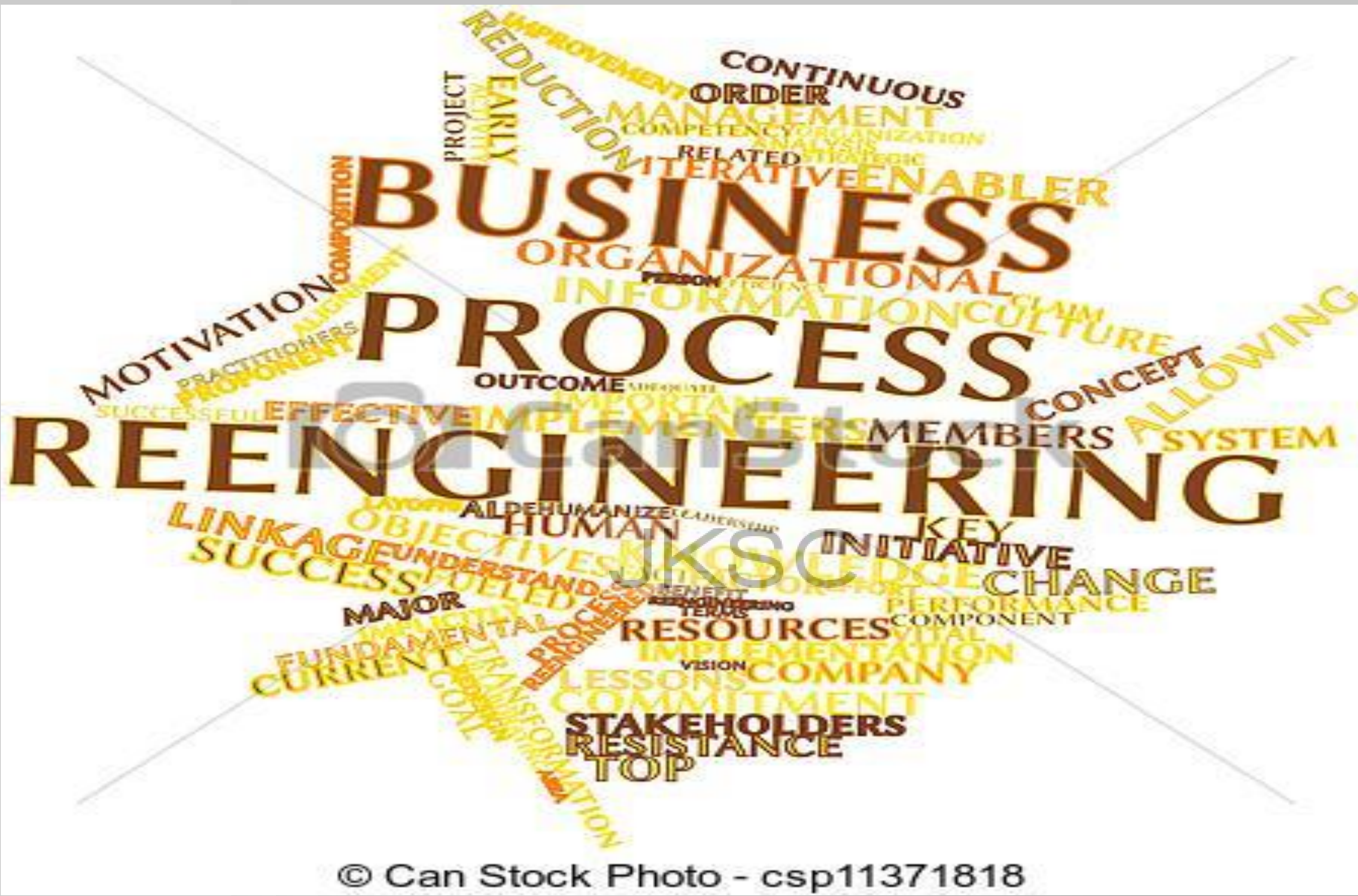
- **Feasibility:**
- **Advantage:**

(1) resources,

(2) skills,

(3) position.

Business process Reengineering



Business process Reengineering

Business process is a set of steps of the process or activities that you and the personnel providing services perform to complete the transaction.

Companies in every industry now and then rethink and reinvent the ways to gain competitive advantages. To achieve this very objective, companies need to create value through different kinds of strategies in response to the environmental forces.

Business process Reengineering

- **Reengineering** means pulling aside much of the age old practices and procedures of doing a thing developed over hundred years of management experience.
- It implies forgetting how work has been done so far and deciding how it can best be done now.
- It is a total deconstruction and rethinking of business process in its entirety, unconstrained by its existing structure and pattern.

Why Business Process Reengineering (BPR)?

There are many organizations on the decline, changing the process or redesigning the process may be the only viable alternative for turnaround.

They must break themselves free from their primitive and archaic work processes that drag them down.

Necessity of BPR

- Major basis for its **competitiveness.**
- For **better customer-focused** organization
- Process need to managed, not functions.
- For considering totally new ways of redesigning processes, Continuous improvement.
- How to compete is more important than deciding about where to compete.

Steps involved in implementing (BPR)

1. **Determining objectives and framework**
2. **Identify customers and determine their needs.**
3. **Study the existing process (Flowchart).**
4. **Formulate a redesign process plan**
5. **Implement the redesign**

The Role of Information Technology in BPR

The Role of Information Technology in BPR

A reengineered business process, characterized by IT-assisted speed, accuracy, adaptability and integration of data and service points, is focused on meeting the customer needs and expectation quickly and adequately, thereby enhancing his/her satisfaction level.

Impact of IT are as follows:

- Reduction of time, Increase in speed.
- Global Village - Overcoming restrictions of geography and/or distance.
- Restructuring of relationships.
- Information systems that provides timely, reliable and accurate information.
- Business values - IT-initiatives, thus, provide business values in three distinct areas.
  - **Efficiency**– by way of increased productivity.
  - **Effectiveness** – by way of better management.
  - **Innovation** – by way of improved products and services,

Central Thrust for BPR

The thrust area of BPR may be identified as ***"the reduction of the total cycle time of a business process."***

BPR aims at reducing the cycle time of process by eliminating the unwanted and redundant steps and by simplifying the systems and procedures.

Even after redesigning of a process, BPR maintains a continuous effort for more and more improvement.

Problems in BPR

- It disturbs established hierarchies and functional structures
- It takes time and expenditure.
- It is tricky and difficult.
- If the targets are not properly set or the whole transformation not properly carried out, reengineering efforts may turn-out as a failure.
- BPR causes resistance to change among the workforce.

Benchmarking :

A Benchmark is a standard or a point of reference against which things may be compared and by which something can be measured and judged. A “benchmark’ is a reference or measurement standard used for comparison.

Benchmarking :

Benchmarking is an approach of setting goals and measuring productivity based on best industry practices. Benchmarking is a process of continuous improvement in search for competitive advantage.

Benchmarking :

Benchmarking is the process of identifying the ***"best practice"*** in relation to both products and the processes by which those products are created and delivered.

Benchmarking :

Benchmarking helps businesses in improving performance by learning from the best practices and the processes by which they are achieved.

Thus, benchmarking is a process of continuous improvement in search for competitive advantage.

Benchmarking :

Firms can use benchmarking process to achieve improvement in diverse range of management function like:

- Maintenance operations.
- Assessment of total manufacturing costs.
- Product development.
- Product distribution.
- Customer services.
- Plant utilization levels.
- Human resource management.

The Benchmarking Process:

- Identifying the need for benchmarking.
- Clearly understanding existing decisions processes.
- Identify best processes.
- Comparison of own process and performance with that of others.
- Prepare a report and implement the steps necessary to close the performance gap.
- Evaluation.