Strategic Management

SUPER NOTES

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Features:

- *Full coverage of IMP aspects of Strategic Management*
- *Summarized and conceptual*
- *Based on Study Material of ICAI*
- *Easy to remember format*
- *Point-to-point approach towards subject*
- *Diagrams and charts given wherever required*
- *Useful for LMR (Last Minute Revision)*

1. BUSINESS ENVIRONMENT

1. WHAT IS BUSINESS?

- Etymologically the term business refers to the state of being busy for an individual, group, organization or society.
- Business can be any activity consisting of purchase, sale, manufacture, processing, and/or marketing of products and/or services.

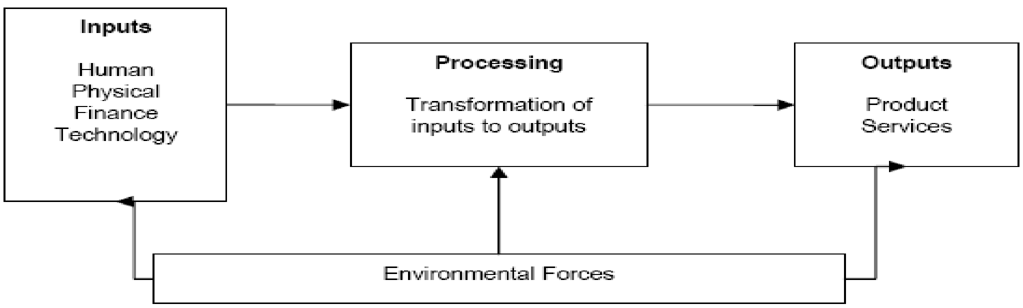
2. What are the **OBJECTIVES OF A BUSINESS?**

- **Survival**:
  - Basic, implicit objective of most organizations.
  - Survival of the fittest. Business and other enterprises are interested in more than mere survival.
- **Stability**:
  - It is a strategy of least resistance in a hostile external environment.
  - Minimizes managerial tensions and demands less dynamism from managers.
- **Growth**:
  - Promising and popular objective.
  - May take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.
- **Efficiency**:
  - Very useful operational objective.
  - Efficiency is an economic version of the technical objective of productivity-designing and achieving suitable input output ratios of funds, resources, facilities and efforts.
- **Profitability**:
  - Sole motive.
  - All other objectives are facilitative objectives and are meant to be subservient to the profit motive
  - Pvt Org lives for profit.
  - Reward for taking Risk

3. WHAT IS ENVIRONMENT?

- Environment is sum of several external and internal forces that affect the functioning of businesses.

- Business function as a part of broader environment.
- The input in the from of human, physical, finance, and other related resources are drawn from environment.
- The business converts these resources through various processes in to output of the products and/or services.
- The extent to which the business thrives depends on manner in which it interacts with the environment.



4. WHAT ARE THE PROBLEMS IN UNDERSTANDING THE ENVIRONMENTAL INFLUENCES?

- Diversity of influences:
  - Understanding this can contribute to strategic decision-making.
  - Mere Listing of all possible environmental influences may not help in getting overall picture of important influences on the organization
- Uncertainty of influences :
  - Technology and global communications are changing rapidly
  - So it is very difficult to understand future external influences on an organization
- Complexity of Influences:
  - Simplifying complexity by focusing on aspects of the environment, which, have been historically important, or confirm prior views may not help.
  - SMgr. should break out of oversimplification or bias in the understanding of their environment, while still achieving a useful and usable level of analysis.

5. FRAMEWORK TO UNDERSTAND THE ENVIRONMENTAL INFLUENCES

- Take an initial view to ascertain the uncertainty

    - Is it Static or changing? Simple or complex. This helps in deciding what focus the rest of the analysis is to take.
- <u>Auditing of environmental influences</u>
    - Aim is to identify which of the many different environmental influences are likely to affect the organization's development or performance.
    - Helpful to construct pictures - or scenarios - of possible futures, to consider the extent to which strategies might need to change.
- <u>Focus on immediate environment of the organization</u>
    - For example, the competitive arena in which the organization operates.
    - By analysis of the five forces, we can identify the key forces at work in the immediate or competitive environment and why they are significant

6. WHY ENVIRONMENTAL ANALYSIS?

- To understand current and potential changes taking place in the environment.
- To provide inputs for strategic decision making
- To facilitate and foster strategic thinking in organizations

7. CHARACTERISTICS OF BUSINESS ENVIRONMENT

I. **Environment is complex**: Number of factors, events, conditions and influences arising from different sources. Interact with each other to create entirely new sets of influences

II. **Environment is dynamic**: constantly changing in nature

III. **Environment is multi-faceted**: A particular change in the environment or a new development may be viewed as a threat or an opportunity

IV. **Environment has a far reaching impact**: growth and profitability of an organization is affected

8. COMPONENTS OF BUSINESS ENVIRONMENT

- External environment. (Macro)= all the factors **outside** the organization which provide **opportunity** or pose **threats** to the organization.
- Internal environment. (Micro)= all the factors **within** an organization which impart **strengths** or cause **weaknesses** of a strategic nature.

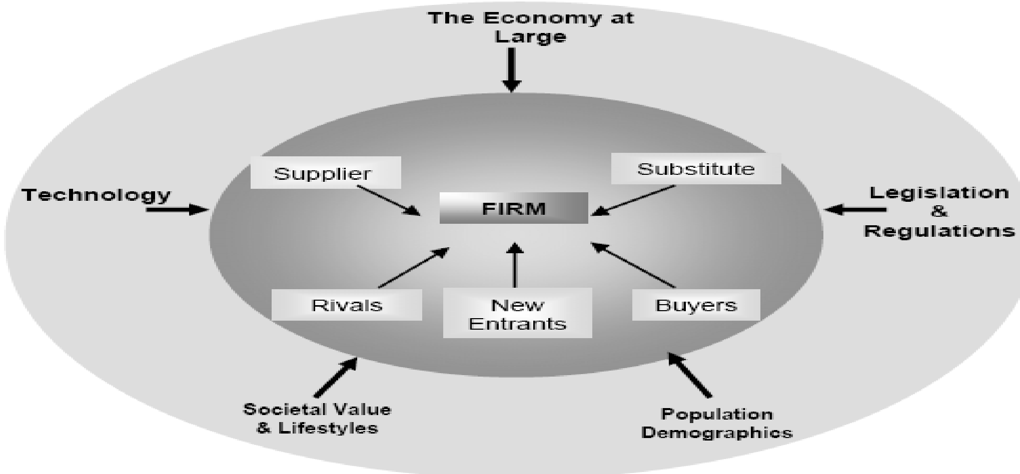


Figure: A Company's Business Environment

The four environmental influences could be described as follows:

- **Opportunity** is a **favorable** condition in the organization's environment which enables it to **consolidate and strengthen its position**.
- **Threat** is an **unfavorable** condition in the organization's environment which creates a **risk for, or causes damage to**, the organization.
- **Strength** is an **inherent capacity** which an organization can use to gain **strategic advantage** over its competitors.
- **Weakness** is an **inherent limitation** or constraint which creates a **strategic disadvantage**.

9. RELATIONSHIP BETWEEN ORGANIZATION AND ITS ENVIRONMENT

Exchange of information:

- Scanning the external environmental variables and using it for planning, decision-making and control purposes.
- Occasional advertisements and annual reports. Supply information on its activities to governmental agencies, investors, employees, trade unions, professional bodies and the like.

Exchange of resources:

- Finance, materials, manpower, equipment etc.from environment,
- Satisfying the expectations and demands of the clientele groups, such as customers, employees, shareholders, creditors, suppliers, local community, general public

Exchange of influence and power:

- It offers a range of opportunities, incentives and rewards on the one hand and a set of constraints, threats and restrictions on the other. Eg:Govt Control
- Org can dictate terms on some of the external forces and mould them to its will.

10. MACRO & MICRO ENVIRONMENT:

The Micro and Macro Environment

Micro-environment is related to small area or immediate periphery of an organization. It influences an organization regularly and directly. It consist suppliers, consumers, marketing intermediaries, competitors, organization, market etc. Macro-environment has broader dimensions. It consist demographic, economic, Government, legal, political, cultural, technological, global environment, etc.

Elements of Micro Environment

Consumers: Customers are the people who pay money to acquire an organization's products. A consumer occupies the central position in the marketing environment. The marketer has to closely monitor and analyse changes in consumer tastes and preferences and their buying habits.

Competitors: Competitors are the other business entities that compete for resources as well as markets. A study of the competitive scenario is essential for the marketer, particularly threats from competition.

Organization: An organization has several non-specific elements that may affect its activities. This consists of specific organizations or groups that are likely to influence an organization.

Market: The market is to be studied in terms of its actual and potential size, its growth prospect and also its attractiveness. The marketer should study the trends and development and the key success factors of the market.

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Suppliers: Suppliers form an important component of the micro environment. The suppliers provide raw materials, equipment, services and so on. Suppliers with their own bargaining power affect the cost structure of the industry. They constitute a major force, which shapes competition in the industry.

Market Intermediaries: Intermediaries exert a considerable influence on the business organizations.

Elements of Macro Environment

Demographic environment: The term demographics denote characteristics of population in an area, district, country or in world. Some of the demographic factors have great impact on the business. Factors such as general age profile, sex ratio, income, education, growth rate affect the business with different magnitude.

Economic environment: The economic environment refers to the nature and direction of the economy in which a company competes or may compete. The economic environment includes general economic situation in the region and the nation, conditions in resource markets (money, manpower, raw material and so on) which influence the supply of inputs to the enterprise, their costs, quality, availability and reliability of supplies.

Political-Legal Environment: There are three important elements in political-legal environment:

(a) **Government:** Business is highly guided and controlled by government policies. Hence the type of government running a country is a powerful influence on business:

(b) **Legal:** Business organizations prefer to operate with in a sound legal system. Legal environment consists of laws governing business.

(c) **Political:** Political pressure groups influence and limit organizations. Apart from sporadic movements against certain products, service and organizations, politics has deeply seeped into unions.

Socio-Cultural environment: Socio-cultural environment consist of factors related to human relationships and the impact of social attitudes and cultural values which has bearing on the business of the organization. The beliefs, values and norms of a society determine how individuals and organizations should be interrelated.

Technological environment: Technology can act as both opportunity and threat to a business. It can act as opportunity as business can take advantage of adopting technological innovations to their strategic advantage. However, at the same time technology can act as threat if organisations are not able to adopt it to their advantage.

Global environment: In simple economic terms, globalization refers to the process of integration of the world into one huge market. At the company level, globalization means two things: (a) the company commits itself heavily with several manufacturing locations around the world and offers products in several diversified industries, and (b) it also means ability to compete in domestic markets with foreign competitors.

11. ENVIRONMENTAL SCANNING (ENVIRONMENTAL MONITORING)

The process of

- **Gathering information** regarding company's environment,
- **Analyzing** it and
- **Forecasting** the **impact** of all predictable environmental changes.

12. STRATEGIC RESPONSES TO THE ENVIRONMENT

Least resistance:

- Simple goal-maintaining units,
- Passive in their behavior,
- Solely guided by the signals of the external environment,
- Not ambitious
- But are content with taking simple paths of least resistance in their goal-seeking and resource transforming behavior.

Proceed with caution:

- Adapt with the changing external environment.
- Monitor the changes in that environment,
- analyse their impact on their own goals and activities and
- Translate their assessment in terms of specific strategies for survival, stability and strength

Dynamic response:

- External environmental forces as partially manageable and controllable by their actions.
- They convert threats into opportunities.
- Highly conscious and confident of their own strengths and the weaknesses of their external environmental 'adversaries'.

13. COMPETITIVE ENVIRONMENT

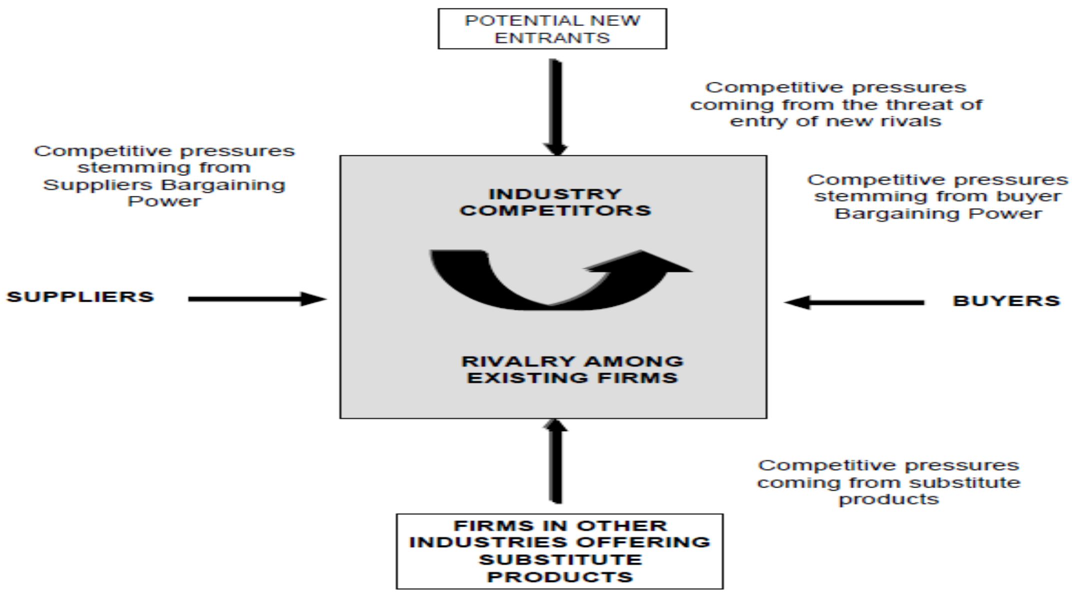
- Who are the competitors?
- What are their product and services?
- What are their market shares?
- What are their financial positions?
- What gives them cost and price advantage?
- What are they likely to do next?
- Who are the potential competitors?

14. What is a Kieretsu?

- A kieretsu is a **loosely-coupled group of companie**s, usually in related industries.
- Kieretsu members are **peers** and may **own significant amounts of each other's stock** and have many board members in common
- The primary **purpose** of a kieretsu is not to share information or agree industry standards, but to **share purchasing, distribution** or any other functions.
- In Kieretsu members remain independent companies in their own right:
- **Common Strategy** is to prefer to **do business with other kieretsu members**, both when buying and when selling.

15. Porter's Five Model- Competitive Analysis

Five forces model of Michael Porter is a powerful and widely used tool for systematically diagnosing the significant competitive pressures in the market and assessing their strength and importance. The model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the over all market. These five forces are:



1. Threat of new entrants:

- New entrants are always a powerful source of competition.
- The new capacity and product range they bring in throw up new competitive pressure.
- And the bigger the new entrant, the more severe the competitive effect.
- New entrants also place a limit on prices and affect the profitability of existing players.

2. Bargaining power of customers:

- This is another force that influences the competitive condition of the industry.
- This force will become heavier depending on the possibilities of the buyers forming groups or cartels.
- Mostly, this is a phenomenon seen in industrial products.
- Quite often, users of industrial products come together formally or informally and exert pressure on the producer.
- The bargaining power of the buyers influences not only the prices that the producer can charge but also influences in many cases, costs and investments of the producer because powerful buyers usually bargain for better services which involve costs and investment on the part of the producer.

3. Bargaining power of suppliers:

- Quite often suppliers, too, exercise considerable bargaining power over companies.
- The more specialized the offering from the supplier, greater is his clout.
- And, if the suppliers are also limited in number they stand a still better chance to exhibit their bargaining power.
- The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and, therefore, industry attractiveness and profitability.

4. Rivalry among current players:

- The rivalry among existing players is quite obvious.
- This is what is normally understood as competition.
- For any player, the competitors influence strategic decisions at different strategic levels.

- The impact is evident more at functional level in the prices being changed, advertising, and pressures on costs, product and so on.

5. Threats from substitutes:

- Substitute products are a latent source of competition in an industry.
- In many cases they become a major constituent of competition. Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry.
- And they can bring it about all of a sudden. For example, coir suffered at the hands of synthetic fibre.
- Wherever substantial investment in R&D is taking place, threats from substitute products can be expected.
- Substitutes, too, usually limit the prices and profits in an industry.

The five forces together determine industry attractiveness/profitability. This is so because these forces influence the causes that underlie industry attractiveness/ profitability. For example, elements such as cost and investment needed for being a player in the industry decide industry profitability, and all such elements are governed by these forces. The collective strength *of* these five competitive forces determines the scope to earn attractive profits. The strength *of* the forces may vary from industry to industry.

16. Global Company

Meaning of Global Company:

- In simple economic terms globalization refers to the process of integration of world into one huge market.
- At the company level globalization means two things:
  (a) The company commits itself heavily with several manufacturing locations around the world and offers products in several diversified industries and
  (b) It also means ability to compete in domestic markets with foreign competitors.
- A company which goes global is also called a Multinational Company (MNC). The global company views the world as one market minimizes the importance of national boundaries.
- A global company has three attributes:
  a. It is a **conglomerate of multiple units** located in different parts of the globe but all linked with common ownership.
  b. Multiple units draw a **common pool of resources** such as money, credit, patents, trade name, etc.
  c. The units respond to **common strategy**.

Strategic approaches:

International economic dynamics accompanied by geographical changes have changed the paradigm of global business. A firm / company who wish to go global will be guided by the following four types of strategies:

1. **Multi-domestic strategy:**
   - A multi-domestic strategy **focuses on competition** within each country in which the firm operates.
   - This Strategy is adopted when a company tries **to achieve a high level of local responsiveness** by matching their products and services offerings to national conditions prevailing in the countries they operate in.
   - The organization **attempts to extensively customize** their products and services according to the local conditions of different countries.
2. **Global strategy:**
   - A global strategy assumes **more standardization of products** across country boundaries.

- Under this strategy, the company **tries to focus on a low cost structure** by leveraging their expertise in providing certain products and services and concentrating the production of these standard products and services at a few favourable locations around the world.
- Competitive strategy is **centralized and controlled** by the home office.

3. **Transnational strategy:**
   - Many large multinational firms, particularly those with **many diverse products**, may use a multi-domestic strategy with some product lines and a global strategy with others.
   - A transnational strategy seeks to combine aspects of both **multi-domestic and global strategies.**
   - Thus there is emphasizes on both local responsiveness and global integration and coordination.
   - Although the transnational strategy is difficult to implement, environmental trends are causing multinational firms to consider the needs for both global efficiencies and local responsiveness.

When a firm adopts one or more of the above strategies, the firm would have to take decisions on the manner in which it would commence international operations. The decision as to how to enter a foreign market can have a significant impact on the results.
Expansion into foreign markets can be achieved through following options:

- Exporting.
- Licensing/ Franchising.
- Joint Venture.
- Foreign Direct Investment.

17. PESTLE MATRIX

The term PESTLE is used to describe a framework for analysis of macro environmental factors. PESTLE analysis involves identifying the political, economic, socio-cultural, technological, legal and environmental influences on an organization and providing a way of scanning the environmental influences that have affected or are likely to affect an organization or its policy. PESTLE is an acronym for political, economic, socio-cultural, technological, legal and environmental factors. The PESTLE analysis is a simple to understand and quick to implement. The advantage of this tool is that it encourages management into proactive and structured thinking in understanding the business environment and in decision making.

Factors in PESTLE Analysis

- **Political** factors include the prevalent political ideology of government governing the country and its markets. The factors include the nature and extent of government involvement and intervention in the economy and the activities of business. Political factors may also cover goods and services that the government wants to be provided to the society and those that the government wants to be kept under close supervision and control. The political factors also determine the focus area and policies on key areas such as health, education and infrastructure in the country.

- **Economic** factors have major impact on how businesses operate and take decisions. The efficiency of financial markets and policies of central bank have bearing on the businesses. For example, interest rates affect a firm's cost of capital. Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy. The money supply, inflation, credit flow, per capita income, growth rates are often considered while taking business decisions.
- **Social** factors include taste, preferences, culture, demographic factors and so on. They affect the demand for a company's products and the manner it conducts its business. Social factors can affect a business in major and minor way. For example, social factors can be a strong base to decide location of plant and machinery.
- **Technological** factors can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation.
- **Legal** factors include the laws and regulations within which businesses are being conducted. They include laws on different aspect of business such as competition, safety, working conditions and taxes. Prevailing laws and the benefits available within them can be a strong reason to influence major decisions. For example, plant may be located in a particular state on account of availability of tax benefits.
- **Environmental** factors connotes natural environment in Pestle Analyses. It includes whether and climate of a particular place. Ecological factors and natural environment significantly influences sectors such agriculture, fisheries, tourism. The awareness to climatic change is also affecting the businesses in a big way. Controlling carbon emissions is an uphill challenge facing industry and nations. It has also helped in evolving new businesses such as trade in carbon credits.

By using pestle analyses, it is possible to identify a number of key environmental influences. Different factors may be considered in a matrix for a clear understanding of them and basing strategic decisions.

The PESTLE Matrix

Political	**Economic**
• Political stability	• Income
• Political principles and ideologies	• Market conditions and trade cycles
• Government policies	• Specific industry factors
• Government term and change	• Customer/end-user drivers
• Thrust areas of political leaders.	• Interest and exchange rates
	• Inflation and unemployment

Social • Lifestyle trends • Demographics • Consumer attitudes and opinions • Brand, company, technology image • Consumer buying patterns • Ethnic/religious factors • Media views and perception	**Technological** • Replacement technology/solutions • Maturity of technology • Manufacturing processes and capacity • Innovation potential of technology • Technology access, licensing, patents • Intellectual property rights and copyrights
Legal • Business and Corporate Laws • Laws governing employment. • Laws on competition • Health & Safety • Taxation • International Treaties	**Environmental** • Ecological/environmental issues • Environmental hazards • Environmental legislation • Energy consumption • Waste disposal

2. BUSINESS POLICY AND STRATEGIC MANAGEMENT

1. Business Policy as a Discipline

- Business policy is
  - "the study of the functions and responsibilities of Senior Management
  - the crucial problems that effect success in the total enterprise, and
  - the decision that determine the directions of the organization and
  - shape its future.
- Business policy tends to emphasize on the rational-analytical aspect of Strategic Management.
- It presents a framework for understanding strategic decision making.
- Such a framework enables a person to make preparation for handling general management responsibilities.

2. What is a strategy?

- A Company strategy consists of the combination of competitive moves and business approaches that managers employ to please customers compete successfully and achieve organizational objectives.
- *A unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved.*
- In general, corporate strategies have distinct characteristics such as they are long-rage, action oriented, multipronged and integrated.
- They are also flexible and dynamic to cope up with uncertainty.
- Formulated at top management level, they flow out of the goals and objectives of the enterprise.

3. What are the characteristics of Corporate Strategy?

a) It is generally long-range in nature,
b) It is action oriented and is more specific than objectives.
c) It is multipronged and integrated.
d) It is flexible and dynamic.
e) It is formulated at the top management level,
f) It is generally meant to cope with a competitive and complex setting.
g) It flows out of the goals and objectives of the enterprise and translate them into realities.
h) It is concerned with perceiving opportunities and threats and seizing initiatives to cope with them.
i) It is also concerned with deployment of limited organizational resources in the best possible manner.
j) It provides unified criteria for managers in decision making.
k) It gives importance to combination, sequence, timing, direction and depth of various moves and action initiatives taken by managers to handle environmental uncertainties and complexities

4. GENERIC STRATEGIC ALTERNATIVES

According to William F Glueck and Lawrence R Jauch there are four generic strategic alternatives:

1. **Stability:**

- One of the important goals of a business enterprises is stability to
  - Safeguard its existing interests and strengths,
  - Pursue well established and tested objectives,
  - Continue in the chosen business path,
  - Maintain operational efficiency on a sustained basis,
  - Consolidate the commanding position already reached,
  - Optimize returns on the resources committed in the business.
- It is pursued by a firm when:
  - It continues to serve in the same or similar markets and deals in same products and services.
  - The strategic decisions focus on incremental improvement of functional performance

2. **Expansion**

- It is implemented by
  - Redefining the business
  - Adding the scope of business substantially increasing the efforts of current business.
- It is
  - Promising and popular strategy
  - Equated with dynamism, vigor, promise and success.
- It is often characterized
  - Significant reformulation of goals and directions,
  - Major initiatives and moves involving investments,
  - Exploration and onslaught into new products,
  - New technology and new markets,
  - Innovative decisions and action programmes
- Expansion through diversification: entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge.

  Conglomerate diversification.-
  - New product
  - Which has little or no affinity with its present product line
  - Meant for a new class of customers different from the firm's existing customer groups
- Expansion through acquisitions and mergers:
  - Attractive and tempting proposition
  - Circumvents the time, risks and skills involved in screening internal growth opportunities, seizing them and building up the necessary resource base required to materialize growth.
  - Achieving a measure of synergy between the parent and the acquired enterprises.
  - Synergy may result from such bases as physical facilities, technical and managerial skills, distribution channels, general administration, research and development

3. **Retrenchment**

- **A Business organization can redefine its business divesting** a major product line or market**.**
- it becomes necessary for coping with hostile and adverse situations in the environment and
- when any other strategy is likely to be suicidal
    i. temporary and partial setbacks, :Reduce capital and revenue expenditures, replacement of assets, advertising, R & D activities, employee welfare subsidies, community development projects, executives perks,
    ii. more serious cases of hard times,: inventory levels, manufacturing level, manpower, plant maintenance, dividend to shareholders and interest on deposits can be postponed
    iii. next stage,: withdrawing from some marginal markets, withdrawal of some brands and sizes of products, withdrawal of even some slow moving products, winding up some branch offices, abolition of some executive positions
    iv. Fourth stage: sale of some manufacturing facilities and individual product divisions, retirement either from the production or the marketing stage, offering itself for take-over, seek liquidation(last)

4. **Combinations:**
    - The above strategies are not mutually exclusive.
    - It is possible to adopt a mix of the above to suit particular situations.
    - Eg: stability in some areas of activity, expansion in some and retrenchment in the others

5. The Dynamics of Competitive Strategy

- Strategic thinking involves orientation of the firm's internal environment with the change of the external environment.
- The economic and technical components of the external environment are considered as major factors leading to new opportunities for the organization and also closing threats.
- Similarly the broader expectation of the society in which the organization operates is again an important factor to determine the competitive strategy.
- The Strengths and weaknesses of organization are the internal factors, which determine the corporate strategy.

6. STRATEGIC MANAGEMENT

The term strategic management refers to the **Managerial process** of

- forming a strategic **vision**,
- Setting **objectives**,
- crafting a **strategy**,
- **Implementing** and executing the strategy,
- And making **corrective adjustments** in the vision, objectives, strategy, and execution are deemed appropriate.

Framework of Strategic Process

The basic framework of strategic process can be described in sequence of five stages as show in the figure

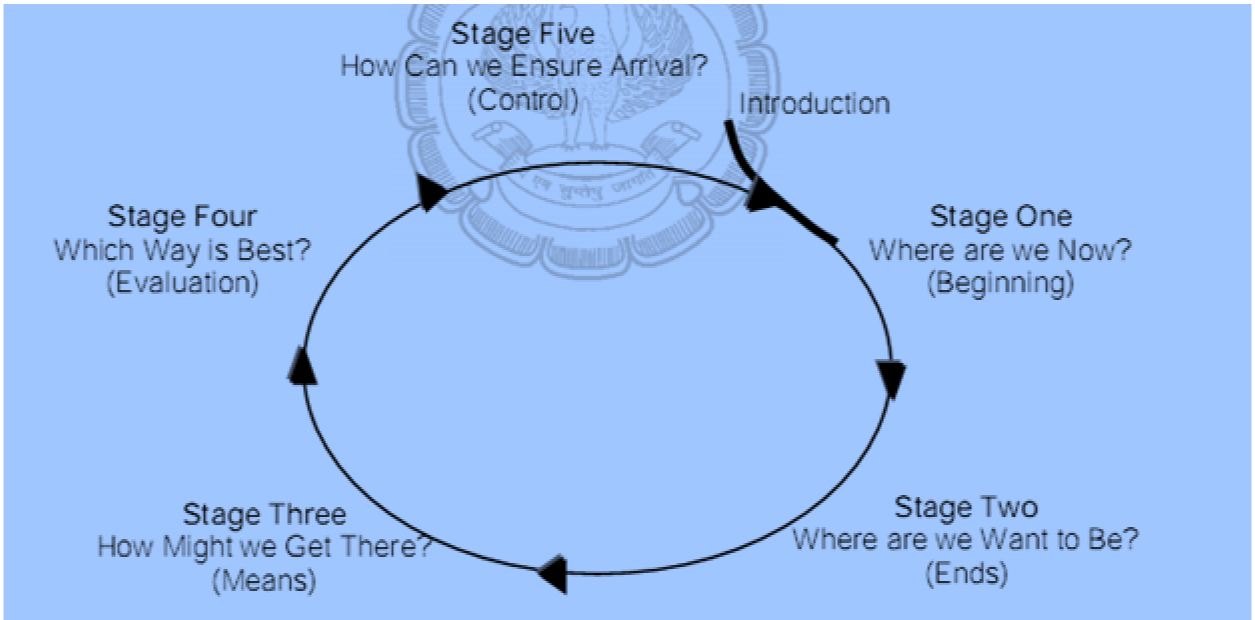


Figure - Framework of strategic management

I. Stage one: Where are we now? (Beginning):
   - This is the starting point of strategic Planning and consists of doing a situational analysis of the firm in the environmental Context.
   - Here the firm must find out its relative market position, corporate image, its strength and weakness and also environmental threats and opportunities. This is know as SWOT analysis.

II. Stage Two: Where are we Want to Be? (Ends):
   - This is a process of goal setting for the organization after it has finalized its vision & mission.
   - A Strategic Vision is a roadmap of company's future – Providing specific about technology and Customers focus, the geographic and product markets to be pursed, the capabilities it plan to develop, and the kind of company that management is trying to create.
   - An Organization's Mission states what customers it serves, what need it satisfies, and what type of product its offers.

III. Stage Three: How Might we Get There? (Means): Here the organization deals with the various strategic alternatives it has.

IV. Stage Four: Which Way is Best? (Evaluation): Out of all alternatives generated in the earlier stage the organization selects the best suitable alternative in line with the SOWT analysis.

V. Stage Five: How Can we Ensure Arrival? (Control):
   - This is an implementation and control stage of a suitable Strategy.
   - Hera again the organization continuously does situational analysis and repeats the stags again.

Importance of Strategic Managements

The following are the benefits of strategic approach to managing:

a) Strategic management helps organisations to be more proactive instead of reactive in shaping its future. Organisations are able to analyse and take actions instead of being mere spectators. Thereby they are able to control there own destiny in a better manner. It helps them in working within vagaries of environment and shaping it, instead of getting carried away by its turbulence or uncertainties.

b) Strategic management provides framework for all the major business decisions of an enterprise such as decisions on businesses, products, and markets, manufacturing facilities, investments and organisational structure. It provides better guidance to entire organisation on the crucial point - what it is trying to do.

c) Strategic management is concerned with ensuring a good future for the firm. It seeks to prepare the corporation to face the future and act as pathfinder to various Business opportunities. Organisations are able to identify the available opportunities and identify ways and means as how to reach them.

d) Strategic management serves as a corporate defence mechanism against mistakes and pitfalls. It helps organisations to avoid costly mistakes in product market choices or investments.

e) Over a period of time strategic management helps organisation to evolve certain core competencies and competitive advantages that assist in its fight for survival and growth.

7. STRATEGIC DECISION MAKING

- Decision making is a managerial process and function of choosing a particular course of action out of several alternative courses for the purpose of accomplishment of the organizational goals.
- Decisions may relate to general day to day operations.
- They may be major or minor.
- They may also be strategic in nature.
- Strategic decisions are different in nature than all other decisions which are taken at various levels of the organization during day-to-day working of the organizations.

The major dimensions of strategic decisions are given below:

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

8. The Task of Strategic Management

The strategy-making/strategy-implementing process consists of five interrelated managerial tasks. These are:

I. ***Setting vision and mission:*** Forming a strategic vision of where the organization is headed, so as to provide long-term direction, delineate what kind of enterprise the company is trying to become and infuse the organization with a sense of purposeful action.

II. ***Setting objectives:*** Converting the strategic vision into specific performance outcomes for the company to achieve.

III. ***Designing a strategy*** to achieve the desired outcomes.

IV. ***Implementing and executing the chosen strategy*** efficiently and effectively.

V. ***Evaluating performance and initiating corrective adjustments*** in vision, long-term direction, objectives, strategy, or execution in light of actual experience, changing conditions, new ideas, and new opportunities.

9. VISION, MISSION AND OBJECTIVES

A **Strategic vision** is

- A **road map** of a **company's** future providing particulars about
  1. **Technology and customer focus**
  2. **Geographic and product markets** to be pursued,
  3. **Capabilities** it plans **to develop**,
  4. **Kind of company** that management is trying to **create**.

How to develop a strategic vision

1. **Think creatively** about how to prepare a company for the future.
2. **Exercise intelligence** in entrepreneurship
3. **Change direction** not in order to survive but in order to maintain success.
4. A **well-formulated strategic vision** creates enthusiasm for the course of action management has planned and engages members of the organization.
5. The **best-expressed vision statement** clearly illuminates the direction in which organization is headed.

Mission

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

Why organization should have mission?

1. To ensure **unanimity of purpose** within the organization.
2. To provide a **basis for motivating** the use of the organization's resources.
3. To develop a basis, or **standard, for allocating** organizational resources.
4. To **establish** a general tone or **organizational climate**, for example, to suggest a businesslike operation.
5. To **serve as a focal point** for those who can identify with the organization's purpose and direction, and to **deter** those who cannot form participating further in the organization's activities.
6. To facilitate the **translation of objective and goals into a work structure** involving the assignment of tasks to responsible elements within the organization.

7. To specify **organizational purposes and the translation of these purposes into goals** in such a way that cost, time, and performance parameters can be assessed and controlled.

Following points are useful while writing mission of a company:

1. The mission is **not to make a profit**.
2. One of the roles of a mission statement is to give the organization its own special **identity**, **business emphasis and path for development** – one that typically sets it apart form other similarly situated companies.
3. A company's business is defined
   - **a.** by what **needs it trying to satisfy**,
   - **b.** by which **customer groups it is targeting** and
   - **c.** by **the technologies and competencies it use**s and
   - **d.** The **activities it performs.**
4. **Technology, competencies and activities** are important in defining a company's business because they indicate the **boundaries** on its operation.
5. Good mission statements are **highly personalized** – unique to the organization for which they are developed.

Objectives and Goals

Objectives are organizations'

- **Performance targets** –
- The **results and outcomes it wants to achieve**.
- They function as **yardstick for tracking an organizations performance and progress**.

Characteristics of Objectives:

1. Objectives should define the organization's **relationship with its environment**.
2. They should be facilitative towards **achievement of mission and purpose**.
3. They should provide the basis for **strategic decision-making**
4. They should provide standards for **performance appraisal.**
5. Objectives should be **understandable.**
6. Objectives should be **concrete and specific**
7. Objectives should be r**elated to a time frame**
8. Objectives should be **measurable and controllable**
9. Objectives should be **challenging**
10. Different objectives should **correlate with each other**
11. Objectives should be **set within constraints**

10. STRATEGIC LEVELS IN ORGANISATIONS

- **Corporate Level** -CEO, other senior executives, board of directors, and corporate staff
- **Business Level**- Divisional managers and staff
- **Functional Level**- Functional managers

Difference B/w

Sr. No.	Characteristic	Level of Strategy		
		Corporate	**Business**	**Functional**
	Type	Conceptual	Mixed	Operational

1.	**Measurability**	Value Judgments dominant	Semi Quantifiable	Usually Quantifiable
2.	**Frequency**	Periodic or Irregular	Periodic or Irregular	Periodic
3.	**Relation to Present activities**	Innovative	Mixed	Supplementary
4.	**Risk**	Wide Range	Moderate	Low
5.	**Profit Potential**	Large	Medium	Small
6.	**Cost**	Major	Medium	Modest
7.	**Time Horizon**	Long Range	Medium Range	Short Range
8.	**Flexibility**	High	Medium	Low
9.	**Co-op reqd.**	Considerable	Moderate	Little

3. STRATEGIC ANALYSIS

1. STRATEGIC GROUPS

- Strategic groups are conceptually defined clusters of competitors that share similar strategies and therefore compete more directly with one another than with other firms in the same industry.
- Strong economic compulsions often constrain these firms from switching one competitive posture to another.
- Any industry contains only one strategic group when all firms essentially have identical strategies and have comparable market positions.
- At the other extreme, there are as many strategic groups as there are competitors when each rival pursues a distinctively different competitive approach and occupies a substantially different competitive position in the market place.

2. STRATEGIC ANALYSES

- Judgments about what strategy to pursue need to flow directly from solid analysis of the company's external environment and internal situation.
- The two most important situational considerations are
  - **Industry and competitive conditions and**
  - **A company's own competitive capabilities, resources, internal strengths and weaknesses, and market position.**

Issues to consider for strategic analyses

- **Strategy evolves over a period of time**:
- **Balance**: matching the internal potential of the organization with the environmental opportunities.
- **Risk:**
  - External risk is on account of inconsistencies between strategies and the forces in the environment.
  - Internal risk occurs on account of forces that are either within the organization or are directly interacting with the organization on a routine basis.

3. SITUATIONAL ANALYSIS

The elements worth considering include:

- **Product situation**: What is my current product? You may want to break this definition up into parts such as the core product and any secondary or supporting services or products that also make up what you sell. It is important to observe this in terms of its different parts in order to be able to relate this back to core client needs.
- **Competitive situation:** Analyze your main competitors - who are they what are they up to - how do they compare. What are their competitive advantages?
- **Distribution situation:** Review your distribution Situation - how are you getting your product to market? Do you need to go through distributors or other intermediaries?

- **Environmental factors:** What external and internal environmental factors are there that need to be taken into account. This can include economic or sociological factors that impact on your performance.
- **Opportunity and issue analysis**: Things to write down here are what current opportunities that are available in the market, the main threats that business is facing and may face in the future, the strengths that the business can rely on and any weaknesses that may effect the business performance

Strategic Analysis

External Analysis

- **Customer Analysis**
  Segments, motivations, unmet needs.
- **Competitor Analysis**
  Identity, strategic groups, performance, image, objectives, strategies, culture, cost structure, strengths, weaknesses.
- **Market Analysis**
  Size, projected growth, profitability, entry barriers, cost structure, strengths, weaknesses
- **Environmental Analysis**
  Technological, government, economic, cultural, demographic, scenarios, information-need areas.

Opportunities, threats, trends, and strategic, uncertainties.

Internal Analysis

- **Performance Analysis**
  Profitability, sales, shareholder value analysis, customer satisfaction, product quality, brand associations, relative cost, new products, employee capability and performance, product portfolio analysis.
- **Determinates Analysis**
  Past and current strategies, strategic problems, organizational Capabilities and constraints, financial resources and Constraints, strengths, and weaknesses.

Strategic strengths, weaknesses, problems, constraints, and uncertainties

Strategy Identification & Selection

Identify strategic alternatives
Product-maker investment strategies
Functional area strategies
Assets, competencies, and synergies
Select strategy
Implement the operating plan
Review strategies

4. WHAT IS AN INDUSTRY?

Industry is a group of firms whose products have same and similar attributes such that they compete for the same buyers.

A **strategic group** consists of those rival firms with similar competitive approaches and positions in the market.

Strategic group mapping, is an 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

The procedure for constructing a strategic group map

- **Identify the competitive characteristics** that differentiate firms in the industry. Typical variables are price/quality range (high, medium, low); geographic coverage (local, regional, national, global); degree of vertical integration (none, partial, full); product-line breadth (wide, narrow); use of distribution channels (one, some, all); and degree of service offered (no-frills, limited, full).
- **Plot the firms on a two-variable map** using pairs of these differentiating characteristics
- **Assign firms that fall in about the same strategy space** to the same strategic group
- **Draw circles around each strategic group** making the circles proportional to the size of the group's respective share of total industry sales revenues

5. KEY SUCCESS FACTORS (KSFS)

An industry's Key Success Factors (KSFs) are those things that most affect industry members' ability to prosper in the marketplace

- the particular strategy elements,
- product attributes, resources,
- competencies, competitive capabilities, and
- business outcomes that spell the difference between profit and loss and, ultimately, between competitive success or failure.

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

? On what **basis** do customers **choose** between the competing brands of sellers? What product attributes is crucial?

? 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**?

6. SWOT ANALYSIS:

SWOT analysis is a tool used by organizations for evolving strategic options for the future. The term SWOT refers to the analysis of strength, weaknesses, opportunities and threats facing a company. Strengths and weaknesses are identified in the internal environment, whereas opportunities and threats are located in the external environment.

- **Strength**: Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitor.
- **Weakness**: A weakness is an inherent limitation or constraint of the organisation which creates strategic disadvantage to it.
- **Opportunity**: An opportunity is a favourable condition in the external environment which enables it to strengthen its position.
- **Threat**: An unfavourable condition in the external environment which causes a risk for, or damage to the organization’s position.

THE STRATEGIC TO BE IDENTIFIED TO SUSTAIN A COMPETITIVE ADVANTAGE:

- *Functional-level strategy,* directed at improving the effectiveness of operations within a company, such as manufacturing, marketing, materials management, product development, and customer service.

- *Business-level strategy,* which encompasses the business's overall competitive theme, the way it position; itself in the marketplace to gain a competitive advantage, and the different positioning strategies that can be used in different industry settings-for example, cost leadership, differentiation, focusing on a particular niche or segment of the industry, or some combination of these.
- *Global strategy,* addressing how to expand operations outside the home country to grow and prosper in a world where competitive advantage is determined at a global level.
- *Corporate-level strategy,* which answers the primary questions. What business or businesses should we be in to maximize the long-run profitability of the organization, and how should we enter and increase our presence in these businesses to gain a competitive advantage?

THE SIGNIFICANCE OF SWOT ANALYSIS LIES IN THE FOLLOWING POINTS:

- **It provides a Logical Framework**: for systematic and sound thrashing of issues having bearing on the business situation, generation of alternative strategies and the choice of a strategy.
- **It presents a Comparative Account**: It presents the information about both external and internal environment in a structured form where it is possible to compare external opportunities and threats with internal strengths and weaknesses.
- **It guides the strategist in Strategy Identification**: SWOT analysis guides the strategist to think of overall position of the organization that helps to identify the major purpose of the strategy under focus.

7. TOWS MATRIX

- Heinz Weihrich has developed a matrix called TOWS Matrix by comparing the strengths and weaknesses of organization with that of market opportunities and threats
- TOWS Matrix used inputs viz. strengths, weaknesses, opportunities and threats, reorganizes them and integrated them into the strategic planning process.
- This Matrix takes in to account various environmental and organizational factors, so as to facilitate strategy formulation and ensure efficient utilization of organizational resources.
- The various combination in TOWS Matrix are given below

Internal / *External* Elements	Organizational strengths	Organizational weaknesses
	Strategic options	
Environmental opportunities (and risks)	**SO :** strengths can be used to capitalize or build upon existing or emerging opportunities	**WO :** the strategies developed need to overcome organizational weaknesses if existing or emerging opportunities are to be exploited
Environmental threats	**ST :** strengths in the organization can be used to minimize existing or emerging threats	**WT :** the strategies pursued must minimize or overcome weaknesses and as far as possible, cope with threats existing or emerging threats

Figure : The TOWS Matrix (Source: Weihrich, H)

8. IMPORTANT CONCEPTS IN THE CONTEXT OF PORTFOLIO ANALYSIS:

(a) Strategic business unit:

SBU is 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.

Characteristics

1. Single business or collection of related businesses that can be planned for separately.
2. Has its own set of competitors.
3. Has a manager who is responsible for strategic planning and profit.

(b) Experience Curve

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

(c) Product Life Cycle:

PLC is an

- **S-shaped curve**

- which exhibits the **relationship of sales** with respect to **time** for a product that passes through the four successive stages of

- ❖ introduction (slow sales growth),
- ❖ growth (rapid market acceptance)
- ❖ maturity (slow down in growth rate) and

❖ Decline (sharp downward drift).

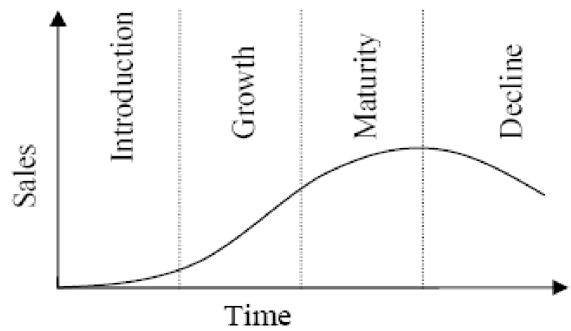
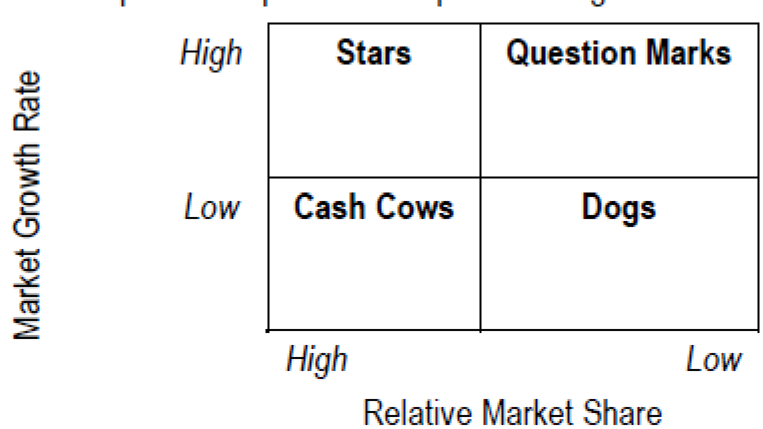


Figure: Product Life Cycle

9. BCG Growth Matrix

- Companies that are large enough to be organized into strategic business units face the challenge of allocating resources among those units.
- In the early 1970's the Boston Consulting Group developed a model for managing a portfolio of different business units or major product lines.
- The BCG growth-share matrix named after its developer facilitates portfolio analysis of a company having invested in diverse businesses with varying scope of profits and growth.
- The BCG matrix can be used to determine what priorities should be given in the product portfolio of a business unit.
- Using the BCG approach, a company classifies its different businesses on a two-dimensional growth share matrix. Two dimensions are market share and market growth rate.
- In the matrix:
  - The vertical axis represents market growth rate and provides a measure of market attractiveness.
  - The horizontal axis represents relative market share and serves as a measure of company strength in the market.

Thus the BCG matrix depicts four quadrants as per following:



Different types of business represented by either products or SBUs can be classified for portfolio analyses through BCG matrix. They have been depicted by meaningful metaphors, namely:

(a) **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.

(b) **Cash Cows** are low-growth, high market share businesses or products. They 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.

(c) **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 if left unattended are capable of becoming cash traps. Since growth rate is high, increasing it should be relatively easier. It is for business organizations to turn them stars and then to cash cows when the growth rate reduces.

(d) **Dogs** are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves, but do not have much future. Sometimes they may need cash to survive. Dogs should be minimized by means of divestment or liquidation.

The BCG matrix is useful for classification of products, SBUs, or businesses, and for selecting appropriate strategies for each type as follows.
(a) Build with the aim for long-term growth and strong future.
(b) Hold or preserve the existing market share.
(c) Harvest or maximize short-term cash flows.
(d) Divest, sell or liquidate and ensure better utilization of resources elsewhere.

Thus BCG matrix is a powerful tool for strategic planning analysis and choice.

10. ADL MATRIX

The ADL Matrix from Arthur D. Little is a Portfolio Management technique that is based on the Product Life Cycle (PLC).
The ADL approach uses the dimensions of environment assessment and business - strength assessment i.e. Competitive Position and Industry Maturity.
The combination between the dimensions yields 5 (competitive positions) by 4 (life cycle stages) matrix. The positioning in the matrix identifies a general strategy.

Industry Maturity
there are four categories of industry maturity (also referred to as the industry life cycle):

a. **Embryonic** –

- The introduction stage,
- characterized by rapid market growth,
- very little competition,

- new technology,
- high investment and
- high prices.

b. **Growth** –

- The market continues to strengthen,
- sales increase, few (if any) competitors exist, and
- company reaps rewards for bringing a new product to market.

c. **Mature** –

- The market is stable,
- there's a well-established customer base,
- market share is stable,
- there are lots of competitors, and
- energy is put toward differentiating from competitors.

d. **Aging** –

- Demand decreases,
- companies start abandoning the market,
- the fight for market share among remaining competitors gets too expensive, and
- companies begin leaving or consolidating until the market's demise.

Competitive Position
The five categories for competitive position are as follows:

a. **Dominant** –

- This is rare and typically short-lived.
- There's little, if any, competition, usually a result of bringing a brand-new product to market or having built an extremely strong reputation in the market (think Microsoft).

b. **Strong** – Market share is strong and stable, regardless of what your competitors are doing.

c. **Favorable** –

- Business line enjoys competitive advantages in certain segments of the market.
- However, there are many rivals of equal strength, and you have to work to maintain your advantage.

d. **Tenable** –

- Position in the overall market is small, and market share is based on a niche, a strong geographic location, or some other product differentiation.

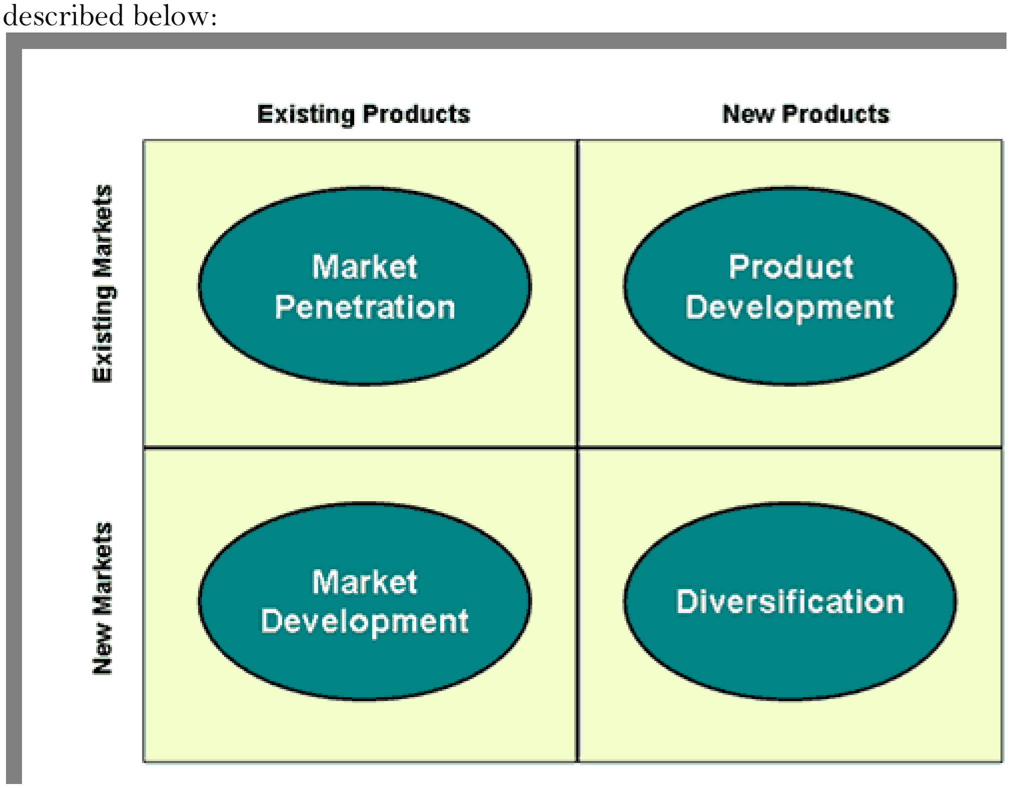
- Strong competitors are overtaking your market share by building their products and defining clear competitive advantages.

e. **Weak** – There's continual loss of market share, and your business line, as it exists, is too small to maintain profitability.

11. ANSOFF'S PRODUCT / MARKET MATRIX

Introduction

- The Ansoff Growth matrix is a tool that helps businesses decides their product and market growth strategy.
- Ansoff's product/market growth matrix suggests that a business' attempts to grow depend on whether it markets **new or existing** products in **new or existing markets.**
- The output from the Ansoff product/market matrix is a series of suggested growth strategies that set the direction for the business strategy. These are described below:



a. **Market penetration**

- Meaning:

Market penetration is the name given to a growth strategy where the business focuses on selling existing products into existing markets.

- Market penetration seeks to achieve four main objectives:

I. Maintain or increase the market share of current products – this can be achieved by a combination of competitive pricing strategies, advertising, sales promotion and perhaps more resources dedicated to personal selling
II. Secure dominance of growth markets
III. Restructure a mature market by driving out competitors; this would require a much more aggressive promotional campaign, supported by a pricing strategy designed to make the market unattractive for competitors
IV. Increase usage by existing customers – for example by introducing loyalty schemes

- A market penetration marketing strategy is very much about "business as usual".
- The business is focusing on markets and products it knows well.
- It is likely to have good information on competitors and on customer needs.
- It is unlikely, therefore, that this strategy will require much investment in new market research.

b. **Market development**

- Meaning

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

- There are many possible ways of approaching this strategy, including:

I. New geographical markets; for example exporting the product to a new country
II. New product dimensions or packaging: for example
III. New distribution channels
IV. Different pricing policies to attract different customers or create new market segments

c. **Product development**

- **Meaning**

  Product development is the name given to a growth strategy where a business aims to introduce new products into existing markets.

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

d. **Diversification**

- **Meaning**

Diversification is the name given to the growth strategy where a business markets new products in new markets.

- This is an inherently more risk strategy because the business is moving into markets in which it has little or no experience.
- For a business to adopt a diversification strategy, therefore, it must have a clear idea about what it expects to gain from the strategy and an honest assessment of the risks.

12. THE GENERAL ELECTRIC MODEL

- The General Electric Model is similar to BCG Growth Share Matrix.
- However the is differences
    - Firstly, Market Attractiveness replaces market growth as the dimension of industry attractiveness, and includes a broader range of factors other than just market growth rate.
    - Secondly, Competitive Strength replaces Market Share as dimension by the competitive position of each SUB is assessed.

- The General Electric Model uses two factors in a matrix / grid situation as shown below:

Market Attractivenes	Business Position: High	Medium	Low
High	Invest	Invest	Protect
Medium	Invest	Protect	Harvest
Low	Protect	Harvest	Divest

- Each SUB is labeled as high, medium or low on the above dimensions.
- The following criteria are adapted for evaluation of SUB:

Evaluating the ability to compete: Business position	Evaluating the Market Attractiveness
Size	Size
Growth	Growth
Share by segment	Customer satisfaction levels
Customer loyalty	Competition: quality, types,
Margins	Effectiveness, commitment
Distribution	Price levels
Technology skills	Profitability
Patents	Technology
Marketing	Government regulations
Flexibility	Sensitivity to economic trends
Organization	

Figure: Criteria for rating Business Position and Market Attractiveness

- Overall rating for both dimensions is calculated for each SUB. Appropriate strategy is adopted based on classification of SUB

4. STRATEGIC PLANNING

1. WHAT DO YOU MEAN BY A CORPORATE STRATEGY?

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

Nature, Scope and Concern of Corporate Strategy
Corporate strategy is basically concerned with the **choice of businesses, products and markets.**

1. It can also be viewed as the **objective-strategy design** of the firm.
2. It is the design for **filling the firm's strategic planning gap.**
3. It is concerned with the **choice of the firm's products and markets;**
4. It actually denotes the **changes / additions / deletions in the firm's existing product-market postures.**
5. It spells out the **businesses** in which the firm will play, the **markets** in which it will operate and the **customer needs** it will serve.
6. It ensures that the **right fit** is **achieved between the firm and its environment**.
7. It helps **build** the relevant **competitive advantages** for the firm.
8. Corporate objectives and corporate strategy together **describe the firm's concept of business.**

What does corporate Strategy Ensure?

Corporate strategy in the first place ensures the growth of the firm and ensures the correct alignment of the firm with its environment. It serves as the design for filling the strategic planning gap. It also helps build the relevant competitive advantages.

Strategy is partly proactive and partly reactive.

Strategic actions are typically a blend of
(1) Proactive actions on the part of managers to improve the company's market position and financial performance and
(2) As needed reactions to unanticipated developments and fresh market conditions and developments.

Dealing with strategic uncertainty

The strategic uncertainty is represented by a future trend or event that has inherent unpredictability. Each strategic uncertainty involves potential trends or events that could have an impact on present, proposed, and even potential strategic business units (SBUs).

2. THE STAGES OF CORPORATE STRATEGY FORMULATION-IMPLEMENTATION PROCESS

1. Developing a strategic vision of where the company needs to head and what its future product-customer-market-technology focus should be.
2. Setting objectives and using them as yardsticks for measuring the company's performance and progress.
3. Crafting a strategy to achieve the desired outcomes and move the company along the strategic course that management has charted.
4. Implementing and executing the chosen strategy efficiently and effectively.
5. Monitoring developments and initiating corrective adjustments in the company's long-term direction, objectives, strategy, or execution in light of the company's actual performance, changing conditions, new ideas, and new opportunities.

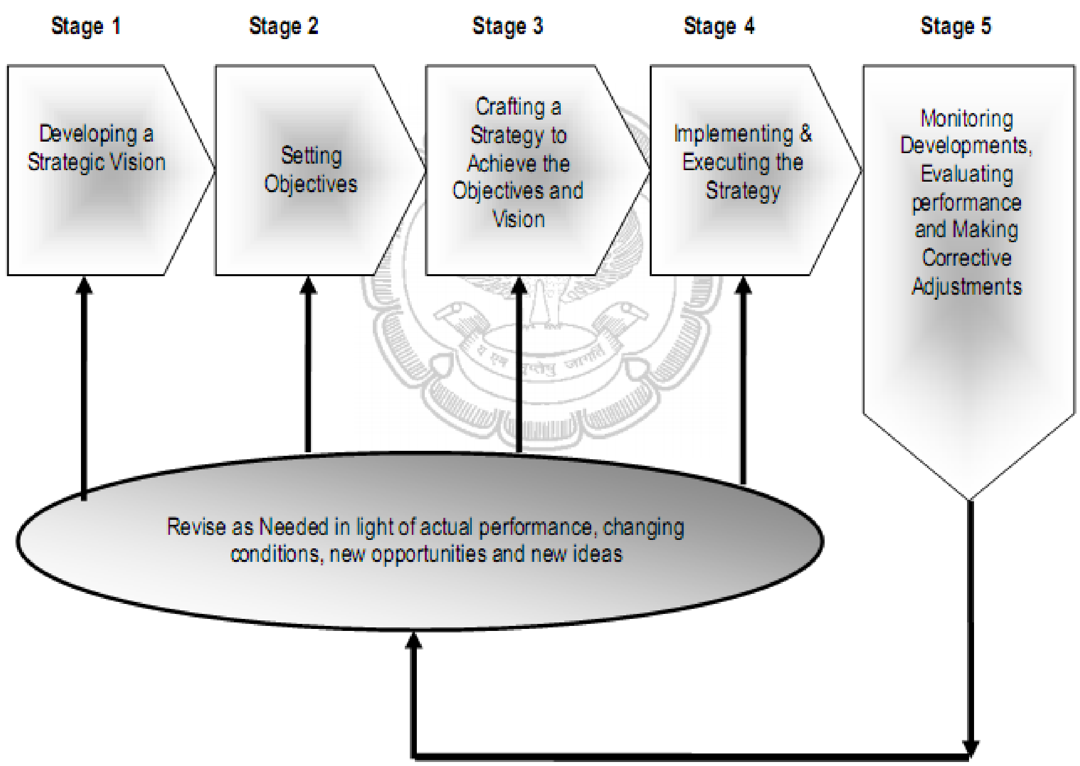


Figure: The Stages of Corporate Strategy Formulation- Implementation Process

3. MICHAEL PORTER'S GENERIC STRATEGIES

- According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter calls these bases as generic strategies.
  a. **Cost leadership** emphasizes producing standardized products at a very low per-unit cost for consumers who are price- sensitive.
  b. **Differentiation** is a strategy aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price- insensitive.
  c. **Focus** means producing products and services that fulfill the needs of small groups of consumers.
- Porter stresses the need for strategists to perform cost -benefit analyses to evaluate "sharing opportunities" among a firm's existing and potential business units.
- Sharing activities and resources enhances competitive advantage by lowering costs or raising differentiation.
- In addition to prompting sharing, Porter stresses the need for firms to "transfer" skills and expertise among autonomous business units effectively in order to gain competitive advantage.
- Depending upon factors such as type of industry, size of firm and nature of competition, various strategies could yield advantages in cost leadership differentiation, and focus.

A. **Cost leadership** - producing **standardized products** at a very l**ow per-unit cost** for consumers who are **price-sensitive**

Characteristics

- Spreads to entire firm
- 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.

Risks in Pursuing this Strategy

- Imitation of Strategy by Competitors
- overall industry profits down;
- technological breakthroughs in the industry may make the strategy ineffective
- Buyer interest may swing to other differentiating features besides price.

Requirements

- Sustained **capital investment** and access to capital
- Process **engineering skills**
- Intense **supervision of labor**

- **Products designed** for ease in manufacture
- **Low-cost distribution** system
- Tight Cost Control, Cost Control Reports, Clearly defined Resposibilities,incentive based on achievement

B. **Differentiation -** producing products and services considered **unique** industry wide and directed at consumers who are relatively **price-insensitive. Eg: Product Devt.**

Characteristics:

- Charge a higher price for its product
- Gain customer loyalty
- Superior service,
- Spare parts availability,
- Superior Engineering design,
- Superior product performance,
- Greater useful life,
- Ease of use.

Risks in Pursuing this Strategy

- Unique product may not be valued highly enough by customers to justify the higher price.
- Competitors may develop ways to copy the differentiating features quickly.

Requirements

- Strong marketing abilities
- Product engineering
- Creative talent
- Strong capability in basic research
- Corporate reputation for quality or technological leadership
- Long tradition in the industry or unique combinations of skills drawn from other business
- Strong cooperation from channels
- R&D ,Marketing, Prod.Devt- Co-ordination
- Incentive on a subjective basis
- Perquisites to attract labor

C. **Focus**- producing products and services that fulfill the needs of **small groups of consumers.** Eg: market penetration and market development. Most effective when **consumers' preferences are diff** and **rivals are not attempting to specialize in the same target segment.**

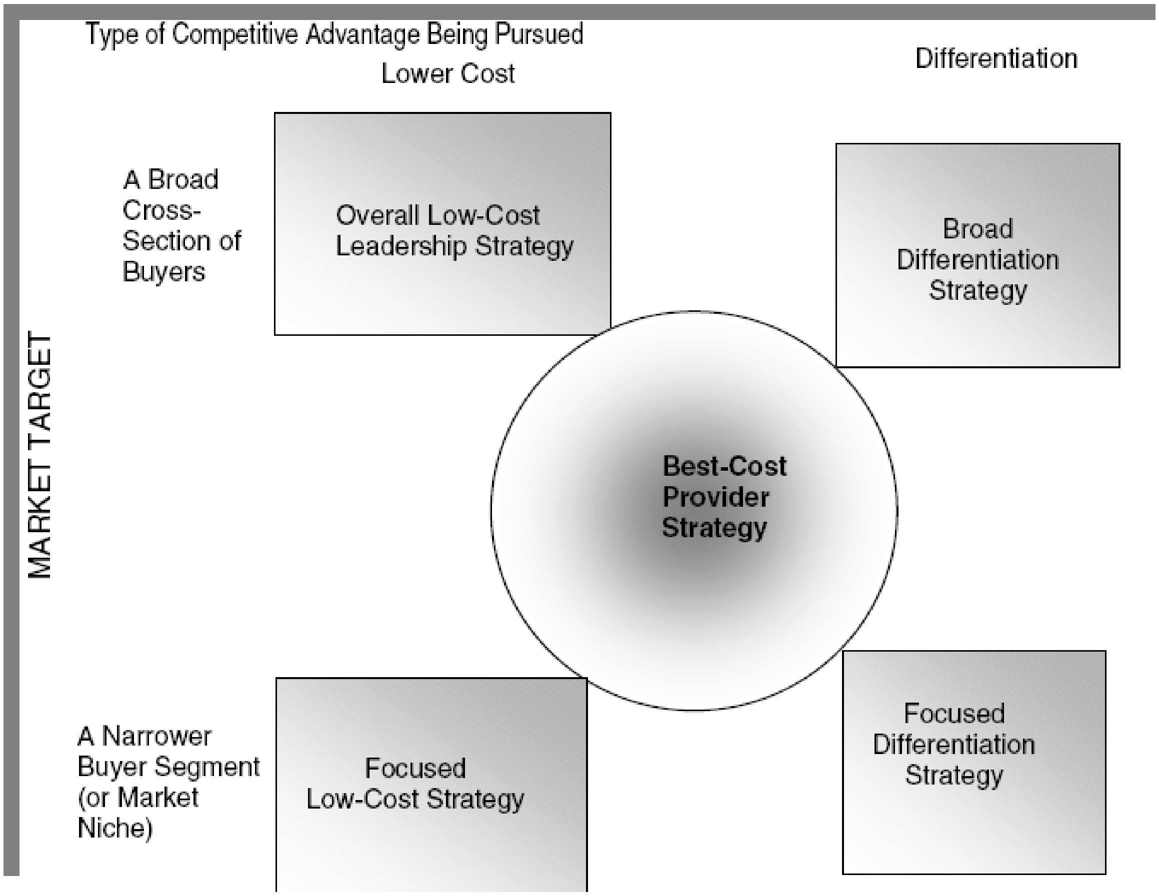
Risks in Pursuing this Strategy

- Numerous competitors will recognize the successful focus strategy and copy it,
- Consumer preferences will move toward the product attributes desired by the market as a whole.

Requirements

Combination of the above policies directed at the particular strategic target

4. BEST-COST PROVIDER STRATEGY

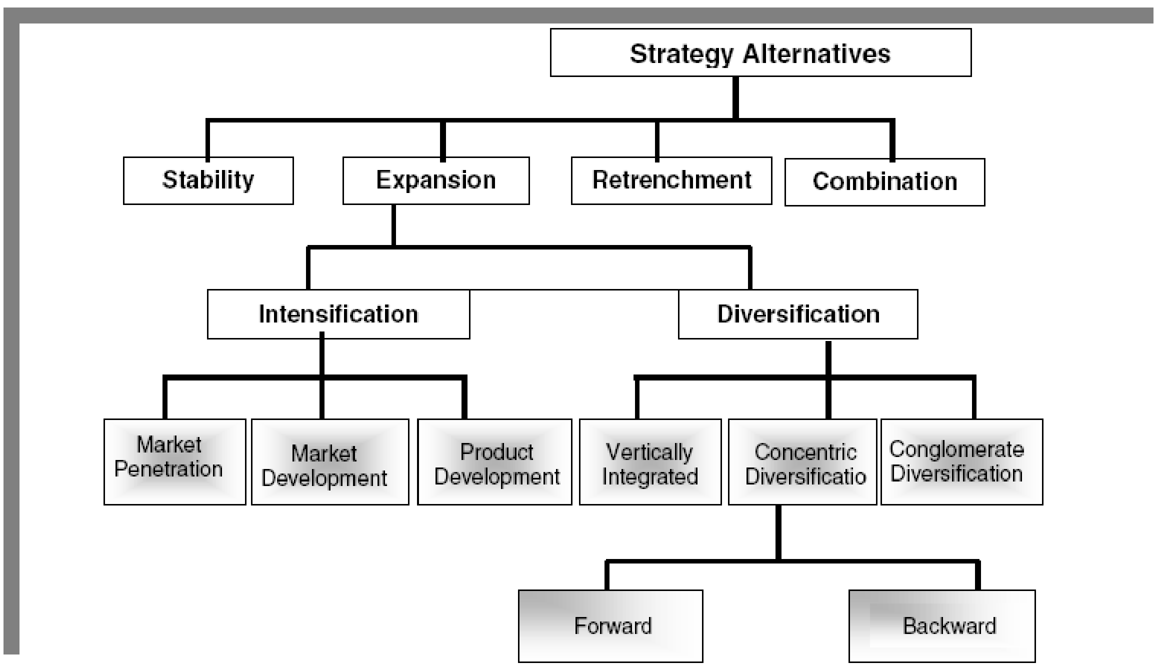


Distinctive features of the generic competitive strategies are given below

	Type of Feature	Overall Low cost	Broad Diff	Best Cost Provider	Focused low cost & Diff
1	**Strategic Target**	**Broad Cross Section** of Market	**Broad Cross Section** of Market	**Value-Conscious Buyer**	**Narrow Market**
2	**Basic of Competitive Adv.**	**Lower Cost**	**Different** Product feature	More **Value** for Money	**Lower cost** & some **special attrib** to cater the needs of niche members
3	**Market Emphasis**	Achieve **Low cost**	**Diff features,** charging **premium** to cover cost of diff.	**Underprice** rival **with comparable** features or **Equal price with better features**	**Communicate** abt your aim **of catering** to **needs of niche mem.**

4	**Sustaining the strategy**	**Economical price, cost reduction**	**Advt., stressing innovation,** to create **brand image & reputation**	Develop Expertise in **Cost Reduction** & **Upscaling features**	totally **dedicated to** serving the **niche** than competitors
5	**Product Line**	**basic** product with **acceptable features**	Products with many **diff features**	Good-to-excellent **attributes,** several-to-many **upscale features**	Products with Features that **appeal targeted segment**
6	**Product Emphasis**	continuous **cost reduction without impairing quality**	**value for buyer; product superiority**	**Upscale features at low cost**	According to **niche members' specification**

5. GRAND STRATEGIES/DIRECTIONAL STRATEGIES



Stability
The firm stays with its current businesses and product markets; maintains the existing level of effort; and is satisfied with incremental growth.

Expansion
Here, the firm seeks significant growth-maybe within the current businesses; maybe by entering new business that are related to existing businesses; or by entering new businesses that are unrelated to existing businesses.

Retrenchment
The firm retrenches some of the activities in a given business, or drops the business as such through sell-out or liquidation.
Combination
The firm combines the above strategic alternatives in some permutation/combination so as to suit the specific requirement of the firm.
Intensification
The firm pursues growth by working with its current businesses.
Intensification, in turn, encompasses three alternative routes:
Market penetration strategy: The firm directs its resources to the profitable growth of a single product, in a single market, and with a single technology.
Market development strategy: marketing present products, to customers in related market areas by adding different channels of distribution or by changing the content of advertising or the promotional media.
Product development strategy: involves substantial modification of existing products or creations of new but related items that can be marketed to current customers through establish channels.
Diversification Strategy
Can be related or unrelated to existing businesses of the firm..
Classified into four broad categories based on relationship with existing business:
Vertically integrated diversification- engages in businesses that are related to the existing business of the firm. The firm remains vertically within the same process. the firm does not jump outside the vertically linked product-process chain
Horizontally integrated diversification - acquisition of one or more similar business operating at the same stage of the production-marketing chain that is going into complementary products, by-products or taking over competitors' products.

Concentric diversification- new business is linked to the existing businesses through process, technology or marketing. In concentric diversification, there is a departure from this vertical linkage. The new product is only connected in a loop-like manner at one or more points in the firm's existing process/technology/product chain.
Conglomerate diversification- no linkages exist with existing pro/process; the new businesses/ products are disjointed from the existing businesses/products in every way; it is a totally unrelated diversification.

Vertically integrated diversification

- Backward Integration
  - Vertically moving up in the Product-process chain.
  - Eg: An automobile assembly unit may itself start manufacturing the components and spare parts
- Forward Integration
  - Vertically moving down in the Product-process chain
  - Eg: In the above example, if the same co. starts a distribution outlet to sell its cars, then it becomes Forward Integration

Horizontally integrated diversification

- Acquisition of one or more similar business

- Operating at the same stage of the production-
- Marketing chain is going into complementary products, by-products or taking over competitors' products.
- Eg: In the above example if the automobile co. starts producing luxurious and midsized automobiles also.

Divestment Strategy:

If it
Cuts off the **loss-making units, divisions, or SBUs,**
Curtails its **product line**, or
Reduces the **functions** performed.

Why is it needed?

1. A business that had been acquired proves to be a mismatch and cannot be integrated within the company.
2. Persistent negative cash flows from a particular business create financial problems for the whole company, creating the need for divestment of that business.
3. Severity of competition and the inability of a firm to cope with it may cause it to divest.
4. Technological up gradation is required if the business is to survive but where it is not possible for the firm to invest in it, a preferable option would be to divest.
5. A better alternative may be available for investment, causing a firm to divest a part of its unprofitable businesses.

Turnaround strategy:

Internal retrenchment strategy where emphasis is laid on **improving internal efficiency**

When is it needed?

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

Action plan for turnaround strategy

1. Analysis of product, market, production processes, competition, and market segment positioning.
2. Clear thinking about the market place and production logic.
3. Implementation of plans by target-setting, feedback, and remedial action.

Ten elements that contribute to turnaround are:

1. Changes in the top management
2. Initial credibility-building actions
3. Neutralizing external pressures
4. Initial control
5. Identifying quick payoff activities
6. Quick cost reductions

7. Revenue generation
8. Asset liquidation for generating cash
9. Mobilization of the organizations
10. Better internal coordination.

Turnaround Strategy:

- Rising competition, business cycles and economic volatility have created a climate where no business can take viability for granted.
- Turnaround strategy is a highly targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level.
- Organizations those have faced a significant crisis that has negatively affected operations requires turnaround strategy.
- Turnaround strategy is used when both threats and weaknesses adversely affect the health of an organization so much that its basic survival is a question.
- When organization is facing both internal and external pressures making things difficult then it has to find something which is entirely new, innovative and different.
- Being organization's first objective is to survive and then grow in the market; turnaround strategy is used when organization's survival is under threat.
- Once turnaround is successful the organization may turn to focus on growth.

Conditions for turnaround strategies:

I. When firms are
- losing their grips over market,
- profits due to several internal and external factors, and
- if they have to survive under the competitive environment they have to identify danger signals as early as possible and undertake rectification steps immediately.

II. These conditions may be,
- inter alia cash flow problems,
- lower profit margins,
- high employee turnover and decline in market share,
- capacity underutilization,
- low morale of employees,
- recessionary conditions,
- mismanagement,
- raw material supply problems and so on.

Action plan for turnaround strategy:

1. **Stage One – Assessment of current problems:**

- The first step is to assess the current problems and get to the root causes and the extent of damage the problem has caused.
- Once the problems are identified, the resources should be focused toward those areas essential to efficiently work on correcting and repairing any immediate issues.

2. **Stage Two – Analyze the situation and develop a strategic plan:**

- Before you make any major changes; determine the chances of the business's survival.
- Identify appropriate strategies and develop a preliminary action plan.
- For this one should look for the viable core businesses, adequate bridge financing and available organizational resources.

- Analyze the strengths and weaknesses in the areas of competitive position.
- Once major problems and opportunities are identified, develop a strategic plan with specific goals and detailed functional actions.

3. **Stage Three – Implementing an emergency action plan:**

a) If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive.
b) The plan typically includes human resource, financial, marketing and operations actions to

- restructure debts,
- improve working capital,
- reduce costs,
- improve budgeting practices,
- prune product lines and
- Accelerate high potential products.

c) A positive operating cash flow must be established as quickly as possible and enough funds to implement the turnaround strategies must be raised.

4. **Stage Four – Restructuring the business:**

- The financial state of the organization's core business is particularly important.
- If the core business is irreparably damaged, then the outlook for the entire organization may be bleak.
- Prepare cash forecasts, analyze assets and debts, review profits and analyze other key financial functions to position the organization for rapid improvement.
- During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning.
- Core products neglected over time may require immediate attention to remain competitive.
- Some facilities might be closed; the organization may even withdraw from certain markets to make organization leaner or target its products toward a different niche.
- The 'people mix" is another important ingredient in the organization's competitive effectiveness.
- Reward and compensation systems that encourage dedication and creativity encourage employees to think profits and return on investments.

5. **Stage Five – Returning to normal:**

- In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added.
- Emphasis is placed on a number of strategic efforts such as carefully adding new products and improving customer service, creating alliances with other organizations, increasing the market share, etc.

Liquidation Strategies

1. Most extreme and unattractive
2. Closing down a firm and selling its assets
3. Under the Companies Act, 1956, liquidation (termed as winding up) may be either by the court, voluntary, or subject to the supervision of the court.

5. FORMULATION OF FUNCTIONAL STRATEY

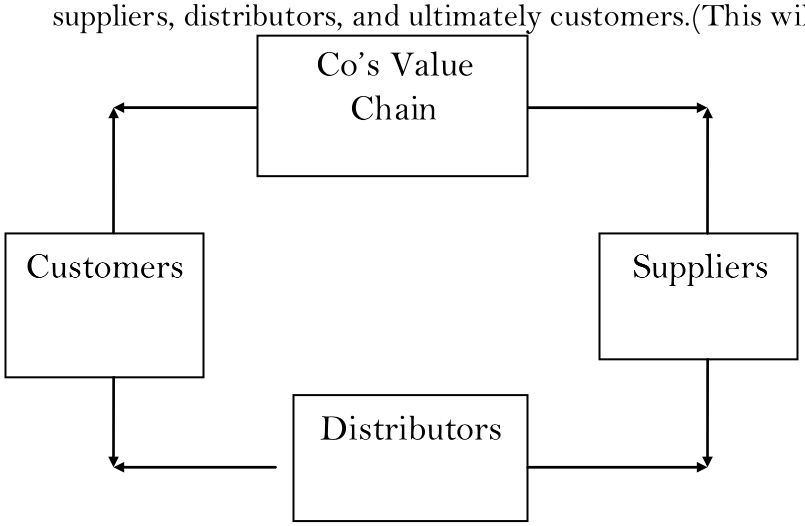
1. THE REASONS WHY FUNCTIONAL STRATEGIES ARE NEEDED:

a. Strategic decisions are **implemented by all the parts** of an organization.
b. They serve as a **basis for controlling activities** in the different functional areas of business.
c. **Time taken in DM by Functional Managers is reduced** as plans & policies are already designed.
d. **Similar situations** occurring in different functional areas are **handled in a consistent manner** by the functional managers.
e. **Coordination** across the different functions takes place where necessary.

2. MARKETING STRATEGY FORMULATION

Relationship of Marketing with other Business Functions:

1. All company **departments must work together** to produce superior **value to consumer**. Marketing alone cannot accomplish this.
2. Each department is a **link in the value chain**
3. A company's value chain is only **as strong as the weakest link.**
4. Marketers are challenged to find ways to get all departments to "**think customer**."
5. The firm needs to look beyond its own value chain and into the value chains of its suppliers, distributors, and ultimately customers.(This will produce VDN)



Value Delivery Network

Some examples of marketing decisions that may require policies are as follows:
1. To use exclusive **dealerships** or multiple **channels** of distribution.
2. To use heavy, light, or no **TV advertising.**
3. To limit (or not) the share of **business** done with a **single customer**.
4. To be a **price leader** or a **price follower**.
5. To offer a complete or limited **warranty.**

6. To **reward salespeople** based on straight salary, straight commission, or a combination of salary/commission.
7. To **advertise online** or not.

The **marketing process** is the process of
1. analyzing market opportunities,
2. selecting target markets,
3. developing the marketing mix, and
4. Managing the marketing effort.

Connecting with customers

Market segmentation- Divide the total market
Market targeting- choose the best segments
Market positioning- design strategies for profitably serving chosen segments better than the competition

Developing the marketing mix

Marketing mix is
-the set of controllable marketing variables
-that the firm blends to produce the response
-it wants in the target market

Marketing mix: The marketing mix consists of everything that the firm can do to influence the demand for its product. These variables are often referred to as the "4 Ps." The 4 Ps stands for product, price, place and promotion. An effective marketing program blends all of the marketing mix elements into a coordinated program designed to achieve the company's marketing objectives by delivering value to consumers.

Product 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. Strategic decisions must also be made regarding branding, packaging and other product features such as warrantees.

Price stands for the amount of money customers have to pay to obtain the product. Necessary strategies pertain to the location of the customers, price flexibility, related items within a product line and terms of sale. 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 s*kimming* prices are set at a very high level. The product is directed to those buyers who are relatively price insensitive but sensitive to the novelty of the new product.

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 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 and sales promotion. They are briefly explained as follows:

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.

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.

Publicity: Publicity is also a non-personal form of promotion similar to advertising. However, no payments are made to the media as in case of advertising. 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.

Sales promotion: Sales promotion is an omnibus term that includes all activities that are undertaken to promote the sales. Activities like discounts, contests, money refunds, instalments, kiosks, exhibitions and fairs constitute sales promotion.

A few new Ps are as follows:

People: all human actors who play a part in delivery of the market offering and thus influence the buyer's perception, namely the firm's personnel and the customer.

Physical evidence: the environment in which the market offering is delivered and where the firm and customer interact.

Process: the actual procedures, mechanisms and flow of activities by which the product / service is delivered.

Marketing Analysis

- Identifying **environmental opportunities and threats**.
- Analyzing **company strengths and weaknesses** to determine which opportunities the company can best pursue.
- **Feeding information** and other inputs to each of the other marketing management functions.

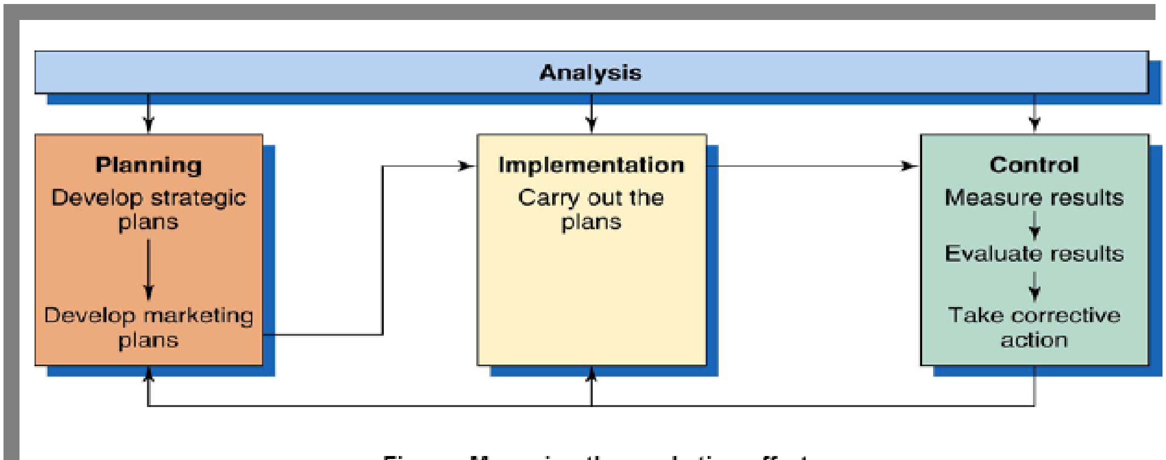


Figure: Managing the marketing effort

Market Planning

1. The **executive summary** is a short summary of the main goals and recommendations to be presented in the plan.

2. The **current marketing situation** is the section of a marketing plan that describes the target market and the company's position in it. Important sections include:
   i) A market description.
   ii) A product review.
   iii) Analysis of the competition.
   iv) A section on distribution.

3. **Threats and opportunities section-** anticipate important developments that can have an impact, either positive or negative, on the firm.

4. **Objectives:** It should be stated as goals that the company would like to attain during the plan's term.

5. **Marketing strategy** is the marketing logic by which the business unit hopes to achieve its marketing objectives. Strategies should be created for all marketing mix components.

6. The **marketing budget** is a section of the marketing plan that shows projected revenues, costs, and profits.

7. **Controls** -will be used to monitor progress. This allows for progress checks and corrective action.

Marketing strategy techniques

1. **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.

2. **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.
3. **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.

4. **Relationship Marketing**: The process of creating, maintaining, and enhancing strong, value- laden relationships with customers and other stakeholder.
   - For example, British Airways offers special lounges with showers at 199 airports for frequent flyers. Thus, providing special benefits to select customers to strength bonds. It will go a long way in building relationships.

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

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

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

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

9. **Enlightened Marketing**: A marketing philosophy holding that a company's marketing should support the best long-run performance of the marketing system;
   Its five principles include

- customer-oriented marketing,
- innovative marketing,
- value marketing,
- sense-of-mission marketing, and
- Societal marketing.

10. **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 Lever Limited has Lifebuoy, Lux and Rexona in popular segment and Liril and Pears in premium segment

11. **Synchromaketing**: When the demand for the product is irregular due to season, some parts of the day, or on hour basis, causing idle capacity or over-worked capacities, synchromaketing can be used to find ways to alter the same pattern of demand through flexible pricing, promotion, and other incentives.
- For example woollens or coolers; or hospitals underbooked on weekend or end of the week.

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

13. **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.

3. FINANCIAL STRATEGY FORMULATION

The financial strategies of an organization are related to several finance/accounting concepts considered to be central to strategy implementation.

Some examples of decisions that may require finance/accounting policies are:

- Cash Flow Management/Cash Management
- Capital Structure Decisions
- Financing Decisions
- Capital Budgeting Decisions
- Receivable Management – Credit Period, Credit Limit

Requirements for Strategy Implementation

- Determining an appropriate mix of debt and equity in a firm's capital structure
- Projected financial statements / budgets
- Financial budgets
- Investment or asset-mix decisions.
- Evaluating the worth of a business
  - There are **3 methods**:
  - **First Method**: Share Capital +R/S-Goodwill+Under Valued Assets-Overvalued Assets
  - **Second Method**: 5 x Current Annual Profit

- **Third Method**:
  - **First Approach**: base the firm's worth on the selling price of a similar company.
  - **Second approach**(price-earnings ratio method): MPS/EPS
  - **Third Approach:** No.of Shares x MPS

4. PRODUCTION STRATEGY

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

Operations planning and control are concerned with

- Aggregate production planning;
- Materials supply;
- Inventory, cost, and
- Quality management;
- Maintenance of plant and equipment.

Here, the aim of strategy implementation is to see how efficiently resources are utilized and in what manner the day-to-day operations can be managed in the light of long-term objectives.

Quality as a strategic tool: Quality is a consideration not only at the inspection stage but is built into the design itself.

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**

Question to be raised and solved for an effective logistics strategy

- Sources of RM and Components
- No.of Manu. Locations
- Products Manufactured @ each Manu. Location
- Modes of Transport
- Distbn. Facilities
- Material Handling Equipments
- Deploying inventory in the logistics network
- Own Transport vehicles or not

Logistics can help a business in following ways:

Cost savings
Reduced inventory
Improved delivery time
Customer satisfaction
Competitive advantage

Supply Chain Management

- A successful implementing supply management system requires a change from managing individual functions to integrating activities into key supply chain processes.
- It involves collaborative work between buyers and suppliers, joint product development, common systems and shared information.
- A key requirement for successfully implementing supply chain will be network of information sharing and management.
- The partners need to link together to share information through electronic data interchange and take decisions in timely manner.

Implementing and successfully running supply chain management system will involve:

1. **Product development:**
- Customers and suppliers must work together in the product development process.
- Right from the start the partners will have knowledge of all Involving all partners will help in shortening the life cycles.
- Products are developed and launched in shorter time and help organizations to remain competitive.

2. **Procurement:**
- Procurement requires careful resource planning, quality issues, identifying sources, negotiation, order placement, inbound transportation and storage.
- Organizations have to coordinate with suppliers in scheduling without interruptions.
- Suppliers are involved in planning the manufacturing process.

3. **Manufacturing:**
- Flexible manufacturing processes must be in place to respond to market changes.
- They should be adaptive to accommodate customization and changes in the taste and preferences.
- Manufacturing should be done on the basis of just-in-time (JIT) and minimum lot sizes.
- Changes in the manufacturing process are made to reduce manufacturing cycle.

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

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

6. **Customer services:**
- Organizations through interfaces with the company's production and distribution operations develop customer relationships so as to satisfy them.

- They work with customer to determine mutually satisfying goals, establish and maintain relationships.
- This in turn helps in producing positive feelings in the organization and the customers.

7. **Performance measurement:**

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

5. RESEARCH AND DEVELOPMENT

Three major R&D approaches for implementing strategies:

First approach

- be the first firm to market new technological products.
- glamorous and exciting strategy but also a dangerous one.
- Eg: 3M & GE

Second R&D approach

- be an innovative imitator of successful products, thus minimizing the risks and costs of start up.
- allowing a pioneer firm to develop the first version of the new product and to demonstrate that a market exists.
- Then, follower firms develop a similar product.
- This strategy requires excellent R&D personnel and an excellent marketing department.

Third R&D approach

- be a low-cost producer
- by mass-producing products similar to but less expensive than products recently introduced.
- This R&D strategy requires substantial investment in plant and equipment, but fewer expenditures in R&D than the two approaches described earlier.

6. HUMAN RESOURCE STRATEGY FORMULATION

Recruitment and selection: The workforce will be more competent if a firm can

- successfully identify,
- attracts, and
- Select the most competent applicants.

Training: The workforce will be more competent if employees are

- Well trained to perform their jobs properly.

Appraisal of Performance: The performance appraisal is to

- Identify any performance deficiencies experienced by employees due to lack of competence.
- Such deficiencies, once identified, can often be solved through counseling, coaching or training.

Compensation: A firm can usually increase the competency of its workforce by

- Offering pay and benefit packages that are more attractive than those of there competitors.
- This practice enables organizations to attract and retain the most capable people.

Strategic focus should be given in the following points:

- **Pre-selection practices**
- including human resource planning and job analysis.
- **Selection practices**
- meant to staff various positions in the organization.
- Both recruitment and selection policies and procedures should be designed keeping in view the mission and the purpose of the organization.
- **Post-selection practices**
  - to maintain and improve the workers job performance levels.
  - Human Resources decisions related to training and development, performance appraisal, compensation and motivation should be based on corporate strategy of the organization.

Areas where HR Manager can play strategic role

1. Providing purposeful direction: Leadership, Co-ordination
2. Creating competitive atmosphere: cost leadership, differentiation
3. Facilitation of change: Diversion of workforce:
4. Empowerment of human resources
5. Building core competency: creative, courageous and dynamic leadership having faith in organization's human resources.
6. Development of works ethics and culture:

Strategic Role of Human Resource Management

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

7.1 Providing purposeful direction: The human resource management must be able to lead people and the organization towards the desired direction involving people right from the beginning.

7.2 Creating competitive atmosphere: There are two important ways of business can achieve a competitive advantages over the others. The first is cost leadership which means the firm aims to become a low cost leader in the industry. The second competitive strategy is differentiation under which the firm seeks to be unique in the industry in terms of dimensions that are highly valued by the customers. Putting these strategies into effect carries a heavy premium on having a highly committed and competent workforce.

7.3 Facilitation of change: The Human resource will be more concerned with substance rather than form, accomplishments rather than activities, and practice rather than theory. The personnel function will be responsible for furthering the organization not just maintaining it. Human resource management will have to devote more time to promote changes than to maintain the status quo.

7.4 Diversion of workforce: In the modern organization management of diverse workforce is a great challenge. Workforce diversity can be observed in terms of male and female workers, young and old workers, educated and uneducated workers, unskilled and professional employee, etc.

7.5 Empowerment of human resources: Empowerment means authorizing every member of a society or organization to take of his/her own destiny realizing his/her full potential. It involves giving more power to those who, at present, have little control what they do and little ability to influence the decisions being made around them.

7.6 Building core competency: The human resource manager has a great role to play in developing core competency by the firm. A core competence is a unique strength of an organization which may not be shared by others. This may be in the form of human resources, marketing, capability, or technological capability.

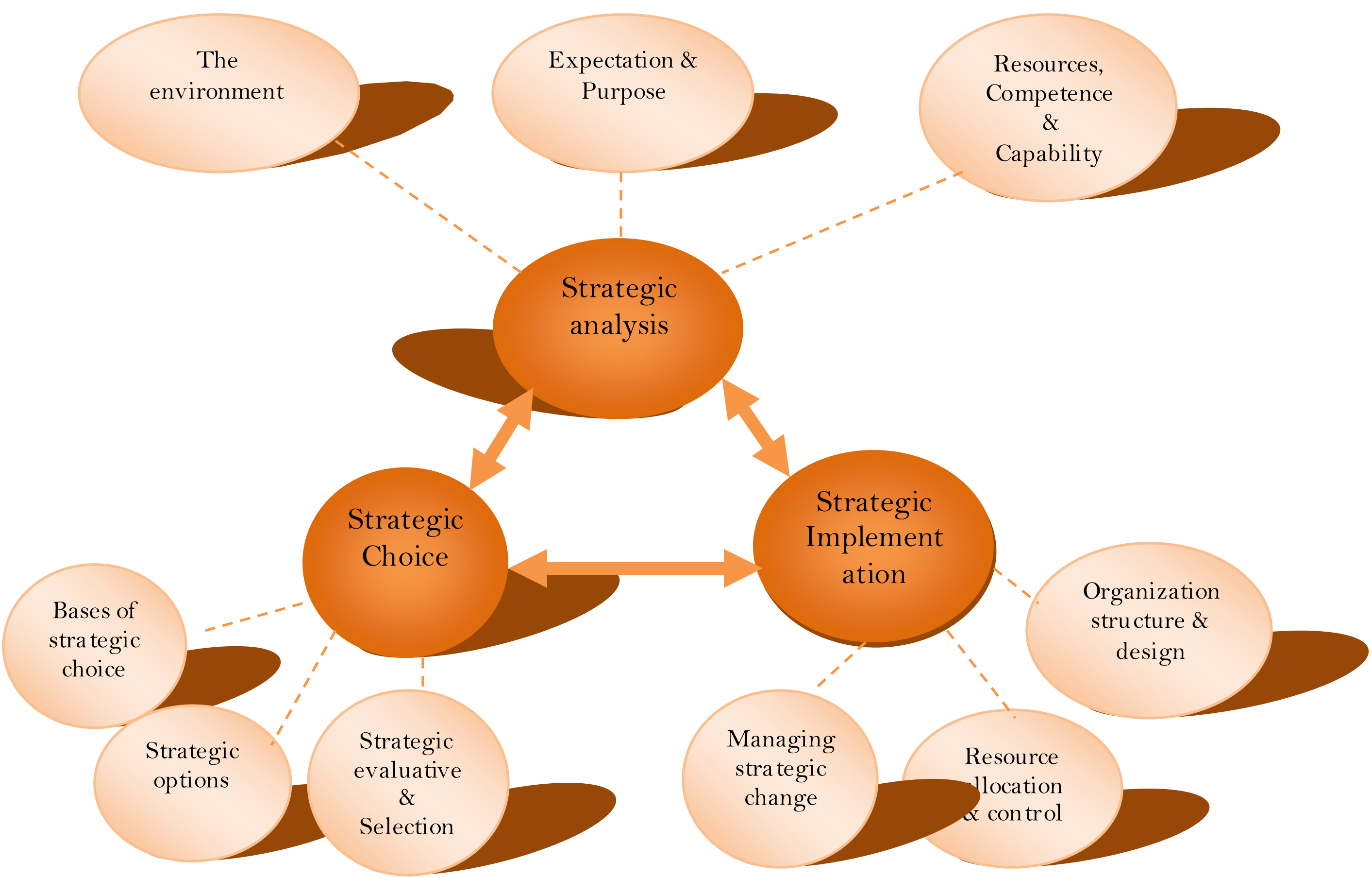
7.7 Development of works ethics and culture: Greater efforts will be needed to achieve cohesiveness because workers will have transient commitment to groups. As changing work ethic requires increasing emphasis on individuals, jobs will have to be redesigned to provide challenge. Flexible starting and quitting times for employees may be necessary.

6. STRATEY IMPLEMENTATION AND CONTROL

1. INTERRELATIONSHIP BETWEEN STRATEGY FORMULATION AND IMPLEMENTATION

MEANING OF STRATEGY IMPLEMENTATION:

- Strategy implementation concerns the managerial exercise of putting a freshly chosen strategy into place.
- Strategy execution deals with
  - the managerial exercise of supervising the ongoing pursuit of strategy,
  - making it work,
  - improving the competence with which it is executed and
  - showing measurable progress in achieving the targeted results.
- Strategic implementation is concerned with translating a decision into action, with presupposes that the decision itself (i.e., the strategic choice) was made with some thought being given to feasibility and acceptability.
- The allocation of resources to new courses of action will need to be undertaken, and there may be a need for adapting the organization's structure to handle new activities as well as training personnel and devising appropriate system.
- The Basic elements of strategic management are summarized in the figure below



GOOD STRATEGY MAY FAIL IF IT IS NOT IMPLEMENTED PROPERLY. Discuss.

- A company will be successful only when the strategy formulation is sound and implementation is excellent.
- There is no such thing as successful strategic design per se.
- This sounds obvious, but in practice the distinction is not always made.
- Often people, blame the strategy model for the failure of a company while the main flaw might lie in failed implementation.
- Thus organizational success is a function of good strategy and proper implementation.
- The matrix in the figure below represents various combinations of strategy formulation and implementation:

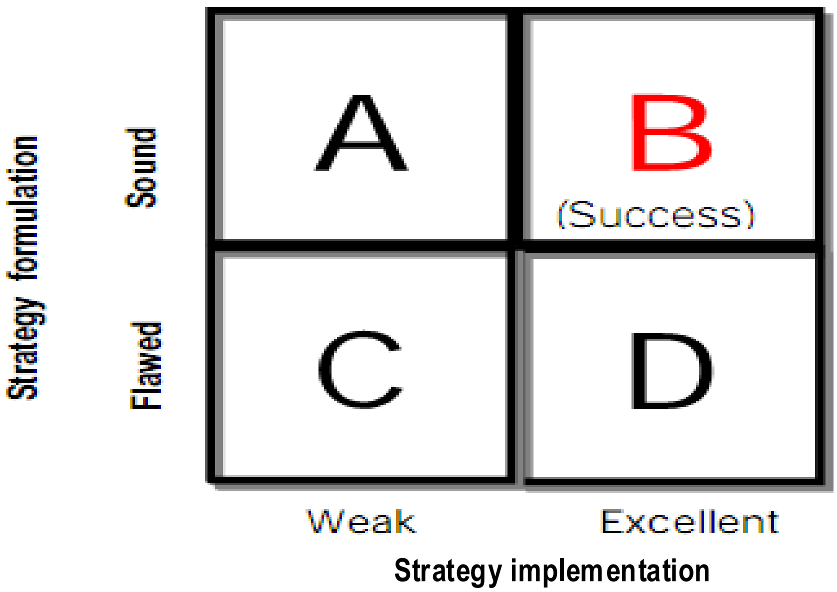


Figure: Strategy formulation and implementation matrix

- The Figure shows the distinction between sound/flawed strategy formulation and excellent/ weak strategy implementation.
- **Square B**
  - It is the ideal situation where a company has succeeded in designing a sound and competitive strategy and has been successful in implementing it.
- **Square A**
  - It is the situation where a company apparently has formulated a very competitive strategy, but is showing difficulties in implementing it successfully.
  - This can be due to various factors, such as the lack of experience (e.g. for start -ups), the lack of resources, missing leadership and so on.
  - In such a situation the company will aim at moving from square A to square B, given they realize their implementation difficulties.
- **Square D**
  - It is the situation where the strategy formulation is flawed, but the company is showing excellent implementation skills.

- When a company finds itself in square D the first thing they have to do is to redesign their strategy before readjusting their implementation/execution skills.

➢ **Square C**

- It is reserved for companies that haven't succeeded in coming up with a sound strategy formulation and in addition are bad at implementing their flawed strategic model.
- Their path to success also goes through business model redesign and implementation or execution readjustment.

EFFICIENCY V/S. EFFECTIVENESS

EFFICIENCY	EFFECTIVENESS
To be efficient means "to do the things right"	To be effective means "to do the right things"
Focuses on the relationship between inputs and output	Focus on relationship between means and ends.
It is short time horizon	It is long time horizon
It is an introspective effect. i.e. within the firm.	It highlights linkages between firm and its external environment.
It is an operational phenomenon.	It is a strategic phenomenon.
It is strategy implementation view point.	It is strategic formulation view point.

STRATEGY FORMULATION V/S. STRATEGY IMPLEMENTATION

Although inextricably linked, strategy implementation is fundamentally different from strategy formulation in the following ways:

STRATEGY FORMULATION	STRATEGY IMPLEMENTATION
Strategy formulation is positioning forces before the action	Strategy implementation is managing forces during the action.
Strategy formulation focuses on effectiveness	Strategy implementation focuses on efficiency.
Strategy formulation is primarily an intellectual process	Implementation of strategy is primarily an operational process.
Strategy formulation requires good intuitive and analytical skills	Strategy implementation requires special motivation and leadership skills.
Strategy formulation requires coordination among a few individuals	Strategy implementation requires organization wide coordination.

LINKAGEES BETWEEN STRATEGY FORMULATION AND STRATEGY IMPLEMENTATION:

A. <u>FORWARD LINKAGE:</u>

➢ Strategy formulation has an influence on strategy Implemenatioan.

- With the formulation of new strategies, or re-formulation of existing strategies, many changes have to be effect within the firm.
- Some examples of changes are
  - Change in organization structure, to meet the requirements of the newly framed or modify strategy
  - Change in style of leadership or adaptive supervision required

B. <u>BACKWARD LINKANGES:</u>

- Strategy formulation is influenced by Strategy Implementation.
- Firms tend to adopt those strategies which can be implemented with the help of the present structure of resources combine with some additional efforts.
- Such incremental changes, over a period of time, take the firm toward its desired goals.
- Past strategy actions is referred and analyzed while formulating or deciding new strategies. This highlights the backward linkages between Strategy Formulation and Implementation.

2. ISSUES IN STRATEGY IMPLEMENTATION

- Strategies, by themselves, do not lead to action. Strategies, therefore, have to be activated through implementation.
- Strategies should lead to plans. Plans result in different kind of programmes.
- Plans result in different kinds of programmes.
- Programmes lead to the formulation of projects. It requires separate allocation of funds, and is to be completed within a set of time schedule.
- Projects create the needed infrastructure for the day-to-day operations in an organization.

The **issues in strategy implementation** which are to be considered:

1. Project implementation
2. Procedural implementation
3. Resource allocation
4. Structural implementation
5. Functional implementation
6. Behavioral implementation

3. ORGANIZATION AND STRATEGY IMPLEMENTATION

Changes in strategy often require changes in the way an organization is structured for two major reasons.

1. Structure largely dictates how objectives and policies will be established
2. Structure dictates how resources will be allocated.

TYPES OF ORGANIZATION STRUCTURE

1. Functional
2. Divisional
3. SBU
4. Matrix
5. Network

The Functional Structure

Functional structure is widely used because of its simplicity and low cost. A functional structure groups tasks and activities by business function. Disadvantages of a functional structure are that it forces accountability to the top, minimizes career development opportunities, etc.

The functional structure consists of a chief executive officer or a managing director and limited corporate staff with functional line managers in dominant functions such as production, accounting, marketing, R&D, engineering, and human resources. Most large companies abandoned the functional structure in favour of decentralization and improved accountability.

The Divisional Structure

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

A divisional structure has some clear advantages. The accountability is dear. Other advantages of the divisional design are that it creates career development opportunities for managers, allows local control of local situations, leads to a competitive climate within an organization, and allows new businesses and products In be added easily.

A divisional structure is costly. The divisional structure by product (or services) is most effective for implementing strategies when specific products or services need special emphasis. Also, this type of structure is widely used when an organization offers only a few products or services, when an organization's products or services differ substantially.

The Matrix Structure

A matrix structure is the most complex of all designs because it depends upon both vertical and horizontal flows of authority and communication (hence the term matrix). In contrast, functional and divisional structures depend primarily on vertical flows of authority and communication.

Network Structure

A newer and somewhat more radical organizational design, 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 because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks. The network structure becomes most useful when the environment of a firm is unstable and is expected to remain so. Under such conditions, there is usually a strong need for innovation and quick response.

SBU (Strategic Business Unit)

An SBU is a grouping of related businesses, which is amenable to composite planning treatment.

The attributes of an SBU and the benefits a firm may derive by using the SBU idea.

1. Scientific Method of grouping
2. Improvement over territorial grouping
3. Pro/Buzz within an SBU receive same SP treatment & priorities
4. Analyzing, Segmenting & Re-grouping into few
5. Unrelated Pro/Buzz are separated or made into separate SBUs
6. Helps in SP & Removes confusion & vagueness in grouping units
7. Each SBU is a separate business from the strategic planning standpoint.
8. Each SBU will have its own distinct set of competitors and its own distinct strategy.
9. Each SBU will have a CEO who will be responsible for strategic planning for the SBU and its profit performance

Relatedness might exist in different ways:

- SBUs might build on similar technologies or all provide similar sorts of products or services.
- SBUs might be serving similar or different markets. Even if technology or products differ, it may be that the customers are similar.
- SBU may be that other competences on which the competitive advantage of different SBUs are built have similarities. Eg: Marketing Skills

The three most important Characteristics of SBU are:

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

4. 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).
One of the key aspects of value chain analysis is the recognition that organizations are much more than a random collection of machines, money and people. These resources are of no value unless deployed into activities and organized into routines and systems which ensure that products or services are produced which are valued by the final consumer/user.

The primary activities of the organization are grouped into five main areas:
1. Inbound logistics,
2. Operations,
3. Outbound logistics,
4. Marketing and sales, and
5. 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.
    - **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** provide the means whereby consumers/users are made aware of the product/service and are able to purchase it.

  - This would include sales administration, advertising, selling and so on.
  - In public services, communication networks which help users' access a particular service are often important.
- **Services** are all those activities, which enhance or maintain the value of a product/service, such as installation, repair, training and spares.

Each of these groups of primary activities is linked to support activities. These can be **divided into four areas**

- **Procurement:** This refers to the processes for acquiring the various resource inputs to the primary activities (not to the resources themselves).
- **Technology development:**
  - All value activities have a 'technology', even if it is simply know-how.

- The key technologies may be concerned directly with the product (e.g. R&D product design) or with processes (e.g. process development) or with a particular resource (e.g. raw materials improvements).

- **Human resource management:**
  - This is a particularly important area which transcends all primary activities.
  - 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. are crucially important to an organization's performance in its primary activities.
  - Infrastructure also consists of the structures and routines of the organization which sustain its culture.

5. IDENTIFYING CORE COMPETENCES

Competences which critically support the organization's competitive advantage are known as the core competences and will differ from one organization to another depending on how the company is positioned and the strategies it is pursuing.

For example,

- Consider how small shops compete with supermarkets in **grocery retailing.**
- All shops need to have a threshold competence in the basic activities of purchasing, stocking, display, etc.
- But, **the supermarkets have core competences** in merchandising, low cost supplies, managing in-store activities effectively, computerized stock/ordering systems, own brand labels
- The **Small shops may have core competences** in personal service to customers, extended opening hours, informal credit, home deliveries, etc.
- The **key resources for the successful small shops** are the **style** of the owner and the choice of **location.**
- These aspects of service are valued by some consumers and are difficult for the supermarkets to imitate without substantially increasing their costs.

Two typical ways in which core competences can be exploited to maintain progress

The development of

- 'added value' services and/or
- geographical spread of markets

Once traditional markets are mature or saturated.

What does the Core Competence Achieve?

- Provides potential access to a wide variety of markets
- Makes a significant contribution to the perceived customer benefits of the end product
- Difficult for competitors to imitate

6. LEADERSHIP AND STRATEGIC IMPLEMENTATION

MEANING OF STRATEGIC LEADERSHIP

- Strategic leadership is the **ability of influencing others to voluntarily make decisions** that enhance prospects for the organization's long-term success while maintaining short-term financial stability.
- It includes determining
  - the firm's strategic direction,
  - aligning the firm's strategy with its culture,
  - modeling and communicating high ethical standards, and
  - initiating changes in the firm's strategy, when necessary.
- Strategic leadership sets the firm's direction by developing and communicating a vision of future and inspires organization members to move in that direction.
- Unlike strategic leadership, managerial leadership is generally concerned with the short-term, day-to-day activities.

APPROACHES TO LEADERSHIP

Two basic approaches to leadership can be transformational leadership style and transactional leadership style.

I. **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.
- They **inspire involvement** in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit more dramatic changes in organizational performance.
- Such a leadership motivates followers to do more than originally affected to do by stretching their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

II. Transactional Leadership Style

- Transactional leadership style focus more on **designing systems and controlling** the organization's activities and are more likely to be **associated with improving** the current situation.
- Transactional leaders try to **build on the existing culture and enhance current** practices.
- Transactional leadership style **uses the authority** of its office to exchange rewards, 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.
- Transactional leadership style may be **appropriate**
  - in settled environment,
  - in growing or mature industries, and
  - in organizations that are performing well.

- The style is **better suited** in persuading people to work efficiently and run operations smoothly.

INITIATING STRATEGIC CHANGE:

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

a. **Recognize the need for change**:

- The first step is to **diagnose which facets** of the present corporate culture are strategy supportive and which are not.
- This basically means **going for environmental scanning** involving appraisal of both internal and external capabilities may it be through SWOT analysis and then determine where the lacuna lies and scope for change exists.

b. **Create a shared vision to manage change:**

- Objectives and vision of both individuals and organization should coincide.
- There should be no **conflict** between them.
- **Senior managers need to constantly** and consistently communicate the vision not only to inform but also to overcome resistance through proper communication.
- **Strategy implementers** have to convince all those concerned that the change in business culture is not superficial or cosmetic.
- **The actions taken** have to be credible, highly visible and unmistakably indicative of management's seriousness to new strategic initiatives and associated changes.

c. **Institutionalize the change:**

- This is basically **an action stage** which requires implementation of changed strategy.
- **Creating and sustaining** a different attitude towards change is essential to ensure that the firm does not slip back into old ways of thinking or doing things.
- **Capacity for self-renewal** should be a fundamental anchor of the new culture of the firm.
- Besides, change process must be **regularly monitored and reviewed** to analyse the after-effects of change.
- Any **discrepancy or deviation** should be brought to the notice of persons concerned so that the necessary corrective actions are taken. It takes time for the changed culture to prevail.

Managers have five leadership roles to play in pushing for good strategy execution:

1. **Staying on top** of what is happening, closely monitoring progress, discovering issues, and learning what obstacles lay in the path of good execution.
2. **Promoting a culture and esprit de corps** that mobilizes and energizes organizational members to execute strategy in a competent fashion and perform at a high level.
3. **Keeping the organization responsive to changing conditions**, alert for new opportunities, bubbling with innovative ideas, and ahead of rivals in developing competitively valuable competencies and capabilities.
4. **Exercising ethics leadership** and insisting that the company conduct its affairs like a model corporate citizen.
5. **Pushing corrective actions** to improve strategy execution and overall strategic performance.

SOME OF THE RESPONSIBILITIES OF A STRATEGIC LEADER:

1. **Managing human capital** (perhaps the most critical of the strategic leader's skills).
2. Effectively **managing the company's operations.**

3. **Sustaining high performance over time.**
4. Being willing to make **straightforward, courageous,** yet **pragmatic, decisions.**
5. Seeking **feedback through face-to-face communications**.
6. Having **decision-making responsibilities** that **cannot be delegated.**

7. BUILDING A STRATEGY-SUPPORTIVE CORPORATE CULTURE

Corporate culture refers to a
Company's values, beliefs, business principles, traditions, ways of operating, and internal work environment.

Origin of Corporate Culture

The **sociological forces** combine to define an organization's culture, beliefs and practices that become embedded in a company's culture.
It can originate anywhere:
-from one influential individual, work group, department, or division,
-from the bottom of the organizational hierarchy or the top

A significant part of a company's culture emerges from the **stories** that get told over and over again to illustrate to newcomers the importance of certain values and beliefs and ways of operating.

Culture: ally or obstacle to strategy execution?

When the beliefs, vision, objectives, and business approaches and practices supporting a company's strategy are compatible with its culture, then the culture becomes a valuable ally in strategy implementation and execution.

When the culture is in conflict with some aspect of the company's direction, performance targets or strategy, the culture becomes an obstacle that impedes successful strategy implementation and execution.

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.

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.

(a) **Unfreezing the situation:**

- The process of unfreezing simply makes the individuals or organizations aware of the necessity for change and prepares them for such a change.
- Lewin proposes that the changes should not come as a surprise to the members of the organization.
- Sudden and unannounced change would be socially destructive and morale lowering.

- The management must pave the way for the change by first "unfreezing the situation", so that members would be willing and ready to accept the change.
- Unfreezing is the process of breaking down the old attitudes and behaviours, customs and traditions so that they start with a clean slate.
- This can be achieved by making announcements, holding meetings and promoting the ideas throughout the organization.

(b) **Changing to New situation**:

- Once the unfreezing process has been completed and the members of the organization recognize 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 internalization.

I. <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.

II. <u>Identification:</u> 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.

III. <u>Internalization:</u>

- ✓ 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.

(c) **Refreezing**:

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

Change process is not a one time application but a continuous process due to dynamism and ever changing environment. The process of unfreezing, changing and refreezing is a cyclical one and remains continuously in action.

7. REACHING STRATEGIC EDGE

1. A **process** is a collection of activities which creates an output of value to the customer and often goes beyond departmental or functional boundaries.
   A **business process** comprises a combination of number of independent or interdependent processes as:
   - Developing new product
   - Customer order processing
   - Bill payment system

2. CORE BUSINESS PROCESS

- **Creates value** by the capabilities it provides to the competitiveness.
- Core business processes are **critical** in a company's **evaluation** by its customers.
- They are **vital for success** in the industry sector within which the company is positioned.
- They are **crucial for generating competitive advantages** for a firm in the marketplace.
- **Eg:** In a **FMCG Industry -marketing and brand management** is a core process.
- In the **electronics and semi-conductor industries**, **new product development** is a core process.

3. BPR:

- Business Process Reengineering is an approach to unusual improvement in operating effectiveness through the redesign of critical business processes and supporting business system.
- It looks at the minute details of the process, such as why the work is done, who does it, where is it done and when it is done.
- BPR refers to the analysis and redesign of workflows and processes both within and between the organizations

1. Reengineering begins with a **fundamental rethinking.**
2. Reengineering does **not begin with anything given or with any assumptions**.
3. Reengineering involves **radical redesigning of process**.
4. It aims at achieving **dramatic improvement in performance.**
5. Its main **focus is on the process**

Rationale of BPR

1) **New technologies** (like Information Technology) are rapidly bringing **new capabilities** to businesses, thereby **raising the strategical options** and the need to improve business processes dramatically.
2) Opening up of Indian economy has increased competition.
3) Customers are also demanding better products and services.

Implementation of BPR:

BPR involves the following Steps:

1) **Determining objectives and Framework**:

   a) Objectives are the desired end results of redesign process which the management and organization attempts to achieve.

   b) This will provide the required focus, direction, and motivation for the redesign process

2) **Identify Customers and Determine their Needs**:
   a) Designers have to **understand customer**s - their profile, their steps in acquiring, using and disposing a product.
   b) The purpose is to redesigned business process that clearly **provides added value to the customer.**
3) **Study the Existing Process**:
   a) **Existing processes** will provide an important **base** for the redesigners.
   b) **Purpose** is to gain an **understanding** of the **'what', and 'why'** of the **targeted process**.
   c) Some companies **do not** lay **emphasis** on the **past processes**.
4) **Formulate a redesign process plan**:
   a) **Information** gained through the **earlier steps** is translated into an ideal redesign process.
   b) It is the **real crux** of the reengineering efforts.
   c) **Customer focused** redesign concepts are identified and formulated.
   d) **Alternative processes** are considered and the **best** is selected.
5) **Implement the redesign**:
   a) It is easier to formulate than to implement them.
   b) Key to achieve dramatic improvements –
      i) **Implementation** of the redesigned process and
      ii) **Application of other knowledge** gained from the previous steps is **key to achieve dramatic improvement.**
   c) It is Joint responsibility of the **designers and management to operationalise** the new process.

Premises of BPR

1) The **operational excellence** of a company is a major **basis for its competitiveness**.
2) The business **strategy** of a company should be **oriented towards leveraging** its **operational excellence into the marketplace**.
3) **A customer-focused organization needs to be realigned in terms of a process orientation.**
4) **Process** need to **managed, not functions**.
5) For considering totally new ways of redesigning processes, each and every **concept, assumption, purpose, and princip**le, needs to **abandon temporarily**.
6) Continuous improvement is a deficient approach when a company is far behind the industry standards, and needs **rapid quantum leaps in performance**.
7) **Dramatic improvement** in performance is the prerequisite for **overcoming competition**.
8) **How** to compete is more **important than** deciding about **where to compete.**

Impact of IT-systems

- Compression of time

- Overcoming restrictions of geography and/or distance
- Restructuring of relationships.

Business values provided by IT in three distinct areas:
1) **Efficiency** – by way of increased productivity,
2) **Effectiveness** – by way of better management,
3) **Innovation** – by way of improved products and services

Central Thrust of BPR:
"THE REDUCTION OF THE TOTAL CYCLE TIME OF A BUSINESS PROCESS." by
1. **eliminating** the **unwanted and redundant steps**
2. by **simplifying** the **systems and procedures**
3. by e**liminating** the **transit and waiting times**
4. **Maintaining** a continuous effort for more and more **improvement.**

Problems in BPR
1) **Only few cos** have the courage of having BPR
2) It **disturbs established hierarchies and functional structures** and
3) Creates serious **repercussions** and involves **resistance** among the work-force.
4) As it **takes time and expenditure**, many companies are **reluctant** to go for BPR
5) **Possibility of losses** in the transition period.
6) **Target setting** is tricky and **difficult**.
7) It may **turn-out as a failure** if targets are not properly set or the whole transformation is not carried out properly

4. BENCHMARKING
Benchmarking is an approach of setting goals and measuring productivity based on best industry practices
- Helps in improving performance by learning from best practices and the processes
- It involves
  - **regularly comparing** different aspects of performance with the best practices,
  - **identifying** gaps and
  - finding out novel methods to **reduce the gaps** and
  - **Improve** the situations so that the gaps are positive for the organization.

Areas where Benchmarking can be used
1) Maintenance operations
2) Assessment of total manufacturing costs
3) Product development
4) Product distribution
5) Customer services
6) Plant utilization levels
7) Human resource management

The Benchmarking Process

Benchmarking processes lack standardization. Common elements are as follows:

1) **Identifying the need for benchmarking and planning**:
   a. defining the objectives
   b. selecting the type of benchmarking
2) **Clearly understanding existing business processes**:
   a. Compiling information and data on performance by diff methods such as interviews, visits and filling of questionnaires.
   b. Mapping processes.
3) **Identify best processes**:
   a. Within the selected framework, best processes are identified.
   b. These may be within the same organization or external to them.
4) **Compare own processes and performance with that of others**:
   a. Comparing gaps in performance between the organization and
   b. Identifying better performers.
   c. Analyzing gaps to seek expl.
   d. Feasibility of making the improvements is also examined.
5) **Prepare a report and Implement the steps necessary to close the performance gap**:
   a. A report containing recommendations is prepared.
   b. Such a report includes the action plan(s) for implementation.
6) **Evaluation**:
   a. Evaluate the results of the benchmarking process in terms of improvements vis-à-vis objectives and other criteria set for the purpose.
   b. Periodically evaluate and reset the benchmarks in the light of changes in the conditions that impact the performance.

5. TOTAL QUALITY MANAGEMENT (TQM)

Total Quality Management (TQM) is a **people-focused management system** that aims at **continual increase in customer satisfaction at continually lower real cost**.

- TQM stresses **learning and adaptation to continual change** as keys to organizational success.
- TQM is a **total system approach** (not a separate area or program) and
- An **integral part of high-level strategy**;
- It works **horizontally across functions and departments**,
- Involves **all employees, top to bottom**, and
- Extends b**ackward and forward** to include the **supply chain and the customer chain.**

Principles guiding TQM

1) **A sustained management commitment to quality: T**he commitment to implement has to start at the top, and the organization's senior management has to be firm in its commitment to quality.
2) **Focusing on the customer:** Lee lacocca had only three rules: Satisfy the customer, satisfy the customer, and satisfy the customer.
3) **Preventing rather than detecting defects:** prevent poor quality in products and services, rather than simply to detect and sort out defects.

4) **Universal quality responsibility:** responsibility for quality is not restricted to an organization's quality assurance department, but is shared by everyone in an organization.
5) **Quality measurement:** quality is a measurable commodity, and in order to improve, one need to know what the current are quality levels what quality levels we aspire to achieve.
6) **Continuous improvement and learning: "Continuous improvement"** refers to both incremental and "breakthrough" improvement. It is part of the management of all systems and processes. **"Learning"** refers to adaptation to change, leading to new goals or approaches.
7) **Root cause corrective action:** identifying the root causes of problems, and by implementing corrective actions that address problems at the root cause level.
8) **Employee involvement and empowerment: Employee involvement** means every employee is involved in running the business and plays an active role in helping the organization meet its goals. **Employee empowerment** means employees and management recognize that many obstacles to achieving organizational goals can be overcome by employees who are provided with the necessary tools and authority to do so.
9) **The synergy of teams:** is an effective way to address the problems and challenges of continuous improvement.
10) **Thinking statistically:** Quality efforts often require reducing process or product-design variation which can be achieved through statistical methods
11) **Inventory reduction:** As inventories grew smaller, quality improved. This management philosophy became known as Just-in- Time (or JIT, for short) inventory management.
12) **Value improvement:** It is the ability to meet or exceed customer expectations while removing unnecessary cost.
13) **Supplier teaming:** develop long-term relationships with a few high-quality suppliers, rather than simply selecting those suppliers with the lowest initial cost.
14) **Training:** is based on of empowering employees by providing the tools necessary for continuous improvement. One of the most basic tools is training.

TQM and traditional management practices

1) **Strategic Planning and Management:**
a) Quality planning and strategic business planning is indistinguishable in TQM.
b) Measures such as customer satisfaction, defect rates, and process cycle times receive as much attention in the strategic plan as financial and marketing objectives.
2) **Changing Relationships with Customers and Suppliers:**
a) Traditional management places customers outside of the enterprise and within the domain of marketing and sales.
b) TQM views everyone inside the enterprise as a customer of an internal or external supplier, and a supplier of an external or internal customer.
3) **Organizational Structure**:
a) TQM views the enterprise as a system of interdependent processes, linked laterally over time through a network of collaborating (internal and external) suppliers and customers.
b) Each process is connected to the enterprise's mission and purpose through a hierarchy of micro- and macro-processes.

c) Every process contains sub-processes and is also contained within a higher process. This structure of processes is repeated throughout the hierarchy.

4) **Organizational Change:**

a) In TQM the environment in which the enterprise interacts is considered to be changing constantly.

b) Management's job, therefore, is to provide the leadership for continual improvement and innovation in processes and systems, products, and services.

5) **Teamwork:**

a) In TQM individuals cooperate in team structures such as quality circles, steering committees, and self-directed work teams.

b) Departments work together toward system optimization through cross-functional teamwork.

6) **Motivation and Job Design:**

a) TQM managers provide leadership.

b) Subordinates are viewed as process managers rather than functional specialists.

c) People are motivated to make meaningful contributions to what they believe is an important and noble cause, of value to the enterprise and society.

d) The system enables people to feel like winners.

6. SIX SIGMA AND MANAGEMENT

- Primarily Six Sigma means **maintenance of the desired quality in processes and end products.**
- It means taking s**ystemic and integrated efforts toward improving quality and reducing cost.**
- Six Sigma has its base in the concept of probability and normal distribution in statistics.
- Six Sigma strives that 99.99966% of products manufactured are defect free.
- Six Sigma puts the customer first and uses facts and data to drive better solutions

Six Sigma efforts target three **main areas:**

- Improving customer satisfaction
- Reducing cycle time
- Reducing defects

GE's Key Concepts of Six Sigma	
At its core, Six Sigma revolves around a few key concepts.	
Critical to Quality:	Attributes most important to the customer
Defect:	Failing to deliver what the customer wants
Process Capability:	What your process can deliver
Variation:	What the customer sees and feels
Stable Operations:	Ensuring consistent, predictable processes to improve what the customer sees and feels
Design for Six Sigma:	Designing to meet customer needs and process capability

Six sigma methodology

Two separate key methodologies for existing and new processes.

1) **DMAIC: - Stands for Define, Measure, Analyse, Improve, Control.**

It is directed towards improvement of existing product, process or service.

- **Define:**
  - **define** the **process improvement goals** that are consistent with the strategy of the organization and customer demands
  - **Discuss** different issues with the **senior managers** so as to define what needs to done.
- **Measure:**
  - The **existing processes** are **measured** to facilitate **future comparison.**
  - **Collect process data** by mapping and measuring relevant processes.
- **Analyze:**
  - Verify **cause-and-effect relationship** between the factors in the processes.
  - Identify the **relationship** between the factors.
  - Make a **comprehensive analysis** to identify hidden or not so obvious factor.
- **Improve:** On the basis of the analysis make a **detailed plan** to improve.
- **Control:**
  - **Initial trial** or are run to **establish process capability** and transition to production.
  - Then the **process is continuously measured** to ensure that **variances** are identified and corrected before they result in **defects.**

2) **DMADV: Stands for Define, Measure, Analyse, Design, Verify.**

It is a strategy for designing new products, processes and services.

- **Define**: formally **define goals** of the design activity that are consistent with strategy of the organization and the demands of the customer.
- **Measure**: **identify** the factors that are **critical to quality** (CTQs). **Measure** factors such as **product capabilities and production process capability**. Also **assess the risks** involved.
- **Analyze**: Develop and design **alternatives**. Create high-level design and **evaluate** to **select the best design.**
- **Design**: Develop details of design and **optimiz**e it.
- **Verify**: Verify designs through simulations or pilot runs. Verified and implemented processes are handed over to the process owners.

Key characteristics

1. **Six Sigma is customer focused**. It's almost an obsession to keep external customer needs in plain sight, driving the improvement effort. (External customers are mostly those who buy business's products and services.)
2. **Six Sigma projects produce major returns on investment.** GE's CEO, Jack Welch, wrote in the annual report that in just three years, Six Sigma had saved the company more than $2 billion.
3. **Six Sigma changes how management operates**. Six Sigma is much more than improvement projects

Six Themes of Six Sigma

1. **Genuine focus on the customer**: Six Sigma improvements are defined by their impact on customer satisfaction and value.
2. **Data and fact-driven management:** Six Sigma helps managers answer two essential questions to support data-driven decisions and solutions.
   a. What data/information do I really need?
   b. How do we use that data/information to maximum benefit?
3. **Processes are where the action is**: Whether focused on designing products and services, measuring performance, improving efficiency and customer satisfaction, or even running the business, Six Sigma positions the process as the key vehicle of success.
4. **Proactive management:** proactive means acting in advance of events rather than reacting to them. It means defining ambitious goals and reviewing them frequently, setting clear priorities, focusing on problem prevention
5. **Boundary less collaboration:** The opportunities available through improved collaboration within companies and with vendors and customers are huge.
6. **Drive for perfection; tolerate failure:** the two ideas are complementary. No company will get even close to Six Sigma without launching new ideas and approaches-which always involve some risk.

7. STRATEGY-SHAPING CHARACTERISTICS OF THE E-COMMERCE ENVIRONMENT

1) The Internet makes it feasible for companies everywhere to **compete in global markets:**
2) **Entry barriers** into the e-commerce world are relatively **low**:
3) **Online buyers gain bargaining power** because they have lesser obstacles to compare the products, prices, and shipping times of rival vendors:
4) The Internet makes it feasible for companies to reach **beyond their borders** to find the **best suppliers** and, further, to collaborate closely with them to achieve **efficiency gains and cost savings**:
5) The internet results in much **faster spread of new technology and new idea** across the world:
6) The e-commerce environment demands that **companies move swiftly**:
7) E-commerce technology opens up a host of **opportunities for reconfiguring industry and company value chains**:
8) The Internet can be an **economical means** of delivering **customer service**:
9) The **capital** for **funding** potentially profitable e-commerce businesses is **readily available**:
10) The needed e-commerce resource in **short supply is human talent**-in the form of both technological expertise and managerial know-how:

8. STRATEGIC MANAGEMENT IN NON-PROFIT AND GOVERNMENT ORGANIZATION

1) There are many NPO which do not have any commercial objective of making profits.
2) They are formed for purposes like promotion of art, science, commerce, charity, religion, education etc.

3) Examples: ICAI, municipal corporations, Help-Age or Child Relief and You.
4) They come to existence to meet the needs not met by business enterprises.
5) These organizations may not have owners in true sense
6) Many of them use the strategic-management process effectively.
7) Infact, many of them do better than Pvt Org by using their innovativeness, motivation, productivity, and strategic management.
8) They often function as a monopoly, produce a product or service that offers little or no measurability of performance, and are totally dependent on outside financing.

- ✓ **Educational institutions**
  - ✓ They are adopting different strategies for attracting best students.
  - ✓ Campus Interview
  - ✓ Introduction of computers and internet technologies.
  - ✓ Online college degrees are becoming common and represent a threat to traditional Colleges and universities.
- ✓ **Medical organizations**
  - ✓ Pathological laboratories have started collecting door-to-door samples
  - ✓ Day-treatment facilities, electronic monitoring at home, user-friendly ambulatory services, decentralized service networks, and laboratory testing.
  - ✓ Backward integration strategies that some hospitals are pursuing include acquiring ambulance services, waste disposal services, and diagnostic services.
  - ✓ Millions of persons research medical ailments online, which is causing a dramatic shift in the balance of power between doctor, patient, and hospitals.
  - ✓ sharing results of medical tests and prescribing medicine on the Internet,
  - ✓ Ten most successful hospital strategies today are providing
    - i. free-standing outpatient surgery centers,
    - ii. outpatient surgery and diagnostic centers,
    - iii. physical rehabilitation centers,
    - iv. home health services,
    - v. cardiac rehabilitation centers,
    - vi. preferred provider services,
    - vii. industrial medicine services,
    - viii. women's medicine services,
    - ix. skilled nursing units, and
    - x. Psychiatric services.